

# Financial statements

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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
<b>Export Credit Guarantees and Insurance</b>			
<b>Income</b>			
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
<b>Total income</b>		<b>237,518</b>	<b>377,260</b>
<b>Expenses</b>			
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)
<b>Total expenses</b>		<b>(93,988)</b>	<b>(296,810)</b>
<b>Net income arising from Export Credit Guarantees and Insurance Activities</b>		<b>143,530</b>	<b>80,450</b>
<b>Export Finance Assistance</b>			
<b>Income</b>			
Net investment return	3(b)	39,084	22,611
Net foreign exchange gain	6	43,648	31,962
<b>Total income</b>		<b>82,732</b>	<b>54,573</b>
<b>Expenses</b>			
Staff costs	7	(5,583)	(4,197)
Other administration and operating costs	8	(3,846)	(3,121)
<b>Total expenses</b>		<b>(9,429)</b>	<b>(7,318)</b>
<b>Net Income arising from Export Finance Assistance Activities</b>		<b>73,303</b>	<b>47,255</b>
<b>Net operating income for the year</b>		<b>216,833</b>	<b>127,705</b>

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
<b>Non-current assets:</b>			
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
<b>Total non-current assets</b>		<b>1,586,677</b>	<b>1,411,727</b>
<b>Current assets:</b>			
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
<b>Total current assets</b>		<b>374,931</b>	<b>346,346</b>
<b>Total assets</b>		<b>1,961,608</b>	<b>1,758,073</b>
<b>Current liabilities:</b>			
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)
<b>Total current liabilities</b>		<b>(171,205)</b>	<b>(214,178)</b>
<b>Non-current assets plus net current assets</b>		<b>1,790,403</b>	<b>1,543,895</b>
<b>Non-current liabilities</b>			
Financial liabilities			
Fair value through profit or loss	15	(123)	(277)
Insurance contracts			
Insurance liabilities	18	(1,317,500)	(1,275,137)
<b>Total non-current liabilities</b>		<b>(1,317,623)</b>	<b>(1,275,414)</b>
<b>Assets less liabilities</b>		<b>472,780</b>	<b>268,481</b>
<b>Taxpayers' equity</b>			
Exchequer Financing		(3,106,838)	(3,230,474)
Cumulative Trading Surplus		3,791,771	3,648,241
General Fund		(212,153)	(149,286)
<b>Total taxpayers' equity</b>		<b>472,780</b>	<b>268,481</b>

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
<b>Cash flows from operating activities</b>			
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)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>320,575</b>	<b>484,176</b>
<b>Cash flows from investing activities</b>			
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
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(307,845)</b>	<b>(426,527)</b>
<b>Net cash inflow from operating and investing activities</b>		<b>12,730</b>	<b>57,649</b>
<b>Cash flows from financing activities</b>			
Receipts from the Consolidated Fund (Supply):			
relating to the current year		125,000	130,000
<b>Net cash inflow/(outflow) from financing activities</b>		<b>125,000</b>	<b>130,000</b>
<b>Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund</b>			
		137,730	187,649
Payments to the Consolidated Fund:			
relating to the prior year	13	(187,649)	(81,660)
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>(49,919)</b>	<b>105,989</b>
Cash and cash equivalents at the beginning of the year	13	187,649	81,660
<b>Cash and cash equivalents at the end of the year</b>	<b>13</b>	<b>137,730</b>	<b>187,649</b>

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

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 contracts (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
<b>Income</b>						
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
<b>Total income</b>	<b>57,787</b>	<b>183,343</b>	<b>-</b>	<b>760</b>	<b>81,972</b>	<b>323,862</b>
<b>Expenses</b>						
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)
<b>Total expenses</b>	<b>(496)</b>	<b>(95,825)</b>	<b>(1,279)</b>	<b>(745)</b>	<b>(8,684)</b>	<b>(107,029)</b>
<b>Net income / (loss)</b>	<b>57,291</b>	<b>87,518</b>	<b>(1,279)</b>	<b>15</b>	<b>73,288</b>	<b>216,833</b>

## 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
<b>Income</b>						
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
<b>Total income</b>	<b>36,305</b>	<b>252,797</b>	<b>88,158</b>	<b>1,089</b>	<b>53,484</b>	<b>431,833</b>
<b>Expenses</b>						
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)
<b>Total expenses</b>	<b>(598)</b>	<b>(208,061)</b>	<b>(88,151)</b>	<b>(485)</b>	<b>(6,833)</b>	<b>(304,128)</b>
<b>Net income</b>	<b>35,707</b>	<b>44,736</b>	<b>7</b>	<b>604</b>	<b>46,651</b>	<b>127,705</b>

## 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
<b>Non-current assets:</b>						
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
<b>Total non-current assets</b>	<b>220,129</b>	<b>378,168</b>	<b>26,189</b>	<b>2,681</b>	<b>959,510</b>	<b>1,586,677</b>
<b>Current assets:</b>						
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
<b>Total current assets</b>	<b>109,567</b>	<b>222,000</b>	<b>(10,724)</b>	<b>8,044</b>	<b>46,044</b>	<b>374,931</b>
<b>Total assets</b>	<b>329,696</b>	<b>600,168</b>	<b>15,465</b>	<b>10,725</b>	<b>1,005,554</b>	<b>1,961,608</b>
<b>Current liabilities:</b>						
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)
<b>Total current liabilities</b>	<b>(67,697)</b>	<b>(212,793)</b>	<b>10,724</b>	<b>(5,269)</b>	<b>103,830</b>	<b>(171,205)</b>
<b>Non-current assets plus net current assets</b>	<b>261,999</b>	<b>387,375</b>	<b>26,189</b>	<b>5,456</b>	<b>1,109,384</b>	<b>1,790,403</b>
<b>Non-current liabilities</b>						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(123)	-	(123)
Insurance liabilities	-	(1,206,128)	(111,372)	-	-	(1,317,500)
<b>Total non-current liabilities</b>	<b>-</b>	<b>(1,206,128)</b>	<b>(111,372)</b>	<b>(123)</b>	<b>-</b>	<b>(1,317,623)</b>
<b>Assets less liabilities</b>	<b>261,999</b>	<b>(818,753)</b>	<b>(85,183)</b>	<b>5,333</b>	<b>1,109,384</b>	<b>472,780</b>
<b>Taxpayers' equity</b>						
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)
<b>Total taxpayers' equity</b>	<b>261,999</b>	<b>(818,753)</b>	<b>(85,183)</b>	<b>5,333</b>	<b>1,109,384</b>	<b>472,780</b>



## 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
<b>Non-current assets:</b>						
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
<b>Total non-current assets</b>	<b>233,877</b>	<b>418,990</b>	<b>26,171</b>	<b>5,096</b>	<b>727,593</b>	<b>1,411,727</b>
<b>Current assets:</b>						
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
<b>Total current assets</b>	<b>107,538</b>	<b>276,432</b>	<b>94,635</b>	<b>11,735</b>	<b>(143,994)</b>	<b>346,346</b>
<b>Total assets</b>	<b>341,415</b>	<b>695,422</b>	<b>120,806</b>	<b>16,831</b>	<b>583,599</b>	<b>1,758,073</b>
<b>Current liabilities:</b>						
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)
<b>Total current liabilities</b>	<b>(69,459)</b>	<b>(258,218)</b>	<b>(104,062)</b>	<b>(6,088)</b>	<b>223,649</b>	<b>(214,178)</b>
<b>Non-current assets plus net current assets</b>	<b>271,956</b>	<b>437,204</b>	<b>16,744</b>	<b>10,743</b>	<b>807,248</b>	<b>1,543,895</b>
<b>Non-current liabilities</b>						
Financial liabilities						
Financial liabilities held at fair value	-	-	-	(277)	-	(277)
Insurance contracts						
Insurance liabilities	-	(1,163,765)	(111,372)	-	-	(1,275,137)
<b>Total non-current liabilities</b>	<b>-</b>	<b>(1,163,765)</b>	<b>(111,372)</b>	<b>(277)</b>	<b>-</b>	<b>(1,275,414)</b>
<b>Assets less liabilities</b>	<b>271,956</b>	<b>(726,561)</b>	<b>(94,628)</b>	<b>10,466</b>	<b>807,248</b>	<b>268,481</b>
<b>Taxpayers' equity</b>						
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)
<b>Total taxpayers' equity</b>	<b>271,956</b>	<b>(726,561)</b>	<b>(94,628)</b>	<b>10,466</b>	<b>807,248</b>	<b>268,481</b>

### 3 Premium Income & Net investment return

#### 3(a) Premium Income

	2019-20 £'000	2018-19 £'000
<b>Underwriting Premium Income:</b>		
<b>Insurance contracts premium receivable (IFRS4)</b>		
<b>Current Underwriting Year:</b>		
Gross Premium	200,400	378,029
Less ceded to reinsurers	(8,118)	(38,571)
<b>Net Premium income</b>	<b>192,282</b>	<b>339,458</b>
<b>Previous Underwriting Years:</b>		
Gross Premium	77	129
Less ceded to reinsurers	(21,630)	(10,186)
<b>Net Premium income</b>	<b>(21,553)</b>	<b>(10,057)</b>
<b>Summary</b>		
Gross Premium	200,477	378,158
Less ceded to reinsurers	(29,748)	(48,757)
<b>Net Premium income</b>	<b>170,729</b>	<b>329,401</b>
<b>Financial guarantees premium amortised (IAS 39)</b>		
<b>Summary</b>		
Gross Premium	6,692	3,031
Less ceded to reinsurers	-	-
<b>Net Premium income</b>	<b>6,692</b>	<b>3,031</b>
<b>Total Net premium income</b>	<b>177,421</b>	<b>332,432</b>

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
<b>Export Credit Guarantees and Insurance</b>					
Interest income	4	39,789	1,392	41,181	16,782
Other income		-	494	494	259
<b>Total Income</b>		<b>39,789</b>	<b>1,886</b>	<b>41,675</b>	<b>17,041</b>
<b>Net Income</b>		<b>39,789</b>	<b>1,886</b>	<b>41,675</b>	<b>17,041</b>
<b>Export Finance Assistance</b>					
<b>Amortised loans &amp; receivables income</b>					
Amortised loans & receivables income	9(b)	493	43,709	44,202	30,576
Gain in fair value of derivatives		640	-	640	1,189
<b>Total Income</b>		<b>1,133</b>	<b>43,709</b>	<b>44,842</b>	<b>31,765</b>
<b>Impairment of loans &amp; receivables</b>					
Impairment of loans & receivables	9(b)	-	(5,385)	(5,385)	(8,255)
Loss in fair value of derivatives		(373)	-	(373)	(899)
<b>Total Costs</b>		<b>(373)</b>	<b>(5,385)</b>	<b>(5,758)</b>	<b>(9,154)</b>
<b>Net Income</b>		<b>760</b>	<b>38,324</b>	<b>39,084</b>	<b>22,611</b>

## 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
<b>Interest credit for the year</b>		<b>39,789</b>	<b>1,392</b>	<b>41,181</b>	<b>16,782</b>

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
<b>Claims credit/(charge) for the year</b>	10(a)	<b>10,868</b>	<b>(1,440)</b>	<b>9,428</b>	<b>13,867</b>
Change in provision for claims on financial guarantees	17(c)	-	(2,154)	(2,154)	(49)
<b>Net claims credit &amp; provision for likely claims</b>		<b>10,868</b>	<b>(3,594)</b>	<b>7,274</b>	<b>13,818</b>

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
<b>Export Credit Guarantees and Insurance</b>					
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
<b>Net foreign exchange gain/(loss) for year</b>		<b>7,130</b>	<b>4,018</b>	<b>11,148</b>	<b>13,969</b>
			<b>Account 5 £'000</b>	<b>Total £'000</b>	<b>Total £'000</b>
<b>Export Finance Assistance</b>					
Net foreign exchange gain/(loss) arising on:					
- loans & receivables	9(b)		44,393	44,393	31,845
- payables			(745)	(745)	117
<b>Net foreign exchange gain/(loss) for year</b>			<b>43,648</b>	<b>43,648</b>	<b>31,962</b>
				<b>Total £'000</b>	<b>Total £'000</b>
<b>Summary:</b>					
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
<b>Net foreign exchange gain / (loss) for year</b>				<b>54,796</b>	<b>45,931</b>

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 £'000	2018-19 £'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
<b>Total Costs before provision movements</b>	<b>24,471</b>	<b>21,625</b>
Early Retirement Provision utilisation & adjustment	(10)	(187)
<b>Total Staff Costs</b>	<b>24,461</b>	<b>21,438</b>

### 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 £'000	2018-19 £'000
Agency Staff	1,484	2,102
Training	346	318
Recruitment	136	139
Travel & Subsistence	1,022	833
Accommodation	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
<b>Total Other Administrative Costs</b>	<b>16,849</b>	<b>15,940</b>

### 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
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## 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
<b>Total</b>	<b>779</b>	<b>1,107</b>

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
<b>Total</b>	<b>1,114,219</b>	<b>817,276</b>

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
<b>Movements:</b>				
<b>Balance at 1 April 2018</b>		<b>15,110</b>	<b>407,267</b>	<b>422,377</b>
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)
<b>Balance at 31 March 2019</b>		<b>10,027</b>	<b>807,249</b>	<b>817,276</b>
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)
<b>Balance at 31 March 2020</b>		<b>4,798</b>	<b>1,109,421</b>	<b>1,114,219</b>

**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
<b>Total</b>	<b>315,575</b>	<b>351,962</b>
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
<b>Recoverable claims - gross</b>			
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
<b>Balance at 31 March 2019</b>	<b>433,377</b>	<b>213,373</b>	<b>646,750</b>
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
<b>Balance at 31 March 2020</b>	<b>401,693</b>	<b>188,972</b>	<b>590,665</b>
<b>Recoverable claims - provisions</b>			
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
<b>Balance at 31 March 2019</b>	<b>265,484</b>	<b>134,786</b>	<b>400,270</b>
(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
<b>Balance at 31 March 2020</b>	<b>257,078</b>	<b>136,359</b>	<b>393,437</b>
<b>Net recoverable claims as at:</b>			
- 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
<b>Interest on unrecovered claims - gross</b>			
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
<b>Balance at 31 March 2019</b>	<b>1,004,320</b>	<b>147,639</b>	<b>1,151,959</b>
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
<b>Balance at 31 March 2020</b>	<b>1,015,016</b>	<b>156,616</b>	<b>1,171,632</b>
<b>Interest on unrecovered claims - provisions</b>			
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
<b>Balance at 31 March 2019</b>	<b>899,703</b>	<b>146,774</b>	<b>1,046,477</b>
(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
<b>Balance at 31 March 2020</b>	<b>897,183</b>	<b>156,100</b>	<b>1,053,283</b>
<b>Net interest on unrecovered claims as at:</b>			
- 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)
<i>Total Movements</i>	<i>7,331</i>
<b>Balance at 31 March 2019</b>	<b>379,046</b>
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)
<i>Total Movements</i>	<i>(19,744)</i>
<b>Balance at 31 March 2020</b>	<b>359,302</b>

Movements are summarised within Note 18.

**12 Insurance and other receivables**

	31 March 2020 £'000	31 March 2019 £'000
<b>Export Credit Guarantees and Insurance:</b>		
Insurance premium receivables	30,874	18,689
Insurance prepayments and accrued income	2,706	1,657
Other receivables	105	194
<b>Total</b>	<b>33,685</b>	<b>20,540</b>
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)
<b>Balance at 31 March 2019</b>	<b>187,649</b>
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)
<b>Balance at 31 March 2020</b>	<b>137,730</b>

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
<b>Total</b>	<b>137,730</b>	<b>187,649</b>

### 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)
<b>(Decrease) / Increase in cash</b>	<b>(49,919)</b>	<b>105,989</b>

### 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
<b>Total</b>	<b>248</b>	<b>668</b>
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 £'000	31 March 2019 £'000
Amounts payable to the Consolidated Fund	137,730	187,649
<b>Total</b>	<b>137,730</b>	<b>187,649</b>
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 £'000	31 March 2019 £'000
<b>Export Credit Guarantees and Insurance:</b>		
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
<b>Total</b>	<b>29,565</b>	<b>24,493</b>
<b>Export Finance Assistance:</b>		
Other payables	15	1
<b>Total</b>	<b>15</b>	<b>1</b>
<b>Total</b>	<b>29,580</b>	<b>24,494</b>
Falling due:		
- within one year	29,580	24,494

### 17(b) Provisions for early retirement

	31 March 2020 £'000	31 March 2019 £'000
Early Departure Provision	-	9
<b>Total</b>	<b>-</b>	<b>9</b>
Falling due:		
- within one year	-	9
- after more than one year	-	-

### 17(c) Provisions for financial guarantees

	31 March 2020 £'000	31 March 2019 £'000
Provisions for likely claims on financial guarantees	3,770	1,635
<b>Total</b>	<b>3,770</b>	<b>1,635</b>
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
<b>Insurance liabilities - Gross of reinsurance</b>			
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)
<i>Total Movements</i>	<i>162,709</i>	<i>111,372</i>	<i>274,081</i>
<b>Balance at 31 March 2019</b>	<b>1,163,765</b>	<b>111,372</b>	<b>1,275,137</b>
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)
<i>Total Movements</i>	<i>42,363</i>	<i>-</i>	<i>42,363</i>
<b>Balance at 31 March 2020</b>	<b>1,206,128</b>	<b>111,372</b>	<b>1,317,500</b>
<b>Insurance liabilities - Net of reinsurance</b>			
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)
<i>Total Movements</i>	<i>181,549</i>	<i>85,201</i>	<i>266,750</i>
<b>Balance at 31 March 2019</b>	<b>810,890</b>	<b>85,201</b>	<b>896,091</b>
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)
<i>Total Movements</i>	<i>62,125</i>	<i>(18)</i>	<i>62,107</i>
<b>Balance at 31 March 2020</b>	<b>873,015</b>	<b>85,183</b>	<b>958,198</b>
<b>Summary of movements:</b>			
<b>2018-19</b>			
<i>Gross changes in insurance liabilities</i>	<i>162,709</i>	<i>111,372</i>	<i>274,081</i>
<i>Reinsurers' share of changes in insurance liabilities</i>	<i>18,840</i>	<i>(26,171)</i>	<i>(7,331)</i>
<b>Changes in insurance liabilities (net of reinsurance)</b>	<b>181,549</b>	<b>85,201</b>	<b>266,750</b>
<b>2019-20</b>			
<i>Gross changes in insurance liabilities</i>	<i>42,363</i>	<i>-</i>	<i>42,363</i>
<i>Reinsurers' share of changes in insurance liabilities</i>	<i>19,762</i>	<i>(18)</i>	<i>19,744</i>
<b>Changes in insurance liabilities (net of reinsurance)</b>	<b>62,125</b>	<b>(18)</b>	<b>62,107</b>

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	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	fund	fund	fund	fund	fund	fund	fund	fund	fund	fund
	year	year	year	year	year	year	year	year	year	year
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Accounts 2 &amp; 3</b>										
<b>Credit funds</b>										
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	-	-	-	-	-	-	-	-	-
<b>Cash funds</b>										
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	-	-	-	-	-	-	-	-	-	-
<b>Credit fund total</b>	<b>602</b>	<b>3,831</b>	<b>10,272</b>	<b>21,376</b>	<b>30,047</b>	<b>17,535</b>	<b>26,603</b>	<b>42,298</b>	<b>110,027</b>	<b>72,685</b>
<b>Cash fund total</b>	<b>-</b>	<b>-</b>	<b>2,354</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>62</b>	<b>2,575</b>	<b>91</b>
<b>Expected Loss total</b>	<b>602</b>	<b>3,831</b>	<b>12,626</b>	<b>21,376</b>	<b>30,067</b>	<b>17,535</b>	<b>26,603</b>	<b>42,360</b>	<b>112,602</b>	<b>72,776</b>
<b>Summary</b>										<b>340,378</b>
						<b>funds</b>	<b>funds</b>	<b>funds</b>	<b>funds</b>	<b>funds</b>
						<b>2010-11</b>	<b>2010-11</b>	<b>2010-11</b>	<b>years</b>	<b>grand</b>
						<b>to</b>	<b>to</b>	<b>to</b>	<b>to</b>	<b>total</b>
						<b>2019-20</b>	<b>2019-20</b>	<b>2019-20</b>	<b>2009-10</b>	
						<b>open</b>	<b>closed</b>	<b>total</b>	<b>closed</b>	
						<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expected Loss Summary:</b>										
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
<b>Expected Loss total</b>						<b>337,402</b>	<b>2,976</b>	<b>340,378</b>	<b>1,588</b>	<b>341,966</b>

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
<b>As at 31 March 2020</b>		
Interest rate swap arrangements on Export Finance Loan Guarantees	(6)	45
Interest rate derivative contracts entered into for hedging purposes	-	-
<b>Net impact on profit or loss</b>	<b>(6)</b>	<b>45</b>
<b>As at 31 March 2019</b>		
Interest rate swap arrangements on Export Finance Loan Guarantees	(26)	29
Interest rate derivative contracts entered into for hedging purposes	74	(75)
<b>Net impact on profit or loss</b>	<b>48</b>	<b>(46)</b>

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
<b>As at 31 March 2020</b>				
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
<b>As at 31 March 2019</b>				
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
<b>As at 31 March 2020</b>				
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
<b>As at 31 March 2019</b>				
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
<b>As at 31 March 2020</b>			
<b>Account 5: Direct Lending</b>			
Loans at amortised cost	376,795	732,626	1,109,421
Commitments	38,421	858,401	896,822
<b>As at 31 March 2019</b>			
<b>Account 5: Direct Lending</b>			
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
<b>As at 31 March 2020</b>					
<b>Account 5: Direct Lending</b>					
Loans at amortised cost	5,582	47,618	1,056,221	-	1,109,421
Commitments	-	-	896,822	-	896,822
<b>As at 31 March 2019</b>					
<b>Account 5: Direct Lending</b>					
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
<b>Amounts at Risk, gross of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	4,397,587	2,544,239	6,941,826
Other	3,094,244	7,642,998	10,737,242
<b>Total</b>	<b>7,491,831</b>	<b>10,187,237</b>	<b>17,679,068</b>
<b>Account 3: Insurance Contracts</b>			
Other	3,400,712	-	3,400,712
<b>Total</b>	<b>3,400,712</b>	<b>-</b>	<b>3,400,712</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>8,994</b>	<b>749,687</b>	<b>758,681</b>
<b>Amounts at Risk, net of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	1,902,383	2,544,239	4,446,622
Other	1,491,336	7,642,998	9,134,334
<b>Total</b>	<b>3,393,719</b>	<b>10,187,237</b>	<b>13,580,956</b>
<b>Account 3: Insurance Contracts</b>			
Other	2,214,192	-	2,214,192
<b>Total</b>	<b>2,214,192</b>	<b>-</b>	<b>2,214,192</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>8,994</b>	<b>749,687</b>	<b>758,681</b>
<b>Expected Loss, gross of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	42,881	95,146	138,027
Other	45,597	224,099	269,696
<b>Total</b>	<b>88,478</b>	<b>319,245</b>	<b>407,723</b>
<b>Account 3: Insurance Contracts</b>			
Other	7,250	-	7,250
<b>Total</b>	<b>7,250</b>	<b>-</b>	<b>7,250</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>31</b>	<b>27,982</b>	<b>28,013</b>
<b>Expected Loss, net of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	9,801	95,146	104,947
Other	8,124	224,098	232,222
<b>Total</b>	<b>17,925</b>	<b>319,244</b>	<b>337,169</b>
<b>Account 3: Insurance Contracts</b>			
Other	4,796	-	4,796
<b>Total</b>	<b>4,796</b>	<b>-</b>	<b>4,796</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>31</b>	<b>27,982</b>	<b>28,013</b>

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

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
<b>Recoverable claims - gross</b>			
Account 1	6,193	395,500	401,693
Account 2	44,321	144,651	188,972
<b>Total</b>	<b>50,514</b>	<b>540,151</b>	<b>590,665</b>
<b>Recoverable claims - net of provisions</b>			
Account 1	6,167	138,448	144,615
Account 2	42,068	10,545	52,613
<b>Total</b>	<b>48,235</b>	<b>148,993</b>	<b>197,228</b>
<b>Interest on unrecovered claims - gross</b>			
Account 1	32	1,014,984	1,015,016
Account 2	203	156,413	156,616
<b>Total</b>	<b>235</b>	<b>1,171,397</b>	<b>1,171,632</b>
<b>Interest on unrecovered claims - net of provisions</b>			
Account 1	32	117,803	117,835
Account 2	203	311	514
<b>Total</b>	<b>235</b>	<b>118,114</b>	<b>118,349</b>

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2019:

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

### 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
<b>Amounts at Risk, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
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
<b>Total</b>	<b>5,705,551</b>	<b>1,343,269</b>	<b>7,809,301</b>	<b>2,820,947</b>	<b>17,679,068</b>
<b>Account 3: Insurance Contracts</b>					
Other	1,186,520	-	2,214,192	-	3,400,712
<b>Total</b>	<b>1,186,520</b>	<b>-</b>	<b>2,214,192</b>	<b>-</b>	<b>3,400,712</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>758,681</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>758,681</b>
<b>Amounts at Risk, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
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
<b>Total</b>	<b>1,965,503</b>	<b>1,264,671</b>	<b>7,809,300</b>	<b>2,541,482</b>	<b>13,580,956</b>
<b>Account 3: Insurance Contracts</b>					
Other	-	-	2,214,192	-	2,214,192
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,214,192</b>	<b>-</b>	<b>2,214,192</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>758,681</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>758,681</b>
<b>Expected Loss, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	58,456	24,294	14,050	41,227	138,027
Other	48,208	15,583	165,088	40,817	269,696
<b>Total</b>	<b>106,664</b>	<b>39,877</b>	<b>179,138</b>	<b>82,044</b>	<b>407,723</b>
<b>Account 3: Insurance Contracts</b>					
Other	2,454	-	4,796	-	7,250
<b>Total</b>	<b>2,454</b>	<b>-</b>	<b>4,796</b>	<b>-</b>	<b>7,250</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>28,013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,013</b>
<b>Expected Loss, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	37,126	24,420	14,050	29,351	104,947
Other	11,597	14,720	165,088	40,817	232,222
<b>Total</b>	<b>48,723</b>	<b>39,140</b>	<b>179,138</b>	<b>70,168</b>	<b>337,169</b>
<b>Account 3: Insurance Contracts</b>					
Other	-	-	4,796	-	4,796
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,796</b>	<b>-</b>	<b>4,796</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>28,013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,013</b>

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
<b>Amounts at Risk, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
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
<b>Total</b>	<b>6,629,867</b>	<b>1,751,433</b>	<b>6,689,958</b>	<b>2,856,496</b>	<b>17,927,754</b>
<b>Account 3: Insurance Contracts</b>					
Other	1,111,650	-	2,284,993	-	3,396,643
<b>Total</b>	<b>1,111,650</b>	<b>-</b>	<b>2,284,993</b>	<b>-</b>	<b>3,396,643</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>213,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>213,514</b>
<b>Amounts at Risk, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
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
<b>Total</b>	<b>2,259,266</b>	<b>1,683,261</b>	<b>6,689,958</b>	<b>2,548,692</b>	<b>13,181,177</b>
<b>Account 3: Insurance Contracts</b>					
Other	-	-	2,284,993	-	2,284,993
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,284,993</b>	<b>-</b>	<b>2,284,993</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>213,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>213,514</b>
<b>Expected Loss, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	72,166	8,553	8,365	18,872	107,956
Other	35,055	23,577	161,180	23,190	243,002
<b>Total</b>	<b>107,221</b>	<b>32,130</b>	<b>169,545</b>	<b>42,062</b>	<b>350,958</b>
<b>Account 3: Insurance Contracts</b>					
Other	4,447	-	9,340	-	13,787
<b>Total</b>	<b>4,447</b>	<b>-</b>	<b>9,340</b>	<b>-</b>	<b>13,787</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>14,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,590</b>
<b>Expected Loss, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	43,280	8,553	8,365	18,872	79,070
Other	9,906	23,577	161,180	23,190	217,853
<b>Total</b>	<b>53,186</b>	<b>32,130</b>	<b>169,545</b>	<b>42,062</b>	<b>296,923</b>
<b>Account 3: Insurance Contracts</b>					
Other	-	-	9,340	-	9,340
<b>Total</b>	<b>-</b>	<b>-</b>	<b>9,340</b>	<b>-</b>	<b>9,340</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>14,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,590</b>



## 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
<b>Recoverable claims</b>				
- Gross	431,223	155,878	3,564	590,665
- Provisions	(320,717)	(69,391)	(3,329)	(393,437)
<b>Interest on unrecovered claims</b>				
- Gross	916,372	238,486	16,774	1,171,632
- Provisions	(843,819)	(192,786)	(16,678)	(1,053,283)
<b>Net insurance assets at 31 March 2020</b>	<b>183,059</b>	<b>132,187</b>	<b>331</b>	<b>315,577</b>

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
<b>Recoverable claims</b>				
- Gross	471,252	172,134	3,364	646,750
- Provisions	(332,219)	(64,917)	(3,134)	(400,270)
<b>Interest on unrecovered claims</b>				
- Gross	903,801	232,273	15,885	1,151,959
- Provisions	(852,359)	(178,316)	(15,802)	(1,046,477)
<b>Net insurance assets at 31 March 2019</b>	<b>190,475</b>	<b>161,174</b>	<b>313</b>	<b>351,962</b>

## 20(d) Liquidity risk

Liquidity risk is the risk that a business, though solvent on a Statement of Financial Position basis, either does not have the financial resources to meet its obligations as they fall due, or can secure those resources only at excessive cost. As a Department of HM Government, UKEF has access to funds required to meet its obligations as they fall due, drawing on funds from the Exchequer (see Note 19) as required.

The scheduled maturity profile of UKEF's insurance contracts and financial guarantees, expressed in terms of total Amounts at Risk and the dates at which those periods of risk expire, is set out in the following table:

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Total £'000
<b>As at 31 March 2020:</b>					
<b>Account 2: Insurance Contracts</b>					
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)
<b>Net amounts at risk</b>	<b>2,180,666</b>	<b>6,606,134</b>	<b>4,019,460</b>	<b>774,696</b>	<b>13,580,956</b>
<b>Account 3: Insurance Contracts</b>					
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)
<b>Net amounts at risk</b>	<b>41,712</b>	<b>733,854</b>	<b>1,385,487</b>	<b>53,139</b>	<b>2,214,192</b>
<b>Account 2: Financial Guarantees</b>					
Gross Amounts at Risk	296,495	462,186	-	-	758,681
Less: Amounts at Risk ceded to reinsurers	-	-	-	-	-
<b>Net amounts at risk</b>	<b>296,495</b>	<b>462,186</b>	<b>-</b>	<b>-</b>	<b>758,681</b>
<b>As at 31 March 2019:</b>					
<b>Account 2: Insurance Contracts</b>					
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)
<b>Net amounts at risk</b>	<b>1,800,736</b>	<b>6,888,472</b>	<b>3,883,920</b>	<b>608,049</b>	<b>13,181,177</b>
<b>Account 3: Insurance Contracts</b>					
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)
<b>Net amounts at risk</b>	<b>38,626</b>	<b>405,463</b>	<b>1,753,886</b>	<b>87,018</b>	<b>2,284,993</b>
<b>Account 2: Financial Guarantees</b>					
Gross Amounts at Risk	105,996	105,598	1,920	-	213,514
Less: Amounts at Risk ceded to reinsurers	-	-	-	-	-
<b>Net amounts at risk</b>	<b>105,996</b>	<b>105,598</b>	<b>1,920</b>	<b>-</b>	<b>213,514</b>

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 £'000	2 notches £'000	+ 2 years £'000	-20% £'000
<b>As at 31 March 2020:</b>				
<b>Account 2: Insurance Contracts</b>				
- 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)
<b>Account 3: Insurance Contracts</b>				
- Increase in Expected Loss	2,418	8,066	2,999	2,402
- Decrease in net income for the year	-	-	-	-
<b>As at 31 March 2019:</b>				
<b>Account 2: Insurance Contracts</b>				
- 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
<b>Account 3: Insurance Contracts</b>				
- 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:

	<b>Account 5 £'000</b>	<b>Total £'000</b>
<b>Movements:</b>		
<b>Balance at 1 April 2018</b>	<b>590,537</b>	<b>590,537</b>
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)
<b>Balance at 31 March 2019</b>	<b>647,572</b>	<b>647,572</b>
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)
<b>Balance at 31 March 2020</b>	<b>896,822</b>	<b>896,822</b>

## 22 Contingent liabilities

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

	<b>31 March 2020 £'000</b>	<b>31 March 2019 £'000</b>
<b>Summary: Gross of reinsurance</b>		
Account 2	18,437,749	18,141,268
Account 3	3,400,712	3,396,643
<b>Total</b>	<b>21,838,461</b>	<b>21,537,911</b>
<b>Summary: Net of reinsurance</b>		
Account 2	14,339,637	13,394,691
Account 3	2,214,192	2,284,993
<b>Total</b>	<b>16,553,829</b>	<b>15,679,684</b>

## 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:

<b>Gross of reinsurance</b>	<b>Account 2 £'000</b>	<b>Account 3 £'000</b>	<b>Total £'000</b>
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)
<b>Balance at 31 March 2019</b>	<b>17,927,754</b>	<b>3,396,643</b>	<b>21,324,397</b>
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)
<b>Balance at 31 March 2020</b>	<b>17,679,068</b>	<b>3,400,712</b>	<b>21,079,780</b>

<b>Net of reinsurance</b>	<b>Account 2 £'000</b>	<b>Account 3 £'000</b>	<b>Total £'000</b>
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
<b>Balance at 31 March 2019</b>	<b>13,181,177</b>	<b>2,284,993</b>	<b>15,466,170</b>
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)
<b>Balance at 31 March 2020</b>	<b>13,580,956</b>	<b>2,214,192</b>	<b>15,795,148</b>

## 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:

<b>Gross &amp; Net of reinsurance</b>	<b>Account 2 £'000</b>	<b>Total £'000</b>
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
<b>Balance at 31 March 2019</b>	<b>213,514</b>	<b>213,514</b>
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
<b>Balance at 31 March 2020</b>	<b>758,681</b>	<b>758,681</b>

## 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<sup>1</sup> under the Debt Service Suspension Initiative (DSSI)<sup>2</sup>. 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.

<sup>1</sup> IDA countries and UN Least Developed Countries

<sup>2</sup> 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: Aviana, 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 it is 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
Norwegian 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.

