UK Export
Finance

Annual Report and Accounts
2020-21

UK Export Finance

Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2020-21

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

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

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

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This is part of a series of departmental publications which, along with the Main Estimates 2020-21, the document Public Expenditure: Statistical Analyses 2020-21, and the Supply Estimates 2020-21: Supplementary Budgetary Information, present the government's outturn for 2020-21 and planned expenditure for 2021-22.

HC 400

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In loving memory of
Robin Ogleby and **David Barclay**

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UK Export
Finance

Who we are

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

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

Our mission

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

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

How we do it

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

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

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

Ministers' foreword

We are proud to present the UK Export Finance (UKEF) Annual Report and Accounts for 2020-21.

Coronavirus has left the UK in its most economically challenging position in decades. Trade has been hampered by global restrictions and economic shutdowns, with the government stepping in to provide unprecedented financial support.

UKEF has been central to this government’s response and it has been a record year for the department as a result, providing £12.3 billion in support of UK exports. This backing has helped our nation of exporters keep selling to the world through this pandemic.

UKEF responded quickly, securing thousands of jobs in the process. Smaller businesses across the UK are benefitting from the new General Export Facility and the temporary expansion of its Export Insurance Policy, while the Export Development Guarantee unlocked major support for the UK manufacturing and aviation industries.

These new products fundamentally changed UKEF’s support to business and will put UK exporters in a position to capitalise on our new free trade agreements. The UK has now agreed trade deals with 67 countries plus the EU, that accounted for £891 billion of UK bilateral trade in 2019, opening doors for UK businesses to potential new markets. Capturing the benefits of exporting and international trade opportunities is vital – helping to support job creation, wage growth and levelling up the economy across the regions and nations of the UK.

As we look to a future beyond this pandemic, we will use our new and independent trade policy to build back greener. The UK will lead this year’s UN Climate Change Conference (COP26) Summit in Glasgow and we have an opportunity to lead by example.

As of 31 March 2021, the government no longer provides new direct support for the fossil fuel energy sector overseas, and is aligning its support to stimulate green exports. UKEF is already a leading supporter of sustainable exports, ranking second in the world amongst its global peers, and its role in supporting companies to win clean energy contracts and transition away from fossil fuels is critical.

UKEF was formed 100 years ago to help our nation’s exporters bounce back from the First World War and the flu epidemic that followed. As our recovery from this new pandemic gathers pace, we need UKEF more than ever. By supporting exporters of all sizes across the UK, we can transform our economy into one that is stronger, greener and fairer.

18 June 2021

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

Graham Stuart MP
Minister for Exports

Chair's statement

Noël Harwerth
Chair

Covid-19 has upended people's lives and has taken a profound toll on the global economy. UKEF staff, like so many others around the world have lost colleagues and friends to this horrendous illness.

Though we couldn't have anticipated these events, UKEF reacted quickly, and I am prouder today to be its Board Chair than ever before. With the support of HM Treasury we implemented a Temporary Covid Risk Framework (TCRF) to support UK exporters and suppliers affected by the pandemic and launched new products to back SMEs, including the General Export Facility.

I would like to pay tribute to the remarkable resilience shown by the UKEF staff. They adapted to flexible working seamlessly, balancing caring responsibilities, home schooling and work magnificently. Their attitude has been second to none, and this shone through in our 2020 People Survey results, which showed our highest ever Engagement score of 71%, above the Civil Service benchmark score of 66%, making UKEF a High Performing Department within the Civil Service.

UKEF remains the most ethnically diverse department in the Civil Service with 31% of staff from ethnic minority backgrounds, and has more female staff than ever before. This is a great achievement, but there is more that we can do. We are working to improve the gender and ethnicity balance further, particularly within our Senior Civil Service cohort.

Looking to the future, I am delighted that we doubled our support for sustainable projects to £2.4 billion in 2020 and I fully expect this to increase further following the launch of our Climate Change Strategy next year.

I would like to thank my fellow non-executive Board members for their diligence and commitment this year. We are very fortunate to have such a wealth of expertise within our ranks across the public and private sectors.

Our Board saw 3 members step down this year: Shalini Khemka, who joined UKEF in 2018, and provided the Board with real insight, particularly into SMEs and marketing; Maddy McTernan, who was UKGI's representative; and John Mahon who was the ex-officio Member for the Department of International Trade. I would like to thank them all for their dedication and service to the department. I would like to welcome Dr Alistair Clark, Candida Morley and Andrew Mitchell to the Board as the new representatives for the Export Guarantees Advisory Council, UKGI and DIT respectively.

Finally, I would like to thank Louis Taylor and the executive team for their unstinting hard work in what has been an incredibly difficult year – none of the great successes outlined in this report would have been possible without them.

18 June 2021

Performance

Highlights in 2020-21

UKEF underwrote a record amount of business this year, **providing £12.3 billion in support of UK exports**

UKEF directly supported 549 companies in 2020-21 – double the number from 2 years ago – and indirectly supported thousands more in supply chains

Launched our new General Export Facility, making our support more flexible and accessible to SMEs

Introduced a Temporary Covid Risk Framework (TCRF), providing UKEF with **£10 billion of additional capacity to back businesses affected by Covid-19**

Ranked second by TXF amongst all ECAs for **sustainable deals supported** – £2.4 billion in 2020

Committed to **ending support for fossil fuel projects overseas** and supporting the Prime Minister's 'Ten Point Plan for a Green Industrial Revolution'

Launched our Export Development Guarantee to support major exporting firms, announcing £8 billion of support predominantly for the automotive and aviation industries

Underwrote our **largest ever civil infrastructure project with £1.7 billion** to build 2 monorail lines in Cairo

Achieved our **highest ever score in the 2020 Civil Service People Survey**, the second highest score of any ministerial department

31% of our staff identify as being from ethnic minority backgrounds, making us, for the second year running, the **most ethnically diverse department in government**

Increased **our capacity to support exports to over 100 markets**, helping UK businesses take advantage of our trade deals

Expanded our international network with new country heads in Africa, South America, Asia and the Middle East

Chief Executive's report

Louis Taylor
Chief Executive Officer

Last year was one of profound challenges, but also one of success through adversity. Financial markets and institutions continue to digest the impact of Covid-19, while many businesses have seen significant hardship.

In the face of this adversity, UKEF helped UK businesses weather the storm in 2020-21, having a record year in support of our exporters, providing £12.3 billion in finance and insurance and directly supporting 549 UK businesses – doubling the number from 2018-19 – and estimated to support up to 107,000 UK jobs.[1]

The scale of this disruption required us to be agile and innovative in our approach to supporting exporters.

With the support of HM Treasury, we introduced £10 billion in additional capacity to provide finance to customers that we would have supported before the outbreak of Covid-19, taking account of the commercial impact of the virus on their business. We have allocated £7.3 billion of that capacity, securing thousands of UK jobs that may otherwise have been lost. You can find out more about this framework on page 81.

The last year was particularly difficult for small business owners and UKEF saw a significant increase in demand for short-term trade finance support from SMEs. I am proud to say that we were able to support many of them, with SMEs accounting for 79% of the companies that we directly supported last year.

This was possible as we accelerated product development at UKEF so that we were in a position to provide the right type of support to businesses who were facing the financial fallout of Covid-19.

In response to the pandemic the scope of our Export Insurance Policy was expanded, leading to applications doubling. Our relaunch of the Standard Buyer Loan Guarantee helped us ensure SME exporters can obtain timely payment, while our new General Export Facility allows us to provide SMEs with more flexible working capital support.

We also had huge success with our Export Development Guarantee (EDG), a product aimed at driving major investment into larger exporters. We have deployed nearly £8 billion through EDG to support British Airways, easyJet and Rolls Royce, among other firms, helping to protect the nearly 1 million jobs in the British aviation industry supply chain.

This has all been achieved during a historic economic downturn. These new tools have enabled us to address the challenges of today, but we are aware of those that remain in the future, with a significant rise in claims.

Like any Export Credit Agency, UKEF's role is to take on risk to make exports happen. We expect that during an economic down-cycle claims are made on some of our guarantees. This is a core part of our counter-cyclical role and the nature of our support: we protect UK exporters and their suppliers from unexpected losses, and these tend to be higher in a recession or downturn.

To ensure we fulfil our mission to operate at no net cost to the taxpayer over time, we price risk to break even over business cycles – not on an annual basis. That means the premium we collect in good times when claims are low helps to cover the cost of claims over the long-term financial cycle. We've collected £787 million in premium income over the previous 5 financial years against very few claims – as well as £330 million this year.

Through careful stewardship of taxpayer's money, buttressed by decades of experience, I am confident that final losses to the taxpayer from claims paid during this challenging period will be heavily mitigated in the medium term as we maximise efforts to make recoveries. We used this experience to respond quickly to the pandemic, creating new teams dedicated to managing claims and recoveries across our portfolio. You can find out more about this on pages 90 and 105-108, and how we protect the taxpayer on pages 22-23.

As outlined in our Economic Snapshot (pages 37-48), we are now looking beyond the pandemic, and it appears that the pace of decarbonisation efforts around the world has accelerated. Like Covid-19, addressing climate change through decarbonisation will take a tremendous coordinated international effort over the long-term, requiring lasting partnerships between the public and private sectors.

Trade and climate are closely interlinked, which is why we are proud, in the year Glasgow hosts the UN's Climate Change summit (COP26), that we are planning to launch our new Climate Change Strategy in the coming financial year, and are making our first Task Force on Climate-Related Financial Disclosures in this annual report.

It is fitting that our biggest ever civil infrastructure deal should be strongly sustainable. By providing £1.7 billion for 2 new monorail lines in Cairo, we ensured they will run with electric rolling stock built by Bombardier in Derbyshire. The project will remove significant road traffic from a heavily polluted city, will support hundreds of jobs in the UK, and represents the first export of rolling stock from the UK in 12 years.

We have also expanded our network of internationally based country heads, with new hires in Africa, South America, the Middle East and Asia, focused on unlocking UK green exports. This global network allows us to remain connected to overseas markets, finance major projects and create export opportunities for UK businesses, and has been invaluable during the pandemic when travel has been curtailed.

We have always been a department whose value is most apparent in a downturn, and this was recognised in the 2020 Spending Review, where we received a one-third boost in our resource budget, funded by the income we generate. This will ensure we continue to have the right resources in place to deliver on the government's priorities and can continue to operate at no net cost to the taxpayer.

To meet these priorities, we are strengthening our strategic ties across Whitehall, in particular with the Department for International Trade (DIT). In March 2021, we signed a new Memorandum of Understanding (MoU) with DIT, which builds on an already strong relationship and will help us to better support the government's new independent trade agenda. You can find out more about the MoU on page 163.

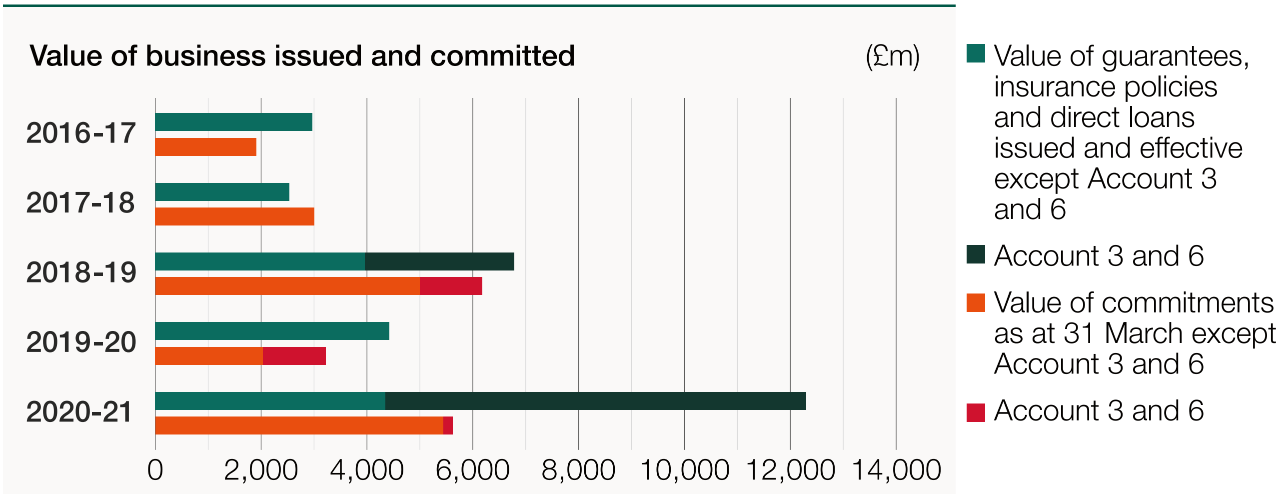
UKEF's success in 2020-21 is testament to the resilience and hard work of all staff across the department who have been working remotely since March 2020. Over the course of the year they have faced many personal challenges and hardships while balancing their working lives. I would like to take this opportunity to pay tribute to 2 much-loved colleagues who sadly lost their lives this year – Robin Ogleby and David Barclay.

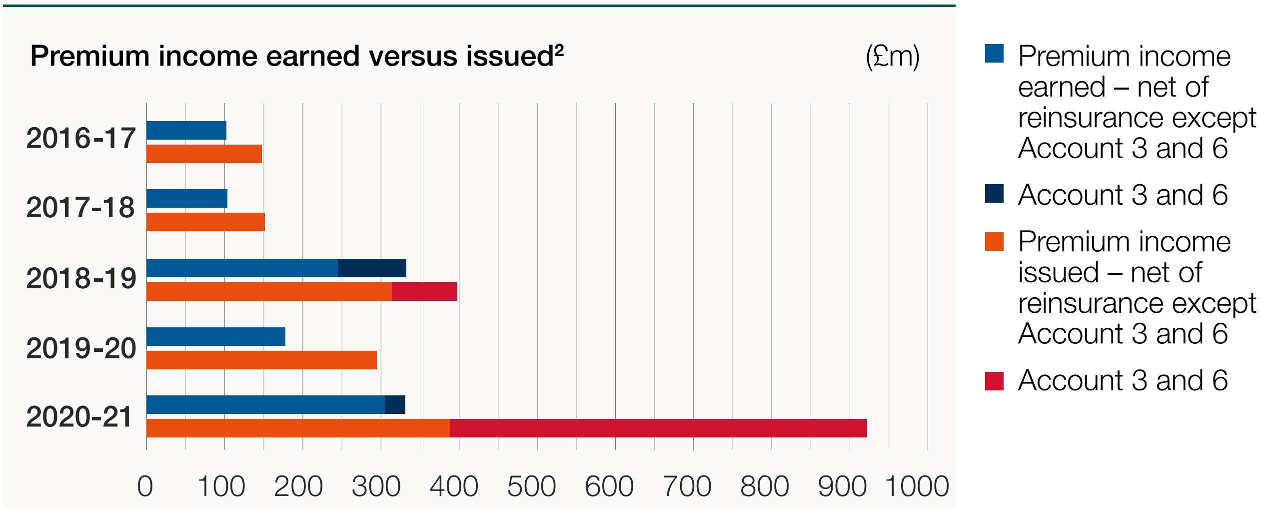
I am proud that, even with these personal hardships and tragedies, we have managed to provide our customers with a high-quality service throughout this challenging period, and underwrote record business volumes. As the pandemic hopefully recedes in 2021, our work will continue, helping UK businesses realise their full potential, and to take advantage of our free trade agreements in this new world.

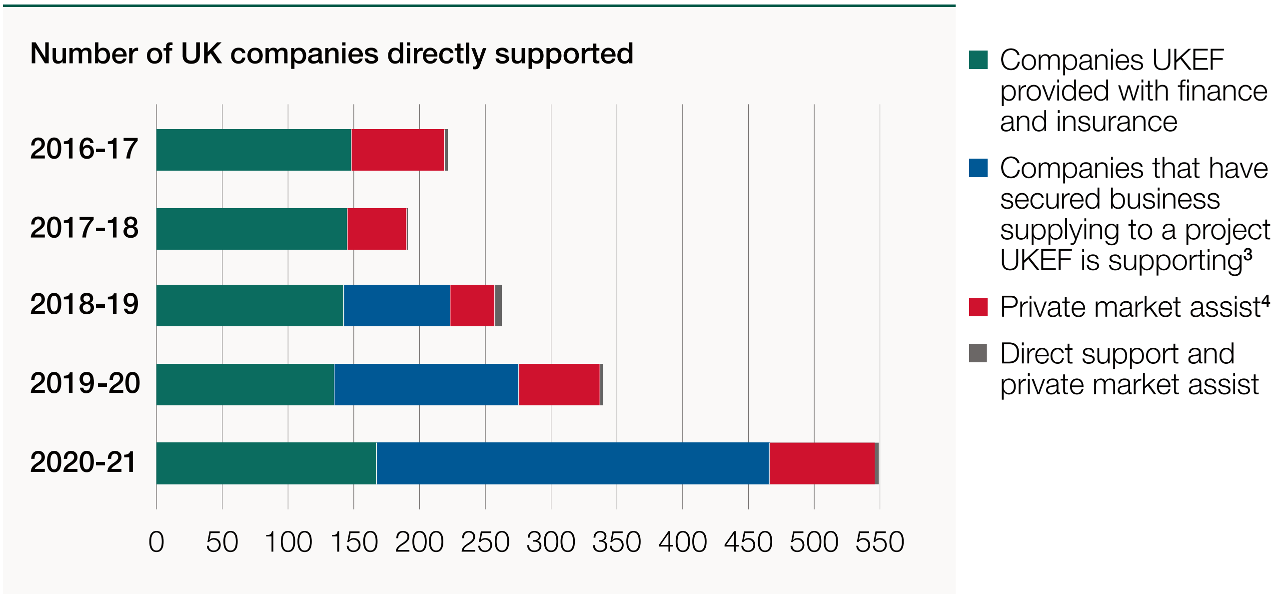
Business supported

In 2020-21, UKEF provided direct support to 549 businesses, in addition to thousands in their supply chains. 167 directly applied for finance and insurance – 79% of which were SMEs – and 81 were successfully referred by UKEF to private sector providers. A further 298 UK companies secured business supplying goods and/or services to a UKEF-supported project and 3 benefited from a combination of UKEF support and a private market assist, where UKEF helps to facilitate private sector support, resulting in an export going ahead. This amounts to a 62% overall increase in businesses directly supported since last year and double the figure from 2018-19.

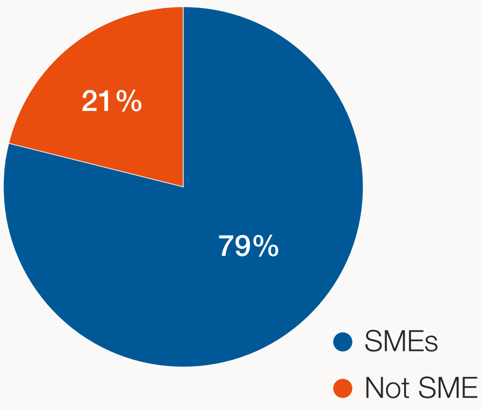
The maximum liability on all new business was £12.3 billion after reinsurance from other ECAs (£13.4 billion pre-reinsurance) and the net premium earned in the year was £330 million (£920 million net premium issued, see footnote 2 for details).


Value of business issued and committed
(£m)
2016-17
2017-18
2018-19
2019-20
2020-21
0
2,000
4,000
6,000
8,000
10,000
12,000
14,000
Value of guarantees, insurance policies and direct loans issued and effective except Account 3 and 6
Account 3 and 6
Value of commitments as at 31 March except Account 3 and 6
Account 3 and 6

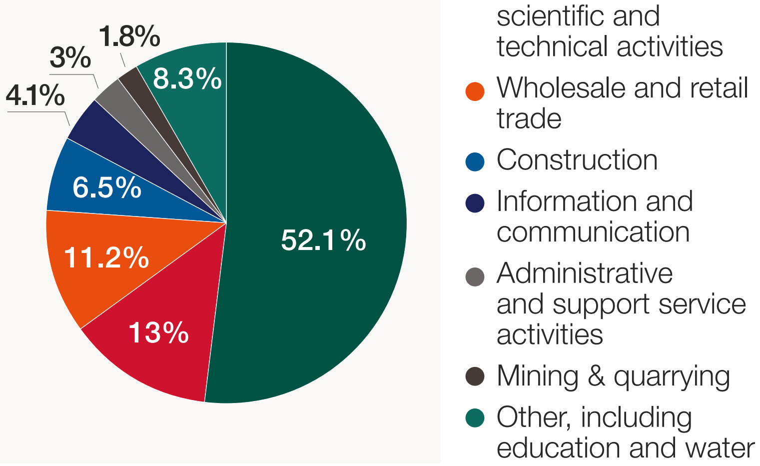

Premium income earned versus issued²
(£m)
2016-17
2017-18
2018-19
2019-20
2020-21
0
100
200
300
400
500
600
700
800
900
1000
Premium income earned – net of reinsurance except Account 3 and 6
Account 3 and 6
Premium income issued – net of reinsurance except Account 3 and 6
Account 3 and 6


Number of UK companies directly supported
2016-17
2017-18
2018-19
2019-20
2020-21
0
50
100
150
200
250
300
350
400
450
500
550
Companies UKEF provided with finance and insurance
Companies that have secured business supplying to a project UKEF is supporting³
Private market assist⁴
Direct support and private market assist

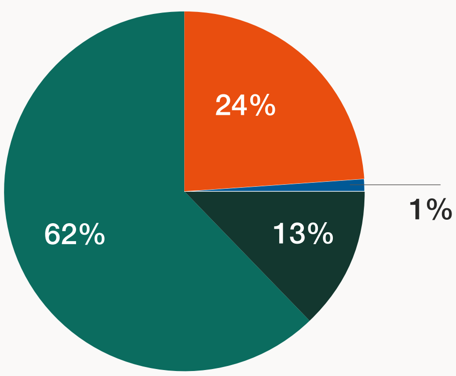
Companies supported by size[5]



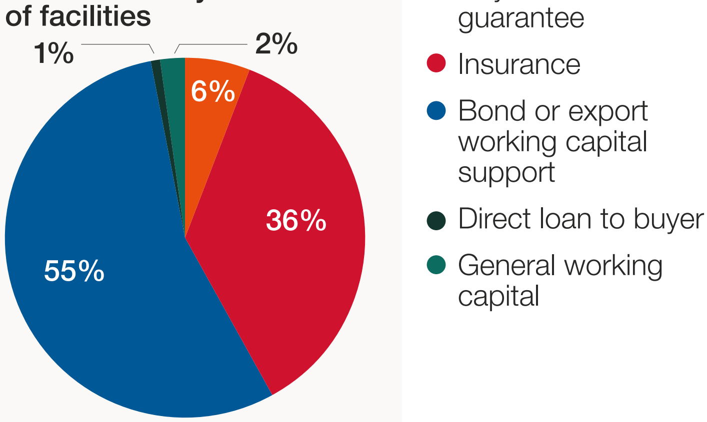
Companies supported by sector[5]



Product use by our maximum liability



Product use by number of facilities



Measuring our success

The volume of business that UKEF supports year-on-year is a reflection of private sector liquidity and risk appetite, as much as of our own activity. We complement rather than compete with private sector finance and insurance providers. If support is available from a commercial bank or insurer, we do not seek to displace this. In many cases, we will work with companies and financial service providers to find a solution from the commercial sector (which we report as a ‘private market assist’).

Our support is provided on the following terms (see pages 71-111 for more detail):

- we charge a premium to reflect the risk we assume
- commercial rates of interest are charged on the lending we support, at a rate reflecting UK government risk
- the premium we charge must cover our anticipated long-term losses and operating costs
- we aim to operate at no net cost to the taxpayer over business cycles

We have reviewed our performance against our objectives set out in our 2020-24 Business Plan, which support our strategic aims:

- Performance: provide export finance, insurance and guidance to help UK companies sell overseas, supporting the delivery of the government's Export Strategy
- Effectiveness: continuously adapt and focus our activity on sectors and countries where UKEF support will have the greatest economic benefit for exporters and suppliers of all sizes and across all of the UK
- Brand: improve awareness and understanding among UK companies, international buyers, prime contractors, sponsors, banks and insurers about export finance and insurance support available from UKEF and the private sector
- Competence: ensure we retain the confidence of our ministers by rigorously managing risk, improving efficiency and operating within the consent of HM Treasury
- A great place to work: engage and develop our staff to deliver better for our customers, in line with the vision for a "Brilliant Civil Service"
- Customer-centric: deliver high-quality services to the businesses and organisations we support
- Agile & adaptable: respond to emerging economic developments and market gaps

Our achievements in 2020-21

We said we would…	What we did…
Performance	
Work with 'super-buyers' overseas, UK and non-UK prime contractors and 'multipliers' to enable increased opportunities for the UK supply chain to sell into overseas projects backed by UKEF financing	Signed several MoUs and built partnerships with other multipliers which will unlock their projects for the UK supply chain. See more on pages 65-70
Launch a new and improved supply chain product range and fully launch our General Export Facility and our Export Development Guarantee	Fully launched our General Export Facility, Export Development Guarantee and Supply Chain Discounting products
Effectiveness	
Appoint up to 10 new international export finance executives in key priority markets and integrate them into our operational planning	Appointed 4 new international export finance executives, with their numbers to be expanded up to 30 in 2021-22
Collaborate with the Department for International Development on the Developing Market Infrastructure Programme	We continued to work closely with the Foreign, Commonwealth and Development Office on developing a blended finance product
Use our new tranche of direct lending to further build and develop our clean growth transaction pipeline	We appointed 2 new Export Finance Managers focused on developing our clean growth pipeline in Scotland and the north of England and aligned our direct lending facility with the green bond principles
Brand	
Use our marketing activities to generate customer responses and an increase in awareness of UKEF among potential customers	Generated 4,280 new business leads, and increased awareness of UKEF by 5 percentage points
Develop our web presence, including improved content and functionality for trade finance customers	The Digital Trade Finance Service team are in the Beta phase of transforming the service offering for our customers. It is due to go live in 2021-22

We said we would…	What we did…
Competence	
Ensure governance, compliance and assurance remain in line with government best practice as well as a new Risk and Control Self-Assessment tool to improve our compliance, assurance and risk mitigation measures	✓ We have commenced a programme of Assurance Testing to confirm that our primary enterprise risks are being adequately managed as well as a new Risk and Control Self-Assessment tool to improve further our compliance, assurance and risk mitigation measures
Prepare to make climate-related financial disclosures in line with the TCFD recommendations as soon as is practicable after the end of 2020-21	✓ Disclosures made in this Annual Report. See pages 137-144 for more
Actively work with HM Treasury to ensure that we continue to give the best possible support for exporters affected by the Covid-19 pandemic	✓ Agreed a temporary new framework with HM Treasury, which provides £10 billion in additional capacity for Covid-impacted firms
A great place to work	
Launch our new People Strategy and Employee Value Proposition	✓ Both launched and implemented.
Continue to evolve the way we work through launching the UKEF Smarter Working Programme and completing the refresh of the staff intranet	✓ New staff intranet launchedand the Smarter Working Programme is proceeding at pace having appointed Mace in January to undertake the workplace design and Flexiform to supply the new furniture
Refresh our commitments under the HMT Women in Finance Charter and update the Diversity & Inclusion Plan and associated Wellbeing Plan	✓ Women in Finance commitments refreshed and UKEF increased its proportion of female staff by 2 percentage points. We updated our Diversity and Inclusion Plan and remain the most ethnically diverse department in government

We said we would…	What we did…
Customer-centric	
Implement our Target Operating Model roadmap and transformation plan	The first year of our Target Operating Model (TOM) roadmap has been implemented. This has included approving 3 key strategies to underpin the TOM – IT, People and Data Strategies. Our key projects have also made good progress
Scope and implement our customer feedback approach	UKEF has developed 2 customer satisfaction surveys. One for new UKEF customers and the other an annual survey of all customers who have used a UKEF facility to get more detailed feedback on their experience
Agree benchmarks for our Digital Trade Finance Service and Customer Satisfaction Index	Work has progressed well, with 6 key performance indicators created for the Digital Trade Finance Service. These have been weighted based on business priority and amalgamated into the single Customer Satisfaction Index for the service
Agile & adaptable	
Work closely with the Department for International Trade to develop the government's new Export Strategy	UKEF support was embedded in the government's 'Build Back Better: our plan for growth',[6] and as the new Export Strategy is developed, access to finance will be at its heart
Implement our Product Strategy and Product Review recommendations, including roll-out of a refreshed Export Insurance Policy	Delivered major improvements to existing products and launched 3 new ones, as well as starting a major programme of work to refresh the Export Insurance Policy
Innovate and adapt as needed to help our customers during the Covid-19 pandemic and in the recovery phase	Achieved our greatest amount of business supported in a generation and a record staff engagement score

Building back cleaner and greener with sustainable finance

The Covid-19 pandemic has had a profound accelerating effect on the world of sustainable and clean growth. The financial shock from global restrictions reduced the capacity of the private sector to support overseas projects in emerging markets, putting projects vital for the prosperity of millions at risk.

UKEF has stepped in, providing finance and guarantees to enable clean growth projects to go ahead. These included building 2 new monorail lines through the centre of Cairo, bringing clean drinking water to rural Ghana, and a third new wind farm project for Taiwan in the last 12 months – all with substantial sustainable benefits to millions of people.

Our new Export Development Guarantee has also been deployed to support Ford and Nissan to invest in new green automotive technologies here in the UK, with products to be exported globally. You can find out more about these projects in Our support for exports on pages 53-64.

This success has been recognised, with UKEF ranking second in an international league table of sustainable finance.[7]

The UK takes centre stage in November, when the government will lead COP26, and the government has launched its 10 Point Plan for a Green Industrial Revolution,[8] which sets out the UK's ambitious programme to reach net-zero carbon emissions by 2050.

To help meet these commitments, UKEF will support UK businesses as they look to take advantage of emerging export opportunities in low carbon technologies and services, supporting jobs and reinvigorating our industrial heartlands.

We will do this by expanding our expert network of country heads around the world, by continuing to deploy our tranche of direct lending dedicated to clean growth, and with our innovative product range, including our new General Export Facility and Export Development Guarantee.

By helping the global economy in its recovery and supporting the UK's clean exporters, UKEF can play its part as we build back greener and reach net zero by 2050.

"I want to back the ambitions of small businesses to go global and trade around the world. That's why I'm pleased UK Export Finance is radically improving our support for small businesses. As businesses bounce back from Covid-19, the General Export Facility will help bring new trading opportunities to companies in every part of the country."

Rt Hon Boris Johnson MP, Prime Minister of the United Kingdom

"Trade is an incredibly powerful way to propel growth and create jobs as we recover from the pandemic. With one third of our economy being exports, support from UKEF can help the UK get a bigger slice of the global economic pie, secure jobs across the country and make the most of our newfound independence as a trading nation."

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

"The UK is one of the world's top 5 exporting nations, supporting well paid jobs in every region and nation across the country. I am delighted that our world-leading export credit agency has achieved such great success, helping us build back stronger from the pandemic."

Graham Stuart MP, Minister for Exports

Finances

UKEF is reporting a net operating loss of £217 million for the year ended 31 March 2021 compared with a net operating gain of £217 million for the year ended 31 March 2020. On an FX-adjusted basis the net operating loss for 2020-21 was £79 million compared with a net operating gain of £162 million for the year to 31 March 2020.

The change in FX adjusted financial performance was primarily a result of the impact of Covid-19 on UKEF's existing portfolio. This has required additional reserving ('top ups' on the Underwriting funds) related to business where UKEF has issued a medium / long term financial guarantee (largely related to the aerospace sector), but also increasing impairment on the direct lending portfolio, which were non-aero-related. This financial loss is set against many years of low claims and operating profits which will cover this cost over the business cycle (see below).

Page 36 sets out our results against our financial objectives and pages 113-126 provide a comprehensive report of our financial performance.

Supporting exports through the business cycle

Many of the loans we support by providing guarantees will be repaid over more than 10 years and, in the event of defaults, we will seek to make recoveries. This means that final business losses, as a result of unrecovered claims paid, can take many years to crystallise. For this reason, our role is best assessed 'through the business cycle', as our business levels and claims rise and fall depending on the impact of market disruptions on UK trade. For example, claims payments and recoveries reported in any single year actually reflect business written over a longer period of time.

UKEF acts as a guarantor or insurer under its export guarantee and insurance policies, and pays claims in a timely manner to protect its customers from financial loss. UKEF has protected its customers this year – as it has done in previous crises – as both demand for export insurance and claims increased in 2020-21.

In our role as an insurer, we have helped companies who have not been able to operate because of staff shortages, global travel restrictions or supply chain disruptions. UKEF's insurance cover was expanded in April to include markets that were previously excluded from the scheme, including the US and EU. See pages 53-56 for more detail on how our short term business support has protected exporters.

Claims also increased on guarantees we have made to support UK aerospace exports. UKEF has paid 231 claims on time to our financing partners in 2020-21, helping to maintain their own financial status and keeping UK trade finance lines open for business.

Working with our ECA partners we have restructured 13 airliner debts and issued new guarantees for 11 airlines. Keeping the UK supply chain for new aircraft working and maintenance of existing aircraft on track. As a long-term participant in the aerospace and other sectors, we are able to support transactions where the private sector does not in the short term. We have a proven track record of managing asset security and potential recoveries of aerospace assets. Taking a long-term view of market risks we have been able to recover claims paid and operate at no net cost to the taxpayer.

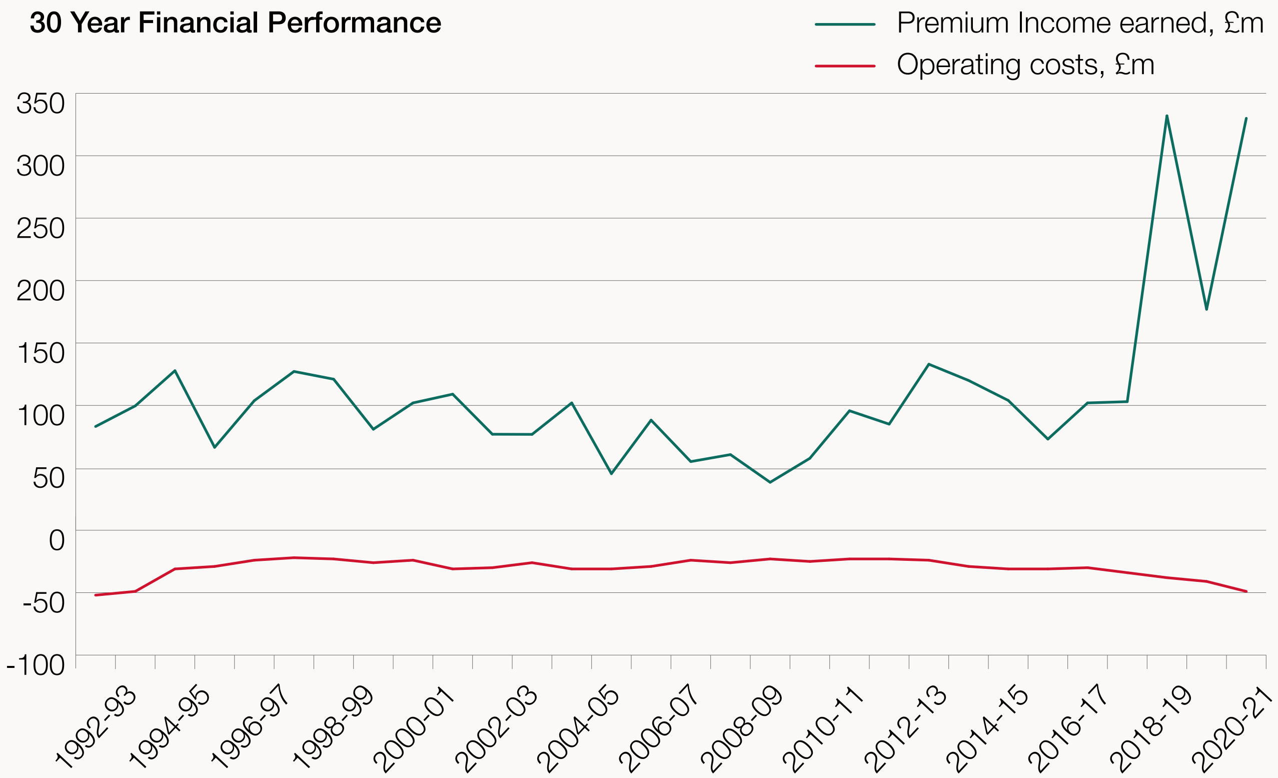
Overall, this year, our performance in managing financial risk remained strong. But it is our management of risk through business cycles that is most important. See pages 71-111 for a more detailed commentary on how we have actively managed financial risk.

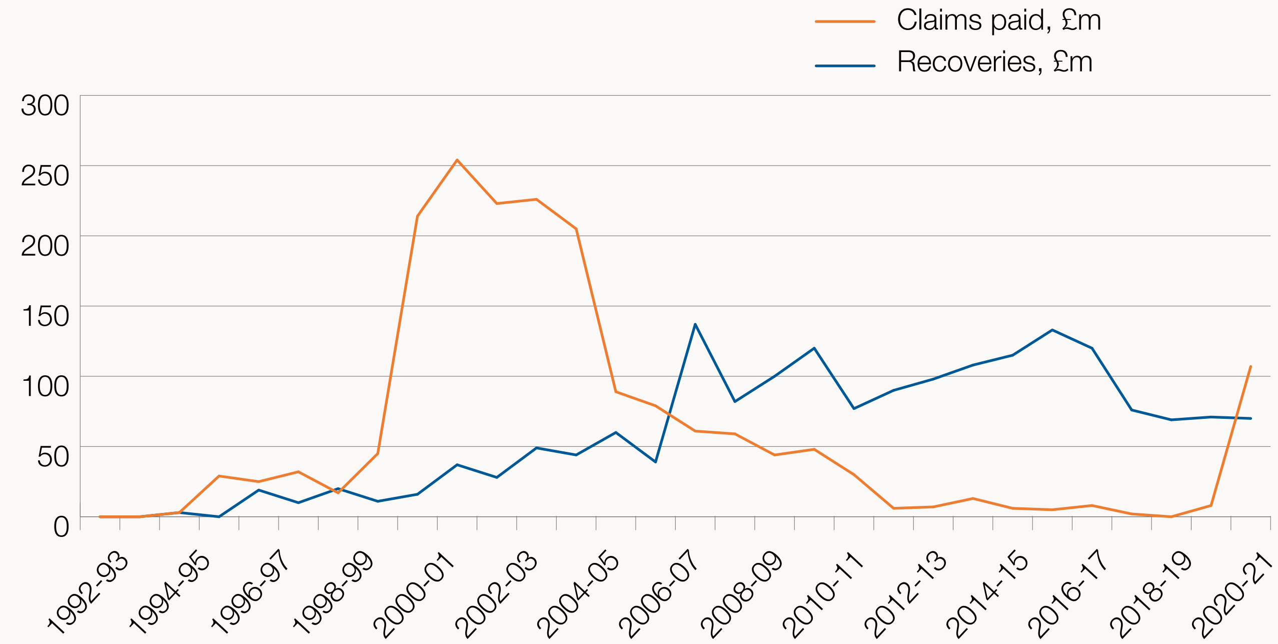
Warwickshire robotics firm iRob were able to secure supplies and pay staff during the pandemic with UKEF support

Historical Financial Performance

Both our trading performance and cash flow have been strongly positive over the last 30 years, enabling UKEF to make a positive contribution to the Treasury. UKEF has recovered the cost of every claim made against it since 1991 on a portfolio basis and returned just over £2 billion to the Treasury.

30 Year Financial Performance





The large increase in the value of claims from 2001 to 2005 was attributable to 9/11 and its impact on the airline industry. The claims paid were all subsequently recovered over the following 15 years.

It is not possible to compare annual premium income with claims paid each year because UKEF takes long term risks (repayment terms of up to 18 years for some projects). When UKEF does pay claims, often this will relate to transactions supported a number of years previously, as it has done this year with claims made by lenders on historic UKEF guarantees to airlines.

Performance assessment

An assessment of our performance should take into account:

- the overall volume of our support
- our ability to cover our operating costs and credit losses while providing this support
- the potential demand for our services, as required to complement but not compete with the private sector

Bridging the gap to the private market

Our potential market share is partially determined by external factors over which UKEF has no control:

- the regulatory and economic environment and the demand for finance and insurance to support UK exports
- the ability of commercial credit insurers and finance providers to meet the market's demand for finance and insurance

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

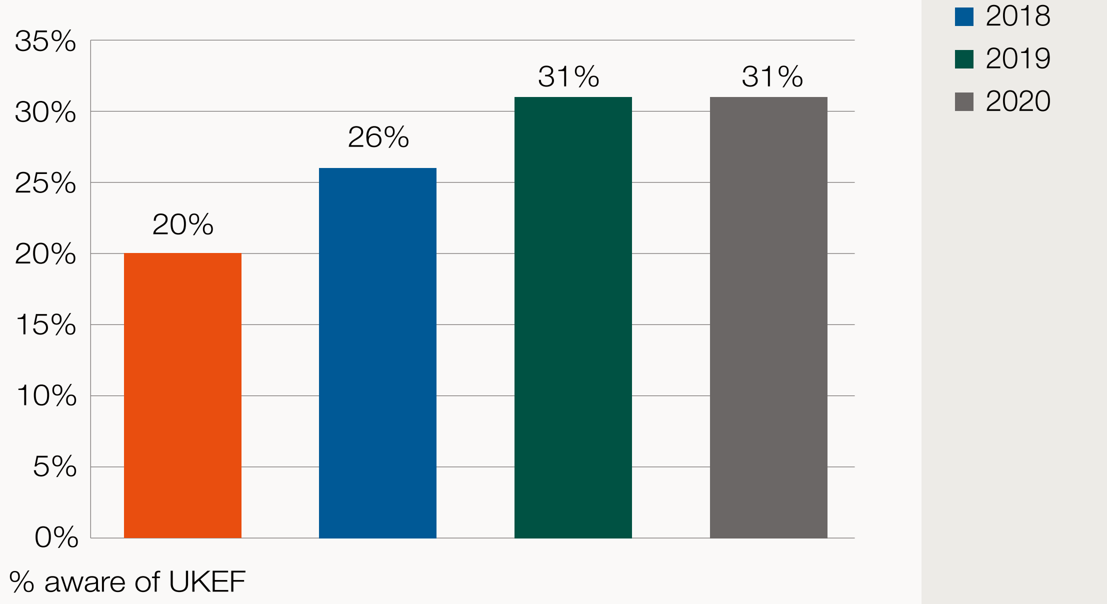
- awareness among exporters of UKEF's ability to help and the willingness of our commercial partners (for example, banks and brokers) to use and promote our services
- our pricing of risk, reflected in the premium and/or interest we charge
- whether we have the product range required to fill particular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

Awareness

The Covid-19 pandemic posed challenges to how we communicated with our customer base, and the government's communication priorities changed in light of the global pandemic. Non-essential communication spend across government, including UKEF's, was temporarily halted while emergency public health and other Covid-19 specific communications were prioritised.

During this period, we were able to refresh our campaign approach and materials, putting our Export Finance Managers at the forefront of our domestic campaign. We secured approval to re-start our campaign in September, recognising the importance of UKEF's support for businesses during the downturn. We re-engaged our target audience of SME exporters through PR, online advertising, social media, events, partnerships, direct marketing and re-marketing and generated 4,280 new responses from UK businesses against an annual target of 5,000, despite activity being restricted for the first half of the year.

Awareness of UKEF among target audience



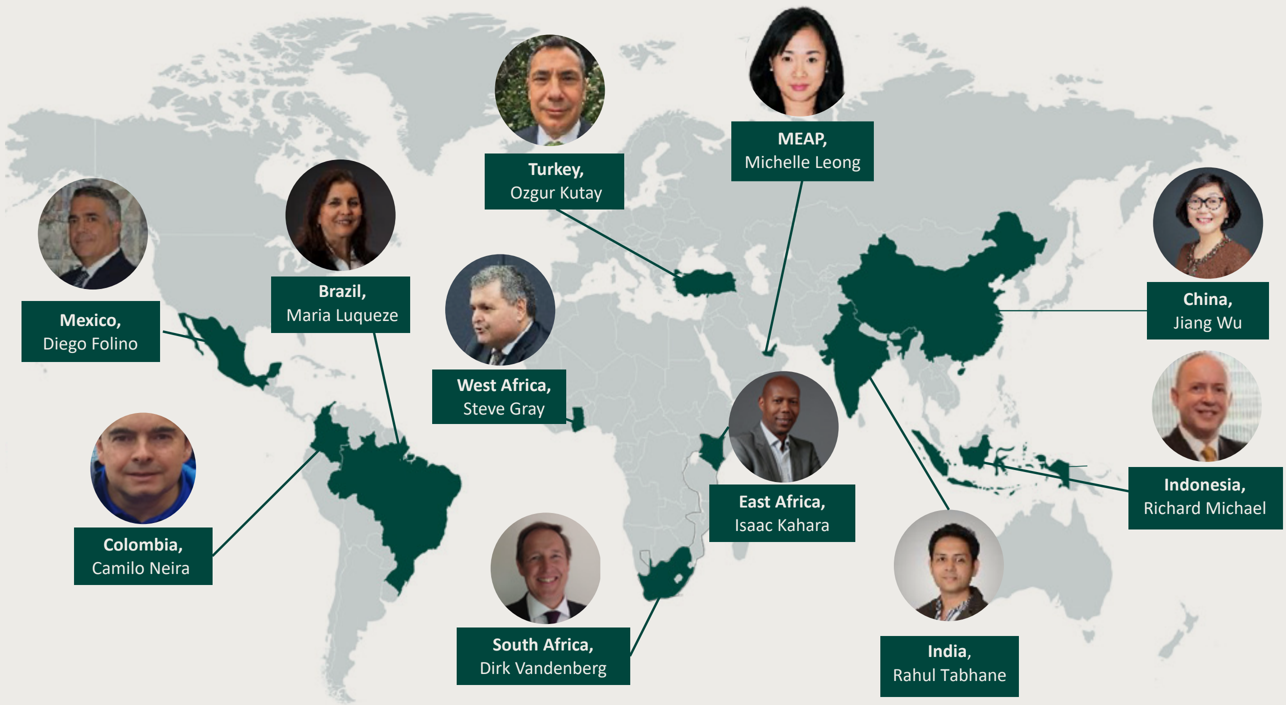
Despite the pandemic, UKEF also participated in 104 other domestic events online, engaging directly with UK SMEs to increase awareness and understanding of our offering. In our annual market survey to measure awareness among UKEF's target audience early, we found that awareness had increased to 31% from 26% in 2018. The fact that we achieved this increase in a time when our campaigning activity was largely suspended is particularly pleasing, and we hope to increase this further as we continue our campaign in 2021-22.

The Covid-19 pandemic restricted UKEF's Supplier Fair programme in 2020-21, alongside a decision not to offer supplier fairs for carbon intensive projects. UKEF successfully held 1 supplier fair online, seeking UK supplies for the Six Flags theme park project in Qiddiya, near Riyadh, Saudi Arabia, and this online model will be used again in the coming year.

In target markets overseas, we engaged high-value buyers with the potential to source significant volumes of new supplies from the UK to make them aware of UKEF's capacity to support UK supply chains. To make these connections, we participated in 30 international events online.

We expanded our overseas network of International Export Finance Executives to 11, with 4 new hires in 2020-21. You can find out more about them and their activities this year on pages 61-63.

UKEF's International Export Finance Executives



Getting our support to the right companies, at the right time, remains a significant focus, particularly within the renewable and low-carbon sectors. We also recognise the need to highlight the major product enhancements delivered in 2020-21, such as the General Export Facility and the Standard Buyer Loan Guarantee.

We will continue to work closely with commercial partners to increase the volume of business introduced to UKEF by banks, insurance brokers and other private sector and government networks. There is a review of our work with partners on pages 65-70.

Pricing of risk

We support UK exporter competitiveness through charging only the lowest premium rates permissible, subject to meeting our financial objectives and aligning with our international obligations, most notably the minimum rates set out by the OECD. Our pricing methodology is described in more detail on pages 91-94.

How we protect the taxpayer

We price for the risk we take on to enable us to operate at no net cost to the taxpayer. Costs include staff and overheads, but also the inevitable, eventual crystallisation of some of the risks we take into losses.

This varies considerably over time, particularly with fluctuations in the economic environment – such as those caused by Covid-19. We therefore aim at least to break even over business cycles. To make sure that we do, every month we add up the premium we've written and weigh it up against an estimate of all the potential costs and losses for the business supported, over a rolling 3-year horizon.

The level of new claims should be seen in the context of our comprehensive risk-management framework, including rigorous credit risk assessments, thorough underwriting, proactive monitoring and portfolio management, as well as oversight and governance, including maintaining adequate reserves for cases of default.

You can find out more about this process on pages 93-94.

Product range

This year UKEF has introduced 4 new guarantee products, including the General Export Facility and the Export Development Guarantee to support, respectively, small and large exporters' working capital requirements. The ability to support finance facilities that are not tied to specific export contracts gives UKEF the flexibility to help a much wider range of exporters, particularly SMEs, and have been described by the British Exporters Association as "game-changing financial products". You can find more about these new products on pages 55-56.

We also relaunched our Standard Buyer Loan Guarantee (SBLG), which allows UKEF to guarantee a loan of up to 85% of the contract value to the overseas buyer of a smaller UK exporter – typically worth between £1 million to £30 million. This is part of a refresh of our supplier credit support to make it more accessible. SBLG ensures smaller UK exporters can get paid upfront for goods and services while their overseas buyers can repay the loan from their lender (guaranteed by UKEF) over a longer period.

Finally, UKEF's Supply Chain Discount Guarantee was fully launched this year, helping exporters to better support companies in their supply chain by allowing them to discount their invoices and get paid earlier. UKEF gives a guarantee to banks who provide the supply chain facilities to their exporter customers.

UKEF's broad product range, strong guarantee, flexible foreign content rules and innovative approach are all advantages for UK exporters. Feedback from trade bodies, and trade press such as Global Trade Review and Trade Finance Global, recognises UKEF's open and collaborative culture. The strength of our guarantee in financial markets continues to be assured by our longstanding status as a ministerial government department with access to the Consolidated Fund.

As the world's first export credit agency we've been innovating since day 1, and we will continue to refine the product range going forward to ensure it's best placed to support our customers and to deliver against the government's key priorities.

Comparing UKEF with other ECAs

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

We also benefit from external scrutiny provided by the ECA benchmarking report produced each year by the British Exporters Association. Our product range has evolved considerably since BExA's first benchmarking report in 2010, when we scored 4 out of 10, compared to our leading score of 9 out of 10 for the last 6 years.

Other performance factors

Risk management

Managing risk is at the heart of our business model. In addition to the management of credit risks, we face a variety of other risks (e.g. financial, operational, reputational, strategic and legal) from external and internal sources.

As an ECA, our credit risk portfolio will tend to be characterised by:

- a higher risk profile than commercial lenders' or insurers'
- a strong emerging market risk component
- long risk horizons
- occasional risk concentrations (sectoral, counterparty and/or geographic)

While claims have risen this year, the low volume of new claims in each of the previous 10 years, demonstrates a strong capability in managing credit risk. Although past performance is not a guarantee of the future, taking the last 5 years, the average claims paid as a proportion of the average amount at risk would be:

- £1 for every £844 at risk, or 0.1%

This ratio is higher than previous years (in 2019-20 the corresponding figure was '£1 for every £4,301'), reflecting the increase in claims paid, mainly relating to the downturn in the airline sector.

We typically seek to recover claims we have paid, so any final loss calculation may not become clear for many years until recovery action is concluded.

We are also committed to managing operational risk, which involves the possibility of error, oversight or control failure leading to financial loss (other than as a result of properly managed exposure to credit risk), or a failure to properly discharge our obligations.

To manage these risks, we are committed to maintaining a culture of awareness and openness, enabling risks to be recognised, evaluated and mitigated.

There is a detailed description of our approach to the strategic and operational risks facing our business, and consequent mitigation measures, in the governance statement on pages 153-173.

The year ahead

As we enter the second year of our Business Plan for 2020-24, we remain focused on delivering a high-quality service for our customers and being a great place to work for our staff – “customer-focused: people-driven”.

1. Supporting a Global Britain

In 2021-22, we will:

- Support exports from companies of all sizes, enabling them to take advantage of new and existing free trade agreements
- Build our business pipeline through improving awareness of UKEF’s offer to our customers and partners through our marketing and communications activities, and through the appointment of new International Export Finance Executives in key markets around the world
- Recruit and embed our new stakeholder engagement team to grow relationships with the private sector and other ECAs to increase our UK and international customer base

2. Recovering from Covid-19

In 2021-22, we will:

- Optimise the use of our Temporary Covid-19 Risk Framework, which allows us to continue to provide finance to customers that we would have supported before the pandemic by taking into account the commercial impact of the virus on their business models
- Collaborate across Whitehall to support the government’s trade programme, particularly the Department for International Trade’s (DIT) efforts to boost exports in priority sectors including food and drink, technology and digital, and renewables and clean growth
- Recruit staff with the right skills in the right roles to ensure that we continue to offer the best possible service to our customers while handling the added business volume caused by the pandemic

3. The Union and levelling-up

In 2021-22, we will:

- Collaborate with the private sector and across government to improve our small-business offering, and fully deploy the new General Export Facility to support a wider range of SMEs
- Embed a new export finance manager structure to make UKEF support more easily available across the length and breadth of the country, working hand-in-hand with Trade Advisers in DIT's new Trade and Investment Hubs across the UK
- Improve our digital customer journey with a refresh of our online presence and roll out enhancements to the Digital Trade Finance Service

4. Backing clean growth

In 2021-22, we will:

- Work closely with the COP26 team ensuring that the government's trade finance offer is embedded in their stakeholder engagement, whether that be with exporters or non-governmental organisations
- Continue to actively seek out opportunities for UK companies to contribute to low-carbon projects, helping the UK to 'build back greener' and create new skilled job opportunities
- Develop and implement a new Climate Change Strategy and support HMG's Global Investment Summit through speaker participation and press announcements

5. Climate-risk disclosures and supporting renewable energy

In 2021-22, we will:

- Support the cross-government Green Finance Strategy by making climate-related financial disclosures in line with the Task Force on Climate-Related Financial Disclosures
- Promote and market the Clean Growth Direct Lending Facility and Transition EDG to UK exporters that seek to cut greenhouse gas emissions, helping to ease their transition away from fossil fuels

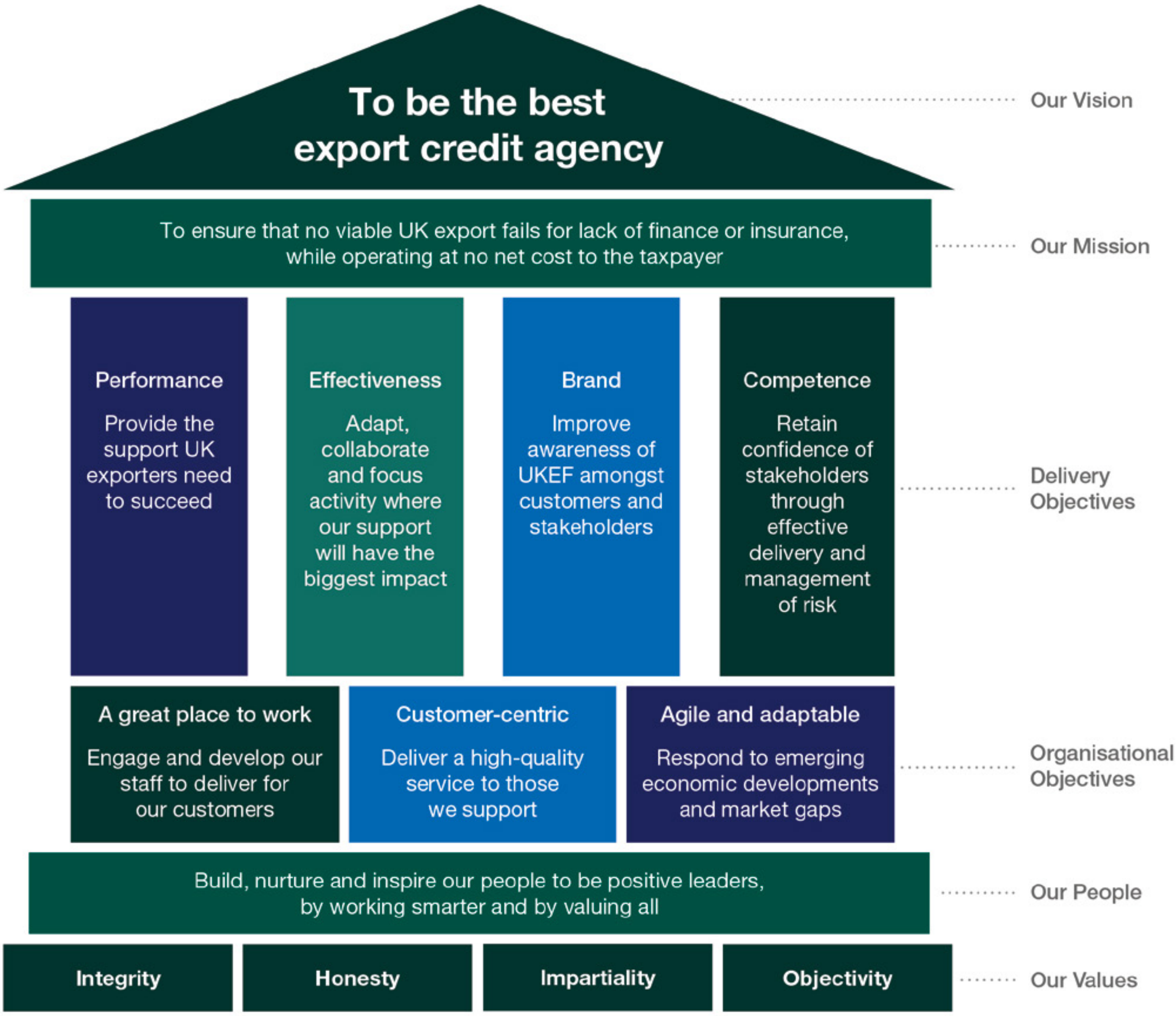
6. Be a great place to work

In 2021-22, we will:

- Deliver the wide-scale recruitment outlined in our Spending Review 2020 settlement in line with the Resourcing Plan
- Make UKEF a more inclusive place to work for all staff through the launching of Diversity & Inclusion and Wellbeing plans, as well as working closely with staff representative networks to reduce inequality in pay and reward
- Continue to ensure our staff have the right tools, skills and resources to do their jobs through the Smarter Working project and Learning and Development plan

UKEF message house

UKEF's message house sets out the vision, mission, strategy and priorities of our Business Plan, as well as the spirit and values with which we will achieve these. It ensures clarity of purpose in all that we do, and creates alignment of departmental, divisional and personal objectives in order to deliver our priorities:



I believe that this report, and the performance reports that follow, are a fair, balanced and understandable account of UKEF's performance in the 2020-21 year.

Louis Taylor
Chief Executive and Accounting Officer

18 June 2021

Notes

1 UKEF's job supported analysis is published online at gov.uk/government/publications/uk-export-finance-jobs-supported-2020-to-2021.
2 Premium income earned differs from premium income issued because it:
 — does not include premium from direct lending, which is amortised as interest income.
 — uses an exchange rate fixed at the time premium is received (rather than month-end rates).
 — Premium Income earned is based on Accounting Standards (see Note 1 of the Financial statements for further details). For further details see page 292 in the glossary.
3 This data was not measured before 2018-19 and therefore cannot be reported.
4 A private market assist is when our engagement has had a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise.
5 Based on the number of companies UKEF directly supported with finance or insurance.
6 gov.uk/government/publications/build-back-better-our-plan-for-growth
7 txfnews.com/News/Article/7165/TXFs-Sustainability-in-Export-Finance-report-2020
8 gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution

UKEF staff have been working virtually since March 2020, supporting UK exporters from their own homes

Performance overview

Financial overview – 5-year summary

	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m	2016-17 £m
Business supported	12,302	4,423	6,776	2,530	2,966
Premium income earned	330	177	332	103	102
Premium income issued	920	294	397	151	147
Claims paid[1]	107	8	0	2	8
Net operating outurn	–217	217	128	5	149

Non-financial indicators – 5-year summary

	2020-21	2019-20	2018-19	2017-18	2016-17
Total exporters supported, of which:	549	339	262	191	221
direct support under a UKEF product	167	135	142	145	148
companies that have secured business with a project UKEF is supporting[2]	298	140	81	–	–
private market assist	81	62	34	45	71
direct support and private market assist	3	2	5	1	2
Facilities issued	784	604	733	580	483
Introductions to other sources of support	1,852	1,585	1,352	1,328	2,267

Financial objectives[3]

Objective and description	Results
Maximum commitment This measure places a cap on the maximum amount of nominal risk exposure (ie the total amount of taxpayers' money that may be put at risk by UKEF).	**Met** The highest recorded maximum exposure in the year was £33.1 billion, against a maximum permissible level of £50 billion.
Risk appetite limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated portfolio loss distribution.	**Met** UKEF's 99.1 percentile of the portfolio loss distribution did not exceed £3.0 billion against a maximum permissible level of £5 billion.
Reserve index This index ensures that UKEF has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5% level of confidence.	**Met** The reserve index did not fall below 2.11 in the year, against a target minimum of 1.00.
Pricing adequacy index This index tests whether, over time, UKEF earns sufficient premium income to cover all its risk and operating costs. It is measured over 3 different periods:	
(i) past 2 years and present year.	**Met** This index at 31 March 2021 was 1.64, against a monthly minimum target of 1.00.
(ii) previous, present and next year.	**Met** This index did not fall below 1.54, against a monthly target minimum of 1.00.
(iii) present year and next 2 years.	**Met** This index did not fall below 1.51, against a monthly target minimum of 1.00.
Premium to risk ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below 1.91, against a target minimum of 1.35.

Pages 71-111 set out more detail on these objectives.

These financial objectives apply to business issued since 1991. There are no specific financial objectives in respect of outstanding exposures on business supported before 1991 other than to recover amounts due in respect of claims paid, in a manner that optimises the return to the taxpayer, while taking account of the government's policy on debt forgiveness. As authorised by HM Treasury, the TCRF is exempt from UKEF's standard portfolio level financial objectives and risk appetite limit.

Notes

1 Uses end of year FX rates.
2 2018-19 was the first year UKEF has measured this.
3 These figures do not take account of TCRF (see page 81).

Economic snapshot

The Long Recovery

The Covid-19 pandemic and associated stop-go lockdown cycles have caused unprecedented disruptions to global economic activity. Both demand and supply sides of the economy were severely impacted by stringent travel restrictions, disruptions to global supply chains, the enforced closure of non-essential businesses and instructions to work from home where possible.

Mitigating these impacts required an extraordinary level of economic intervention, with governments spending approximately US$14 trillion (as of January 2021)[1] globally on various fiscal support measures, and approximately US$10 trillion on monetary support measures.[2]

The International Monetary Fund's (IMF) April 2021 World Economic Outlook (WEO) estimates that the global economy contracted 3.3% in 2020. Although this decline is GDP is 1.1% smaller than their October 2020 global growth forecast, it is still a larger recession than which followed the Global Financial Crisis, and indeed any year since the Second World War.

However, it is important not to understate the substantial upward revision the IMF made to its 2020 global growth forecast, reflecting stronger than expected growth in the second half of that year following the temporary easing of lockdown restrictions across many countries.

The economic impact of Covid-19 varied significantly between different countries and regions. Despite being the epicentre of the global Covid-19 outbreak, China and other developed-middle income East Asian markets saw economic growth rebound strongly in Q3 and Q4. By contrast, much of Europe, Latin America and, to a lesser degree, the United States, had less success in controlling the initial spread of Covid-19, necessitating multiple periods of heavy social restrictions.

Most advanced economies were able to implement various fiscal and monetary measures to support their businesses and citizens, alleviating some of the immediate economic impacts of reduced global demand. However, these resulted in sharp increases in fiscal deficits and debt, with potential implications for future debt sustainability.

Richard Smith-Morgan
Deputy Chief Risk Officer

The ability of emerging markets to mitigate the economic impacts of Covid-19 varied. Access to international capital markets, flexible currency regimes and the ability to expand domestic credit allowed some emerging markets such as Brazil, Chile and Thailand to implement broader stimulus packages, whilst markets such as Russia and Saudi Arabia were able to deploy some of their vast liquid assets.

However, markets like Mexico, India and Turkey with a higher cost of international borrowing were limited in their ability to deploy fiscal and monetary support as they faced steep declines in government revenue, and subsequently more challenging external credit conditions.

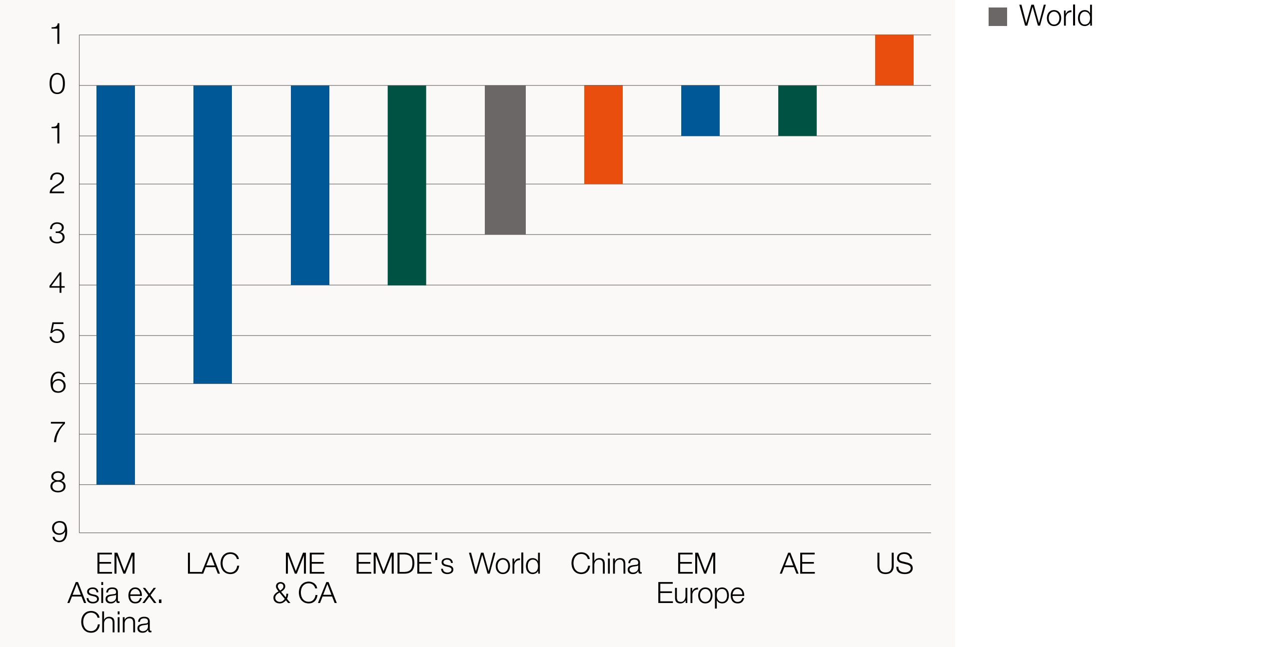
Many emerging markets have been supported by unprecedented levels of multilateral support and debt forgiveness. Since it took effect in May 2020, the global Debt Service Suspension Initiative (DSSI) has delivered US$5 billion in relief to more than 40 eligible countries. The IMF's total Covid-19 related Financial Assistance and Debt Service Relief amounts to over US$110 billion disbursed across 86 countries.[3]

The economic fallout from the global Covid-19 pandemic has also exacerbated structural and pre-existing economic inequalities within countries. Across the globe, youth, women, workers with relatively lower education and the informally employed have been significantly more affected by job losses, particularly those working in the service, tourism and retail sectors. An estimated 95 million people have fallen into extreme poverty as a consequence of the Covid-19 pandemic with 80 million more undernourished than before.

The economic outlook for 2021 has fundamentally improved, as expectations of a vaccine powered recovery in global economic activity are coupled with the United States' unprecedented US$1.9 trillion fiscal stimulus, and a surging Chinese economy. The IMF's current GDP global growth forecast for 2021 is 6%, 0.8% higher than the its October forecast, a reflection of a faster than anticipated vaccine rollout and additional fiscal support from the world's largest economies.[4] The 3 ratings agencies (Fitch, Moody's and Standard & Poor's (S&P)) predict a global economic expansion of 5.3% to 5.6% in 2021.[5]

The IMF forecasts a global growth rate of 4.4% in 2022 as local transmission of Covid-19 is brought to very low levels across the globe by the end of that year. This will be driven by an assumption of broad vaccine availability across most of the globe by the second half of 2022. Despite the recent uplift to the IMF's growth forecasts, most regions and countries are projected to remain below their pre-pandemic growth trajectory until at least 2024. The United States is expected to record growth greater than its pre-pandemic path by 2024.

Medium term GDP losses relative to the IMF's Pre-Covid-19 trajectory
Revisions to projected 2024 GDP levels between the January 2020 and April 2021 WEO forecasts (% change)



Source: IMF WEO, April 2021

Although baseline expectations assume a strong economic recovery through both 2021 and 2022, both upside and downside risks remain substantial. The IMF has modelled 2 alternative growth paths to conceptualise these risks. In its "Downside Scenario", disruptions to the global vaccine rollout persist to the extent that effective herd immunity is delayed by approximately 6 months in advanced economies and 9 months in developing and emerging economies. This would have the effect of reducing global GDP growth by 1.5% from the IMF's 2021 baseline forecast and a further 1% in 2022.

Alternatively, an "Upside scenario" could develop whereby the distribution of Covid-19 vaccines occurs 10% faster than baseline estimates, resulting in a 0.5% uplift in global GDP growth from the IMF's baseline, increasing to 1% in 2022. The IMF has stressed that since October's WEO update some uncertainties, such as the overall efficacy of vaccines, have been resolved although others, such as the performance of vaccines against new strains, remain unresolved.

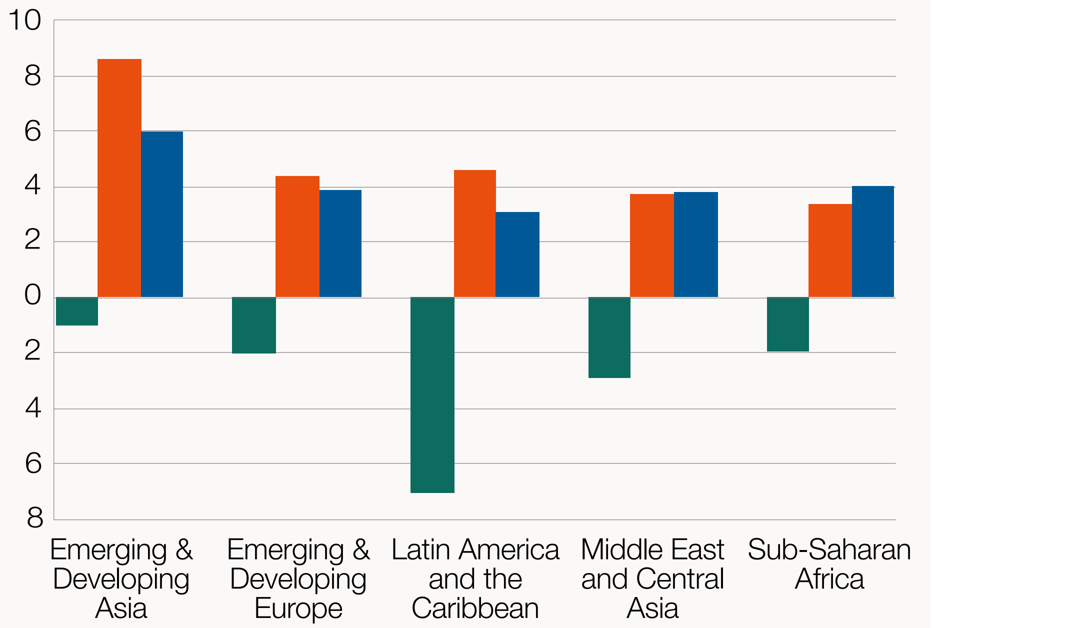
The IMF forecasts that advanced economies will recover by 5.1% in 2021, against a 4.7% contraction in 2020. Strong policy support and widespread vaccine availability by mid-summer 2021 should lead to a narrower output gap for these economies than had been previously forecast. A core risk to a sustained recovery in advanced markets is the withdrawal of fiscal and monetary support before a firm recovery takes hold, leading to increased bankruptcies in viable but illiquid firms, consequently leading to further unemployment and income losses.

A further risk is that the scale of President Biden's fiscal stimulus leads to the economy overheating with interest rates having to rise to tackle inflation and thereby chokes off the global economic recovery. In this scenario the $1.9 trillion stimulus leads to the US economy overheating and triggering a sustained rise in inflation. Subsequent interest rate rises would choke off the global economic recovery – particularly in emerging markets.

Developing and emerging economies are forecast to grow 6.7% in 2021, following a 2.2% contraction in 2020. Divergence is notable, between China – which enacted severe containment measures, large fiscal support packages and an accommodative monetary policy – and other economies. Travel and tourism dependent economies will face weaker growth prospects, whilst countries which export a large proportion of goods to China, will see more robust growth. Hydrocarbon and commodity dependent economies have recently benefited from higher prices, however the demand landscape for many of these products will continue to remain volatile across the short to medium term. For the least developed markets, continued multilateral support will form an essential element of their economic recoveries, as will participation in the global COVAX facility, which will help to ensure more equitable global access to vaccines. Although underlying growth fundamentals remain strong, the impact of recent US Treasury yield increases on emerging market assets highlights the vulnerability of this recovery to broader exogenous shocks. The below chart provides a breakdown of regional forecast GDP growth rates for 2021.

Emerging market and developing economies: Regional economic growth rates

% change (year-on-year)



Source: IMF WEO, April 2021

Emerging and Developing Asian economies will expand by 8.6% in 2021, after contracting only 1% in 2020. China (8.4%) and India (12.5%) will form the backbone of this resurgent growth, with Vietnam (6.7%) and the ASEAN 5 (5%) also forecast to grow robustly. However, markets such as Malaysia and Indonesia with high current Covid-19 caseloads will see their growth prospects constrained. This forecast predates the surge in Covid-19 cases in India which is likely to weaken India's growth performance and reduce the extent to which it helps drive Asian growth.

Emerging and Developing Europe is projected to grow by 4.4% in 2021, after contracting 2% in 2020. Turkey's economy (6% growth forecast in 2021) has already returned to pre-Covid-19 output levels. However, large current account deficits, a weakening exchange rate and a politically driven, inconsistent monetary policy have amplified Turkey's structural economic weaknesses. Subdued tourism will weigh on the growth prospects for several Balkan and Southern-European markets.

Latin America and the Caribbean GDP growth is forecast to be 4.6% in 2021 after a 7% contraction in 2020, the largest of any region. Growth in Brazil (3.7%) and Mexico (5%) will be moderate, and the outlook for Brazil remains of concern. Continued high rates of Covid-19 transmission along with limited vaccine access through 2021 will weigh substantially on growth prospects this year.

Middle East and Central Asia is expected to grow by 3.7% in 2021, after contracting 2.9% in 2020. After weighing heavily on regional growth rates in 2020, recent hydrocarbon price movements could uplift regional growth this year, provided they are sustained. Upward revisions for several markets in this region since October's WEO have been significant and current growth forecasts for core GCC markets could be further uplifted given the success of their vaccine rollouts. Of UKEF's largest exposure markets in this region, Iraq is by far the most economically and politically vulnerable and will likely require sustained external support.

Sub-Saharan Africa is predicted to grow 3.2% in 2021, after contracting 1.9% in 2020. The economic powerhouses of the region, Nigeria (2.5%) and South Africa (3.1) are reporting sluggish growth forecasts as risks of second wave outbreaks constrain economic activity. Angola (3.2%) and Côte d'Ivoire (6%) may see benefits from rising commodity prices, but the broader outlook for sovereigns in this region is negative as debt costs have significantly risen throughout the pandemic.

Debt Service Suspension Initiative (DSSI)

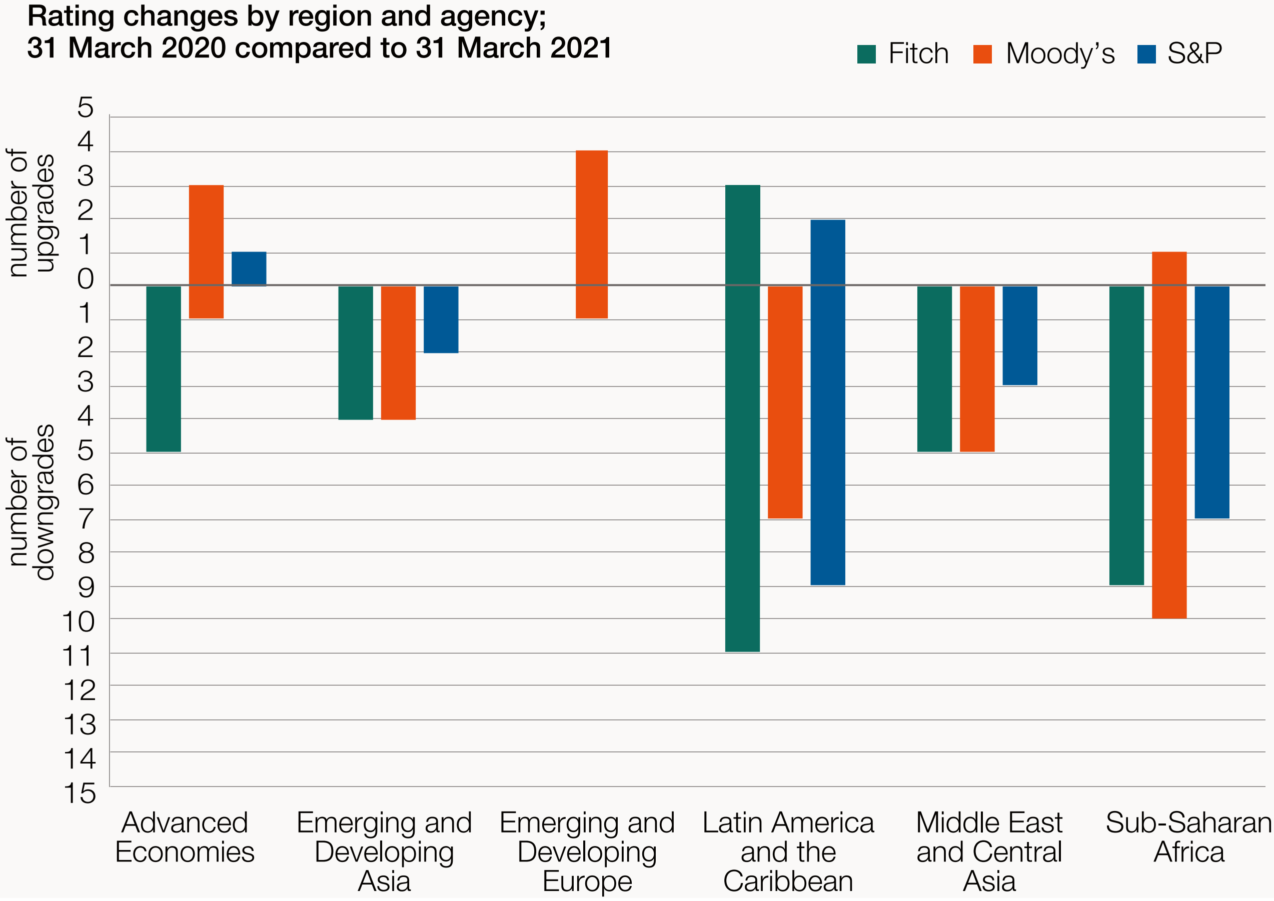
The Paris Club is an informal group of official creditors seeking to establish coordinated and sustainable solutions to debtor countries' debt service difficulties. In response to the Covid-19 crisis, the G20 and the Paris Club agreed a temporary suspension of principal and interest repayments from eligible and requesting low-income developing countries under DSSI. Further details of the DSSI are set out on page 91 in the Chief Risk Officer's report.

Rating changes

External ratings agencies, such as S&P, Moody's and Fitch provide an important benchmark for our own internal risk assessments. Credit rating actions by these agencies allow us to observe whether regional economies have been moving in a generally positive or negative direction over the last year. This is particularly important this year following the deterioration of public finances across the world because of the pandemic.

This chart illustrates changes in the long-term foreign currency rating for individual sovereigns between the 31st March 2020 and the 19th February 2020 for Fitch, the 1st March 2020 for S&P and early March for Moody's. Furthermore data does not consider multiple ratings changes for the same sovereign by the same agency. For example, Suriname was downgraded 4 times by Fitch but is only included once in the graphic. Given that countries are organised into IMF regional categories, non-IMF recognised sovereigns are not included in this graph except the UAE which are considered separate sovereigns and are put into the Middle East and Central Asia category.

Rating changes by region and agency; 31 March 2020 compared to 31 March 2021



Over the past financial year, advanced economies have had a varied performance with regard to ratings changes, with Fitch downgrading 5 (including Italy and Canada), whilst Moody's only downgraded the UK. S&P and Moody's gave a combined 4 upgrades to markets in this region which largely benefited Eastern-European EU members.

Emerging and developing Asia only saw ratings downgrades, though experienced far fewer downgrades compared to Latin America and Sub-Saharan Africa. Every ratings agency downgraded Sri Lanka, whilst India, Laos and Malaysia were among the other Asian nations to see downgrades to their credit ratings from at least 1 agency. Weak tourism revenues and stressed public finances are expected to continue weighing on credit ratings in this region.

Latin America and the Caribbean saw the largest number of sovereign ratings downgrades. Argentina, Ecuador and Suriname were all recorded as defaults by various agencies throughout the year. Several other Latin American and Caribbean economies also saw downgrades, though not to such low levels.

An important UKEF market, Oman, was downgraded by Moody's in June, by Fitch in August and by S&P in October. This resulted from low oil prices, which had piled pressure on Oman's public finances and external balances and followed downgrades from all 3 ratings agencies in March 2020. Bahrain and Kuwait were among the other Middle Eastern economies that saw downgrades to their credit ratings for the same reason.

In sub-Saharan Africa, Angola was downgraded by Moody's and Fitch in September due to low oil revenues, whilst the wider trend of weakening public finances across sub-Saharan Africa ensured the ratings downgrades vastly outnumbered upgrades (26 downgraded sovereigns compared to 1 upgraded sovereign).

The outlook for sovereign credit ratings will be heavily influenced by the epidemiological developments of the Covid-19 pandemic and by US bond yields which will impact the monetary conditions faced by many Emerging Market Economies.

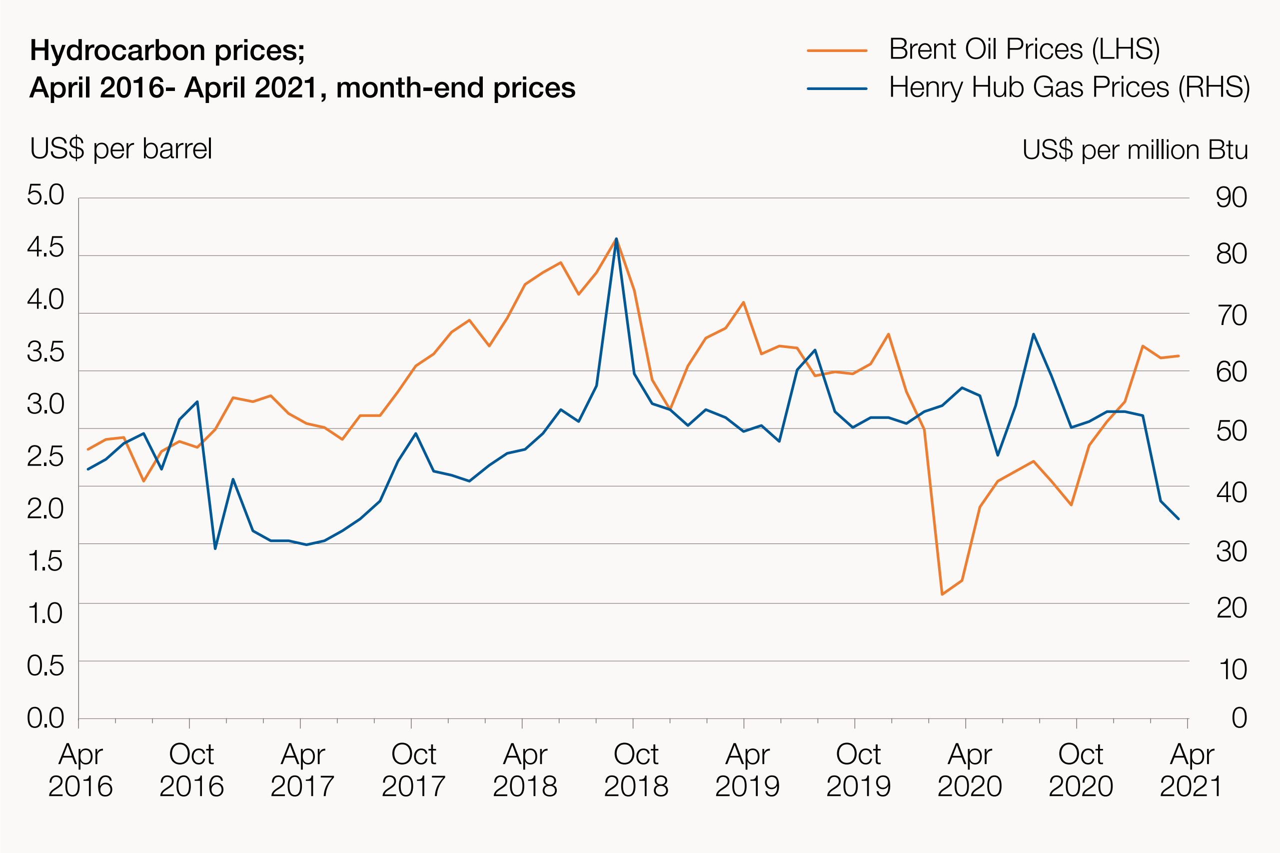
Many key UKEF markets will be particularly vulnerable to rising US bond yields. Sub-Saharan African economies such as Angola, Mozambique and Ethiopia that already have high levels of external debt are likely to see debt servicing costs increase if US bond yields rise. Turkey is also highly vulnerable to tightening external monetary conditions due to its weak currency and high foreign exchange debt level in the domestic banking sector.

Oil prices will continue to be a key factor for middle eastern creditworthiness. Markets such as Saudi Arabia, Oman and Iraq will be hoping that the recent rally in oil prices will continue. Higher oil prices will see trade and budget balances improve and allow these countries greater room to fund diversification projects that impact their long-term creditworthiness. The current outlook for prices is mixed, with some of the less resilient markets projected to record rising debt levels over the next 5 years.

Near-term outlook

Despite the strength of the IMF's forecast global economic recovery the predicted recovery is uneven with emerging markets and developing countries generally facing greater vulnerabilities. UKEF is likely to see increased opportunities thanks to its counter cyclical role. However, many of UKEF's core exposure markets are emerging/frontier economies which are at risk of emerging more slowly from the Covid-19 pandemic – due to slower vaccine rollout – and with greater economic scarring, lower growth prospects, and higher public debt. This increases the risk that the corporates and sovereigns UKEF supports will suffer rating downgrades, and experience payment difficulties or defaults.

Commodity Prices – oil and gas price volatility



Source: Bloomberg

As demonstrated in the chart above 2020 saw an unprecedented crash in global oil prices, with a sustained recovery commencing from November 2020. Brent crude started the 2020-21 fiscal year period slightly above the multi-decade low of $22.74 – which followed the onset of the Covid-19 pandemic and the breakdown of the OPEC+ production quota agreement. An OPEC+ production agreement signed in April 2020 saw oil production cuts worth 9.7m barrels per day (b/d), nearly 10% of 2019 average daily production, and a rebound in oil prices to around $40 per barrel ($40/bl) within a couple months. Saudi Arabia and their GCC neighbours led these cuts, although US crude production (which are not bound by OPEC decisions) also declined following sustained lower prices.

Prices remained stable and low throughout the summer and autumn of 2020 as the Covid-19 pandemic continued to suppress oil demand. As effective vaccines for Covid-19 were developed and rolled out, oil prices rode a wave of positive investor sentiment to reach $51.80/bl by the end of 2020. By March 2021 prices hit $70/bl – the highest price in nearly 2 years. On 6 April, the US Energy Information Administration (EIA) forecast that Brent crude prices will average $62.28/bl in 2021 – up from $43/bl in 2020.

Natural gas prices (represented by the Henry Hub price) followed a similar path to oil prices – reflecting their substitutable nature – but diverge in direction following market specific developments. For much of 2020, Henry Hub prices were below $2/MBtu – levels not seen since early spring 2016. However, as demand for heating and energy rose throughout the second half of 2020, prices rose rapidly, with an end-of-month peak of $3.35/MBtu. On 6 April, the EIA forecast Henry Hub prices to average $3.04/MBtu in 2021.

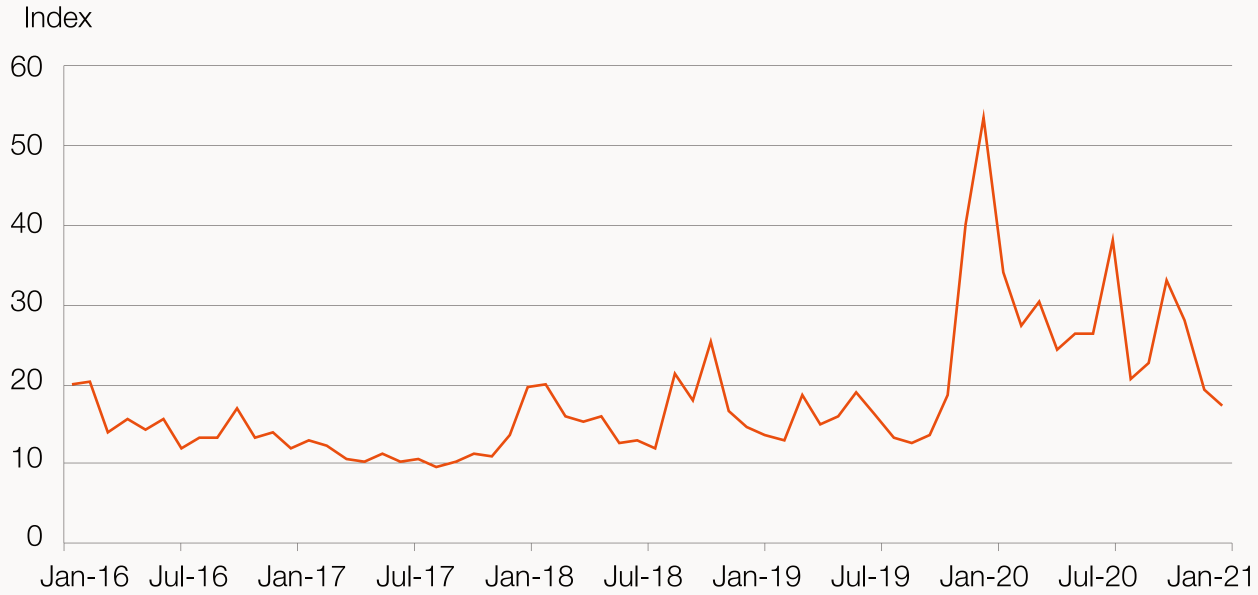
Many oil exporting nations took a significant hit to their government and export revenues in 2020 – as result of both reduced output and lower hydrocarbon prices. However, if current price projections prove accurate, 2021 will see a partial easing of this pressure. Whilst, in theory, this could constrain oil-importing economies, an average price of $62/bl is still below the 2019 average price of $63/bl and comfortably below the 2018 average of $71/bl. The rolling OPEC+ production agreement will continue to constrain the volume that oil producers can produce.

Metal prices, represented by the London Metal Exchange Index (LMEI), started the 2020-21 period at a 4-year low, as demand for these materials plummeted during the height of the first wave of the Covid-19 pandemic. However, since then, the LMEI has increased in 10 out of 11 months to reach record highs of 3876.9 by the end of February 2021. This sustained rise has been attributed to a strong recovery in economic demand for metals (particularly in China), and large quantitative easing programmes in the UK, US, EU and Japan.

Gold prices increased to record levels during the height of the pandemic owing to gold's status as a safe-haven asset. In mid-August, gold prices exceeded $2,000/oz for the first time. As lockdown restrictions were gradually loosened, economic activity began to recover in many important markets and gold began to gradually decline. As of early April 2021, prices are currently just above $1,700/oz following expectations of a strong global recovery in 2021-22.

Financial Markets

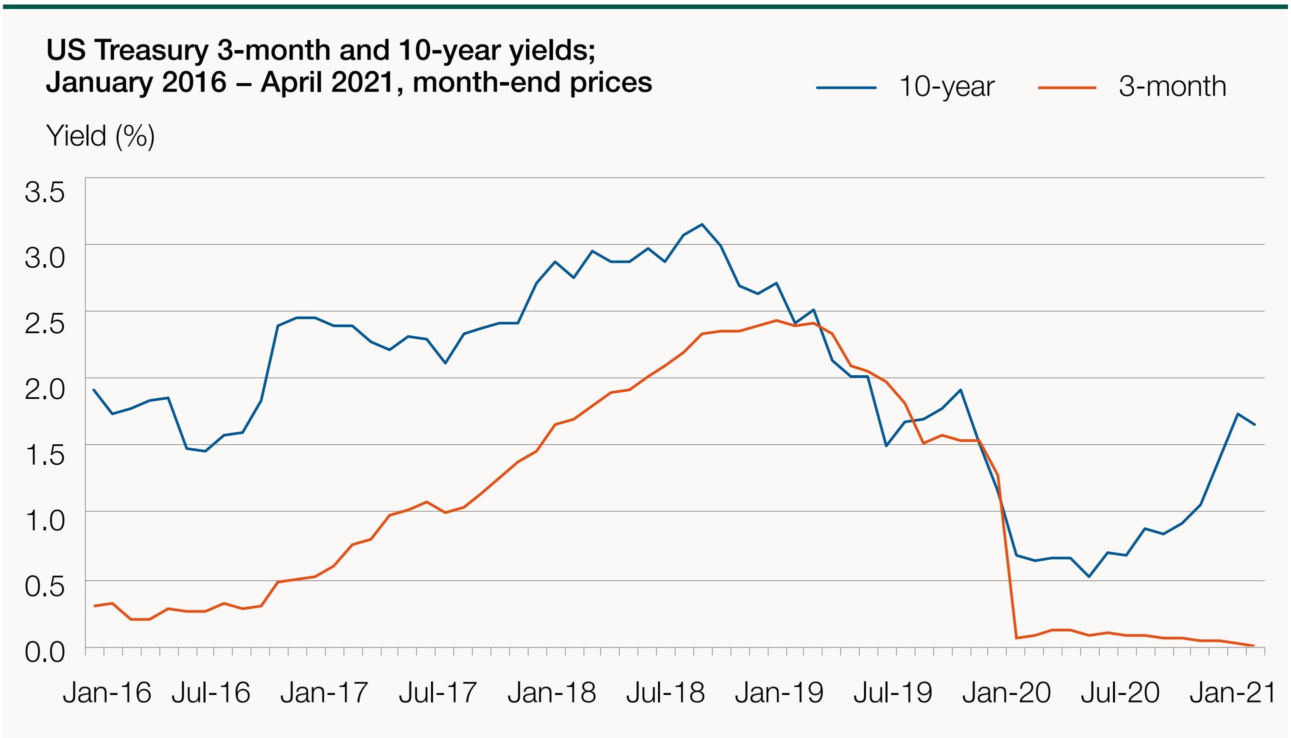
Chicago Options Board Exchange Volatility Index (VIX); January 2016 – April 2021, Month-end prices



Source: Bloomberg

Commonly dubbed the ‘fear index’, the Volatility Index (VIX) measures investor estimates of future volatility in financial markets. In 2020-21, the VIX was recorded at an elevated level when compared to the previous 5 years. After spiking in March, the VIX spent the year fluctuating between 20 and 40. In April 2021, the VIX hovered at around 28, well above pre-pandemic levels, but far below the yearly average.

Stock markets were initially hit hard, with the FTSE 100 Index falling to 5,191 and the Dow Jones falling to 19,174 during the height of the early pandemic. Loose monetary policy and improving economic conditions for US tech firms saw many equities make significant recoveries during the rest of the year. The Dow Jones Index recently eclipsed pre-pandemic levels and (as of the end of February) hit 30,932, however, the FTSE 100 remains below pre-pandemic levels (at 6,483 now, compared to 7,404 before).



Source: Bloomberg

Both 3-month and 10-year US treasury yields decreased rapidly following the onset of the pandemic before plateauing for most of the year. After the announcement of a large fiscal stimulus package, 10-year bond yields started to rise again, reaching 1.40% by the end of February. These elevated yields permeated throughout global financial markets and caused capital flows to head towards dollar-denominated assets and away from emerging market assets. Consequently, emerging-market yields increased in-step with US treasury yields, tightening borrowing costs for governments and corporations. 3-month Treasury bonds have not yet seen increased yields as the $1.9 trillion spending bill shall hasten the economic recovery from Covid-19 but will only lead to higher inflation towards the end of 2021 – thereby not affecting the 3-month maturity period.

As of April, the Federal Reserve interest rate range is 0%-0.25%. This has not been adjusted since mid-March, when it was cut from 1%-1.25%. Following expectations of increased inflation, the Federal Reserve is expected to marginally increase interest rates at some point in the next 12 months, though this move is by no means imminent. Crucial to any change in interest rates will be large increases in employment and secure evidence that the US economy is near full employment.

UK economy

According to the Office for Budget Responsibility (OBR), the UK economy contracted 9.9% in 2020. This followed the imposition of harsh social distancing measures from March 2020 onwards, severely impacting the UK's services sector. This was the largest recession in recorded history, in stark contrast to the 1.4% growth recorded in 2019.

As of March 2021, the OBR's central forecast projects real GDP growth of 4% in 2021 and 7.3% in 2022, although unemployment (as measured by the Labour Force Survey)[6] would be 5.9% in 2022 – 2.1% higher than in 2019.

The economic ramifications of Covid-19 also led to record breaking government borrowing, far exceeding that of the financial crisis of 2008. Borrowing (according to the OBR) in 2020-2021 is estimated to have reached £355 billion or 16.9% of GDP, a 6-fold increase from borrowing in 2019-2020. Lower nominal GDP, lower taxation revenues and higher health and social security related spending (particularly on the 'Job Retention Scheme') are the key drivers of this rise in borrowing. The comparative success of the UK's vaccine rollout is already having positive impacts on the country's growth forecasts. The OECD's March Economic Outlook now predicts a 5.1% increase in the UK's economic output in 2021, 0.9% higher than their previous December forecast.[7]

Negotiations on trade arrangements with the EU are continuing, with the hope of establishing further agreements which reduce barriers of trade for both goods and services. Additionally, several trade deals have been signed over the past year with countries such as Japan, Israel and South Korea. Over the coming months we expect to see the UK sign several more international trade deals and for the EU and UK to reach an agreement on post-Brexit financial services.

Notes

1 IMF April 2021 World Economic Outlook.
2 IMF's Fiscal Monitor Update (January 2021).
3 World Bank Covid-19: Debt Service Suspension Initiative (9 Mar 2021) and IMF Covid-19 Financial Assistance and Debt Service Relief (16 Mar 2021).
4 IMF World Economic Outlook Update, January 2021.
5 S&P Global Economic Outlook Q2 2021 (31 Mar 2021), Moody's Global Macro Outlook 2021-2022 (23 Feb 2021), Fitch Solutions Global Macro Monitor (17 Mar 2021).
6 ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2020
7 OECD Economic Outlook, Interim Report March 2021.

How we operate

UKEF's statutory purpose is to support exports and overseas investments. We do so principally by providing:

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

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

In doing this, our role is to complement the private market: we seek to support exports that might otherwise not happen, thereby supporting UK exporters and incentivising overseas buyers to source from the UK. The space in which we operate is largely determined by the willingness and capacity of the private market to assume financial risks in support of exports at any given time.

The financial liabilities we assume when supporting exports involve a transfer of risk from the private to public sector. Direct lending involves upfront public expenditure while other financial liabilities represent contingent public expenditure – that is, taxpayer funding is required only in the event of claims being made on insurance policies or guarantees provided to banks. When claims are made, we instigate appropriate recovery action on a case-by-case basis or, where there is a sovereign default, through the Paris Club of official creditors to recoup the relevant payments.

UKEF operates under the consent of HM Treasury, which sets financial objectives that we must achieve. These, and the credit risk and pricing policies we operate to meet them, are set out on pages 93-94.

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

Principles applied by UKEF

On individual cases, we aim to:

- provide a quality of service that is responsive, flexible and efficient, with a focus on solution and innovation
- take account of factors beyond the purely financial, including relevant government policies relating to, for example, environmental, social and human rights impacts, climate change, debt sustainability, and bribery and corruption

Generally, we aim to:

- publish guidance for applicants on the processes and factors we take into account in considering applications
- achieve fairer competition by seeking to establish a 'level playing field' internationally through obtaining multilateral agreements in export credit policies and practices
- recover the maximum amount of debt in respect of claims paid, taking account of the government's policy on debt forgiveness
- abide by such codes of practice and guidelines on consultation as may be published by the government from time to time
- be a great place to work, recruiting, developing and retaining the people we need to achieve our Business Plan objectives

Our export solutions

Our support for UK exports can be categorised as long-term (export credit) and short-term support (trade finance).

Buyer Finance typically covers exports of capital/semi-capital goods and related services, for example large projects or high value machinery. Due to the high values involved (normally £5 million to more than £1 billion), overseas buyers frequently require loans (usually repayable between 5 and 10 years, or longer) to finance the purchase of such supplies from UK exporters. We provide support by either lending directly or by giving guarantees (such as buyer credit guarantees) to banks that provide export credit loans, thereby covering the risk of default by borrowers. Offering attractive financing terms for buyers of UK goods and services can help exporters make their offering more competitive.

Exporter Guarantees are guarantees provided to banks to increase the amount of finance support that can be given to exporting companies. This can help exporters access working capital, get funding for capital expenditure, issue contract bonds or offer Supply Chain Finance to their own suppliers. Support does not always need to be linked to a specific export contract but can be accessed by eligible exporters (for example, using the General Export Facility or Export Development Guarantee). By helping exporters access the support they need to fulfil a contract, we give them the confidence to take on more contracts and increase their turnover.

Insurance helps exporters manage risks in challenging markets, ensuring they get paid. Where the private market is unable to provide cover, UKEF can insure an exporter against non-payment by their overseas buyer. UKEF can also provide insurance against the unfair calling of contract bonds and political risk insurance for investments overseas.

Buyer finance	Exporter guarantees	Insurance
Win contracts: attractive financing terms for overseas buyers of UK goods and services can help exporters make their **offering more competitive**.	**Fulfil orders:** help companies access the support they need to fulfil a contract, giving them the confidence to **take on more contracts and increase their turnover**.	**Get paid:** help companies manage risks in challenging markets, **ensuring that they get paid** even where the private market is not able to offer insurance.
– Buyer Credit Facility – Direct Lending – Lines of Credit – Standard Buyer Loan Guarantee – Bills and Notes Guarantee	– Bond Support Scheme – Export Working Capital Scheme – General Export Facility – Export Development Guarantee – Supply Chain Discount Guarantee	– Bond Insurance Policy – Export Insurance Policy – Overseas Investment Insurance

Investment into the UK

Access to UKEF's products and services can provide an incentive for companies to base their international business in the UK, supporting foreign direct investment (FDI) into the UK. We can also support overseas direct investment by insuring overseas investors against certain political risks, helping to create inward flows of dividends and investment gains to the UK.

East Anglian offshore installation company Seajacks won a contract supplying to the UKEF-supported Greater Changhua 1 Offshore Wind Farm in Taiwan

Our support for exports

Business supported

Exporters directly supported	549
Value of support provided	£12.3 billion
Destination countries	77
Largest single facility	£2 billion (Export Development Guarantee)
Smallest case	£297 (Export Insurance Policy)
Most popular product	Bond Support Scheme (73 companies)
Highest value product (total use)	Export Development Guarantee (£7.6 billion)

Gordon Welsh
Business Group Director

Richard Simon-Lewis
Business Development, Marketing and Communications Director

The Trade Finance Division: making exports happen

The Trade Finance Division (TFD) was formed in October 2019 by bringing together our business development team with our underwriters and post issue management. This means we can provide our clients with a complete end-to-end transaction experience, from initiation of the finance request to the approval and issuance of our support through our various schemes.

This has enhanced the customer journey, meaning that we are able to respond more quickly to client enquiries, resulting in more customers supported and reducing the time we take to provide support.

Short-term trade finance and export insurance

Since the start of the pandemic we have stepped up to increased demand for short-term trade finance support, particularly from SMEs.

UKEF's short-term trade finance support allows exporters and direct suppliers to exporters to access finance from banks and other financial institutions to enable export activity where otherwise they may not. This helps UK businesses to go global and take advantage of free trade agreements and access the working capital they need to export during the pandemic.

Support is available in the form of guarantees under our Bond Support, Export Working Capital, Export Development Guarantee and General Export Facility schemes.

We also provide credit insurance for exporters through our Export Insurance Policy (EXIP), principally against the risk of non-payment by their buyer, where the commercial market is not able to provide the cover required.

With these products we are freeing up billions of pounds worth of working capital so UK companies can fulfil their global ambitions. Since their launch in 2011, we have backed over £6.5 billion in UK export contracts with trade finance support.

On-the-ground support for exporters: export finance managers

We have 26 export finance managers (EFMs) across the UK, who act as local points of contact to introduce exporters and businesses with export potential to finance providers, credit insurers, insurance brokers, trade support bodies and sources of government support. This number includes 2 sector specialist EFMs focused on renewable and clean technology growth based in Scotland and the north of England as part of HMG's levelling up agenda.

This presence across the UK makes a significant contribution to our drive to increase awareness and uptake of UKEF products among small and medium-sized exporters all over the country.

EFMs develop relationships on a local basis, providing on-the-ground support for exporters across the UK. This year, EFMs had 8,403 customer interactions of which 4,794 were with intermediaries including banks and brokers.

In addition to helping companies access UKEF products, EFMs deliver 'export assists' - when their engagement makes a material contribution to a company receiving support from the private sector, resulting in an export contract going ahead that was unlikely to have proceeded otherwise. EFMs also made more than 226 referrals to third-party sources of support.

There were 62 referrals from our EFMs to services provided by the Department for International Trade (DIT), Scottish Enterprise, Business Wales and Invest Northern Ireland. In addition to the outward EFM referrals, UKEF has received 224 referrals from DIT's International Trade Advisors (ITAs), demonstrating the close linkages between the government's export promotion and export finance support.

Enhancing our products and services

During this year, we launched 2 new products that take advantage of UKEF's ability to provide support that is conducive to exporting.

The Export Development Guarantee (EDG) was officially launched in July 2020 when we announced support for a £625 million loan facility provided by commercial banks to Ford UK. By offering a general purpose facility for exporters, UKEF can unlock financial support for companies that wish to secure working capital to bid for multiple export contracts, scale up their existing export activities or invest in new premises and technologies to help them grow their exports. The introduction of EDG has proved particularly timely in the context of the current pandemic, with commercial finance guaranteed by UKEF proving to be a valuable source of liquidity for a number of major exporters.

Our General Export Facility (GEF) is similar to the EDG in that it entails UKEF issuing a guarantee in favour of participating lenders to support the general financing needs of UK exporters, but GEF is specifically aimed at the needs of smaller companies and is now available through our existing digital trade finance channels.

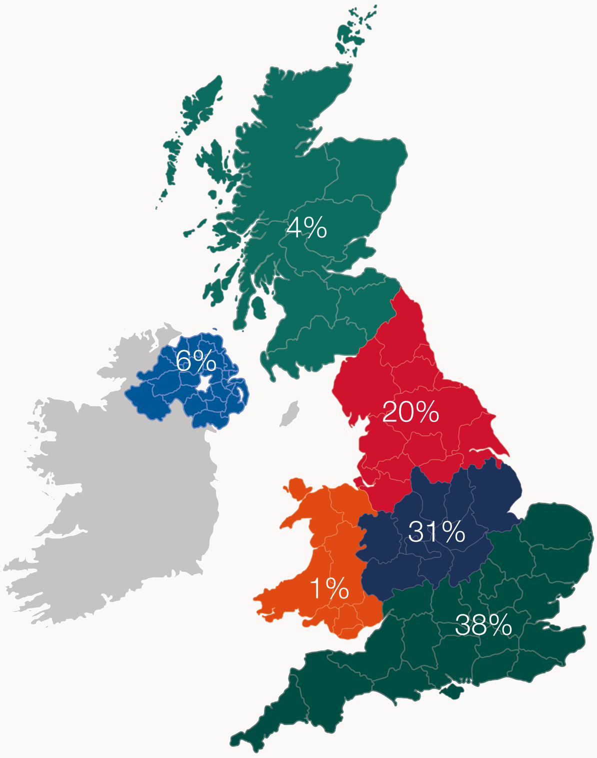
UKEF has provided delegated authority to 5 banks (Barclays, Santander, HSBC, Lloyds/Bank of Scotland and RBS/NatWest/Ulster Bank) of up to £5 million per eligible exporter. This means that whenever an application for GEF support meets certain pre-determined criteria, UKEF's guarantee can be automatically granted to the lender with minimal transaction time or process. In the coming year we will expand the number of eligible banks, widening further the availability of the GEF.

We have also updated some existing products, making them more user-friendly for exporters and lenders. The Supplier Credit Financing Facility (SCF) has been a cost-effective way to offer export credit and is particularly helpful for smaller value contracts (often under £10 million). The product covered non-payment under: **(i)** bills of exchange and promissory notes, or **(ii)** low-value bilateral loans and, as part of the refresh, we have created the Standard Buyer Loan Guarantee, as well as the Bills and Notes Guarantee, which is set to be launched in the summer of 2021. The new versions have streamlined and updated documentation, making them easier to use for a wider variety of lenders and therefore improving access to UKEF support.

In the March 2020 Budget, UKEF was allocated £2 billion of direct lending to support clean growth projects, as part of the UK's transition to a renewable and low carbon economy. The allocation allows UKEF to support more clean growth projects through its existing direct lending product, providing loans to overseas buyers to finance the purchase of capital goods and/or services from UK exporters.

UKEF uses the internationally recognised Green Bond Principles as a high-level determinant of a project's eligibility for the Facility.

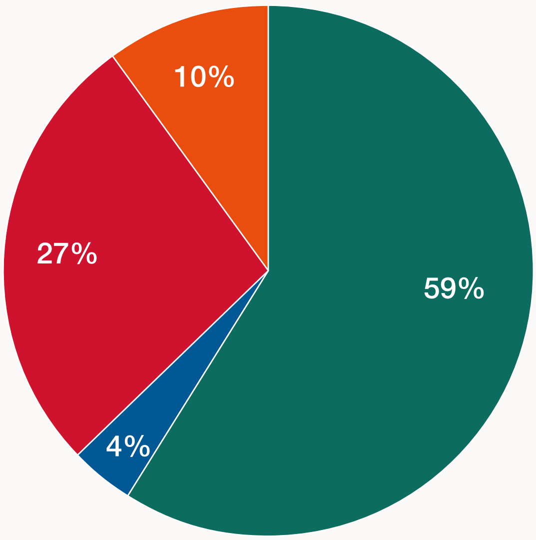
Proportion of companies benefiting from UKEF trade finance or insurance by region in 2020-21



Due to significant uptake of emergency Covid-19 government financial support (including the Bounce Back Loan Scheme and the Coronavirus Business Interruption Loan Scheme), there was reduced demand for UKEF trade finance support in Scotland, Wales and Northern Ireland in 2020-21. UKEF is instrumental to the UK Government's levelling up agenda and has put in place an enhanced structure to further support this policy, including additional EFM support and supporting medium to long term business applications.

Export credits: helping UK businesses compete in the global marketplace

Export credit business supported (medium/long-term) 2020-21



Sector	UKEF maximum liability, £m
Aerospace	7,067
Civil – direct loans	527
Civil – guarantees	3,342
Defence	1,241

UKEF provides export credit support by guaranteeing commercial finance or providing direct loans to overseas buyers to purchase goods and services from the UK.

Interest in UKEF's guarantee and direct lending products remains high due to:

- reduced risk appetite and lending capacity for longer tenors among banks
- other governments' budgetary constraints due to low commodity prices and ambitious infrastructure investment which requires extra capacity to be provided alongside other financial resources.

Sector support

Civil, Infrastructure and Energy

2020-21 saw the recent trend of heightened demand across these sectors continue, with support worth a total of £3.9 billion, exceeding the £3.5 billion of support provided in the previous year.

This is due in part to the completion of the highest value civil contract in UKEF's history – the Cairo Monorail project. The £1.7 billion financing from UKEF supports a contract led by Bombardier Transportation to build 2 new monorails lines in the Egyptian capital, with the trains being supplied from Bombardier's manufacturing centre in Derby. As well as supporting highly skilled jobs in the East Midlands as part of the government's levelling-up agenda, UKEF's support for this transport project will also enable the Egyptian government to boost connectivity and drive economic growth in a clean and sustainable way.

As well as this ground-breaking deal in Egypt, 2020-21 has seen UKEF continue and extend its support for projects on the African continent more widely. In Koforidua, Ghana, our support will enable the design, construction and equipping of a new 285-bed hospital to serve the local population. This support included a tranche of UKEF's highly efficient fixed rate direct lending, to ensure an affordable financing package was available for the Ghanaian Government. Also, in Ghana, UKEF provided a £27 million direct loan for UK SME Aqua Africa's project, which will use solar-powered pumps to give 225,000 people across the country access to fresh, clean, affordable drinking water.

In addition to well-established African markets like Ghana, this financial year saw UKEF developing new African markets for UK supply. This included our first transaction in Benin, through the provision of a £100m Direct Lending facility to enable the refurbishment and upgrading of the interstate road which is an important trade link between Benin and its neighbour, Niger. The project will improve the safety and user experience of the road and is an important component of the Benin Government's plans to drive economic growth and development.

This first project in Benin was just 1 example of our 'Leading with Finance' model in action. Sogea-Satom, part of world's largest construction group, VINCI, chose supply partners from across the UK in order to access UKEF support for their customer. By making UKEF support available to international lead contractors which choose to contract and supply from the UK, we have helped to increase the attractiveness of the UK as a source of supply and strengthened relationships between those contractors and the UK's world class supply chain.

This financial year has also seen a significant increase in demand for our EDG. Following the successful pilot facility with Jaguar Land Rover in FY2019-20, this year has seen the UKEF's Business Group conclude 7 more EDG transactions with a total value of £7.6 billion. Two of these transactions have also been in the automotive sector, for Ford Britain and Nissan UK, and will support the research and investment needed to bring new hybrid technology and Battery Electric Vehicles to market. A facility for offshore services company Subsea 7 (SS7) will enable the company to compete effectively for new export contracts including, increasingly, opportunities in the offshore wind (OSW) power generation sector. Indeed, UKEF has previously supported SS7's participation in OSW projects in Taiwan.

In 2019 UKEF launched our innovative Supply Chain Discount Guarantee (SCD) with a £50m pilot transaction. In 2021 the original SCD guarantee in respect of this facility replaced with a new, larger £400m UKEF SCD. The SCD is a guarantee provided by UKEF to a bank to support a supply chain finance facility provided by the bank to an exporter. The facility allows suppliers to draw on it to discount approved invoices; the exporter then makes payment to the bank at the face value of the invoice at maturity.

Finally, it has been a busy year for UKEF's dedicated Smaller Deals team, which has now concluded 12 transactions since its inception. Highlights include a recent financing for Northern Irish company CDE Global's export contract to supply wet processing equipment to Tunisian company, SOMEVAM. This was among the first transactions to benefit from support from UKEF's new Standard Buyer Loan Guarantee (SBLG) product, which allows lower value contracts (typically below £30 million) to be financed quickly and efficiently, often in conjunction with new and non-traditional lending institutions. The launch of this product forms part of commitment that UKEF made in last year's Annual Report to increase access to our buyer financing support to UK SME's and their international customers.

All of this goes to show, that whether it's record-breaking large deals, or support for the smallest transactions, UKEF has a relevant, accessible solution.

Aerospace, Defence, Shipping & Space

UKEF support in the aviation sector surged to record levels as a result of the difficulties facing the sector due to Covid-19. Large Export Development Guarantee (EDGs) were issued in support of Rolls-Royce, British Airways and easyJet, with the value of UKEF support for the 3 totalling nearly £6.2 billion. UKEF's support was in the form of a guarantee of 80% of loans extended to these 3 companies (who in total employ c. 60,000 directly, with indirect and induced employment estimated to be c. 160,000) by syndicates of major international banks.

With buyer financing support worth a total of £495 million also being delivered in the year, the volume of support provided to airlines and lessors for aerospace exports reflected a combination of factors. Airbus reduced production rates over the year due to the effects of Covid-19 with some customers deferring orders. However, commercial appetite to finance the purchase of new aircraft remained strong, particularly in the operating leasing market.

Overall, customer demand for support from UKEF and its French and German equivalents was higher than in recent years reflecting our role in stabilising the economic cycle for exporters of capital goods and services. It is expected that demand for support in the Aerospace sector is likely to remain at heightened levels as the industry recovers from the impact of the pandemic. Notable transactions supported in the year included the first UKEF-backed transactions with Pegasus Airlines in Turkey (10 A320 family aircraft) and Ethiopian Airlines (2 A350-900 aircraft).

A £2 billion EDG from UKEF helped British Airways weather the pandemic

UKEF-supported financing for Rolls-Royce-powered Boeing 787 aircraft continued this year with support provided for 1 B787-8 aircraft delivering to leasing company Aercap, taking the total number of Rolls-Royce-powered Boeing 787 aircraft supported across all customers to 19 to date.

UKEF also supported Rolls-Royce relating to the financing of 1 Rolls-Royce Trent XWB-84 engine to Turkish Airlines to be used by the airline as a spare for its Airbus A350 fleet.

UKEF, in partnership with its US-equivalent, provided support for the financing of its first Learjet 75 Liberty aircraft. Support was made possible by virtue of the aircraft fuselage for the Learjet being manufactured at the Shorts Brothers facility in Northern Ireland. Prior to the sale of its stake in Shorts to Spirit Aerosystems in November 2020, Bombardier Belfast was Northern Ireland's largest manufacturing employer, estimated to have produced 10% of the region's total manufacturing exports. With at least 15 engineering firms in Northern Ireland making up the supply chain for Shorts, the success of its aero parts manufacturing programmes – including the A220 programme, which UKEF supports in partnership with the Canadian ECA – is of vital importance to the Northern Ireland aerospace industry.

4 further loans were provided in support of the engine overhauls undertaken by GE Caledonian in Prestwick in Scotland, taking support for GE Aviation overhaul in the UK to almost $258 million. Our assistance, delivered in partnership with the Export-Import Bank of the United States, is supporting specialist engineering jobs in the UK, and we continue to

work with GE Aviation to identify further opportunities to secure contracts for GE Caledonian.

Through providing support to L3 Commercial Training Solutions (L3 CTS) in August 2020 for the supply of an Airbus A330 full flight simulator to TAP Portugal in Spain, UKEF broadened its support for the aerospace sector. L3 CTS, part of the L3 Harris group, continues a long heritage of manufacturing flight simulators in the Crawley area. Although this is the first flight simulator financing that UKEF has supported for a number of years, it rekindled a longstanding relationship with 1 of the world's leading flight simulator manufacturers.

Defence sector business continued to reflect the tendency for large irregular deals in this sector. A £1 billion direct loan in support of BAE Systems' contract to provide Typhoon Aircraft to Qatar, the largest in UKEF's history, became effective and UKEF continued its track record of support for Northern Irish firm Thales' contracts in Indonesia. A strong pipeline of transactions is in place for 2021-22.

UKEF has sought to reinvigorate its support for the UK shipping industry. A series of focused initiatives with industry has resulted in a number of new potential transactions which could result in a substantial increase in support volumes for the shipping sector. A similar process is underway in the space sector, with at least 1 large transaction due to close in early 2021-22.

Bringing business to the UK

UKEF brings UK suppliers and overseas buyers together through our programme of procurement and finance-led Supplier Fairs.

This ambitious programme helps to increase UK content in overseas projects UKEF is supporting by connecting relevant UK suppliers with international buyers who are actively looking for British products and services for their overseas project or projects; this helps the buyer make successful commercial decisions and the UK supplier win overseas contracts. Frequently, the relationships developed at these events enable further opportunities for UK suppliers beyond the initial UKEF-backed project.

For each supplier fair, UKEF requires a contribution of £12,000 from the sponsor, which goes towards the cost of the event.

We have held 14 face-to-face supplier fairs since the launch of the programme in 2016 in a range of sectors including construction, healthcare and transportation. These events were attended by 1,750 delegates who held 1,462 1:1 meetings with the project sponsors – each of these offering real and tangible opportunities to do business that would not have happened without UKEF.

Because of the Covid-19 pandemic, we temporarily paused our programme in 2020 as we were unable to run face-to-face supplier fairs. In February 2021, a virtual platform called Swapcard was introduced, enabling the seamless facilitation of 1:1 meetings, the core element of our supplier fairs. We held 1 supplier fair at the end of March in conjunction with Bouygues Batiment International for the Six Flags Amusement Park at Qiddiya, near Riyadh, Saudi Arabia. We have a projected pipeline of 6 supplier fairs for 2021-22, and we will aim to transition back to face-to-face supplier fairs as soon as we can.

Leading with finance

UKEF's business development activity through its Origination and Client Coverage division (OCC) was resilient against the uncertainties brought about by the Covid-19.

In the last financial year, we reset our engagement with commercial partners and reconfirmed our commitment to proactive relationship engagement – 'Leading with Finance' – to deliver UKEF's financial support to stimulate UK exports.

As a result, the origination pipeline of opportunities eligible for UKEF support continues to be robust with OCC filtering and passing on advanced viable prospects worth £7 billion on a cumulative basis to date to our underwriters. Through the course of this year we have focused on increasing the number of projects UKEF supports in the clean growth and low-carbon space. This has entailed:

- proactively seeking out renewable energy and low carbon opportunities
- engaging international partners and counterparts on climate change and transition
- mapping the UK supply chain and players in the sector with UK operations and ambitions
- development of flood control and resilience initiative with industry players

This work is part of the UK government's strategy to tackle climate change and align government support behind clean growth industries. In order to realise the government's vision for a Green Industrial Revolution, the UK needs to take advantage of export opportunities in new, global emerging markets in low carbon technologies and services, and UKEF is well placed to support this strategy.

In the last year, UKEF has therefore developed closer relationships with sponsors, developers, trade associations and contractors such as Macquarie and Ørsted to identify their future plans in the clean energy space and create trading opportunities for the UK supply chain.

UKEF also built strategic partnerships through memoranda of understanding with organisations including Mace and ORE Catapult (who act as conduits for UK content into clean growth projects), which should lead to tangible transactions that benefit the UK supply chain in overseas projects.

Alongside developing specific opportunities, UKEF focused its marketing and awareness activities on clean growth trade forums, regionally-based technology platforms and trade associations. As a result of these activities, UKEF's clean growth pipeline now accounts for over 50% of OCC's filtered transactions (those that have progressed beyond conception to realisation), which we expect to grow in the future, and the department was ranked second in a global list of export credit agencies financing sustainable projects in 2020.

International network

The department's international network was a critical function for UKEF in the last financial year, providing valuable insights particularly as international travel was severely restricted. Our international export finance executives (IEFEs) provided real-time information on the fast-moving developments in our target markets that we could no longer travel to.

We expanded our IEFE network to 11 last year, with plans to have between 20-30 in place through the course of 2021-22, and took over full funding of the network and agreed the OneHMG framework with the Foreign Commonwealth and Development Office (FCDO), making UKEF a standalone formal partner with the FCDO for the first time.

With the global situation changing rapidly, the economic disruptions being caused by Covid-19 are likely to be felt through the global economy for some time, with investment plans being reappraised by both the private and public sector. This is likely to result in funding gaps which should increase demand for ECA financing. Our 'Leading with Finance' approach will be prepared to ensure that UK exporters are supported and benefit from these opportunities.

West Africa IEFE Steve Gray and UK Ambassador Victoria Billing meeting His Excellency, President H.E. Maki Sall of Senegal

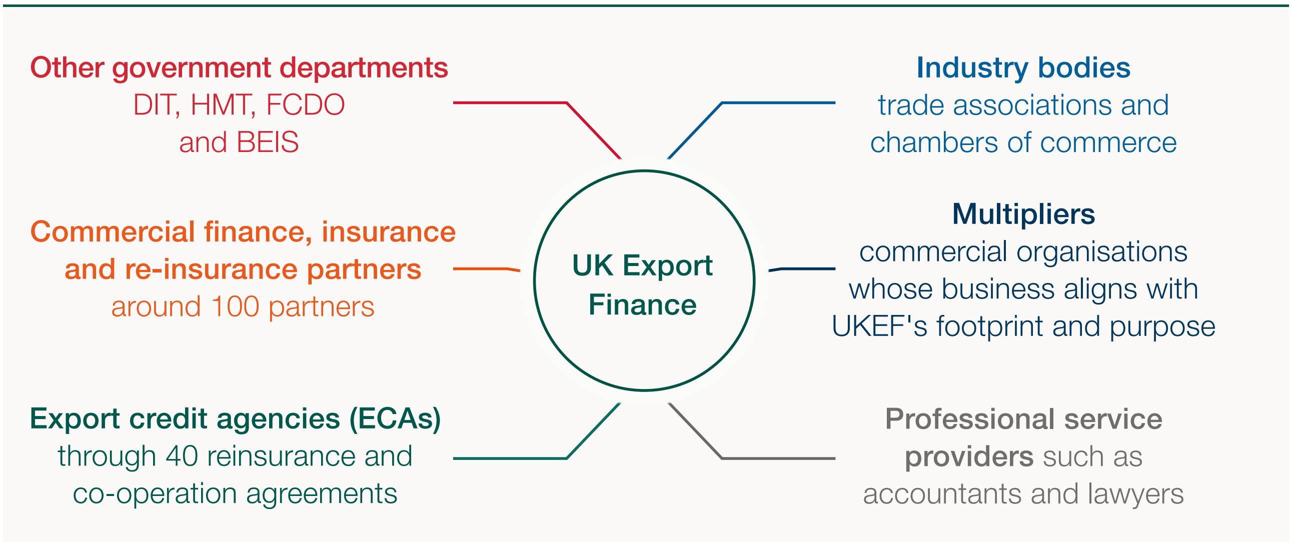
UKEF's EDG will boost Ford UK's exporting activities and secure thousands of UK jobs

Our partners and operations

We work with our strategic partners to support our customers and raise awareness in markets and communities.

This year, our partner collaborations in the private and public sectors have been key in delivering our messaging and support to UK businesses and their overseas buyers, helping them steer through the challenging financial and economic times caused by the pandemic.

We have strengthened our engagements to support the broader government agenda on green growth, support SME supply chains, deliver levelling up opportunities in UK regions and help businesses seek new opportunities in international markets.



Our partners

Engagement with other government departments

UKEF’s offer of finance is an integral part of the government’s offer to help UK companies export their goods and services and help overseas buyers source from UK suppliers.

At the end of 2020, UKEF created the Strategy, Policy and Climate Change Directorate in recognition of the need for greater engagement across other parts of government to ensure that UKEF aligns with wider government strategy, including on climate change. The new cross-government engagement function is responsible for key relationships with other government departments to ensure this alignment.

This year, we have broadened and deepened our Whitehall network. Now, UKEF regularly works with departments such as the Department for Transport, Ministry of Defence, Department for Environment, Food and Rural Affairs, and the Department for Education on sector-specific strategies and policies. We have intensified our contact with the Department for International Trade (DIT) through a strategic Memorandum of Understanding, and we are fully embedded in the development of the refreshed Export Strategy that will be published 2021-22.

UKEF has established regular engagement with the Department for Business, Energy and Industrial Strategy and is working closely with them on their new Innovation Strategy. We have stepped up our efforts to collaborate and engage more with the Foreign Commonwealth and Development Office and the Cabinet Office and continue to work closely with HM Treasury and the British Business Bank.

We continue to support and inform business-facing colleagues in other departments through our in-house 'Teach- In' Programme as well as our accredited online training course developed with the Institute of Export and International Trade. This "Award in Trade Finance" aims to improve government officials' knowledge of trade and export finance and continues to attract new candidates, with a further 86 colleagues from DIT enrolling since the last financial year.

Commercial finance (lenders), insurance and reinsurance partners (brokers and insurers)

UKEF's role is to complement the commercial sector, and our guarantees, loans and insurance products are delivered in partnership with over 100 private sector partners.

We also continue to maintain relationships with over 22 of our existing private reinsurance partnership organisations to manage concentration risk and to offset some of the political and credit risk on counterparties.

In the last financial year, we introduced a new master guarantee agreement (MGA) in conjunction with the 5 largest UK banks to make our short-term trade finance business process clearer, simpler and more efficient.

This year we have continued to work with the 5 banks to make further amends to the MGA for the delivery and implementation of our General Export Facility (GEF). Additionally, we continue to look to bring on new banking partners, including non-bank financial institutions, not only on GEF, but across all our short-term products.

We have worked in partnership with 5 private market financial institutions to deliver tailored support for the sub-£30 million export contract values through our Smaller Deals Initiative. This predominately provides its support by using UKEF's Standard Buyer Loan Guarantee, which was relaunched in February, and Supplier Credit Finance (Bills and Notes).

UKEF collaborated with banking partners at our Virtual UK Trade & Export Finance Forum held in December 2020. HSBC was the platinum partner with Lloyds Banking Group, Standard Chartered Bank and Santander also providing sponsorship. You can see further details on this sponsorship on page 282. The banking partners' support highlights the close collaboration between the public and private sector to deliver finance for exports.

Export credit agencies (ECAs)

UKEF works with other ECAs to jointly deliver export credit support where transactions include content from multiple countries. To do so, it has reinsurance and cooperation agreements in place with 62 ECAs, this year adding to 3 more memoranda of understanding with Qatar Development Bank, the Islamic Corporation for the Insurance of Investment & Export Credit, and Etihad Export Credit Insurance Company PJSC.

In support of the global economic recovery from the pandemic, UKEF has actively collaborated and participated in discussions with other international ECA reinsurance counterparties to share knowledge and best practice on process, workflow and matters relating to claims and recoveries.

Industry bodies and sector trade associations

UKEF has worked with DIT's sector teams to engage with sector-based trade associations and influencers. Our sector partners help us to deliver our products and service messaging, identify market export barriers and allow us to recruit SMEs for new international project opportunities showcased through our UK supplier fairs.

We have expanded our engagement in sectors including technology, agriculture, food and drink, education, creative industries, retail and consumer, rail and advanced engineering, infrastructure, financial and professional services, and renewables.

Over the past 12 months, UKEF has worked closely with DIT's Financial, Professional and Business Services team to identify potential challenges faced by SMEs to access finance required for international trade. UKEF officials have supported DIT working across Whitehall, including BEIS, HMT and the British Business Bank to identify cross government levers to better inform and support SMEs. UKEF has focused on bringing new banks onto the General Export Facility (GEF) scheme so that more SMEs can access a guarantee under GEF. We also engage with industry and professional service bodies to support new initiatives and seek market intelligence and insights that facilitate the development of our products and services while promoting our support to their members. Key relationships include:

- the British Exporters Association, which evaluates UKEF against other national ECAs
- the Confederation of British Industry, which provides feedback from industry and supports UKEF's business outreach
- the Institute of Exports and International Trade, which partners with UKEF to increase knowledge of export and trade finance and insurance throughout the business community
- the Federation of Small Businesses, to understand challenges faced by small businesses in financing export activity
- Make UK, which supports the manufacturing sector and highlights challenges faced by the UK supply chain across sectors to access finance for their exporting business
- the British Chambers of Commerce, which, through its regional network of accredited chambers, works with UKEF's export finance managers to promote UK exports
- UK Finance, on new product development, delivery, and implementation, as well to discover the challenges faced by SMEs to access finance and general support. This year we consulted UK Finance on product development and implementation of our Standard Buyer Loan, General Export Facility and Export Development Guarantee

Ahead of the 2021 United Nations Climate Change Conference, COP 26, we increased our engagement with green industry bodies to raise awareness of our support amongst renewable energy firms in the UK and project sponsors abroad. We signed new partnerships to generate more opportunities for the UK supply chain to export to clean growth projects overseas.

Professional and financial services providers

We continue to build our strategic engagement with accountancy, consultancy, and legal firms as an important referral channel. Several leading companies, including PricewaterhouseCoopers, KPMG, BDO and Ernst & Young, have committed to developing and increasing joint opportunities for the UK supply chain by collaborating with DIT and UKEF, deploying their UK and overseas networks improve awareness of the support on offer.

UKEF and DIT supported the City of London Corporation and Ernst & Young's report entitled 'The City of London: An ecosystem enabling international trade', highlighting challenges and opportunities.

Our Operations

2020-21 was a challenging year with the impact of Covid-19 on UKEF's operations. The department and our staff however rose to the challenge and were able to continue with the already ambitious number of changes and projects and indeed added in more changes to help support the response to Covid-19. This year was the first full year of our work to implement the Target Operating Model (TOM) which describes the organisation we need to become to deliver our 2020-24 Business Plan. The TOM sits between the business plan and the Operational Plan providing a longer term context for Operational Planning on the organisation we are trying to create. There are 5 key themes in the TOM with a key one being around fixing the basics and another on being truly customer centric which were both central for many activities in the Operational plan for 2020-21.

Key highlights for the year include:

- 2 releases of software for our Financial Crimes Compliance system in Salesforce
- procuring a partner and completing the Design phase of our Salesforce end to end case management system
- our Digital Trade Finance Service portal successfully passed its Government Digital Service "Alpha" assessment and performance benchmarks have been agreed,
- the GEF product went live and is now available to partners through a Digital Portal
- replacing our network in our base at 1 Horse Guards Road with a more resilient network and firewall which allowed everyone to successfully work from home in the last 12 months
- Replacing obsolete laptops for all UKEF staff

Bolton-based baby product manufacturer Cosatto was able to export to Australia for the first time with UKEF backing

Chief Risk Officer's report

Samir Parkash
Chief Risk Officer

UKEF, by the nature of its mandate, is subject to a wide range of underlying risks. The primary risks to which UKEF is exposed include financial risk (including credit, market and liquidity risk), operational risk, strategic and business risk, environmental and social risks, climate change, compliance and legal risks, program and project risk, external risks and political risk.[1]

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

All our risk management practices aim to align themselves, where appropriate, with the financial services industry's best practice standards, while acknowledging incremental requirements from being a governmental organisation subject to Public Law obligations and Managing Public Money requirements.

Risk management approach

Risk Governance

Parliament sets an overall limit on the commitments into which UKEF may enter. UKEF's powers may only be exercised with the consent of HM Treasury (HMT). This limit is expressed in special drawing rights (SDR), an international reserve asset created by the IMF. SDR67.7 billion corresponds to approximately £69.7 billion. HM Treasury agrees a standing consent with UKEF, providing parameters within which it can operate without needing to seek explicit approval, as well as UKEF's financial objectives and reporting requirements.

The ultimate responsibility for risk management within UKEF lies with the Chief Executive Officer (CEO) who, as Accounting Officer, is answerable to ministers and Parliament for all aspects of the department's operations. The CEO is supported by a number of committees (principally the Enterprise Risk and Credit Committee (ERiCC) in relation to risk management) and UKEF's risk management activities are subject to independent oversight and monitoring.

The UKEF Board provides independent advice, scrutiny and challenge to the CEO across a broad range of areas, including risk management, while its Risk Committee separately reviews the adequacy of risk management and controls across the department.

UK Government Investments (UKGI) provides advice to the Secretary of State. Through its ex-officio position on the Board, UKGI reviews the department's risk management function and processes to help ensure that risk and internal controls are effectively managed. UKGI also review UKEF's financial and operating performance and key performance indicators.

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

- agreeing UKEF's enterprise risk policies and procedures
- ensuring the effective identification, assessment, management and reporting of enterprise risk across UKEF in accordance with UKEF policies and procedures
- agreeing policies, procedures and methodologies for calculating and charging premium, and monitoring and modelling portfolio risk, including risk parameters and assumptions used in the Portfolio Risk Simulation Model (PRISM)
- managing and monitoring credit risk exposures at transaction and portfolio level, and approving credit risk exposures above the level of authority delegated by the CEO to senior risk executives, including through country risk parameters, country exposure limits, minimum risk standards for sovereign and corporate obligors, corporate risk assessment methodologies, sector reviews and watch list portfolio reviews
- agreeing credit risk policies
- ensuring that credit risks are properly monitored, controlled and reported through UKEF's processes and systems

It is scheduled to meet weekly and can be convened on an ad hoc basis to consider urgent business. The standing members of the Committee are:

1. CEO
2. Chief Risk Officer (CRO)
3. Chief Finance and Operating Officer (CFOO)
4. Business Group Director
5. Deputy Chief Risk Officer
6. Head of Underwriting Policy and Products
7. Head of Portfolio Management
8. Chief Analyst

The Director of Legal and Compliance, or a nominee, will also attend to provide advice on legal and compliance matters. In the absence of the CEO, a unanimous decision of standing members, including the CFOO, must be obtained for any approvals. In the event of a tied vote, the CEO has the ultimate decision.

President Nana Addo Dankwa Akufo-Addo cuts sod on a new UKEF-financed regional hospital in Koforidua, Ghana

Organisational model and accountabilities

UKEF has a functional organisation structure, which separates business origination work from risk, financial control and reporting functions. This basic internal control is designed to avoid potential conflicts of interest and to provide vital and appropriate checks and balances in the business origination, credit approval and risk management processes.

Within the Risk Management Group (RMG), there is a framework of delegated credit authorities:

- the CRO has been given authority by the CEO to approve various categories of credit risk within pre-determined limits
- in turn, the CRO has granted authority over certain credit approvals to senior staff within their team
- credit approvals that exceed the delegated authority of the CRO must be approved by the ERiCC (and for larger transactions, also the Accounting Officer and HM Treasury)

Enterprise risk management

The Enterprise Risk Framework sets out UKEF's best practice approach to managing Enterprise Risk. It is designed to ensure that adequate processes, procedures, reporting and control mechanisms are embedded in the business to facilitate the identification, assessment, monitoring, reporting and remediation of risks across the department.

It enables UKEF to consider the potential impact of all types of risks activities, stakeholders, products and services. With an understanding of significant risks and identification of the weakest key controls UKEF can make decisions informed by the knowledge of the underlying risks and manage these risks appropriately. This is supported through department-wide communications, knowledge building events and guidance.

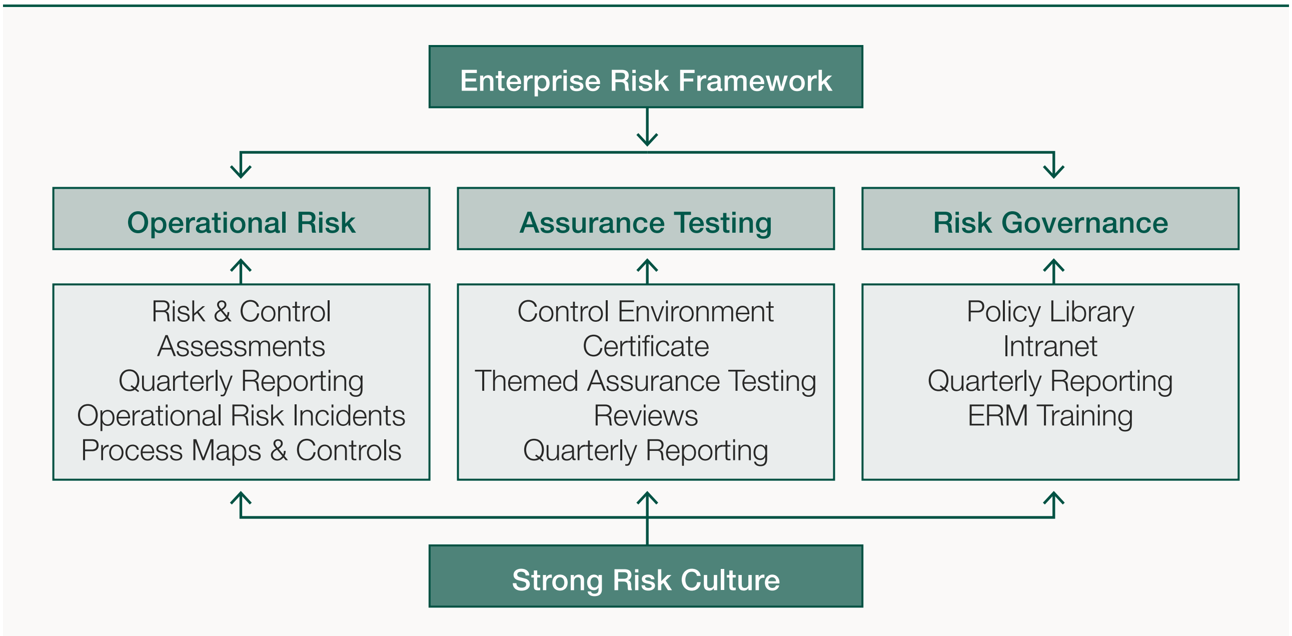
The CEO has appointed the CRO to be responsible for leading UKEF's overall approach to enterprise risk management and ensuring adequate skilled resources are employed to independently influence governance and decision-making forums.

During 2019-20, UKEF created an Enterprise Risk Division (ERD) within the Risk Management Group. Significant achievements since it was established include the creation of the Enterprise Risk Policy and Framework. This has resulted in considerable work being undertaken by divisions to map key processes and document key controls. The UKEF Assurance Testing Framework has been developed and ERD have undertaken several assurance testing reviews of our key risks.

Additionally, ERD have been instrumental in creating a central UKEF Policy Library, with associated Policy, Framework, guidance materials and a standard policy template. The Division have also updated and improved our Risk Management Group intranet, providing a central repository for key documentation, information on training & development and reference material.

Key components of the Enterprise Risk Framework

The UKEF Enterprise Risk Framework comprises the following core elements that enable UKEF to proactively and effectively identify, assess, treat, monitor, manage and report risk.



Risk Taxonomy

An Enterprise Risk taxonomy has been approved by ERiCC. This provides senior management with a structured approach to identifying, assessing, evaluating, and reporting known and emerging risks across UKEF. The 9 primary Enterprise Risk categories are as follows:

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

UKEF Assurance Framework

Assurance testing provides reliable assurance (evidence) to the Accounting Officer, Executive Committee, ERiCC and Risk Committee that our primary enterprise risks are being adequately managed. Assurance testing is achieved by undertaking 'deep dive' reviews, performing ad hoc sample control testing and completing 'walk through' tests.

Additionally, the assurance testing will perform quality control checks following significant operational risk incidents to confirm that the revised controls have been embedded by the business and are operating as stated. It may also be applied to assess the effectiveness of key controls detailed in risk and control assessments (RACAs) and validating statements made in the self-reported Control Environment Certificate (CEC) process. Assurance Testing reports are discussed and agreed with group directors, presented to ERiCC and noted at Risk Committee.

Control Environment Certificate (CEC)

The CEC process requires all group directors to provide an assessment and self-certification to the UKEF Accounting Officer regarding the management of Enterprise Risk within their area of responsibility. This is a half yearly process. The outputs of each CEC will inform the assurance testing plan, operational risk processes, and Enterprise Risk monthly and quarterly reporting. All self-assessments are completed using a consistent and comparable rating mechanism.

Outcomes and remediating actions from the assurance testing and CEC process are reported through UKEF's governance structure to improve risk management.

Risk Reporting

Monthly and quarterly Enterprise Risk reports are presented to ERiCC. This enables the committee to monitor and manage the department's enterprise risk profile and to obtain assurance that its decisions have been acted upon. Enterprise Risk reporting is also provided to the Risk Committee summarising the key risks and the effectiveness of risk management in UKEF.

Operational Risk

The management of operational risk is an integral part of UKEF's overall Enterprise Risk Management activities and must be considered by all staff within the department. UKEF's Operational Risk Policy provides the standards to be followed by all groups within the department in managing operational risk. All divisions must maintain control catalogues and process maps detailing the controls in place to manage key processes. Additionally, actual operational risk incidents that have triggered are monitored, analysed and reported by the ERD to identify key themes.

Each group maintains a RACA which is updated on a quarterly basis (as a minimum). It details the key known and emerging risks under management by the group. Priority operational risks are regularly evaluated and formally reviewed biannually in consultation with group directors to ensure current and emerging risks are identified and mitigated as appropriate. This is further discussed in the Governance Statement on pages 153-173.

Risk Culture

UKEF senior management has a responsibility to ensure that the appropriate risk management principles, culture and behaviours are embedded in day to day business activities. Sound risk management is underpinned by an effective and robust risk culture which is embedded in UKEF's 3 lines of defence model. In this structure, the first line of defence is the client facing unit which owns and manages the risks, the second line of defence is the internal Risk Management function which specialises in the management of risk and the third line of defence, the Internal Audit team which provides independent assurance.

Senior leaders within UKEF are key influencers and gatekeepers in ensuring the behaviour and conduct of our teams. They are responsible for ensuring that risk management within Groups is embedded as part of day to day business as usual (BAU) and is a continuous cycle of assessment, responding to new information and developments in a proactive manner.

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

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

Conduct and Reputational Risks

Within UKEF, conduct and reputational risks are identified, evaluated and monitored on a pan-UKEF basis rather than as a separate risk type. This enables the department to consider its risk and control environment strategically and as part of the risk assessment for any risk type to identify whether there is a possibility that conduct and reputational risks could manifest as part of doing business.

All staff have a responsibility to escalate potential or known reputational or conduct risks. To manage and mitigate conduct and reputational risks, adequate systems and controls (policies, procedures, process maps and control catalogues) must be maintained by divisions and subject to regular review. Additionally, appropriate training is provided to staff to ensure that they understand the risks attached to their specific roles and the behaviours expected of them.

Financial Risk Management

Credit risk is the most significant source of financial risk for UKEF. Its management is a core competency for the department, which is reflected in our credit risk management framework and operates at every level of the department. The definitions of our main financial risks are set out in the box below:

UKEF's financial risks

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

Market risk: the risk of losses arising from change of market prices, such as fluctuations in foreign currency exchange rates and interest rates.

Liquidity risk: the risk that we are not able to meet our financial obligations when they fall due or can only do so at excessive cost. It is considered to be low because UKEF's status as a government department enables us to access the Consolidated Fund.

Financial objectives and appetite

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

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

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

1. Maximum commitment: the total amount of nominal credit risk exposure that the department may incur. This is set at £50 billion*
2. Risk appetite limit: a form of economic capital limit of £5 billion (detailed further in the next section)
3. The Exposure Management Framework (EMF): a limit to exposure of £5 billion for any individual market, with capacity set inversely to risk (detailed further on page 83)
4. Reserve Index: an index that measures whether UKEF has accumulated, over time, sufficient revenue to cover its possible credit losses at the 77.5 percentile on our portfolio loss distribution[2]

* This limit is set under the HMT consent. The Maximum Commitment and Risk Appetite Limit are no longer subject to adjustments due to exchange rate movements.

5. Pricing Adequacy Index: detailed under pricing policies on pages 93-94
6. Premium to Risk Ratio: detailed under pricing policies on pages 93-94

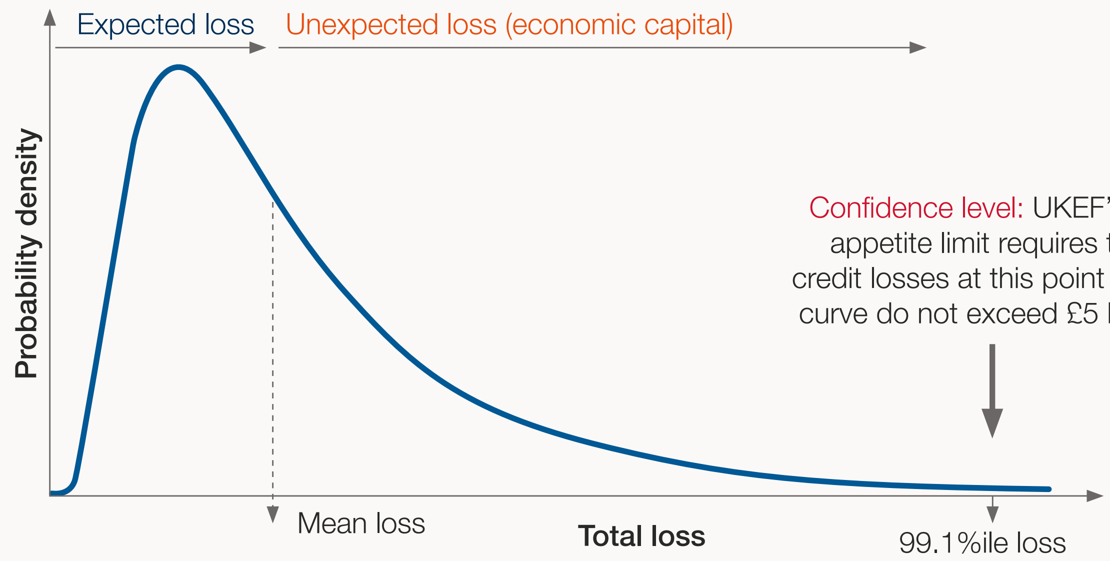
The 2020-21 outturn against all our financial objectives is presented on page 36.

The credit risk policy, the pricing methodology and the exposure management framework are the main policies that apply to the management of credit risk within UKEF. Policies are generally reviewed annually – EMF is tri-annual – by ERiCC and subsequently endorsed by the Board's Risk Committee.

Economic capital and the risk appetite limit

Economic capital (often referred to as capital at risk or CaR) is a measure of risk based on potential future losses. It can be considered as a buffer to cover unexpected losses over a defined future period at a specified confidence level. The chart below illustrates this concept for a hypothetical portfolio of credit risks.

Portfolio loss distribution



Expected loss is a calculation of anticipated average loss over a defined period based on historical experience. Expected losses essentially represent a 'cost of doing business', implying that when a financial institution assumes credit risk, it should always seek to charge an amount at least sufficient to cover the expected loss associated with the relevant loan, guarantee or insurance policy.

Unexpected loss accounts for the potential for actual losses to exceed expected losses, reflecting the uncertainty inherent in the calculation of future losses. Calculations of unexpected loss will tend to increase if a portfolio has high risk concentrations and/or the risks in the portfolio are strongly correlated. UKEF defines unexpected loss as the difference between the portfolio expected loss and the 99.1% value of the loss distribution. (Other financial institutions often consider this to be their economic capital requirement.)

The risk appetite limit set by HMT means that UKEF must manage its credit risk-taking activities such that total losses, as modelled by our portfolio risk management simulation model, will not (with a 99.1% degree of certainty) exceed £5 billion. In other words, at no time should portfolio expected loss, plus provisions against claims already paid, plus portfolio unexpected loss, exceed £5 billion. This limit excludes business transacted under our new Temporary Covid Risk Framework, as below.

The UKEF Risk Management Framework

As the UK's export credit agency (ECA), our role, mandate and risk appetite differ from financial institutions' in the private sector. So, while we do compare our risk management framework with best practice in the financial services industry, a direct comparison with all the metrics used by regulated commercial entities can be misleading. The portfolios of ECAs will tend to have:

- a higher risk profile
- a focus on emerging market risks
- longer risk horizons
- greater risk concentrations (counterparties, sectors and geographic regions)

UKEF's Risk Management Framework comprises of a series of detailed risk management policies, procedures and individual risk methodologies which determine the methods for assessing, measuring, managing and reporting the categories of credit risk to which UKEF is exposed. The most important of these is the Credit Risk Policy – a rating by asset class based policy – which determines UKEF's minimum risk standards.[3]

However, 2020-21 was very definitely not BAU for our customers. Covid-19 generated 1 of the biggest economic shocks to the global economy since the World Wars, and UKEF had to be able to respond quickly and efficiently to support the UK economy through the crisis. Recognising this, UKEF and HMT in April 2020, established the Temporary Covid Risk Framework (TCRF), to complement our BAU Credit Risk Management policies:

TCRF: UKEF's Covid-19 rapid-response mechanism

In early April 2020, as the impact of Covid-19 became increasingly apparent and the global economy was stalling, UKEF, in close collaboration with HMT, put in place a new £10 billion, supplementary risk management framework to ensure that UKEF could effectively support the UK economy through the impending downturn. TCRF as it has become known, was initially established for 4 months (but subsequently extended, as the scale of the crisis became clear) and was specifically aimed at both UK exporters and overseas buyers of UK goods, whose liquidity and cash flow profiles had been badly affected by the unprecedented consequences of this deadly virus.

While clearly implemented to complement UKEF's existing risk management framework – TCRF is definitive in that UKEF is not permitted to accept credit risk that it would not otherwise have accepted pre-Covid – the TCRF endeavours to provide additional support to businesses whose risk profiles have been significantly damaged and disrupted by Covid-19 but whose long-term sustainability is considered likely. As such, the focus of the analysis is much more forward looking, "through-the-cycle", than the prevailing market consensus and, by definition, more subjective. The TCRF is exempt from our normal portfolio-level financial objectives and risk appetite limit (defined on pages 36-37) as authorised by HM Treasury, although we use the same deal-level pricing policies and monitor risk with the same rigour as for our non-TCRF portfolio. This incremental and flexible mechanism has enabled UKEF to almost double its support to UKEF exporters during the course of the last financial year.

To date, the Framework has proved both timely and successful with a number of high-profile counterparties, particularly in the stressed transportation sector, taking advantage of what is a highly flexible scheme. Other notable features of the TCRF included a doubling of the UK Country limit (to £10 billion) and a temporary 50% increase in all other country limits to a maximum of £7.5 billion (from the previous maximum of £5 billion). Once TCRF expires the maximum country limits will revert to £5 billion.

Case study: British Airways

Towards the end of 2020, given the unprecedented fall off in revenues due to Covid-19, British Airways (BA), the UK's flag carrier and second largest airline, and employing 25,700 people in the UK, approached UKEF for Export Development Guarantee (EDG) support with a view to bolstering liquidity and obtaining additional resilience in the light of continued uncertainty in the aviation sector. This was in addition to undertaking a number of liquidity raising and cost-cutting measures including undertaking a rights issue through parent company IAG, deferring new aircraft purchases and furloughing staff. In the space of a few weeks UKEF was able to provide one of its first EDGs, guaranteeing 80% of a £2 billion, 5-year facility, funded on commercial terms by a syndicate of banks. The EDG-backed facility, which contains certain restrictions on the payment of dividends by BA to its parent company, will give BA more operational and strategic flexibility to respond to market conditions as they recover.

Outlook

The forecast recovery of the global economy has strengthened considerably thanks to the progress of the vaccine rollout in some advanced economies, supportive monetary policies and the large planned fiscal stimulus in key economies, notably the United States. However, it is likely to be an uneven recovery, with modest long-term impact on advanced economies but more significant harm done to emerging and developing economies.

At the aggregate level, the latest IMF World Economic Outlook (WEO) forecast expects a return to 2019 global economic volumes by mid-2021 at the earliest. Since the previous WEO forecast in October 2020, the IMF have significantly uplifted their growth forecast for 2021, citing a faster than anticipated vaccine rollout and the impact of the Biden administration's US$1.9 trillion fiscal stimulus.

UKEF's support is concentrated in Emerging and Developing markets; these markets are likely to recover more slowly given the slower rollout of vaccines, more modest economic support packages during the pandemic, and an increased debt burden.

While UKEF may see increased interest in its products it may also be faced with more risky counterparties given the fallout from the pandemic – there have been 50 rating downgrades of UKEF sovereign counterparties during 2020-21 compared to fewer than 20 per annum in the preceding 3 years. The average credit rating of UKEF's portfolio was B+ at the end of March 2021, having been BB– at the end of March 2020.

The continued application of TCRF will help UKEF to support UK exports to those sovereigns and corporates that have temporary stresses due to Covid-19.

Exposure management framework

Equally important is our EMF which sets individual country limits based on the following key principles:

- countries with higher levels of credit risk, assessed through individual country reviews using a credit ratings-based approach, will have lower limits
- the larger a country's economy (as measured by its GDP), the higher the potential country limit (subject to other factors)
- country limits should be set relative to the notional financial resources available to UKEF and consistent with UKEF meeting its financial objectives
- the upper boundary for exposure to any individual country is £5 billion (temporarily this has been increased to £7.5 billion under the TCRF); in very exceptional circumstances, this can exceed £5 billion where the UKEF CEO has been instructed otherwise by ministerial direction
- The EMF also lays out counterparty and regional exposure checkpoints in order for UKEF to manage concentration risk

ERiCC systematically reviews UKEF's country limits and cover policy. In addition, it sets individual controls on a case-by-case basis within each country limit. Risk and cover policies are assessed and allocated onto around 200 overseas markets, prioritised based on the size of existing exposures, the assigned credit rating and active, potential new business requirements.

Country Risk Assessment

We assess each country in which we have an actual or potential credit exposure and use this to produce a credit rating, from AAA (highest) to D (default, lowest). Our risk assessment framework is aligned with that used by Standard and Poor's (S&P) but is additionally informed by a range of external materials, as well as cross-Whitehall forums, local UK diplomatic representatives, triannual OECD country risk expert meetings, and country specific visits (virtually in the current Covid-19 operating environment) including meetings with a wide range of stakeholders, where appropriate.[4]

Where no external credit rating exists, we typically derive our final credit rating from a World Bank derived credit rating model supplemented by analyst judgement and peer comparisons. In all instances, credit ratings will be reviewed by senior management and approved (as appropriate) by the ERiCC.

Corporate, SME and Project Finance Risk Assessment

Risk assessments for the vast majority of our medium to long-term credit exposure to corporates, airlines and project finance transactions are principally based on S&P credit rating methodologies.

We use several S&P's bespoke credit rating templates from which to base our risk assessments on our principal areas of business. These outline the relevant credit risk factors in our large corporates, passenger airlines, and project finance transactions. We have a separate and bespoke methodology for determining our SME credit ratings outlined below in more detail.

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

For our trade finance business, which typically involves SMEs and relatively small individual credit risk exposures, we have purpose-built a number of credit assessment methodologies with shorter turnaround times for certain categories of risk. For example, we have adopted a specific credit assessment and approval process for our bond support and export working capital facilities, under which UKEF shares the underlying risks with financial institutions for the provision of working capital loans and on-demand contract bonds in support of export transactions.

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

Banks, Non-Bank Financial Institutions, Insurance Companies and Operating Lessors Risk Assessment

In 2020-21, a new financial institutions group was carved out of our Project Finance franchise and set up as a separate team under new leadership, largely as a result of a significant increase in demand across all 4 sub sectors. For example, the operating lessor portfolio has, not surprisingly, seen a particular surge in new business volumes. The unit nonetheless operates under the same underlying principles as our Corporate, SME and Project Finance Team, utilising specific S&P rating templates where possible supplemented with analytical judgement where appropriate. We are in the process of adding additional resource to this unit.

Environmental, Social Governance and Climate Change

UKEF recognises the importance of the consideration of environmental, social, governance (ESG) and climate-related risks as part of its credit risk assessment processes to assess the potential financial implications and mitigation of risk relating to all UKEF's customers.

From 1 November 2019, UKEF introduced explicit commentary on ESG risks into all new non-sovereign credit risk assessments and all sovereign analysis when setting limits. In line with the Task Force on Climate-Related Financial Disclosures and industry best practice, UKEF has developed, and continues to develop, its approach to the assessment of financial implications on all new and existing risk entities as appropriate and in proportion to the risk taken by the department.

Project finance transactions, which generally involve single assets with long tenor loans (upwards of 18 years), can involve some limited market risk and therefore it is imperative we understand the competitive landscape of the projects over the timescale of the debt. Using advice from independent external consultants, project finance credit assessments include consideration of relevant ESG and climate-related risks with particular focus on transition risks which could impact the economic life of the project, potentially causing the asset to become stranded. Environmental risk assessment includes physical climate risk considerations.

For corporates, unlike project finance, the team does not routinely engage external consultants but covers a range of ESG factors within the assessment of industry risk. More recently we are incorporating potential implications of climate change where relevant. We have access to a wide range of industry data and have been working closely with these partners to deepen our knowledge and understanding.

For financial institutions, encompassing primarily the banking, insurance and airline operating lessor sectors, ESG and climate change implications are being incorporated proportionately into industry risk assessment. The utilisation of published data, particularly from the main rating agencies, complemented by practical training courses, are enhancing analysts' proficiency in these evolving disciplines.

All country risk reviews now make an explicit assessment of the potential impact of ESG and climate-related risk. The methodology for incorporating this is still developing but we have been drawing on the analysis from rating agencies, as well as other sources such as the World Risk Index and work from the World Bank. We consider vulnerabilities to physical climate change impacts such as water shortages, drought or coastal flooding as well as transition risks such as reliance on fossil fuels which could see a sharp fall in demand as a result of changes in government policies, regulations or consumer preferences.

We recognise that this is a developing area and we are continuing to evolve our approach iteratively over time keeping up to date with industry best practice.

As part of the SR20 settlement, RMG will be increasing its resources in this area in terms of both new personnel and dedicated training modules with a view to further enhancing climate-related and ESG skills.

Practical on the job experience is being complemented by access to external training. RMG team members have undertaken Imperial College's online "Climate Change: Financial Risks and Opportunities" training, with some also receiving targeted training from rating agencies in ESG credit risk assessment.

RMG is starting to consider relevant and appropriate climate related scenarios to add to our stress testing and scenario analysis and going forwards will incorporate these into our portfolio risk management processes and reporting.

UKEF's credit risk methodologies

Product category	Product	Description	Credit risk party	Credit risk methodology
Credit insurance	Export insurance policy	Covers risk of non-payment under an export contract due to specified commercial and political risks	Overseas buyer	Bespoke UKEF methodology
	Bond insurance policy	Covers unfair calling of contract bonds, or fair calling due to specified political events	Overseas buyer	Bespoke UKEF methodology
Loan/ capital market guarantees	Buyer credit facility	Guarantees medium/long-term finance from lenders or capital market investors provided to overseas buyers of UK goods/services	Overseas buyer	S&P methodologies
	Supplier credit facility			
	Lines of credit			
	Export refinancing facility	A buyer credit provided with an undertaking to support refinancing of the bank loan through the capital markets	Overseas buyer	S&P methodologies
Trade finance	Bond support scheme	Guarantees contract bonds provided by private lenders	UK exporter	Bespoke UKEF methodology
	Export working capital scheme	Guarantees working capital loans provided by private lenders to UK exporters	UK exporter	Bespoke UKEF methodology
	Export Development Guarantee	Guarantees short/medium-term finance from lenders provided to UK exporters	UK exporter	S&P methodologies
	General Export Facility	Much like Export Development Guarantee, but for smaller quantum of risk	UK exporter	Bespoke UKEF methodology
	Supply Chain Discounting	Guarantees short-term discounting finance from lenders provided to UK exporters	UK exporter	S&P methodologies
Lending	Direct lending facility	Medium/long-term loans from UKEF to overseas buyers of UK goods/services	Overseas buyer	S&P rating methodologies
Investment insurance	Overseas investment insurance	Insures overseas assets of UK exporters against specified political risks	Overseas buyer and its sovereign	Bespoke UKEF methodology

Credit risk assessment outputs

Expected loss is a key measure of credit risk at UKEF and is central to our pricing methodologies and our underwriting fund accounting.[5] Our credit risk assessments are used to indicate the 3 components of expected loss:

Expected Loss

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

We assign a credit rating (from AAA to D) to all credit risks within UKEF to denote an associated probability of default. The probabilities are updated at least annually in line with the latest S&P statistics.[6]

Our credit risk assessments also provide an estimate of loss given default: how much we stand to lose if an obligor defaults, expressed as a percentage. Corporate and project finance loss given default assessments are conducted on a case-by-case basis, considering the specifics of the transaction in question, including security, priority ranking, recovery prospects by market and likelihood of restructuring, sale or liquidation.

In the case of sovereign risk, persistence of default is also included in the calculation of potential loss. Based on empirical research, persistence of default (the estimated duration of a country's default) is calculated as a function of its per capita income, the severity of indebtedness and whether the default is a liquidity event or substantially more material.

The third output of our assessments is exposure at default, meaning the credit risk exposure we have at the time of default.

Another measure of credit risk we monitor closely is unexpected loss, which is integral to our credit risk appetite (see 'economic capital and the risk appetite limit' on pages 79-80).

Portfolio Management and Special Situations

For every transaction we undertake, when UKEF's guarantee, loan or insurance is effective and the financial exposure data has been accurately logged on internal management information systems, the transaction is handed over from the Business Group teams to the Risk Group's Post Issue Management ("PIM") team. The PIM team is then responsible for all such transactions (including the ongoing review and monitoring processes) until prepayment, repayment or until it is handed over to the Claims and Recoveries team.

Amendments, waivers and compliance with financial covenants are monitored with the help of the agent of the lending banks under the UKEF guarantee. Requests for waivers, amendments and restructures are considered on a case-by-case basis and are reported and approved in line with the PIM Policy and under delegated authorities or through ERiCC approval as appropriate.

With the rise in claims and an associated long tail of recoveries expected, the appropriate resourcing and structure of Post Issue Management remains under regular review, having been augmented throughout the year.

Response to Covid-19

In response to the pandemic we have restructured the Post Issue Management team by:

- adding 8 new staff, aligning units to reflect volumes of cases in restructuring
- creating a new Special Situations Division headed by a Deputy Director and staffed by specialists in restructuring and stressed cases
- creating a new Paris Club sovereign debt team, with a specialist Head of Sovereign Restructuring
- reorganising processes to respond to the challenges more efficiently and effectively

Special Situations Division

In June 2020 a new Head of Special Situations post was filled, primarily to deal with the impact of the pandemic on the airline part of UKEF's portfolio, which has included several airline counterparty insolvencies and the implementation of the Common Approach. In March 2020 UKEF, Euler Hermes and BPI agreed a common set of terms (the "Common Approach") to respond to and mitigate the profound impact of Covid-19 on the aerospace sector and our collective exposure to that sector. In order to avoid inconsistent and arbitrary responses to competing requests from airlines a 'one size fits all' approach was adopted, permitting the deferral of principal instalments falling due between March 2020 and March 2021 (interest payments are not deferred). This transparent approach enabled the ECAs to respond to the crisis effectively, prioritising simplicity and speed.

The Common Approach window has closed and UKEF, with their European ECA partners, successfully concluded 13 deferrals across 120 aircraft and moving over £100 million in deferred payments. The key feature of a Common Approach deferral was that the airline remained current on the interest on the underlying loan obligations. As a result, the ECAs were able to successfully minimise loss across that portfolio, as the banks did not claim on the underlying guarantee but were happy to reschedule the debt within the original maturity profile covered by the ECAs unconditional guarantees.

We have been discussing the next stage response to requests with our ECA colleagues following the closure of the Common Approach window in March 2021. The one size fits all approach of the first round of Common Approach restructurings will not be carried through, but instead a more rigorous case-by-case analysis will be adopted and evidence of risk sharing across creditor classes (rather than the burden being borne by the ECAs) will be required.

Covid-19 contributed to a number of UKEF airline counterparties seeking insolvency protection and UKEF is paying claims on those airlines while simultaneously negotiating the restructuring of those airlines' external debt. In all cases, the ECA financial exposure is secured on the underlying aircraft which are the subject to the financings, which materially enhances the recoverability over time of claims paid. In some cases, this has led to aircraft repossessions and in others it may result in the aircraft remaining with the counterparty on negotiated reduced credit terms. The specific impacts are discussed in more detail in the Claims and Recoveries section.

UKEF negotiated 5 non-Aerospace corporate exposure restructurings during this year. Not all were caused by Covid-19.

The restructurings involved extensions of risk tenor, and deferral of principal but not interest. In all of these restructurings, no debt was forgiven or written off. Repayments under these restructures have remained current with interest, and no claims were received for these cases. Restructuring terms were discussed and agreed at ERICC for all of these cases.

Credit processes and reporting

All material credit risks must be approved by the CEO, the ERiCC or a designated member of the RMG with the appropriate delegated authority. Further, some larger exposures additionally require the consent of HM Treasury. Once approved, credit exposures are regularly monitored and reviewed at both portfolio and individual transaction level.

ERiCC oversees portfolio-level monitoring. This includes stress testing and scenario analysis every 6 months, and a monthly review of portfolio movements, particularly focusing on exposure, expected loss and unexpected loss changes. Monthly management information reports the performance of the credit portfolio – including detailed limit management reviews – against our financial objectives, and regular detailed portfolio packs are presented to the UKEF Board.

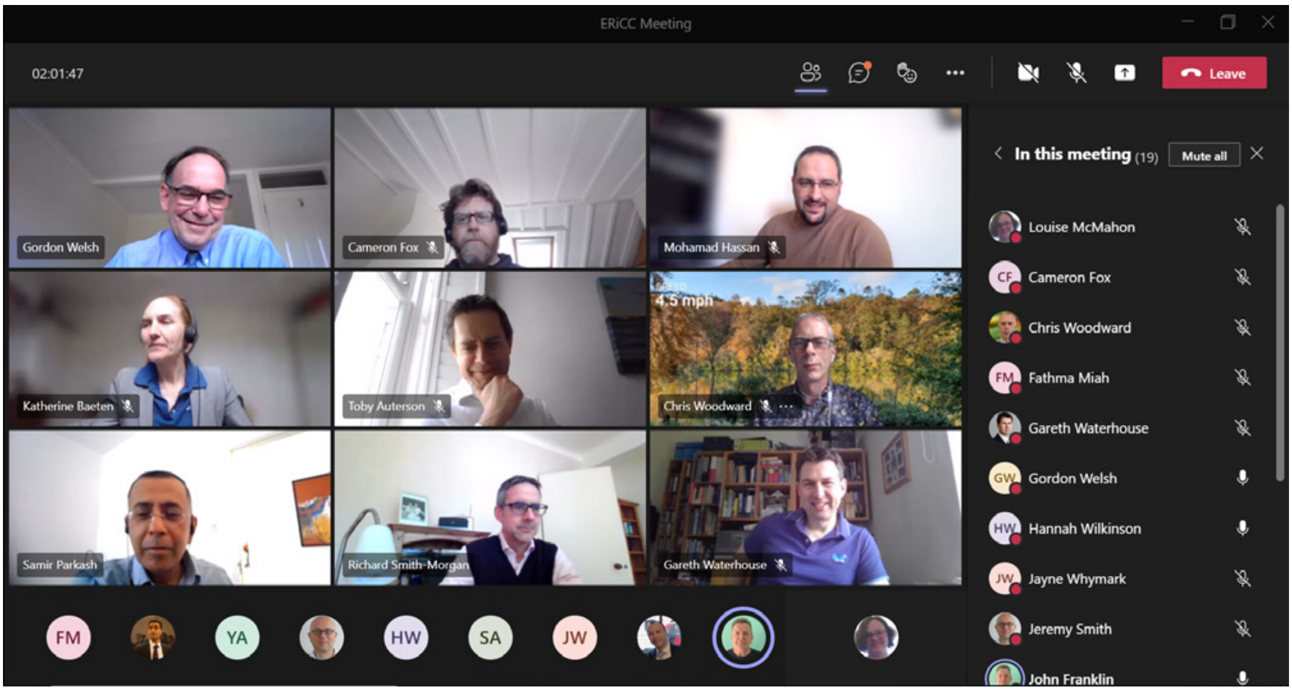
At a transactional level, we regularly update the ratings allocated to countries and individual obligors. UKEF maintains 'watch lists' of obligors whose credit risk is materially deteriorating; if the credit of a non-sovereign borrower deteriorates such that UKEF might expect reasonably to pay out under a guarantee or insurance policy, the case will be managed by a dedicated unit.

Claims and Recoveries

Claims and Recoveries (C&R) are an integral part of RMG, examining claims, assessing their validity and, if valid, paying out claims. In addition, the C&R team is responsible for Recoveries, undertaking recovery actions, recouping amounts due from debtors and minimizing loss for UKEF, as well as reclaiming monies from ECA reinsurance counterparties. Claims and Recovery actions are managed in line with C&R Policy and approved within the Delegated Authorities and/or by ERiCC.

Covid-19 has led to a significant increase in Claims Paid, mainly relating to the downturn in the aerospace sector. Other sectors have so far been relatively less impacted. As a result, the C&R team was expanded in size to deal with the higher claims volumes. Further detail on specific claims activity can be found on pages 105-106.

In response to Covid-19, reporting was stepped up, with periodic updates on Claims Paid and Claims Under Examination to the UKEF Executive Committee, UKGI, the UKEF Board and HMT. The C&R unit also continues to submit regular in-depth reports to ERiCC on all accounts it is responsible for. Once a claim has been paid, C&R makes provisioning recommendations in line with the Provisioning Methodology and the C&R Policy. A full provisioning exercise is conducted at the end of each financial year and updated at mid-year. The year-end exercise is discussed in detail at Enterprise and Risk Committee, at which UKEF's external auditors are present, giving them an opportunity to ask questions and informing their final, formal audit opinion.



Members of ERiCC meet virtually to discuss the results of the Portfolio reverse stress testing

G20 / Paris Club Debt Service Suspension Initiative (DSSI)

The Paris Club is an informal group of official creditors that seeks to establish coordinated and sustainable solutions to debt service difficulties experienced by borrowing countries. In response to the Covid-19 crisis, the G20 and the Paris Club agreed a temporary NPV-neutral suspension of principal and interest repayments from eligible and requesting low-income developing countries under the Debt Service Suspension Initiative (DSSI). Eligible countries include all International Development Association (IDA) countries and all "least developed countries" (as defined by the United Nations) that are current on debt service to the IMF and the World Bank. This brings 72 active IDA borrowing countries plus Angola in scope of the initiative.

The DSSI captures principal and interest repayments due to UKEF from eligible sovereign borrowers on loans disbursed before 24 March 2020. This encompasses both previously restructured debt, direct sovereign lending, and repayments resulting from claims under UKEF sovereign guarantee arrangements. In April 2021, the G20 finance ministers announced an extension of the DSSI to 31 December 2021, where they stressed that this will be the final extension of the initiative.

UKEF has been working closely with HMT, the FCDO, and partners at the Paris Club and G20 to implement the terms of the DSSI for requesting sovereigns. UKEF has received and agreed to implement requests from 8 countries with eligible exposure to UKEF. As a member of the Paris Club, the UK does not report on the details of Paris Club operations unilaterally.[7] DSSI terms are net present value (NPV) neutral; suspensions agreed under the initiative do not result in any net losses for UKEF over the suspension period. We do not expect claims on UKEF guarantees to arise as a result of countries entering DSSI agreements with the G20 / Paris Club. However, future developments (outside of the DSSI) at the Paris Club could have the potential to give rise to claims.

Sovereign defaults that lead to debt renegotiations through the Paris Club are managed by teams within the CFOO and RMG divisions that specialise in rescheduling, working in conjunction with HMT that leads HMG's sovereign debt function. Paris Club developments are monitored by the Enterprise Risk and Credit Committee, which must approve any provisions made against this exposure.

The process of recovery following Paris Club rescheduling is often protracted; a number of rescheduled transactions relate to exposure principally incurred prior to 1991.[8]

Pricing policies

On the principle of maintaining a 'level playing field', the OECD Arrangement, a framework for the orderly use of officially supported export credits,[9] requires ECAs to charge risk-based premiums that are sufficient to cover their long-term operating costs and credit losses. This mirrors the provisions of the WTO Agreement on Subsidies and

Countervailing Measures, which classifies export credit guarantee programmes that do not cover their long-term operating costs and losses as 'prohibited subsidies'.

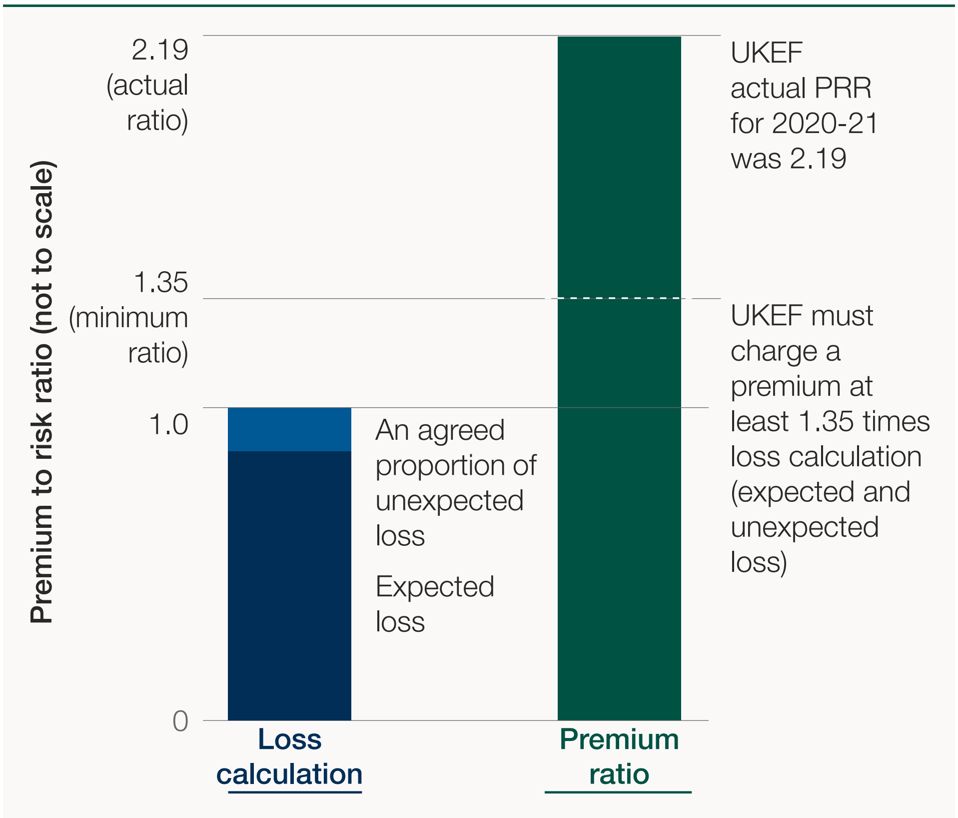
Financial objectives

Consistent with these principles, HMT has set UKEF 2 financial objectives designed to ensure, as far as practicable, that the premium rates we charge reflect the risk taken on and are sufficient for us to operate at no net cost to the taxpayer over time. These do not apply to our new TCRF portfolio, as explained on page 81, or Account 3 (business issued under Ministerial Direction – see page 92 for further explanation).

Premium-to-risk ratio (PRR)

Firstly, the premium-to-risk ratio states that, each month, we must demonstrate that the premium charged on the business issued, or forecast to be issued in the financial year, will be at least 1.35 times greater than an agreed level of expected and unexpected loss corresponding to those transactions as measured at the time of pricing.

The ratio at 31 March 2021 was 2.19 against the 1.35 ratio minimum.

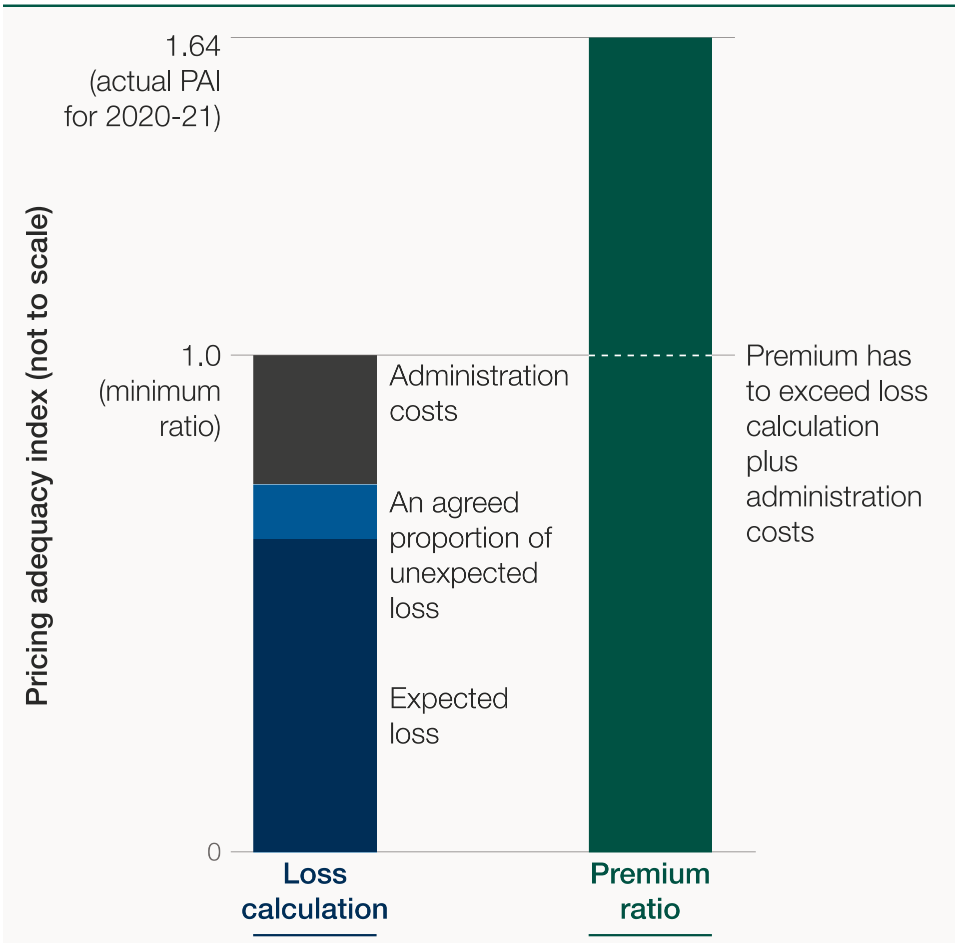


Pricing adequacy index (PAI)

The second objective set out by HMT is the pricing adequacy index. Whereas the premium-to-risk ratio serves purely as an annual measure, the pricing adequacy index considers a 5-year time scale, applied across 3 accounting periods:

- the 2 previous and the present financial years
- the previous, present and next financial years
- the present and the next 2 financial years

For each period, UKEF must demonstrate that the actual and forecast premium will cover and exceed the 'cost of doing business', meaning administration costs and an agreed level of possible losses. The ratio for the past 2 years and the present financial year was 1.64 against the minimum of 1.0. In addition to this, for the previous, present and next financial years; and, the present and next 2 financial years, the ratio fell no lower than 1.54 and 1.51 respectively.



Forecasting approach

Business and premium forecasts are based on the judgements of our underwriters who draw on available transaction pipeline information, market intelligence and the estimated likelihood of transactions materialising within the current or future financial years. In addition, we perform regular sensitivity analysis to supplement these 'central' forecasts and to test the robustness of forecast financial performance against the agreed premium-to-risk ratio and pricing adequacy index targets.

Pricing methodology

We set risk-based premium rates for all of our products using pricing methodologies and parameters that are reviewed annually by ERiCC, endorsed by the Board's Risk Committee and agreed by HMT.

UKEF aims to support UK exporter competitiveness. It is, therefore, our policy that we set the lowest tenable premium rates, subject to the following:

- premium rates may not undercut the minimum rates set out by the OECD (where applicable) and must comply with our international obligations, including subsidy rules
- no individual premium can be below the expected loss of the associated transaction
- aggregate premiums must satisfy the premium-to-risk ratio and pricing adequacy index objectives

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

Portfolio modelling

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

Modelling assumptions

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

In 2020-21 we reviewed our Expected Loss and Unexpected Loss assumptions. These are key portfolio risk modelling outputs, used to estimate UKEF's losses over a 30-year horizon in the average (Expected Loss) and extreme (Unexpected Loss) cases. The combination of Expected Loss, Unexpected Loss and claims provisions is measured against our £5 billion risk appetite limit.

We recommended a change in methodology to include the calculation of full Expected Loss for cases where a non-binding commitment has been given, and for cases where a guarantee has been issued but is not yet effective (previously it was set to zero for these cases, although our review showed that a significant proportion end up progressing to issue, at which point they are included in Expected Loss). This recommendation, approved by ERiCC and implemented in December 2020, means a more accurate measure of potential risk in UKEF's portfolio. Our analysis also confirmed that the use of the 99.1th percentile for Unexpected Loss determination is consistent with industry best practice.

Stress testing and scenario analysis

UKEF's policy is to undertake extensive stress testing of its credit portfolio. Stress testing assesses the impact of various adverse scenarios and is conducted every 6 months. These scenarios are designed to reflect potential emerging risks and may vary in each exercise but include, for example, a general emerging markets crisis or an extended period of very low oil prices. They generally involve simulating:

- rating downgrades
- increases in loss given default
- a series of large individual defaults
- an accelerated environmental and climate change regulatory regime
- a combination of downside scenarios, including the impact of the Covid-19 pandemic

ERiCC reviews the results of the analysis and particularly considers the impact of each stress/scenario on the value of the 99.1% point of the portfolio loss distribution, relative to the risk appetite of £5 billion.

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

Risk concentration and correlation

Given UKEF's role, it is almost inevitable that our credit portfolio will have risk concentrations. Consequently, portfolio modelling (particularly the impact on unexpected loss) plays an important role in helping to determine the maximum amount of credit exposure UKEF might assume on a single obligor or group of related obligors.

For any given case, our modelling will seek to account for the likely correlations between risks in the portfolio. ERiCC will only consider approving a case or making a positive recommendation to the CEO if it is satisfied that a given level of credit exposure calculated using this modelling will not threaten any of the department's financial objectives.

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

- individual exposures within a country must not in aggregate exceed the country limit, as established under our exposure management framework
- UKEF may not give a single commitment in excess of £200 million without the agreement of HMT
- periodic reviews of single obligor, sector and regional/geographic concentration risks are undertaken

Work is constantly undertaken to refine risk appetite measures in respect of individual counterparties, sectors and geographies.

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

Active portfolio management

UKEF's risk management strategy aims to reduce concentrations of risk in its portfolio to decrease the likelihood of idiosyncratic losses, and/or free up headroom in country limits to support more UK exporters. Under the active portfolio management (APM) program, UKEF can buy facultative reinsurance from the private market, subject to cost-benefit analysis and positive value for money. During 2020-21, UKEF did not place any new transactions in the private reinsurance market. APM was mainly focused on managing the current reinsured transactions and agreed a number of restructurings and amendments to existing insurance contracts.

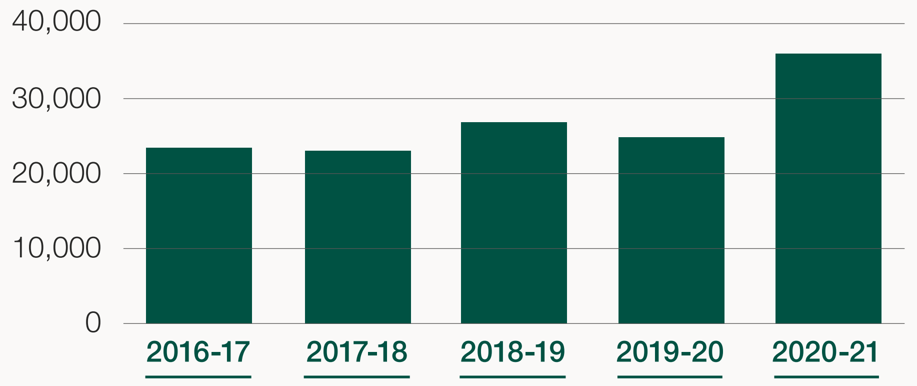
Credit risk performance 2020-21

The last 12 months have been dominated by Covid-19, its economic impact and its longer-term implications for the underlying credit quality of UKEF's principal counterparties. Our total exposure[10] in accounts 1, 2, 5 and 6 (all reference to exposure hereafter concerns these 4 accounts and excludes Account 3; and Account 6 is where we book TCRF business) increased substantially, from £24.9 billion to £36.7 billion over the course of the last twelve months, largely as a result of a number of significant and high profile transactions, notably a $1 billion financing relating to an LNG project in Mozambique, Covid-19 related support for Rolls-Royce, British Airways and easyJet and the provision of large EDGs to both Ford and Nissan.

The most significant consequence of these new transactions, often with lower rated counterparties in some of our more credit-challenged markets, was an overall reduction in the weighted average portfolio credit rating from BB– a year earlier to B+. The portfolio remains within all of its major framework limits, including its maximum commitment limit of £50 billion, risk appetite limit of £5 billion, individual counterparty limits and industry sector and geographic concentration limits. We were, once again, also fully compliant with all of our financial objectives relevant to the credit portfolio – a full summary of our performance is reported on page 36.

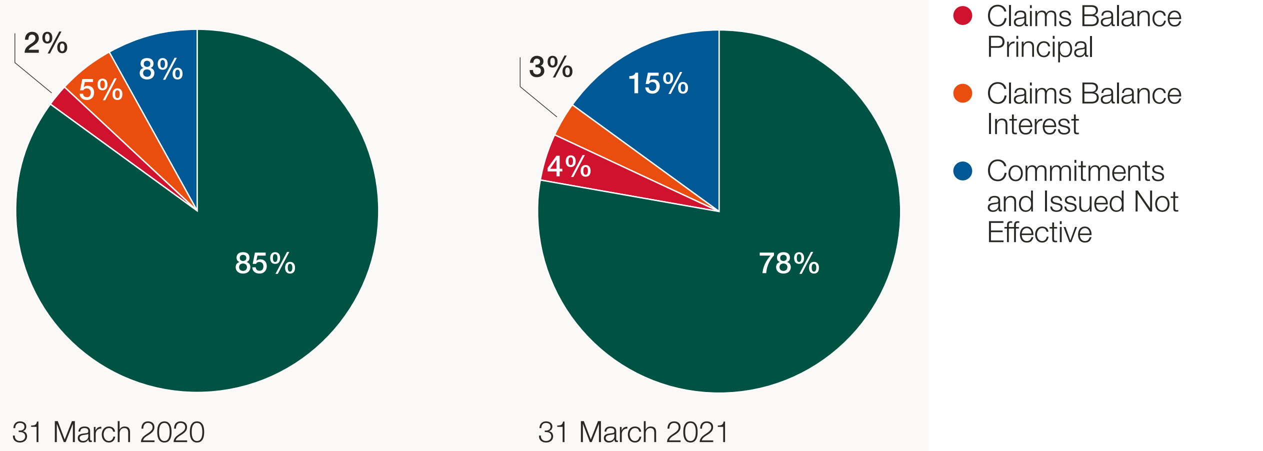
Our bi-annual stress testing and scenario analysis modelling, together with our annual reverse stress testing exercise, collectively underlines the ongoing resilience of the portfolio in all but the most extreme of events – including a prolonged global pandemic. Our active portfolio management initiatives, which are an important tool in managing portfolio risk concentrations and pressure on limits, remain a key objective of the department.

Credit risk exposure



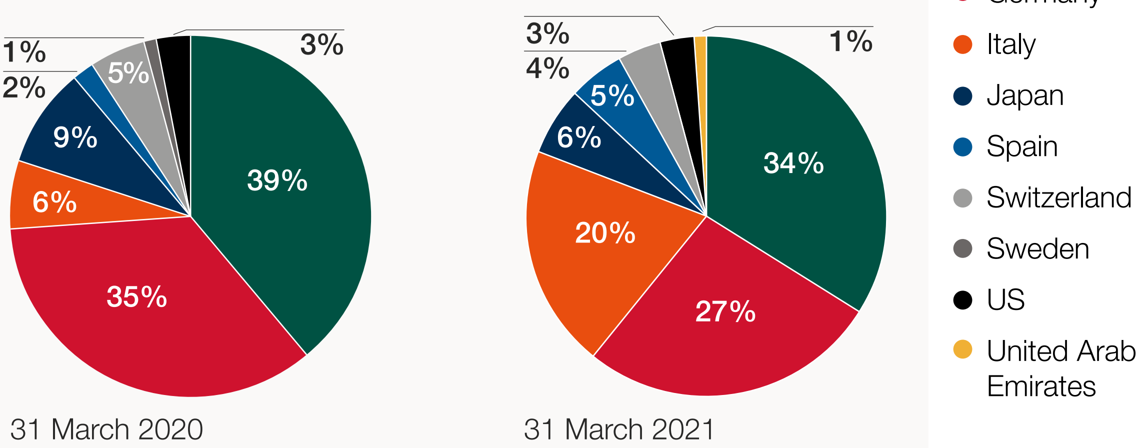
The charts below show breaks down of our credit risk exposure between amount at risk (AAR), claims (principal and interest) and commitments.[11]

Breakdown of total exposure



At 31 March 2021, total AAR amounted to £28.4 billion (£21.1 billion at 31 March 2020) – making up 78% of our credit risk exposure. This figure includes £3.9 billion of counter-guarantees provided to UKEF by other ECAs (£2.9 billion in 2020), principally related to Airbus business, and £0.8 billion of private reinsurance used to manage risk concentrations in our portfolio (£1.1 billion in 2020).

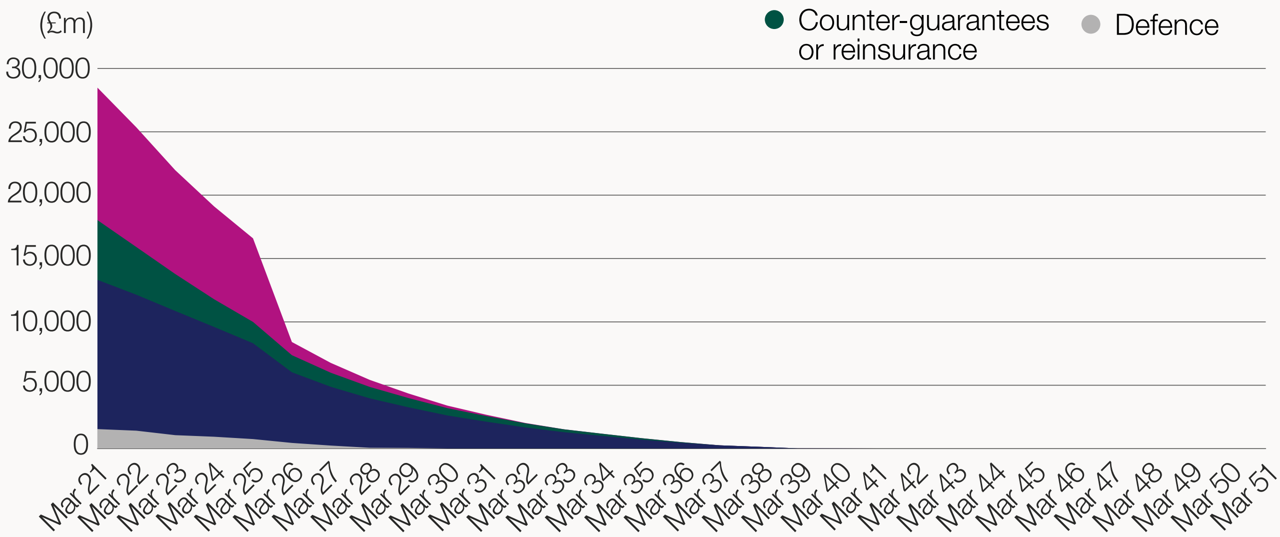
Breakdown of export credit agency counter-guarantees by exposure



Horizon of risk

The vast majority of our credit exposure is made up of medium to long-term finance. The chart below illustrates how our current portfolio is expected to run off over time in terms of overall AAR. Over the next 12 months, around 11% will run off, with around 42% of the current portfolio expiring within 4 years.

Amount at risk run-off



Risk concentrations

Context

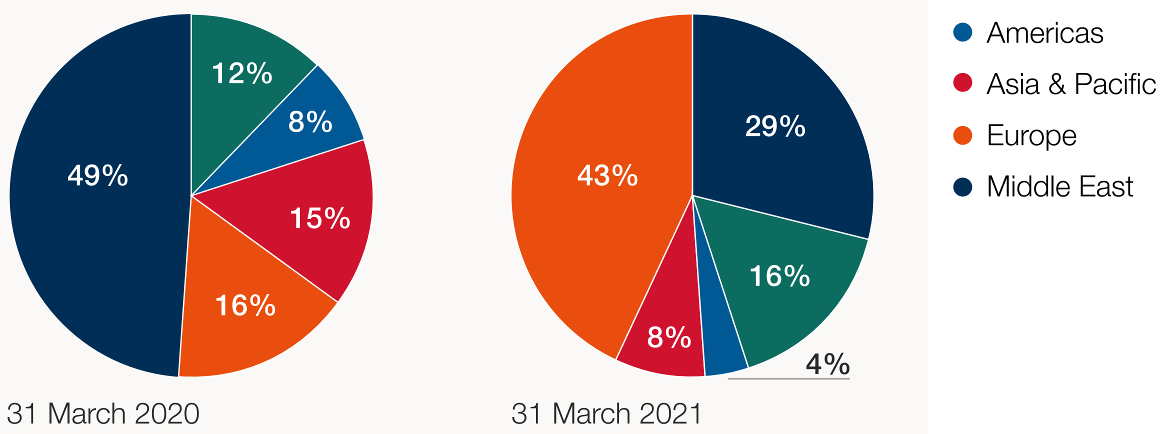
Our credit portfolio is dominated by long-dated emerging market risk, consistent with our role as the UK's ECA. We are limited in our control over the geographic or sectoral composition of our portfolio, as we assume credit exposure in line with the needs of UK exporters and export destinations rather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

Below we review the UKEF portfolio by geography, by sector, focussing in particular on the aerospace sector and finally, in the context of the overall credit quality.

Geography

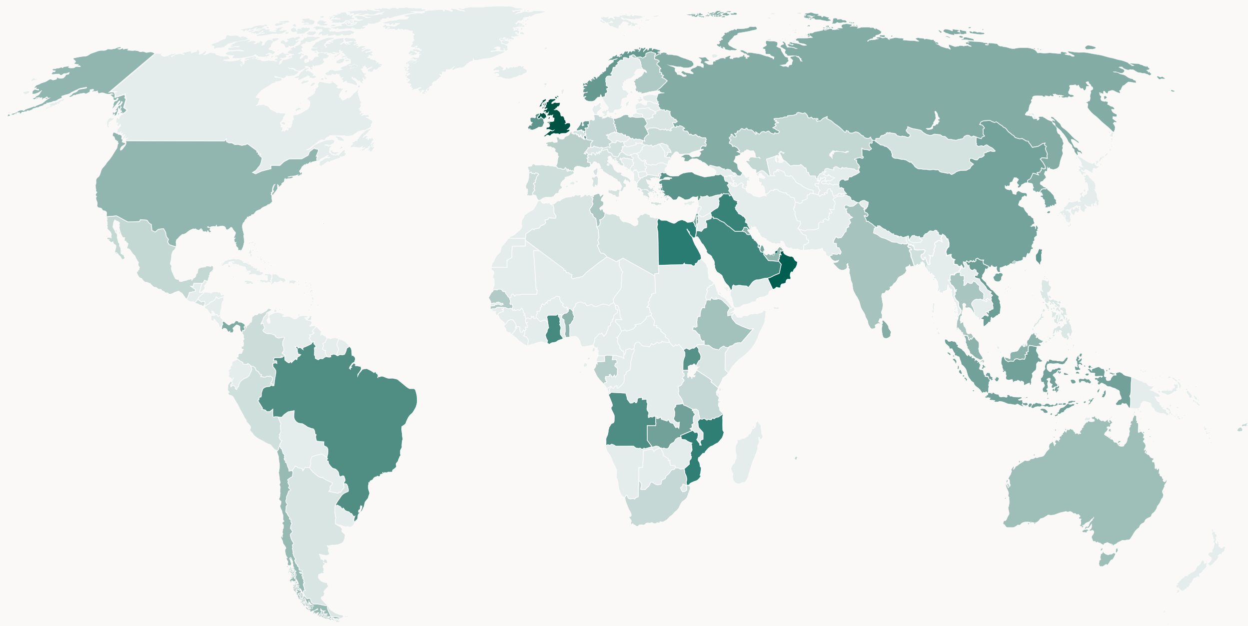
The Middle East continues to account for the largest share of UKEF's portfolio (not including our recent, largely UK related EDG exposures) and 29% of our net AAR portfolio as of 31 March 2021. The majority of this resulted from support of UK exports to Oman, Dubai, Iraq and Saudi Arabia. Exposure to Africa represents £2.1 billion (16%), slightly up from last year. We continue to monitor debt levels across the continent very closely given the significant increase in external debt burdens as a result of Covid-19.

Regional breakdown of net AAR – whole portfolio



Global AAR at 31 March 2021

Darker shading indicates higher AAR

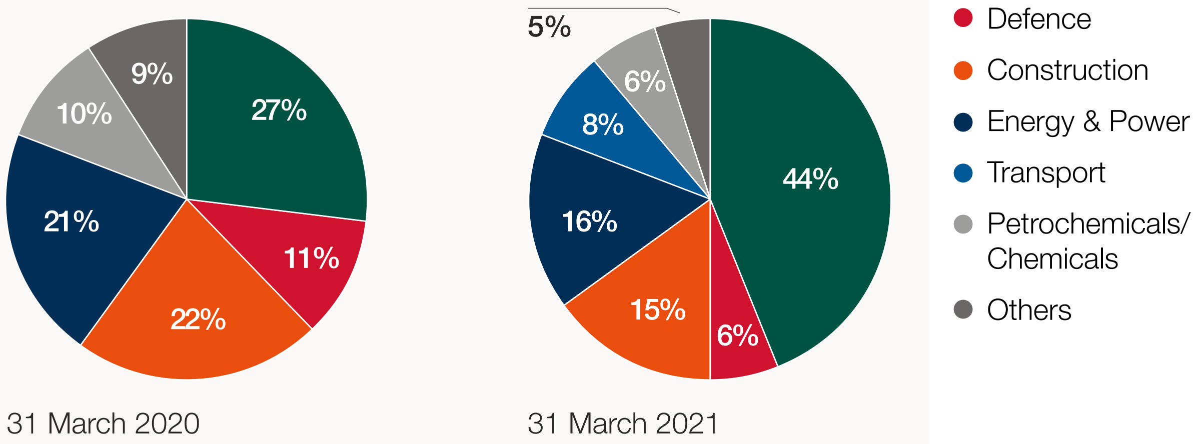


Our sovereign portfolio has experienced similar negative credit rating pressure with downgrades across a number of our key markets including Oman, Zambia, Ghana and Angola. Indeed, the weighted average credit rating of our sovereign portfolio has moved from B flat to B minus over the year. Given that sovereign rating changes tend to experience a lagging effect, we fully anticipate further sovereign rating downgrades over the next 12-18 months. Our key concerns going forward revolves around the speed of roll out and take up of the vaccines, especially in some emerging and developing markets where supply issues remain cause for concern and crucially, refinancing risks, particularly with regard to the significant build-up of debt, where both absolute levels of debt and the related servicing costs are now becoming a cause for concern.

Sectors

Negative credit pressures are prevalent across a number of key UKEF sectors – notably energy and power in the context of low, albeit recently improved, oil prices – and the automotive sector, which is increasingly important to UKEF, in the context of global consumers deferring large capital spend items. However, exposure to these sectors is somewhat less significant than the aerospace sector representing (44%), with energy and power (16%) and transportation, largely automotive related, (8%). Across the entire portfolio, we note that during the financial year, rating downgrades have occurred on corporate exposures totalling c£5 billion of UKEF exposure, although the global rating agencies noted a modest slowing of downgrades over the last quarter.

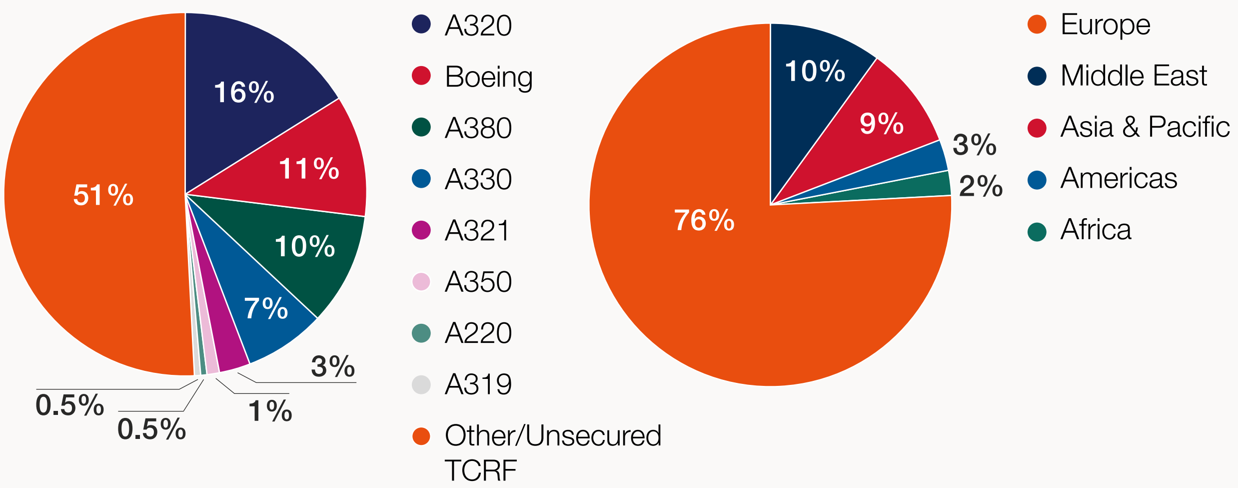
Sector breakdown of net AAR



The transportation sector and, in particular, airlines have seen historically unprecedented falls in global demand over the last 12 months. UKEF redoubled its efforts to support both this important sector and its supply chain, increasing its exposure substantially from £7.0 billion to £13.0 billion, representing an increase of 85% on last year's levels. Regional risk concentrations for airlines have remained broadly similar over the last 12 months though Europe, largely as a result of a small number of large exposures in the UK, continues to be UKEF's largest geographic concentration.

The majority of our aerospace portfolio is secured on the underlying aircraft and although a significant proportion are wide-bodied (e.g. A380s) – the prices of which have proved most vulnerable to the impact of Covid-19, given their use for harder-hit long-haul, international travel – UKEF's recent focus has been orientated towards the smaller narrow-body segment which offers airlines greater flexibility. This means that UKEF can direct the repossession of the aircraft from defaulting airlines. The repossession is often negotiated and by way of analogy UKEF directed the repossession of 44 aircraft immediately following the events of 9/11 and the number is likely to be similar on this crisis. Following repossession UKEF will direct the leasing and/or sale of the aircraft to recoup the claims paid ensuring no net loss to the taxpayer over the long term.

Aerospace exposure by aircraft type and geography as at 31 March 2021



Not surprisingly, the sector has experienced substantial negative credit rating migration with significant rating downgrades on 17 of 44 airlines. We anticipate further downward rating pressure on the sector during the next 12 months as already strained balance sheets are inevitably forced to take on more debt until passenger demand begins to return to pre-Covid levels. We have, however, taken comfort from a number of sizeable capital injections into the industry from shareholders and national governments alike, mitigating somewhat the increase in debt.

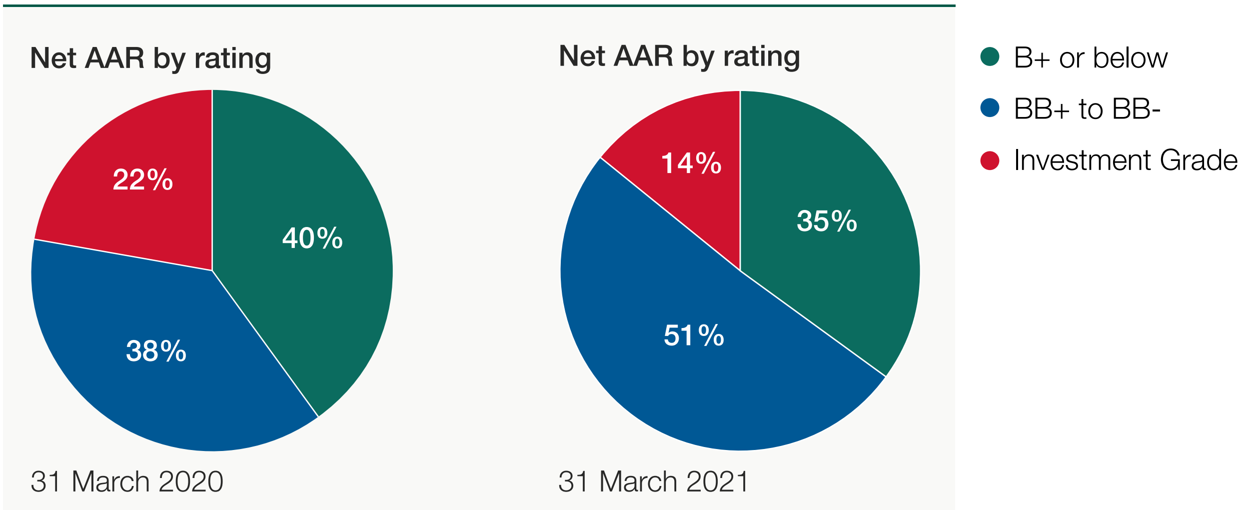
The outlook nonetheless remains highly challenging for this sector, particularly in terms of liquidity profiles and debt sustainability – with recovery to pre-Covid levels dependent upon a combination of the pace, breadth and global uptake of the new vaccines, the rapid control of potential new virus variants and of course, the return of consumer confidence.

In conclusion, while credit conditions for borrowers remain largely favourable against a backdrop of continuing central bank liquidity and tight spreads, delays to, and an uneven roll out of, vaccines together with continuing pressure on solvency ratios remain significant. Despite S&P reporting that in recent weeks the number of upgrades has outpaced the number of downgrades for the first time since December 2018, the number of speculative grade credits remains at a near all-time high with 40% of speculative grade credits in the US and nearly one third in Europe rated B– and below. With defaults likely to remain elevated at between 5-6% globally, the 2021-22 outlook for global corporates remains challenging.

Credit quality

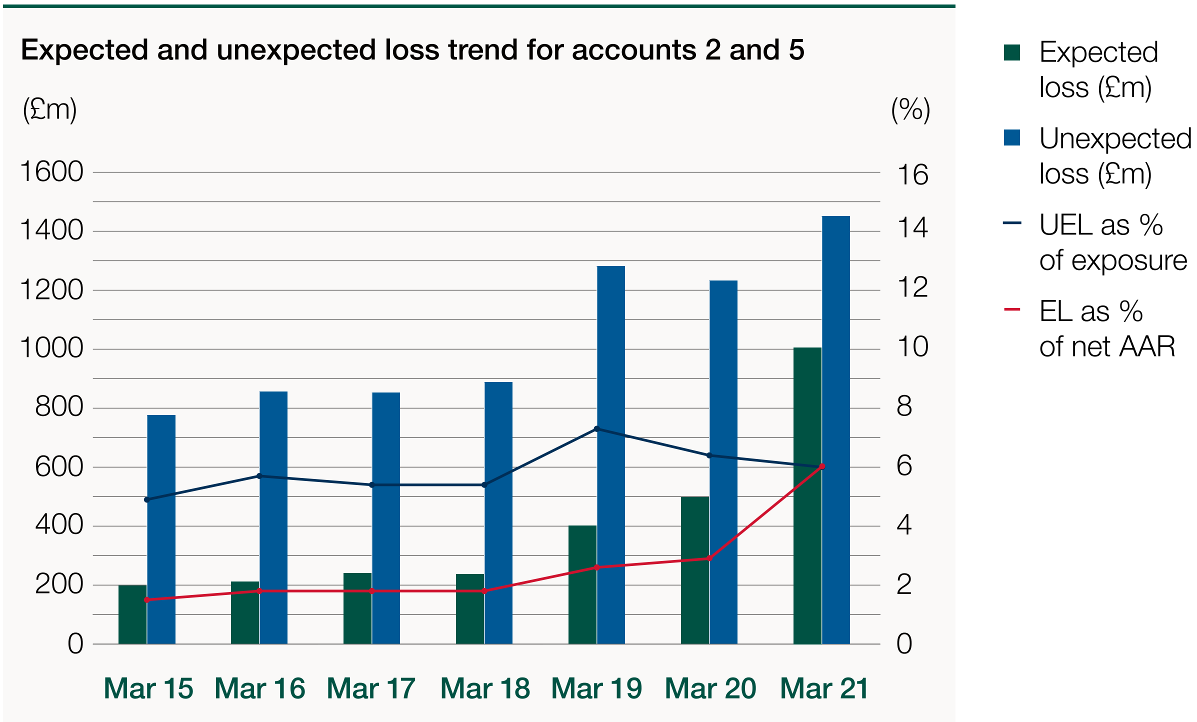
The most notable change regarding the credit risk quality of our portfolio in 2020-21, concerns the increase in exposure to the BB+ to BB– segment. As at 31 March 2021, 51% of AAR (net of reinsurance) was rated in the BB+ to BB– segment by UKEF (compared to 38% in 2020).

This increase was in part due to new business issued in the year and in part due to rating downgrades on existing transactions.



Portfolio expected loss (across accounts 2 and 5) increased, from £499 million to £1,005 million, representing 6.0% of AAR (net of reinsurance). This movement is, in part, a reflection of the migration of credit risk quality of UKEF's portfolio.

Portfolio unexpected loss increased slightly to £1.4 billion as of 31 March 2021, from £1.2 billion in 2020, representing 6.1% of total exposure (7.3% in 2019).



Risk appetite limit

The projected portfolio loss to the 99.1 percentile (excluding accounts 3 and 6, as explained on pages 120-122) has increased significantly, from £2 billion to £3 billion, commensurate with the growth in our exposure, reducing quality and changes in our Expected Loss and Unexpected Loss methodology (as described in the modelling assumptions section above). However, this is still comfortably below the financial objective limit of £5 billion set by HMT.

As authorised by HM Treasury, the TCRF is exempt from UKEF's standard portfolio level financial objectives and risk appetite limit.

Portfolio stress testing

UKEF conducts an exercise twice a year to analyse the impact of shocks on its portfolio of exposures. These are split between specific political and economic scenarios – such as a crisis in the Middle East or a collapse in oil prices – and more generic shocks, such as a 3-notch rating downgrade of sovereigns and corporates across the board or the default of major counterparties. We continually monitor the risk environment to ensure that our range of scenarios and stresses are revalidated, updated and expanded as necessary. This was particularly necessary in 2020-21, with the onset of Covid-19 and the unprecedented shock it delivered to our portfolio and the global economy.

At the beginning of the financial year 2020-21, with the Covid-19 pandemic in its early stages, it was very unclear how long and impactful this would be for our portfolio. We developed 2 new scenarios, to test the resilience of our portfolio for new plausible, Covid-driven futures: a more moderate course, with rapid containment and economic recovery; and a more severe, uncertain course, with much slower economic recovery.

As the year progressed, economic data began to arrive and the outlook for treatment and containment became clearer – the pandemic and recovery would be lengthier, and hinge on the success of vaccination efforts. Covid-19 was also increasingly incorporated in our portfolio ratings, through new data and downgrades, and our central outlook – as set out in the 'Risk Appetite Limit' section above. We therefore refocused our stress testing on a prolonged pandemic scenario, with uncertainties about vaccine production and rollout. Under this new scenario, undertaken to the 99.1% point on the loss distribution curve, UKEF, as expected, would breach its Risk Appetite Limit (to £6.8 billion versus its £5 billion limit, and excluding accounts 3 and 6); however, this is the most extreme outcome of a very extreme scenario, and highly unlikely to occur.

New claims paid in the year

Covid-19 has led to the insolvency of 7 airlines to which UKEF has exposure, and as of March 2021, UKEF has paid claims on 6 of those (Avianca, Latam, Thai Airways, Air Asia X, Norwegian Air Shuttle and Comair). In addition, we expect to pay claims in this financial year on the final insolvency of Air Mauritius and potentially Malaysia Airlines under an agreed consensual deferral.

UKEF has paid a total of 231 individual claims, amounting to a net outflow for UKEF of £101.8 million, using Foreign Exchange rates applicable at the time each claim was paid, in this financial year. There were 228 claims in the aerospace sector and 3 in other sectors. The aerospace claims are all secured against aircraft that are the subject of the underlying financings, and this materially enhances the possibility of recovery of any claims paid.

The non-aerospace claims were lower than expected given the extent of the pandemic.

Outstanding claims paid, provisions and impairments

Outstanding claims paid on Account 2 from business issued after 1991 has increased significantly in the year to £415 million at 31 March 2021 (up from £347 million in 2019-20) mainly due to the downturn in the aerospace sector and related claims received on Norwegian Air Shuttle, Avianca, Latam, Thai Airways, Comair and Air Asia X. A number of repayments due from low-income sovereigns were rescheduled on an NPV-neutral basis in line with the G20/Paris Club DSSI. Sovereign exposure in Zimbabwe still makes up a considerable part of this total exposure. Recoveries under historical aerospace claims have now been completed in accordance with agreed rescheduling and final wrap up of the relevant insolvencies.

Total impairment on the Direct Lending portfolio increased to £44.2m in 2020-21 (up from £13.6m in 2019-20).

The overall provision amount for this business more than doubled as at 31 March 2021 to £682 million (up from £297 million in 2019-20). In view of the uncertainty of future recovery prospects under the secured asset-backed airline exposures, a conservative approach was adopted, which it is expected will eventually be bettered by actual recoveries.

In addition, we still hold a number of outstanding claims, subject to recovery, on business issued and defaulting prior to 1991. Almost all of the £1.31 billion (down from £1.41 billion in 2019-20) of outstanding claims paid on this business refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount due to accrued interest).

The overall provision amount for this business decreased slightly on 31 March 2021 to £1.11 billion (down from £1.15 billion in 2019-20).

UKEF has a long experience of managing claims and recoveries across its portfolio. Using experience gained through previous downturns we were able to react quickly. Creating new teams (see Response to Covid-19) quickly and recruit the experienced staff needed to operate in these circumstances.

Where practical and value for money, UKEF will restructure debt to enable the counterparties to continue to trade out of the crisis. Using the experience of our staff, analysis of the current and future situations, we are able to review and respond to restructuring proposals in house. Benchmarking against previous transactions, industry standards and latest market developments for restructuring.

Recoveries

Overall recoveries (on all business, both principal and interest) amounted to £89 million as at 31 March 2021 (£102 million in 2019-20), reducing total recoverable claims (excluding interest on unrecovered claims) to £600 million (£590 million in 2019-20). The majority of recoveries (£76 million) were made through the Paris Club and related to historical sovereign debt reschedulings. Recoveries from a number of corporate names made up the balance.

We expect recoveries from non-sovereign claims paid in 2020-21 to take several years to materialise, as we trade, hold or sell assets according to Value for Money calculations which reflect current and future market conditions.

Head of Export Finance Managers and Business Group Operations David Priestley at the Port of Felixstowe

Aerospace

Of the 115 aircraft within the 7 insolvent airlines to which UKEF has exposure, 9 are currently in the process of being returned to us, and as negotiations continue with the insolvent airlines, we expect that number to increase over the course of the year. As discussed in previous sections these assets are secured in favour of the lenders who are paid claims under guarantees. We will direct the leasing and/or sale of those aircraft to recoup the claims payments made in respect of them.

The timing and quantum of any decision on leasing or sale will be in line with our mission statement (i.e. to aim to make full recoveries, in the long term, over the portfolio as a whole). This requires both a recognition of the likely general market conditions we will be faced with, and a means to achieve that recovery.

The aviation market has a history of periodic sharp downturns, followed by recovery, then many years of upturn, before another periodic downturn. It is clear that the scale of the Covid-induced downturn is unprecedented.

Over the past 30 years, downturns were caused by the first Gulf War, 9/11, SARS, and the 2008 crash. Following 9/11 UKEF strengthened its legal control methods and documentation to put itself in a more favourable position should the airline industry face another major global downturn. We are seeing the benefits of that now and should we have to repossess aircraft, the assets in question are well maintained. We have unparalleled access to manufacturers, airlines, remarketers and industry players built up through years of experience. Importantly and unlike commercial banks we can take a much longer recovery position which enables us to structure recovery plans more advantageously than our commercial counterparts.

While Covid-19 has caused a downturn very significantly worse than all these previous crises and although there are major challenges ahead, managing and mitigating credit risk taken on behalf of the taxpayer is a core function of the department, and we have the capability needed to respond to the situation. We, therefore, remain confident that our recovery efforts will yield material mitigation of ultimate loss, and possibly full recovery of claims paid.

We believe the airline market will take considerable time to fully recover and it will not be an immediate return to pre-pandemic levels. While that will take time, there will be gradual recoveries in that period. This position brings both opportunities and challenges in relation to aircraft in our portfolio that airlines have rejected. We expect there will be a market for most (though not all) of these aircraft and we are uniquely placed to take advantage of those opportunities.

(Non-DSSI) Paris Club Recoveries

During the financial year, UKEF wrote off £43.7 million as a result of Somalia reaching the milestone of Decision Point under the Highly Indebted Poor Countries (HIPC) Initiative. During the year we received recoveries totalling £76 million from countries which continued to make payments under their UK Paris Club debt agreements.

Market risk management

Context

Market risk is the risk of losses caused by movements in market prices. For UKEF, this arises from changes in interest rates and foreign exchange rates.

UKEF's principal exposure to interest rate movements is through its legacy fixed-rate export finance scheme, which was closed to new business in 2011.

Foreign currency risk arises from 2 main areas:

- transaction risk: the risk of changes in the value of foreign currency interest receipts on conversion into sterling
- translation risk: the risk that UKEF's statement of financial position and net operating income will be adversely affected by changes in the sterling value of assets denominated in foreign currency, and by liabilities from changes in foreign currency exchange rates

Interest rate risk

Fixed-rate export finance (FREF) scheme

Until 2011, UKEF operated a fixed-rate export finance scheme, under which it supported medium and long-term fixed-rate lending by commercial banks at internationally agreed 'commercial interest reference rates' (CIRRs) to overseas borrowers.

The lending banks funded the loans at floating rates (LIBOR plus a margin). Through 'interest makeup' arrangements, UKEF made up the difference when the lender's floating rate was more than the applicable CIRR. When the floating rate was less than the applicable CIRR, the lender paid UKEF the difference. This system exposed UKEF to interest rate risk.

Before closing the scheme in 2011, UKEF pursued an active interest rate hedging policy, eliminating, as far as possible, its exposure to interest rate risk through a portfolio of matching interest rate swaps. These interest rate swaps remain in place, reducing in line with the amortising profile of the loans themselves.

HMT no longer applies a quantitative financial objective addressing this legacy portfolio. Also, given the substantially matched position of the interest make-up arrangements and the interest rate swaps, no new hedging activity has been undertaken since 2011, nor is currently planned for the future.

Internal policies in relation to active hedging have been discontinued. Nevertheless, we monitor the financial position of the scheme and its residual interest rate risk closely.

The portfolio is valued on a daily basis with its profit and loss performance measured against a series of internal limits. Movements in excess of these limits are immediately reported to the CFOO and the ERiCC for appropriate action. No such excess movements occurred in 2019-20.

These arrangements, along with several other reporting provisions relating to the scheme, are approved annually by the ERiCC. Periodic sensitivity analysis is carried out on the portfolio to gauge the financial impact of interest rate movements on UKEF.

Due to portfolio run-off, the amounts involved in the FREF scheme are immaterial.

Direct lending

In 2014, UKEF introduced a Direct Lending Facility. This provides loans to buyers of UK goods and services at the Commercial Interest Reference Rate (CIRR). UKEF is not charged interest by HMT on the funding provided to it for making these fixed-rate direct loans. Consequently, movements in interest rates during the life of the loans do not affect the financial performance of our direct lending activities.

To ensure that interest earned on each CIRR-based direct loan adequately covers the government’s borrowing costs, a check is made prior to commitment that confirms that the sterling CIRR applicable to the direct loan is higher than the corresponding National Loans Fund rate. If this is not the case, then interest on the direct loan will be charged at the higher rate. A similar arrangement, involving an interest rate check based on cross-currency swap methodologies, applies where direct loans are denominated in eligible foreign currencies.

Foreign currency risk

Translation risk

A material proportion of our guarantees and insurance policies are written in foreign currencies (usually US dollars). This exposes us to foreign currency risk, and associated volatility, in our financial results. The most significant year-on-year fluctuations in financial performance (evidenced by net foreign exchange gains/losses in the statement of Comprehensive Net Income) stem from the currency movements applicable to our non-sterling insurance assets (recoverable claims).

HMT does not permit UKEF to hedge its foreign currency exposures, so no active hedging is undertaken. This is based on a number of HMT considerations such as:

- our foreign currency assets and liabilities generally have long tenors such that the transaction risks can extend long into the future, and the timing and size of the amounts needing to be converted are uncertain, which could well make for expensive hedging arrangements
- our balance sheet provides some natural hedging of translation risk, and foreign exchange hedging is not straightforward and would require some specialist skills to operate it, adding to our operating costs
- UKEF's FX exposures potentially being offset elsewhere in government, allowing HMT to hedge centrally its overall net exposures more efficiently

Currency movements also have an impact on the sterling value of our contingent liabilities (principally guarantees and insurance policies). These movements can cause significant fluctuations in the sterling value of the department's AAR and, consequently, overall credit risk exposure.

Direct lending

Direct lending in currencies other than sterling is likely to increase foreign currency risk for UKEF. The lack of permission for UKEF to undertake foreign currency hedging applies equally to the department's direct lending activities. Accordingly, changes in the sterling value of direct loans as a result of foreign exchange rate movements will be reflected in the financial performance of our direct lending business.

Liquidity risk management

Liquidity risk is the risk that a business, though solvent, either does not have the financial resources to meet its obligations as they fall due, or can only secure those resources at excessive cost. As a government department, UKEF can draw on the Exchequer to meet its financial obligations as they fall due if required.

The nature of some of UKEF's products means that significant payments could be required within a few days in the event of a default by an insured or guaranteed party. Arrangements to cover this eventuality have been pre-agreed with HMT. Regarding UKEF's direct lending activities, the requisite funding is provided by HMT.

Our exposure to foreign exchange movements has the potential to impact our ability to remain within the resources allocated to us by Parliament. Our voted control totals include headroom to mitigate this risk. However, between the last opportunity to adjust voted control totals in January and 31 March, there is a small risk that exchange rates could move and reduce our net income by more than the headroom agreed with HMT and voted for by Parliament. This would result in a breach of expenditure limits and require a vote to approve the excess.

Notes

1 A description of our approach to operational risk is discussed in the Governance Statement on pages 153-173. Environmental, social and human rights risks are discussed in the head of Environment and Social Risk's report on pages 127-136.

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

3 The only time when UKEF's internal risk policies might not apply would be if ministers (having regard to the national interest) gave a written direction to the Accounting Officer requiring a specific credit risk to be underwritten. In these circumstances, the credit risk in question would be handled differently, and accounted for under Account 3.

4 The OECD Arrangement, sometimes referred to as 'the Consensus', limits self-defeating competition on export credits among members of the OECD. OECD members undertake to operate within these guidelines when providing official support for export credits of 2 years or more.

5 Expected loss applies both at an individual transaction level and at a portfolio level. At a portfolio level, it is simply the sum of the expected losses of all risks in the portfolio and equates to the mean of the portfolio loss distribution.

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

7 More details on the DSSI and its implementation across the Paris Club can be found here: clubdeparis.org/en/resultats-de-recherche?search_api_multi_fulltext=dssi.

8 This was the year in which the Insurance Services Group was privatised.

9 See the glossary of terms and abbreviations.

10 See the Glossary of terms and abbreviation for a full description of the term exposure.

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

Statutory limits

The Export and Investment Guarantees Act 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table below shows the statutory limits at 31 March 2021 and 31 March 2020 and the outstanding commitments against them.

	At 31 Mar 2021				At 31 Mar 2020			
	Sterling £m	Foreign Currency SDRm	Sterling Equivalent in SDRs SDRm	SDR Total £m	Sterling £m	Foreign Currency SDRm	Sterling Equivalent in SDRs SDRm	SDR Total £m
Section 6(1) amounts								
Statutory Limit		67,700	0	67,700		67,700	0	67,700
Total Commitments	8,218	29,257	7,981	37,238	2,281	23,050	2,066	25,116
Section 6(3) amounts								
Statutory Limit		26,200	0	26,200		26,200	0	26,200
Total Commitments	0	0	0	0	0	0	0	0
Section 6(1) amounts								
Assets	–	0	0	0	0	1	0	1
Section 6(3) amounts								
Assets	2	–	2	2	5	–	4	4

Chief Finance & Operating Officer's report

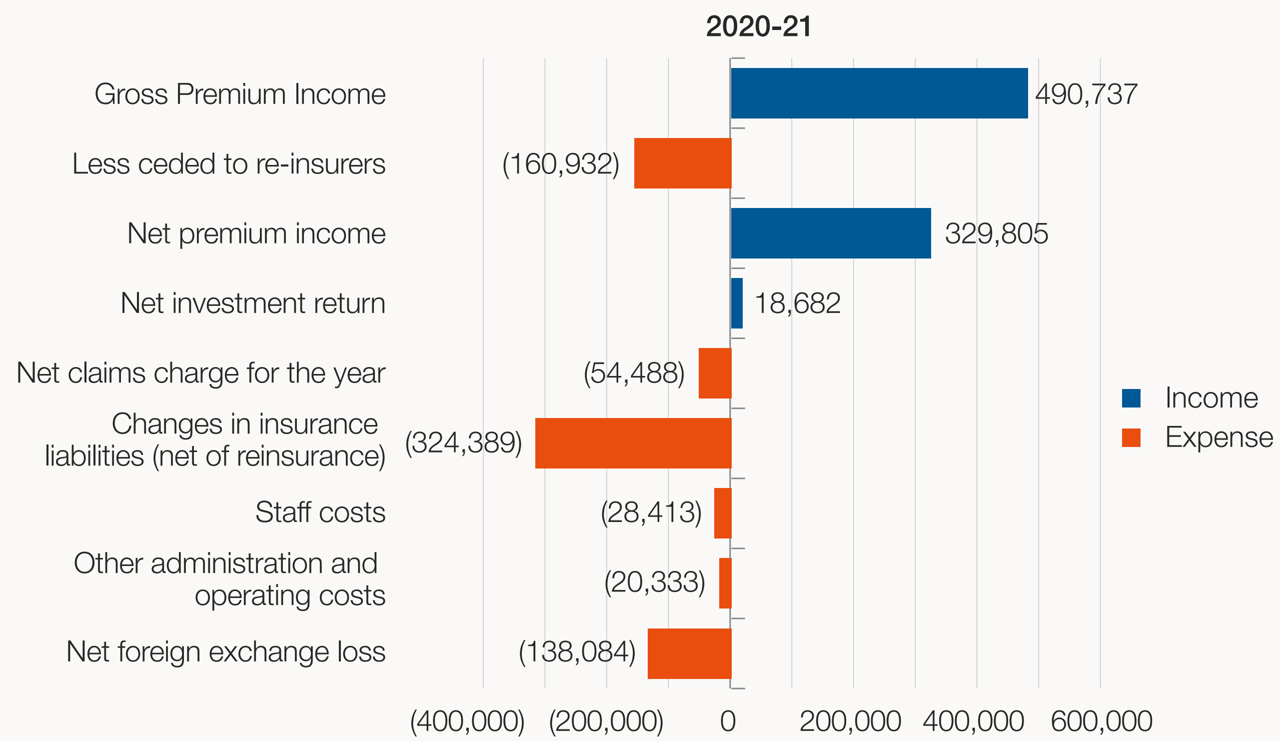
This report summarises and highlights the department's financial performance for the year ended 31 March 2021. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Chief Risk Officer's Report. The detailed financial performance commentary (see below) for the year has been divided into operating segments (lines of business) and there is also a summary of UKEF's overall performance against resources voted by Parliament.

Cameron Fox
Chief Finance and Operating Officer

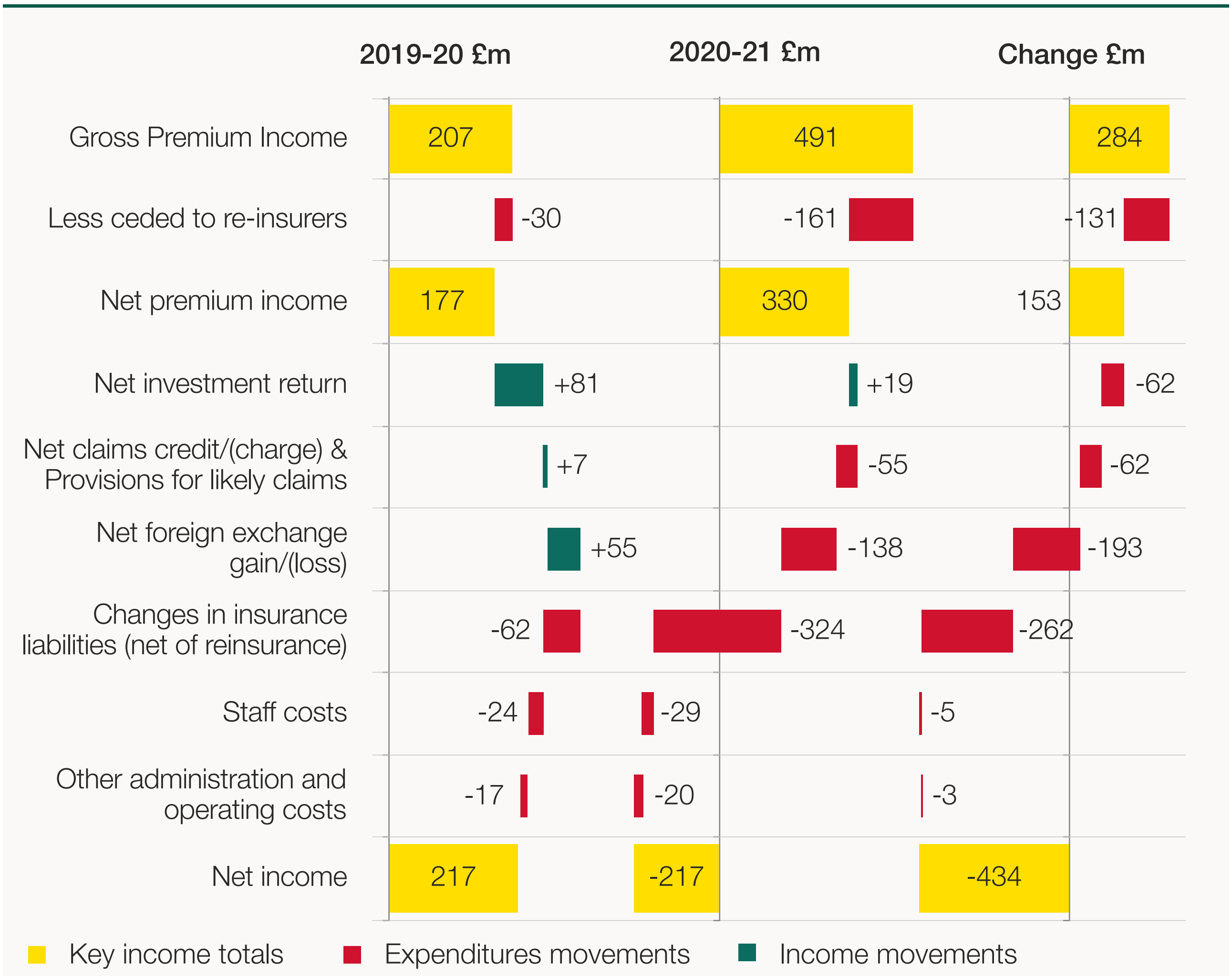
Financial Results Overview[1]

UKEF is reporting a net operating loss of £217 million for the year ended 31 March 2021 compared with a net operating gain of £217 million for the year ended 31 March 2020. On an FX-adjusted basis the net operating loss for 2020-21 was £79 million compared with a net operating gain of £162 million for the year to 31 March 2020. The change in financial performance was primarily a result of the impact of Covid-19 on UKEF's existing portfolio. This has required additional reserving ('top ups' on the Underwriting funds) related to business where UKEF has issued a medium / long term financial guarantee (largely related to the airline sector) but also increasing loan impairment on the direct lending portfolio, which were non-airline related.

Summary of P&L		£'000
	2020-21	2019-20
Income		
Gross Premium Income	490,737	207,169
Less ceded to re-insurers	(160,932)	(29,748)
Net Premium Income	**329,805**	**177,421**
Net Investment Return	18,682	80,759
Net claims credit & provisions for likely claims	–	7,274
Net foreign exchange gain	–	54,796
Total Income	**348,487**	**320,250**
Expenses		
Net claims charge for the year	(54,488)	0
Changes in insurance liabilities (net of reinsurance)	(324,389)	(62,107)
Staff costs	(28,413)	(24,461)
Other administration and operating costs	(20,333)	(16,849)
Net foreign exchange loss	(138,084)	0
Total Expenses	**(565,707)**	**(103,417)**
Net Income / (loss)	**(217,220)**	**216,833**
Net Income / (loss) (FX adjusted)	***(79,136)***	***162,037***



The graphic above shows the movements by category of the Statement of Comprehensive Net Income (SOCNI) for the current financial year. Orange denotes expenditure and blue income.



The graphic above compares SOCNI movements by category between the current financial year and the previous financial year with yellow denoting key sub totals, green income items and red expenditure items. The 'change' graphic compares the current and previous financial year with detailed commentary on the changes outlined below.

Items of note include:

Insurance and Underwriting Activity (Premium Income)

Net premium income revenue earned totaled £330 million, compared with £177 million in 2019-20; however, there were fluctuations in premium within the sector groups.

Net insurance premiums written for medium – long term business totalled £328 million, an increase of £154 million from 2019-20 mainly due to increased activity in both the Civil and Aerospace sectors.

For the breakdown of insurance premiums, refer to Note 3 in Financial statements. Also see Note 1 for details of the relevant accounting policies.

Foreign exchange

As a significant proportion of UKEF's guarantees, insurance policies and loans are written in foreign currencies (mainly the US dollar), UKEF is exposed to foreign currency risk and associated volatility in terms of the financial results (UKEF is not authorised by HM Treasury (HMT) to hedge exchange rate exposures – see the Chief Risk Officer's Report on pages 71-111). During the year, sterling appreciated by approximately 11% against the US dollar.

See Note 6 and Note 20 of the financial statements which includes details of the currency profile of our insurance assets, financial instruments and capital loan commitments.

Net Investment Return

Net Investment return mainly comprises interest income receivable for the year, impairments & provisions on loans and receivables and changes in unrealised gains and losses on financial assets classified as 'fair value through profit or loss'. For the year ending 31 March 2021 it was £4 million for Export Credit Guarantees and Insurance activities compared with £42 million in 2019-20. The reason for the change was largely due to increases in provisions in the current year. Whereas for the year ending 31 March 2021 for Export Finance activities it was £15 million compared with £39 million in 2019-20. The reason for the change was largely due to an increase in loan impairment on assets held at amortised cost (direct lending loans).

For the breakdown of Net Investment Return, refer to Note 3(b) in Financial statements. Also see Note 1 for details of the relevant Accounting policy.

Net Claims Credit (& Provisions for likely claims)

Covid-19 has led to a significant increase in claims paid in year, mainly relating to the downturn in the airline sector. Other sectors have so far remained materially unaffected. Net claims paid to March 2021 totalled £107 million whereas for the previous year it was £8 million. Also see the Chief Risk Officer's Report on pages 104-107 for further details of UKEF's claims position.

See Note 1B and Notes 5 and 10 of the financial statements. Note 1B explains the significant uncertainty arising from UKEF's underwriting activities, whilst Note 5 provides a breakdown of net claims credit and Note 10 provides details of recoverable claims and unrecovered interest.

Reserving for insurance liabilities

UKEF applies the fund basis of accounting for its medium and long-term business. At the end of the year the (net) underwriting funds stood at £1,283 million compared with £958 million at the end of 2019-20. The increase in the funds was as a result of new business written in year. Releases from the funds during the year (being business written in 2011 and 2017) was some £52 million in 2020-21 compared with £76 million in

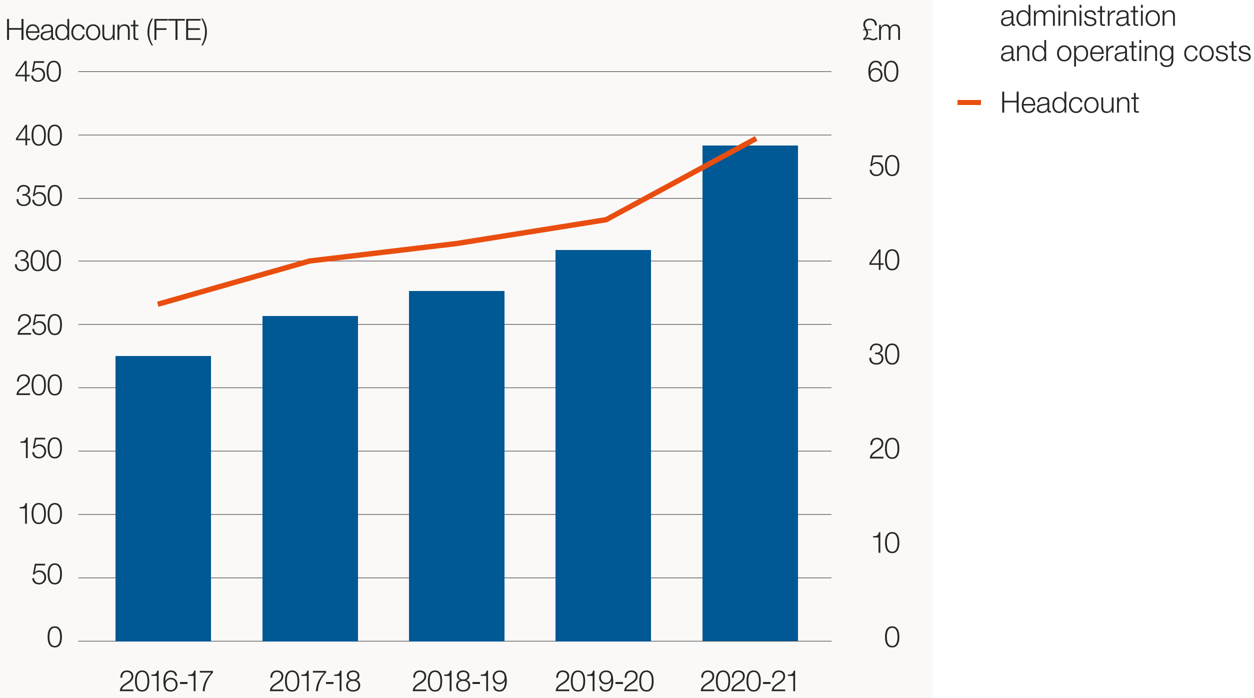
2019-20. This release (which is a surplus of premium written over risk and costs of writing the business) reflects the quality of the underwriting and credit decisions made in 2011 and 2017.

See Note 18 in the Financial statements for the detailed movements in the underwriting funds. Also see Note 1D for details of the relevant Accounting policy explaining the fund basis of accounting.

Operating Costs

These were higher in 2020-21, at £49 million compared with £41 million in 2019-20. This increase was largely due to a planned increase in staff (see our people: staff and remuneration report).

Operating Costs and Headcount



The graphic above shows a 5-year summary of UKEF expenditure on administration costs alongside overall staff numbers. It shows the increased administration and operating costs of the department has been driven by staff headcount to support increased levels of business underwritten by UKEF.

Long-term assets and liabilities

Given the nature of the business that UKEF supports, the department has a significant holding of long-term assets and liabilities.

UKEF's major assets classes are, direct lending loans and recoverable claims (both denominated in a range of currencies, however predominantly US dollars). The direct lending loan book continued to grow and increased from £1,322 million in 2019-20 to £2,306 million this year. Gross recoverable claims increased from £591 million to £600 million due to claims paid as a result of Covid-19 offset by recoveries in year.

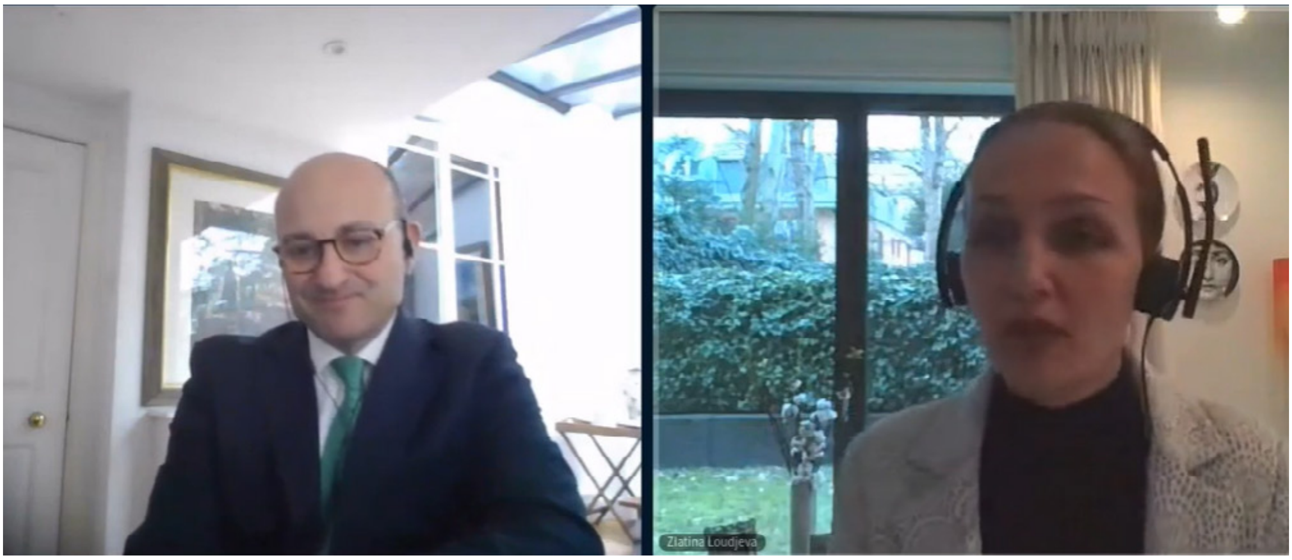
UKEF's most significant liability relates to Insurance reserving and at the end of the year the (net) underwriting funds stood at £1,283 million compared with £958 million at the end of 2019-20. UKEF applies the 'fund basis of accounting' and a full explanation of which can be found in Note 18. Also see the section above relating to Reserving for Insurance liabilities.

Financial Results by Accounts 1 to 6

UKEF currently operates 6 accounts (business segments):

- Account 1 relates to 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 relates to 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 relates to 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 relates to the provision of direct lending (underwritten in the normal course of Business) (since 2014)
- Account 6 relates to all business underwritten and booked under the Temporary Covid Risk Framework (TCRF) – approved by HM Treasury since 2 April 2020

UKEF CEO Louis Taylor speaking at the 2021 UK-Africa Investment Conference



Management Commentary – 5-year Summary

	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m	2016-17 £m
Overall value of guarantees and insurance policies issued and effective:					
New business supported – net of reinsurance – A/c 2	3,818	3,499	3,372	1,865	2,178
New business supported – net of reinsurance – A/c 3	–	–	2,139	–	–
New business supported – net of reinsurance – A/c 6	6,826	n/a	n/a	n/a	n/a
Total new business supported – net of reinsurance	10,644	3,499	5,511	1,865	2,178
Amounts at risk – gross of reinsurance	28,834	21,838	21,538	16,988	18,859
Statement of comprehensive net income:					
Premium income net of reinsurance	330	177	332	103	102
Staff, other administration and operating costs	49	41	37	34	30
Foreign exchange gain / (loss)	(138)	55	46	(65)	57
Net operating income – total	(217)	217	128	5	149
– Account 1	(4)	57	35	9	63
– Account 2	(104)	88	45	22	70
– Account 3	4	(1)	0	0	0
– Account 4	0	0	1	2	4
– Account 5	(114)	73	47	(28)	12
– Account 6	1	n/a	n/a	n/a	n/a
Net operating income – foreign exchange adjusted	(79)	162	82	70	92
Statement of cash flows:					
Claims recoveries – total	70	71	69	76	120
– Account 1	31	38	39	34	47
– Account 2	39	33	30	42	73
Interest recoveries in the year – total	19	31	31	27	31
– Account 1	19	29	30	26	28
– Account 2	0	2	1	1	3
Claims paid – total	107	8	0	2	8
– Account 2	107	8	0	2	8
Net cash flow from operating activities – total	353	321	484	225	272
– Account 1	49	67	69	60	74
– Account 2	168	181	241	114	158
– Account 3	38	(11)	95	–	–
– Account 4	–	–	1	2	3
– Account 5	98	84	78	49	37
– Account 6	23	n/a	n/a	n/a	n/a

	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m	2016-17 £m
Statement of financial position:					
Recoverable claims before provisioning	600	591	647	701	800
– Account 1	350	402	433	463	515
– Account 2	250	189	214	238	285
Recoverable claims after provisioning	179	197	247	292	368
– Account 1	110	145	168	190	223
– Account 2	69	52	79	102	145
Interest on unrecovered claims after provisioning	98	118	106	116	134
– Account 1	98	117	105	115	133
– Account 2	0	1	1	1	1
Underwriting funds – net of reinsurance	1,283	958	896	629	582
– Account 2	1,198	873	811	629	582
– Account 3	85	85	85	–	–
– Account 6	16	n/a	n/a	n/a	n/a
Recoverable capital loans before provisioning	2,308	1,327	967	505	381
– Account 3	703	–	–	–	–
– Account 4	2	5	10	15	32
– Account 5	1,603	1,322	957	490	349

Account 1

The main activity relating to this account is the administration and collection of the claims paid out against these guarantees and insurance policies. In accordance with standard accounting practice, UKEF provides prudently against the possible non-recovery of debts. Where the outlook for recovery improves / worsens, the level of provision is reduced / increased accordingly, releasing profit / (loss) to the statement of comprehensive net income. The key results (rounded to the nearest million) were as follows:

- net operating loss was £4 million compared with a net operating gain of £57 million in 2019-20. The change in net operating result was due to several factors including a foreign exchange loss of £11 million compared with a gain of £7 million in 2019-20. In addition, recoveries on Account 1 Paris Club markets are reducing (see bullet points below) therefore provision releases have decreased whilst there were several provision increases on both Paris Club and non-Paris club markets.
- recoveries of claims paid were £31 million compared with £38 million in 2019-20
- recoveries of interest on claims paid were £19 million compared with £29 million in 2019-20
- the balances for gross claims decreased from £402 million in 2019-20 to £350 million during the year, while those for net claims decreased from £145 million in 2019-20 to £110 million during the year
- interest on net unrecovered claims decreased from £117 million in 2019-20 to £98 million during the year
- all exposure on this account relates to historic claims

Account 2

The key results were as follows:

- the total of guarantees and insurance policies (net of reinsurance) that were issued and effective during the year was £3,818 million compared with £3,499 million at 31 March 2020
- net premium income was £304 million compared with £177 million in 2019-20
- net operating loss was £104 million compared with net operating gain of £88 million in 2019-20. The change in the net operating performance was largely due to additional reserving required for the impact of Covid-19 on the airline sector as well as foreign exchange movements. The release from the funds was also lower at £52 million in 2020-21 compared with £76 million in 2019-20
- claim recoveries for the year were £39 million compared with £33 million in 2019-20
- gross claims balances were £250 million compared with £189 million in 2019-20
- net claims balances were £69 million compared with £52 million in 2019-20

Account 3

During 2020-21 a direct lending facility loan began to be draw in relation to support provided for BAE Systems and MBDA UK for the provision of military aircraft and related equipment to the State of Qatar.

Account 4

The results were as follows:

- the direct funding balance represents the funds originally loaned by HM Treasury to reduce the cost of FREF. The balance continued to reduce during the year to £2 million from £5 million in 2019-20, as regular instalments were made
- net operating loss was £0.1 million in 2020-21 compared with a net operating gain of £0.1 million in 2019-20
- all remaining exposure on account 4 is expected to run off in 2022-23.

Account 5

This account relates to direct lending activity issued in the ordinary course of business. The Budget 2020 announced further support for exporters by extending and increasing UKEF's direct lending capacity so the overall facility is now £8 billion.

- during the year 9 new loans (not including facility increases) were originated (6 loans were originated in 2019-20). There are 40 signed Loans of which 36 are currently effective
- There are currently 2 loans which have been assessed as impaired (see Note 1 of the financial statements for details of the relevant accounting policy)
- there was a net operating loss of £114 million in 2020-21 compared with net operating gain of £73 million in 2019-20. This change was due to several factors including a foreign exchange loss of £113 million compared with a gain of £44 million in 2019-20 (as most of the loans originated were in US dollars). In addition, there was an increase in loan impairment on the portfolio from £5 million in 2019-20 to £31 million in 2020-21.

Account 6

This account relates to UKEF's Temporary Covid Risk Framework (TCRF), see the CRO's report for further detail and background on TCRF. As the TCRF was only approved in 2020-21 there are no prior year comparative figures.

- during the year the total of guarantees and insurance policies (net of reinsurance) that were issued and effective was £6,826 million.
- net premium income was £25 million
- there was a net operating gain of £1 million in 2020-21.

Financial Reporting Changes

As outlined in more detail in Note 1 to the Financial Statements UKEF currently applies IAS 39 for Financial Instruments. This standard has been replaced by IFRS 9: Financial Instruments however UKEF has utilised a temporary exemption from applying IFRS 9. 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. Therefore where IAS 39 is being applied by UKEF the 'Incurred loss' model is in effect for impairments which leads to different results than if IFRS 9 were applied which uses the forward looking Expected Loss model.

The Budgeting Framework

The department's expenditure is presented at 2 places in the Annual Report and Accounts: the Statement of Parliamentary Supply (SoPS), and the Financial Statements.

The SoPS, which is specific to public sector, reports the Departments' expenditure into different budgetary categories (see below), each with its own control limits that Parliament has voted on. The financial statements, on the other hand, apply International Financial Reporting Standards (IFRS) as adapted and interpreted by the Financial Reporting Manual (FReM) which is produced by HM Treasury.

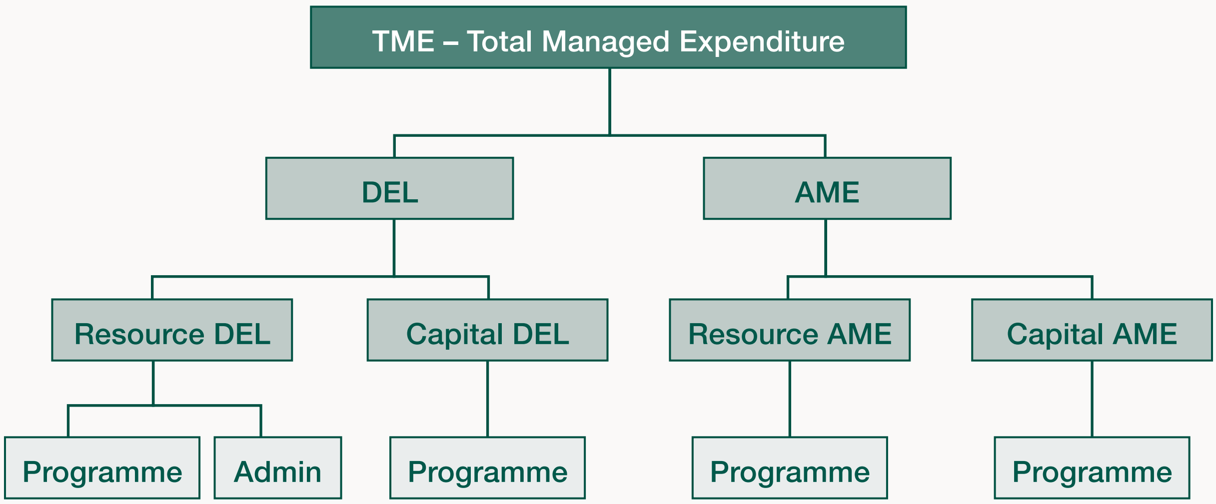
The total amount a department spends is referred to as the Total Managed Expenditure (TME) which is split into 2 budgetary categories:

Departmental Expenditure Limits (DEL) – this captures spending that is subject to limits set in the Spending Review (SR). Departments may not exceed the limits that they have been set.

Annually Managed Expenditure (AME) – this is expenditure which is demand-led or exceptionally volatile in a way that could not be controlled by the department.

Both DEL and AME can be further split into resource and capital budgets. Resource budgets capture current expenditure while capital budgets capture new investment and financial transactions. The resource budgets further split into admin and programme as shown in the diagram below.

UKEF's R-DEL Admin budget is a token amount (of £1k) with the gross costs covered by an offset against the premium income that the Department generates while the R-DEL Programme budget is nil. The C-DEL Programme as well as the R-AME and C-AME Programme budgets are relevant to UKEF's activities, and are set through the Supply Estimates process.



The graphic above represents budgeted control totals which are voted on by Parliament and allocated to each department for their public expenditure. The department report its outturn against these control totals in the Statement of Parliamentary Supply, which is part of the Accountability report within this Annual Report and Accounts.

Explanation of variances between Estimate and outturn summary

As mentioned above, Parliament sets a limit on the annual amount of resource and capital that UKEF can consume through the Supply Estimates process. The table below compares UKEF's Estimate with actual outturn. Further information on the Supply Estimate is available on UKEF's website at www.gov.uk/uk-export-finance.

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

UKEF supports export credit loans denominated in foreign currency and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Almost all of UKEF's premium income arises in currencies other than sterling (mostly US dollars) and net assets are denominated in a variety of currencies, of which the largest is US dollars. As UKEF is not authorised by HMT to hedge exchange rate exposures, it faces challenges to ensure compliance with Parliamentary voted control totals.

From January each year, which is the last opportunity to adjust voted control totals, to 31 March, there is a risk that exchange rates move and reduce net income by more than the headroom agreed with HMT and voted by Parliament.

	SoPS note	2020-21 Outturn £'000	2020-21 Estimate £'000	2020-21 Variance £'000
Budget spending:				
Departmental Expenditure Limit (DEL)	SoPS1.1	(499)	(499)	–
Annually Managed Expenditure (AME)	SoPS1.1	217,719	753,420	535,701
Resource Total & Net Operating Cost / (Income)		**217,220**	**752,921**	**535,701**
Non Budget / Resource Total	SoPS1.1	–	–	–
Net Resource Outturn & Net Operating Cost / (Income)		**217,220**	**752,921**	**535,701**
Budget spending:				
Departmental Expenditure Limit (DEL)	SoPS1.2	784	800	16
Annually Managed Expenditure (AME)	SoPS1.2	1,109,370	1,486,958	377,588
Capital Total Payments / (Receipts)		**1,110,154**	**1,487,758**	**377,604**

Significant highlights

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

Resource – Note SoPS1.1

AME £536 million – This variance is largely due to provision and foreign exchange movements (in particular in relation to a strengthening of sterling against the US dollar of some 11% during the year) which cannot be forecast with certainty and are unhedged by UKEF. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's Report on page 110 and Note 6 of the financial statements.

Capital – Note SoPS1.2

AME £378 million – This variance is due to the Direct Lending Facility. Most business is written in currencies other than Sterling (primarily US Dollars) therefore it is subject to foreign exchange volatility. The variance is largely due to the fact that while it is necessary to ensure there are sufficient voted funds, and therefore headroom to meet potential demand in year, it is not possible to predict actual demand (and therefore the associated drawings). Many deals may not close for reasons beyond the control of the department or the timing of loan origination changes and/or the drawdown schedule changes. More details of UKEF's risks, including foreign currency and liquidity risk, can be found in the Chief Risk Officer's Report on pages 71-111.

Notes

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

Based in Scotland, Alistair McMillan is one of UKEF 2 new Renewables & Clean Tech export finance managers

Head of Environmental and Social Risk Management's report

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

Max Griffin
Head of Environmental and Social Risk Management

During 2020-21, UKEF's Environmental and Social (E&S) team screened 65 transactions that fell within the scope of the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the 'OECD Common Approaches') and/or the Equator Principles – an increase of 40 over the previous year.

Where we identified significant E&S risks as part of the screening process, we designated a category as either A (high risk) or B (medium risk) and we carried out an ESHR review of these transactions and, where needed, put in place measures to ensure the realisation of projects aligns to international ESHR standards. Following provision of UKEF support, we have also monitored these transactions to ensure that they remain aligned to international ESHR standards.

This past year has also seen UKEF's ESHR policy and practices evolve in response to a changing landscape, including strengthened commitments on climate change and development of E&S practice commensurate with the Export Development Guarantee (EDG) (see more on page 55).

This consideration is proportionate to the climate risks and impacts associated with the transactions. In addition, the general nature of the financing provided under UKEF's EDG required the development of a bespoke approach to considering ESHR matters, including climate change, on these transactions as they have potential ESHR risks and impacts but fall outside of the project-related scope of the OECD Common Approaches and Equator Principles.

During the reporting year UKEF contributed to the development of the government's new policy on support for the fossil fuel energy sector overseas. This was announced in December 2020 and, following consultation, became effective from 31 March 2021. Implementing this policy across UKEF will be reported upon in UKEF's 2021-22 Annual Report and Accounts.

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

Source: IFC Performance Standards (IFC PS)

These standards are considered to represent good international industry practice and to be achievable anywhere in the world using existing technology and at reasonable cost, when appropriate levels of commitment, capacity and capability are demonstrated by the parties involved.

During this reporting year UKEF has expanded our consideration of climate change to include all our products, including those not covered by the OECD Common Approaches or the Equator Principles. This consideration may be applied both to the projects which receive UK exports. For example in the case of relevant buyer credit guarantees or direct lending, or to the performance of the UK exporter within its sector.

In reviewing climate change matters, UKEF relies on:

- publicly available information
- information supplied directly by the project or corporate entity
- industry and sector initiatives regarding climate risks
- dialogue with the ESHR and corporate teams at the project and/or exporter, and third party advisers where relevant

UKEF assesses and documents these risks and our association with these matters within existing ESHR documentation and, where relevant, dedicated climate change reports.

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

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

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

Through ensuring the implementation of our benchmark ESHR standards, these developmental benefits may be enhanced beyond the level that would be provided without UKEF's support. Further work to define these inherent benefits and determine their alignment with the UN Sustainable Development Goals is outlined on pages 133-135.

ESHR due diligence

In 2020-21, we worked with a wide variety of project developers and exporters to help them understand and effectively manage ESHR risks associated with their project activities. We supported[2] 2 category B and 3 category A projects that fell within the scope of the OECD Common Approaches and/or the Equator Principles.

UKEF's involvement had a positive impact on projects through implementing ESHR risk management systems and plans in various Category A and Category B projects supported in 2020-21. Two examples are described in the case studies below:

Infrastructure development at an industrial park, Uganda (Category A)

The project involves the design, development and operation of infrastructure required to facilitate the upgrading and further development of the existing industrial park, including road infrastructure, water supply, solid waste and wastewater treatment and power supply.

The industrial park includes an area that was formerly designated as a Forest Reserve. Although this formal designation was revoked during planning of the industrial park in 1996, some remnants of the wetland ecosystems remain within and adjacent to the park.

As part of the environmental and social review, the E&S team worked closely with the UK exporter and their E&S consultant to support their E&S assessment of the project. This has led to the strengthening of the identification and assessment of impacts and additional studies that the project will conduct, including a flood risk assessment, a biodiversity action plan and a livelihood restoration framework.

The implementation of the mitigation measures identified in the flood risk assessment into the project design will help to reduce existing flood risks and mitigate future flood risks as a result of climatic changes. Furthermore, robust management plans will ensure that significant impacts to the sensitive natural habitats are avoided or minimised as far as possible, and that informal users of the land are supported and/or compensated in line with international standards.

Bohicon-Parakou Road, Benin (Category B)

The project involves the rehabilitation and upgrade of a 210km section of the road between Bohicon and Parakou via Dassa, Benin. Due to extensive use by heavy vehicles, the road has fallen into disrepair and significant potholes have developed. The rehabilitated road will improve access to landlocked African countries to the north.

Works include reconstruction of the existing road carriageway and repairs to existing drainage infrastructure. The exporter will also carry out measures to improve road safety as well as small community projects along the alignment, including construction of water supply boreholes and fencing around schools.

The E&S team ensured that E&S risks were robustly identified, assessed, and managed for the Project in line with the IFC Performance Standards in close collaboration with the exporter. This included the appointment of an independent environmental and social consultant and a site visit to examine the works areas and meet with local communities and other stakeholders along the alignment.

The E&S team worked closely with the Project team to ensure that potential impacts to local businesses and informal livelihoods along the alignment and in quarry areas will be managed and monitored appropriately such that they receive any necessary compensation and/or support. The exporter developed a robust environmental and social management system including programme for stakeholder engagement to facilitate ongoing management of ESHR issues as the works progress.

Details of the ESHR risk and impact categorisation of all cases which required an ESHR review under UKEF's ESHR Policy and for which support was issued during 2020-21 are available on UKEF's website.

ESHR monitoring

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

During the 2020-21 reporting year the E&S Team carried out active ESHR monitoring of 62 UKEF supported projects (22 category A and 40 category B). Our monitoring includes reviewing self-monitoring reports produced by project developers, commissioning independent environmental and social consultants (IESCs) to monitor projects on our behalf, and UKEF carrying out site visits. The level and frequency of our monitoring varies relative to the ESHR risks involved. Travel restrictions due to the Covid-19 pandemic have curtailed the frequency of international visits during 2020 and 2021. UKEF has utilised remote monitoring practices, alongside local and international consultants, to continue effective post-issue monitoring of ESHR performance. Additionally, we contributed to good practice guidance addressed to other financial institutions and project developers through the Equator Principles Association and published in June 2020.[3]

UKEF seeks to positively influence the application of standards throughout the monitoring process to improve and attain positive, tangible ESHR outcomes. Examples of this include influencing the project developer:

- to promote positive health and safety behaviours, minimising accidents, injury and loss of life
- in re-establishing the livelihoods of people affected by the project
- in the provision of appropriate worker conditions and accommodation
- in maximising energy efficiency and mitigating CO_2 and related air emissions
- in promoting positive project impacts

Two examples of UKEF's positive influence during post-issue monitoring are described in the case studies below:

Gas Fired Power Stations, Iraq (Category A)

In 2019 UKEF provided a direct loan and guarantee to the Government of Iraq for the construction and operation of 2 new combined cycle gas turbine (CCGT) power stations in southern Iraq. The power stations will help with Iraq's electricity supply challenges and replace more polluting sources of electricity generation such as privately owned diesel generators. Construction activities started in March 2019 and are scheduled for completion in June 2021. An IESC, engaged by the Iraqi Ministry of Finance, is responsible for ESHR monitoring to be carried out on a semi-annual basis during construction and annually during operations.

The first physical monitoring visit had been cancelled due to travel restrictions as a result of the Covid-19 pandemic with access to the site not being possible due to a curfew imposed by the Government of Iraq. A strategy was put in place in collaboration with the IESC and the exporter to ensure that an alternative audit could take place. It was agreed that the best approach was to combine the use of questionnaires to be distributed to key members of the staff working on the construction of the plants, followed up with telephone conversations. Videos and photographic evidence from key areas was also requested. These materials helped indicate how effectively the ESHR aspects of the construction phase were being managed. It is acknowledged that the approach taken is not perfect and does not fully replace a physical site visit; however it allowed UKEF and other lenders to receive an update of the overall ESHR performance of the Project, as well as enabling the identification of areas for potential improvement.

District Hospitals and health care centres, Zambia (Category B)

UKEF provided direct lending to the Government of Zambia for a UK exporter to design, construct and equip 108 health care centres and 5 new 80-bed District Hospitals on behalf of the Zambian Ministry of Health. The Project seeks to address key targets of Sustainable Development Goal 3 (Good Health and Well-Being), aiming to help to reduce maternal mortality and to increase access to health services for the Zambian people.

A master E&S Project Brief and a Construction E&S Management Plan (CESMP) were prepared for all 108 health care centres, supplemented by site-specific reports for individual sites. Environmental and Social Impact Assessments (ESIAs) will be prepared for each of the hospitals. This approach has been adopted as all site locations were not known at the commencement of loan effectiveness. The balance of the review will be conducted during loan effectiveness, as site locations become known. As construction has progressed on initial sites, the exporter has strengthened its in-house capacity to manage ESHR risks and the Project sites are subject to ongoing E&S monitoring and reporting to UKEF every 6 months, as well as if incidents arise.

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

Supporting the UN's Sustainable Development Goals

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

As a UK Government department delivering support to UK exporters and their overseas buyers, UKEF has an important role to play in supporting progress towards the SDGs. Our 2020-24 Business Plan reflects this commitment by providing support, alongside Overseas Development Assistance and commercial financing (as relevant) in markets and sectors where there are demonstrable developmental and prosperity benefits with secondary benefits to the UK supply chain.

In early 2020, we conducted a mapping exercise of UKEF's activities to better understand our current impact against the SDGs. The mapping informed an analysis of options to improve how we contribute to SDGs in our business activities both in the UK and overseas. Following consideration of those options, the Executive Committee agreed to pursue a strategy of 'Focused Alignment'.

Under the Focused Alignment strategy, UKEF will take a proactive approach to identifying projects and supply chains with SDG-related impacts where UKEF could provide support. UKEF will do this by:

- Changing behaviour
- Collecting and measuring data
- Communications

Work is ongoing within UKEF's Marketing and Origination functions to seek opportunities where UKEF support could actively create conditions to contribute to SDGs. Where relevant, UKEF will start mapping its support against the SDGs to better understand the sustainability impact.

We had intended to build on the project during 2020-21 to develop an actionable plan for implementing the strategy. The reallocation of resources to the Covid-19 response, however, meant that we have not been able to move forward in this area as much as planned. We will be developing this Focused Alignment strategy in the next financial year.

Many UKEF projects have, by virtue of the sectors and countries that receive support, continued to contribute positively to the SDGs. Two examples where UKEF's activity has resulted in positive impact on SDGs this year include supporting a nationwide solar-powered clean water project and providing solar energy to hospitals, both in Ghana.

Over the course of 2020-21, UKEF worked with the Foreign, Commonwealth and Development Office (FCDO) on designing a new Developing Markets Infrastructure Programme (DMIP). Announced by the

FCDO at the 2020 Africa Investment Summit, the DMIP is intended to be an untied concessional finance programme to support predominantly low and middle-income country governments to procure and finance development-focused infrastructure projects. This would include technical assistance and grants to enable governments to benefit from concessional financing for public infrastructure development, which could be 'blended' with commercial finance (including export credits).

Last year, UKEF received an additional £2 billion in direct lending capacity at Budget 2020 exclusively for clean growth projects. Eligibility for this additional direct lending capacity is based upon the use of proceeds criteria and core indicators of the ICMA Green Bond Principles[4] and supports a broad range of sectors including, amongst others, renewables, water management, clean transport, green buildings, climate adaptation, energy efficiency and pollution prevention and control. This clean growth direct lending contributes to ensuring that UKEF helps UK exporters play their role in support of the SDGs while maintaining their competitive global standing.

Source: un.org/sustainabledevelopment/

Climate Change

UKEF has committed to take account of climate change within our decision-making processes for all our products. This consideration is proportionate to the risks and impacts associated with the projects and our support. Over the reporting period this has involved the generation of 24 climate change screening summaries and memos, documentation of climate change considerations within 6 ESHR Reports and 12 dedicated climate change reports. Out of these, 22 relate to cases that do not fall within the scope of the OECD Common Approaches or Equator Principles, including EDG transactions. Each of these cases has involved senior legal and business group review and approval prior to decisions being made for UKEF to provide financial support.

International ESHR cooperation

OECD Working Group

In support of UKEF's objective to establish a 'level playing field' for all OECD exporters, we work alongside other ECAs at the Environmental and Social Practitioners' Group of the OECD Export Credit Group. We are actively involved in setting the agenda, sharing experiences, participating in working groups and seeking to achieve consistency in ECAs' approach to ESHR risk management practices under the OECD Common Approaches, while advocating that OECD ECAs should be global leaders in promoting good practice in this area.

UKEF has also been working closely with like-minded ECAs (and their guardian authorities) in respect of updating OECD understandings on coal and climate change.

Equator Principles

In October 2020, UKEF completed our second term on the Equator Principles Steering Committee, thereby performing a management support role. UKEF had undertaken this role for a total of 3 years having been elected twice for the role by the other Equator Principles Financial Institutions (EPFIs). Once our second term completed, we agreed to support the Chair and the incoming EPFI in this management support role for an additional 6 months through to the end of April 2021.

UKEF committed to apply the updated version of the Equator Principles (EP4) for all newly mandated cases from July 2020 and continued this commitment even once the compulsory implementation date was moved to October 2020 due to the impact of Covid-19.

Other events

UKEF attended and spoke at several international ESHR industry conferences this year, including at the ICC-Berne Union Sustainable Finance Working Group and the Future of Export Finance (FEX) UK.

In advance of COP26 in November 2021, UKEF has focused its origination activities on developing opportunities in clean growth sectors and worked with DIT to encourage businesses to raise their climate ambitions.

ESHR Policy review

UKEF are committed to continuously review our policies and procedures to take account of the rapid evolution of best practices, including in the application of environmental, social and human rights due diligence and monitoring. UKEF published an update to our policy in 2020, to take account of the recommendations of the Environmental Audit Committee following its investigation into UKEF's support for fossil fuels. The updates include new commitments for consideration of climate change for all our products and to publish post-issue notifications of support for Category B projects (in addition to Category A) on UKEF's public website.[5]

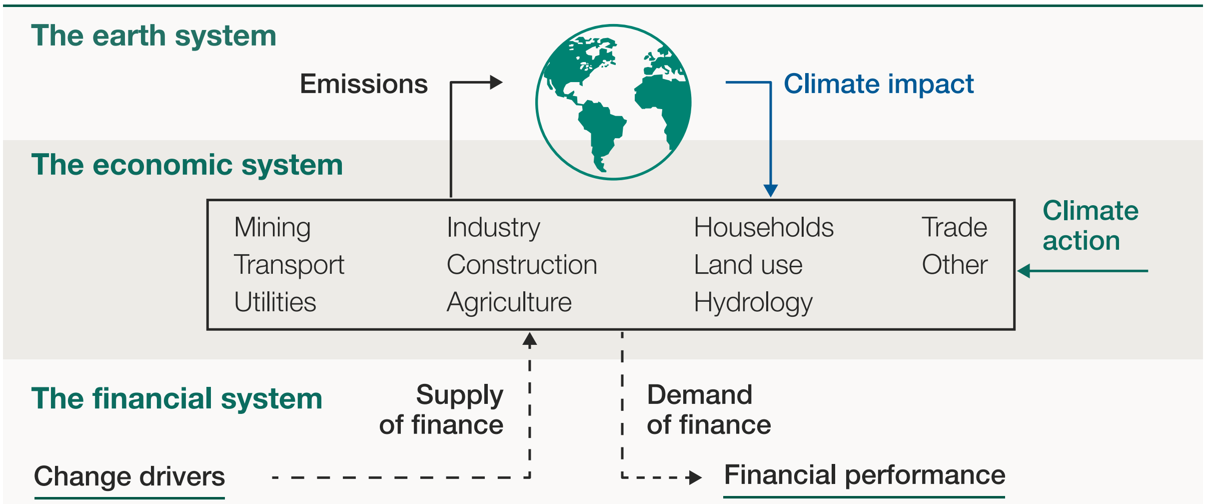
Notes

1 gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring
2 'Supported' refers to transactions where finance documents were signed and became effective (for example, the first drawdown took place and UKEF is on cover) within the March 2020 – April 2021 period.
3 equator-principles.com/ep-association-news/guidance-on-ep-implementation-during-the-Covid19-pandemic/
4 icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/
5 gov.uk/guidance/ukef-environmental-social-and-human-rights-risk-management

Task Force on Climate-Related Financial Disclosures

As the UK government's export credit agency, our role focuses on the international financial and economic systems, both of which play their parts in the global challenge of climate change.

Proactive 'climate action', facilitated by the financial system – which includes export credit agencies – can positively impact the economic system, and reduce the climate warming emissions it generates and the impacts they have on the earth system.



Change drivers

Climate action

Transition: Pivot towards financing renewables, lower emission and carbon removal technologies while risk managing current exposures to high emission technology and fossil fuels.

Resilience build: Financing resilience to changes in the earth system.

Climate impact

Acute physical risk: Direct and indirect losses due to extreme weather events e.g. damage to infrastructure, plant and equipment, housing stock.

Chronic physical risk: Direct and indirect impact of longer-term earth system changes e.g. rises in sea-levels, chronic heat waves.

Financial performance

Strategy

Climate commitments enter business strategy and emissions content of portfolios.

Earnings

World climate pathway affects the risk-return characteristics of current and future portfolios and impacts earnings.

Capital

Poorly managed transition risks and losses due to climate impact affect capital positions.

Source: Imperial College London: A guide to building climate-financial scenarios for financial institutions.

In July 2019, UK Export Finance committed to making financial disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Work has continued throughout 2020-21 to further develop and integrate climate change considerations across all the products that UKEF provides, in alignment with wider government policy and practice, including preparation for the UK's hosting of the UN Climate Change Conference of the Parties (COP26) in November 2021.

This represents UKEF's first disclosure and we look forward to publishing our disclosure annually to update our progress. UKEF is taking a proactive approach to addressing climate change by identifying, understanding and appropriately managing climate-related risks, and characterising and focusing resources on appropriate business opportunities. The recommendations of the TCFD provide a framework within which UKEF can disclose information about this proactive approach.

This section details UKEF's climate-related progress through 2020-21 and previous years, as well as planned next steps under the 4 pillars recommended by the TCFD.

The timeframe we have applied to future actions reflects our business planning cycle of 2020-2024; however these actions will be brought forward as early as possible within this timeframe. To ensure appropriate disclosure we have also aligned our report to the 11 'Recommended Disclosures' provided in the Recommendations of the TCFD Final Report.

UKEF will increase the amount and detail of the information disclosed year-on-year as our approaches mature, supporting data improves and UKEF's TCFD journey continues. We recognise that quantitative disclosure and scenario analysis are key objectives for disclosure within our second (2021-22) report in 12 months' time.

London and South East Regional EFM head Jane Cooper visiting a customer's warehouse

Governance

Governance	
Disclose the organisation's governance around climate-related risks and opportunities	
Recommended disclosures	
a) Describe the board's oversight of climate-related risks and opportunities	b) Describe management's role in assessing and managing climate-related risks and opportunities

Progress in 2020-21

Governance (a) (i): UKEF's Accounting Officer has overall responsibility for, and UKEF's Board provide oversight of, climate change related strategy and policy within UKEF. The Board appointed a new nominated representative for climate change considerations (Alastair Clark), in addition to enabling appropriate Board and Audit Committee oversight of UKEF's actions regarding the implementation of the TCFD recommendations through a nominated non-executive Director (currently Lawrence Weiss).

Governance (a) (ii): The Export Guarantee's Advisory Council (EGAC) has recruited 2 additional members with specific experience and expertise in climate change advice to financial institutions: Ben Caldecott and Vanessa Harvard-Williams. Additional details are provided with EGAC's annual report on pages 145-148.

Governance (b) (i): The Accounting Officer confirmed the creation of a new Director-led 'Strategy, Policy and Climate Change' (SPoCC) Directorate. An element of SPoCC's mandate is to define and lead the climate change strategy and policy of UKEF, taking in to account our role and activities and in the context of wider government policies on climate change. The creation of the Directorate allows real focus on how UKEF will manage its climate change approach and ensures representation of the climate change agenda in all matters considered by the Executive Committee.

Governance (b) (ii): Acknowledging the requirement to assess and manage climate-related risks and opportunities using current and relevant expertise, UKEF has procured and rolled out online training to staff ("Climate Change: Financial Risks and Opportunities" through the EdX Platform and developed by the Centre for Climate Finance and Investment at Imperial College Business School). As at March 2021 over one third of UKEF staff have completed this training.

Governance (b) (iii): UKEF's management acknowledges the significant opportunities available to UK exporters as global trade transitions towards a low carbon future. In response to these opportunities UKEF has hired 2

Export Finance Managers with specific experience in renewable energy and low carbon technology in Scotland and the North of England, thereby also supporting the government's levelling up agenda and the transition of oil & gas related businesses towards clean and renewable opportunities.

Next Steps for 2021-2024

G1. UKEF's management will expand and further embed climate-related expertise and experience within the newly created Strategy, Policy and Climate Change Directorate and across all relevant UKEF divisions. This will include a new senior post 'Head of Climate Change'.

G2. UKEF will continue to strengthen our knowledge and experience of climate-related risks and opportunities, including consideration of good practice training and knowledge-sharing promoted by the Green Finance Institute Education Charter.[1]

Strategy

Strategy		
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material		
Recommended disclosures		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Progress in 2020-21

Strategy (a) (i): UKEF recognises the TCFD recommendations represent an important step forward with respect to strengthening the quality, consistency and comparability of climate related information. In response to this UKEF became a formal supporter of TCFD in February 2021.

Strategy (a) (ii): UKEF is committed to incorporating climate risk considerations into decision making for all our support, including short term (e.g. trade finance), medium and long term (e.g. buyer credits) business, where our exposure could span up to 18 years. We are documenting our methodologies for taking proper account of climate change risks when considering the provision of support across all our products.

Strategy (a) (iii): UKEF's Origination and Client Coverage Division has expanded our overseas network of International Export Finance Executives to 11, with further expansion to come. The buyer-facing nature of their role explicitly includes targeting and maximising clean growth and low carbon opportunities for UK exporters to sell into these markets.

Strategy (b) (i): UKEF has allocated a dedicated budget to enhance our climate-related skills and staffing as part of our successful SR20 settlement.

Strategy (b) (ii): UKEF has engaged with staff to determine and understand staff's training needs and consideration of climate-related issues, the results of which are being analysed to determine appropriate action.

Strategy (b) (iii): UKEF published a TCFD Direction Statement in March 2021 which articulated our progress and plans towards TCFD alignment.

Strategy (b) (iv): UKEF has worked alongside other government departments to implement the policy shift to cease government financial and promotional support to fossil fuel activities overseas. This policy was implemented on 31st March 2021 and will apply to all UKEF's activities. Over time this will drive the decarbonisation of our existing portfolio of support.

Strategy (c): UKEF has commenced work on a Climate Change Strategy, which will be published prior to the UK government hosting of the COP26 international climate meetings in November 2021. As UKEF further develops our understanding of the financial implications of different climate-related scenarios (including, for example, 4°C, 1.5°C and 'net zero 2050' scenarios) we will determine and describe the resilience of our Strategy and Policy.

Next Steps for 2021-2024

S1. UKEF will complete a greenhouse gases (GHG) Inventory for all relevant financial exposures. This inventory will set our strategic baseline and inform our risk evaluation.

S2. Using good practice tools available in the finance industry, for example PCAF[2] and 2Dii,[3] UKEF will establish the material financed GHG emissions associated with our portfolio of financial support.

S3. In co-ordination with other government departments, UKEF will consider and report on the alignment of our activities with the UK Government commitment to 'net zero' carbon emissions by 2050.

S4. UKEF will launch its Climate Change Strategy in September this year (2021), which will include our ambitions for reducing UKEF's portfolio carbon emissions.

Risk Management

Risk management		
Disclose how the organisation identifies, assesses and manages climate-related risks		
Recommended disclosures		
a) Describe the organisation's processes for identifying and assessing climate-related risks	b) Describe the organisation's processes for managing climate-related risks	c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Progress in 2020-21

Risk Management (a) (i): UKEF is documenting how it will take account of climate change within our decision-making processes across all our products. This consideration will be proportionate to the risks and impacts associated with projects and our support.[4] UKEF's climate change considerations are taken using the definitions of physical and transition risks as provided by TCFD (see page 137).

Risk Management (b and c) (i): For all transactions which fall under the requirements of the Equator Principles, a climate change risk assessment has been conducted using the guidance provided by Equator Principles 4, which UKEF committed to follow from 1 July 2020. This climate change risk assessment is included with our underwriting submissions, required to be approved by senior management prior to UKEF underwriting any relevant case.

Next Steps for 2021-2024

RM1. UKEF will further integrate our Environmental and Social (E&S) and credit assessment processes and management procedures to more comprehensively and coherently incorporate climate-related risks and opportunities in our decision-making related to provision of support.

RM2. UKEF will apply relevant and appropriate climate related scenarios to our stress-testing and scenario-analysis of portfolio financial exposures (including, for example, 4°C, 1.5°C and 'net zero 2050' scenarios) and incorporate these into our portfolio risk management processes and reporting. This will consider the relevant recommendations provided within TCFD publications on risk management and disclosure[5] and technical supplement on scenario analysis.[6]

Metrics and Targets

Metrics and Targets		
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material		
Recommended disclosures		
a) Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Progress in 2020-21

Metrics and Targets (a) (i): UKEF has required all high-emitting projects which fall under the requirements of the OECD Common Approaches[7] to estimate their Scope 1 and Scope 2 operational eCO2 emissions prior to UKEF providing our support. Scope 3 emissions from downstream activities, e.g. emissions from products use or transport-related emissions in road projects, have also been requested. For Category A (high ESHR risk) and Category B (medium ESHR risk) projects that are supported and that will emit more than 25,000 tonnes of eCO2 during their operational phase, we publish these estimates with our annual report and accounts.

Metrics and Targets (a) (ii): UKEF has additionally published our own direct operational carbon footprint (Scope 1 and Scope 2 eCO2 emissions) that directly apply to our business activities following the HM Government Green Reporting Guidelines each year. Find out more in the Sustainability of our Estate report on pages 283-286.

Metrics and Targets (b) (i): As described above under "Strategy", UKEF is currently assembling the gross GHG Inventory data for all relevant transactions where we have financial exposure, which will involve dialogue with existing obligors, exporters and borrowers in order to collate relevant GHG emissions data. UKEF will use industry good practice, such as that considered by PCAF[8] and 2Dii,[9] to determine our association with and reporting of the 'financed emissions' applicable to UKEF.

Metrics and Targets (c): UKEF has yet to set targets to manage our future climate-related risks and opportunities and will do so alongside guidance informed from a wide range of sources within government and beyond.

Next Steps for 2021-2024

MT1. UKEF will continue a process started in early 2021 to update our draft legal conditions to be used within loan documentation to include, where applicable and appropriate, conditions requiring Scope 1, 2 and 3 emissions associated with the use of proceeds of our support to be reported to UKEF in an applicable and consistent format.

MT2. UKEF will establish and disclose climate-related metrics, the related risks associated with our portfolio of support and metrics and targets to manage these risks and opportunities, using guidance from a wide range of sources within government and beyond.

Notes

1 greenfinanceinstitute.co.uk/green-finance-education-charter/
2 carbonaccountingfinancials.com/about
3 2degrees-investing.org/
4 gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring, / 3. Policy
5 assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Risk-Management-Integration-and-Disclosure.pdf
6 assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Technical-Supplement-062917.pdf
7 Defined as those projects with estimated operational eCO2 emissions greater than 25,000 tonnes per year.
8 carbonaccountingfinancials.com/about
9 2degrees-investing.org/

Export Guarantees Advisory Council annual report

Following a period of transformation for the Export Guarantees Advisory Council (EGAC), this year has seen further strengthening of the relationship the Council has with both the UKEF management and the UKEF Board. In May 2020, my role of Chair of the Council was added as an ex-officio member of the UKEF Board and I have given them regular briefings. Board members have been encouraged to also attend EGAC meetings, with 2 Board members attending the March 2021 meeting, all of which has enhanced the cross-fertilisation of knowledge, advice and perspectives, and ensures the Council's agenda is fully represented in the Board's deliberations. This ongoing process of closer connection has created a healthy environment and culture where the Council challenges management, and management are happy to be challenged.

Alistair Clark
Chair, Export Guarantees Advisory Council

The Council met formally 4 times in 2020-2021 and contributed informally to strategic policy discussions throughout the year.

The last 12 months have seen a markedly increased focus on climate-related issues and the addition of further climate expertise within UKEF. The Council welcomed the establishment of a Strategy, Policy and Climate Change (SPoCC) directorate reporting directly to the Chief Executive, and the inclusion of its director on UKEF's Executive Committee.

The department's very high staff engagement score (71% against a civil service average score of 66%) was recognised by the Council and noted as particularly impressive given working conditions during the Covid-19 crisis and lockdown. The Council praised management for their efforts and noted that remote working was allowing the department to function well at a difficult time.

I would like to extend sincere thanks to Neil Holt whose term on EGAC has come to an end. He made a significant contribution since joining the Council in July 2011.

The Council's current members are:

Chair

- Dr Alistair Clark, Managing Director, Environment and Sustainability Department, European Bank for Reconstruction and Development

Members

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

Detail of EGAC's responsibilities, priorities, and membership can be found on the government's website.[1]

Climate Change

The Council was well consulted in a wide range of climate-related policy discussions and is reassured of UKEF's commitment to routinely consider climate factors in its decision-making processes across all its products. Members shared their experience of methodologies and frameworks including from elsewhere in the finance industry and from multilateral development banks.

The Council has contributed to discussions with UKEF management on a range of climate related matters. A number of EGAC members work at the cutting edge of issues within the fast-developing climate-related space and are well-placed to advise UKEF.

We were kept informed throughout the development of the government's new policy on support for overseas fossil fuel projects, and similarly kept updated on the development of UKEF's Clean Growth business. Council members considered the various ways in which "clean growth" could be defined for the purposes of UKEF's Clean Growth direct lending facility. This concluded with the International Capital Markets Association (ICMA) Green Bond Principles being utilised. EGAC members also provided recommendations to focus on supporting UKEF's green transition and considering how to support clean growth further. Discussions on other topics such as 'just transition' will continue over the coming year.

The Council has actively engaged with UKEF officials on its implementation of the recommendations of the Task Force on Climate-

Related Financial Disclosures (TCFD). The Council welcomed the work that had been carried out, and advised that in due course UKEF's current TCFD project could provide a template for its consideration of other factors such as the 'just transition', and other standards and principles of sustainability. EGAC also provided advice on the TCFD Direction Statement, which was UKEF's first public disclosure relating to reporting using the TCFD recommendations. The statement acted as a prelude to the disclosure made on pages 137-144.

Environmental, social and human rights (ESHR)

The Council recognised the difficulties that Covid-19 had caused in respect of ESHR site monitoring visits and discussed the benefits and challenges that had been realised with the increased use of video footage and all-party conference calls. The Council also welcomed the increased use of local environmental and social consultants to mitigate the lack of international travel, noting that this built up trust, local capacity and a long-term legacy in the overseas location.

While ensuring that UKEF's ESHR policies are properly applied, the Council can examine any project that UKEF is supporting. EGAC reviewed 2 such projects this year to ensure that ESHR risks and impacts were appropriately managed.

In June 2020, the Council examined the environmental and social due diligence carried out in respect of the Formosa 2 Offshore Wind Project in Taiwan, a project classified as higher ESHR risk, i.e. 'Category A'. The Council noted the more robust assessment of environmental and social impacts undertaken, to international standards and beyond national regulatory requirements, due to UKEF and the involvement of other export credit agencies (ECAs). The Council discussed details on active mitigation and conservation measures in place for the project. In addition, the Council considered the lessons UKEF had learned during the process, which included the added value realised by working with other ECAs with more experience in the sector.

In March 2021, another supported Category A project, the Tema-Aflao Road in Ghana, was considered. EGAC discussed the key environmental and social issues identified by the due diligence processes. The Council offered practical guidance on future steps.

The Council was updated on discussions at 2 environmental and social practitioner meetings at the Organisation for Economic Co-Operation and Development (OECD) that UKEF attended over the year. The Council emphasised the importance of UKEF maintaining momentum for a review of the OECD Common Approaches on Environmental and Social Due Diligence despite talks being postponed amidst Covid-19.

Transparency

The Council looked at the annual report on the operation of anti-bribery policies and practices for the period July 2019-June 2020. UKEF also provided an update to the Council on the introduction of the Global Human Rights Sanctions Regulations 2020. The Council noted that UK sanctions were already captured by UKEF's internal policies.

In July 2020 Spotlight on Corruption (SOC) published a report on UKEF's role in fighting corruption in a post-coronavirus and post-Brexit trade drive. This led to detailed discussions between the Council and UKEF officials on UKEF's anti-bribery and corruption, compliance and due diligence processes and UKEF's consideration of the report's recommendations. Four EGAC members joined UKEF officials for a meeting with SOC in December 2020 to discuss the report. The Council reflected on the importance of stakeholder engagement and encouraged proactive engagement with non-governmental organisations and civil society.

Despite the changes in working environments that the pandemic brought, 2020-21 has seen a continuation of the evolution of EGAC, with strengthened relationships and increased focus on climate, environmental, social and financial crime compliance issues. Structured engagement within a culture that is comfortable challenging and being challenged has brought positive, beneficial changes in the already robust way that UKEF conducts its business.

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

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

Notes

1 gov.uk/government/organisations/export-guarantees-advisory-council/about. The team also presented a number of cases which demonstrated the application of the Common Approaches and Equator Principles on challenging projects. gov.uk/guidance/direct-lending-additional-features

Accountability

UKEF ministers and Board members

UKEF ministers

Members of the UKEF Board and its sub-committees

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

Noël Harwerth
Chair of the Remuneration and Nominations Committee

Louis Taylor
Chief Executive Officer

Cameron Fox
Chief Finance and Operating Officer

Graham Stuart MP
Minister for Exports

Samir Parkash
Chief Risk Officer

Shalini Khemka (to February 28 2021)
Member of UKEF Board. Member of the Remuneration and Nominations Committee

Oliver Peterken
Member of UKEF Board. Chair of Risk Committee and member of Audit, Remuneration and Nominations Committee

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

Lawrence M. Weiss
Member of UKEF Board. Chair of Audit Committee and member of Risk, Remuneration and Nominations Committee

Kimberley Wiehl
Member of UKEF Board. Member of Audit, Risk, Remuneration and Nominations Committee

Alistair Clark (from 21 May 2020)
Ex-officio member of UKEF Board. Chair, Export Guarantees Advisory Council

Madelaine McTernan (to 30 November 2020)
Ex-officio member of UKEF Board, UK Government Investments. Member of Audit, Risk, Remuneration and Nominations Committee

Candida Morley (from 17 December 2020)
Ex-officio member of UKEF Board, UK Government Investments. Member of Audit, Risk, Remuneration and Nominations Committee

John Mahon (to 31 August 2020)
Ex-officio member of UKEF Board, Director General for Exports at the Department for International Trade (until 31 August 2020)

Andrew Mitchell (from 1 September 2020)
Ex-officio member of UKEF Board, Director General for Exports and UK Trade at the Department for International Trade

Register of interests

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

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

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

The senior leadership team of UKEF's new Strategy, Policy and Climage Change directorate, led by Davinder Mann (centre).

Governance statement

Louis Taylor
Chief Executive Officer

Introduction

As Accounting Officer for UK Export Finance (UKEF), I am responsible to Ministers and Parliament for the management of its operations, including the stewardship of financial resources and assets. This Governance Statement sets out how I have discharged this responsibility for the period 1 April 2020 to 31 March 2021.

The areas covered below are:

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

Background

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

In providing support, we seek to:

- provide value for money to the taxpayer
- engage with exporters, buyers and delivery partners such as banks, without displacing private providers
- provide a quality of service that is responsive to new business, with a focus on solutions within the bounds of acceptable risk and in accordance with our statutory purpose
- maintain the confidence of ministers, Parliament and customers
- effectively communicate what we do to interested parties

Our strategy, outlined in our Business Plan, is one of ambitious evolution, building on over a century's experience and success, and the advances made under our last Business Plan.

Realising the objectives in our current Business Plan will ensure we are better able to meet the needs of customers while appropriately managing the risks to which this exposes UKEF.

Corporate governance framework

UKEF was set up in 1919, with its original statute introduced in 1920, and its legal name is the Export Credits Guarantee Department. It is a ministerial department of state carrying out statutory powers under the Export and Investments Guarantees Act 1991 (EIGA).

UKEF is strategically aligned with the Department for International Trade (DIT), but is a separate ministerial government department in its own right. Both departments report to the Secretary of State for International Trade. I am the Chief Executive and Principal Accounting Officer of UKEF. The Secretary of State writes to me every year to outline the government's priorities for UKEF for the coming year.[1]

Statutory powers

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

International Trade Secretary Liz Truss visits food and drink supplier Muntons, which recieved export insurance from UKEF on 5 contracts with buyers in Turkey

Department for International Trade

DIT promotes the UK across the world as a great place to do business, helping to level up the economy by attracting inward investment to all parts of the country. It negotiates ambitious Free Trade Agreements, supports exporters to maximise opportunities, and works to open up new markets and trading partnerships for UK businesses. I am a member of the DIT Board and Executive Committee.

Ministers

Through the year, ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning UKEF's operations, including: business planning, development of business opportunities, the Public Accounts Committee inquiry, the UKEF portfolio, the level of claims, anti-bribery and corruption due diligence, and new and prospective support for UK exporters.

HM Treasury

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

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

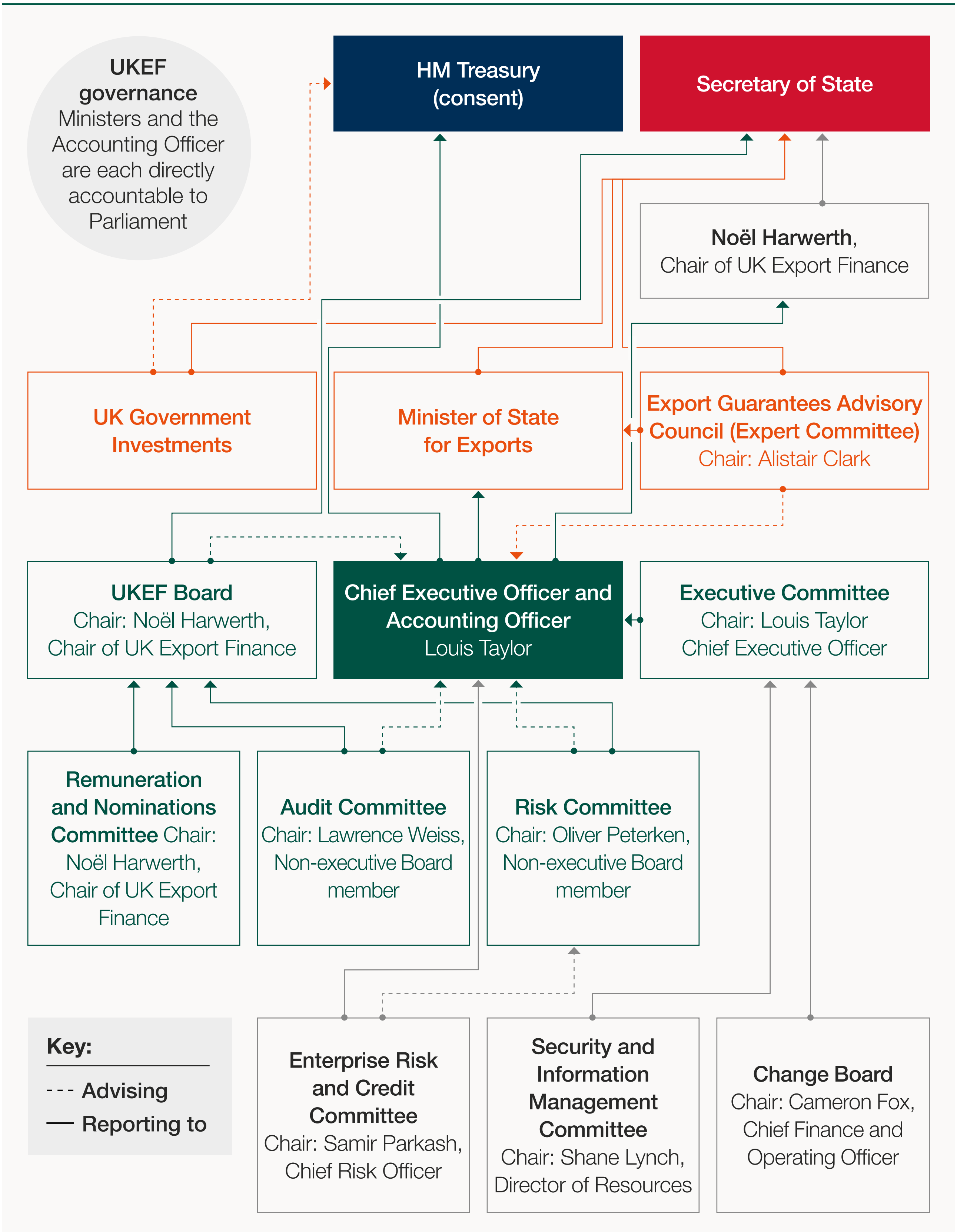
UK Government Investments (UKGI)

UKGI provides advice to the Secretary of State with responsibility for UKEF on the exercise of ministerial responsibility for UKEF. A UKGI representative is an ex-officio member of UKEF's Board.

Particular areas of focus are:

- corporate governance matters such as the appointment and remuneration of UKEF's Chair, non-executive Board members and Chief Executive Officer
- financial and operating performance and key performance indicators
- review of risk management function and processes
- input into business planning and strategic direction

UKEF's Governance Structure



Export Guarantees Advisory Council (EGAC)

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

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

The Council independently publishes a report of its business in the year, which is available on pages 145-148 and also from the Council's website.[2]

The Council does not hold any independent budget or spending authority. The Chair of the Council sits on the UKEF Board as an ex-officio member.

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The Board is led by a non-executive Chair to whom I report. Its membership consists of 3 executive directors (the Chief Executive, the Chief Risk Officer and the Chief Finance & Operating Officer) and at least 7 non-executive Board members including ex-officio representatives from DIT, UKGI and EGAC. There is also an observer from HMT. Its terms of reference require there to be a majority of non-executive and ex-officio members.

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

The non-executive members are appointed by the Secretary of State through open competition based on relevant expertise and merit. They provide the Secretary of State with an independent source of scrutiny, and provide me with guidance on strategic and operational issues, UKEF's financial performance and our arrangements for financial reporting, risk management and control. A register of Board members' directorships and major shareholdings is published on UKEF's website.[3]

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

UKEF is committed to ensuring that the Board and its committees operate effectively and are continually improving. During the summer of 2020 an internal Board effectiveness review was undertaken. Overall the review concluded that the Board and its committees operated effectively. It noted that the executive was sufficiently challenged, and that the focus on the impact of Covid-19 on the current portfolio and future opportunities was strong. It suggested that the Board agenda could be more strategically focused and that it could engage more effectively with external stakeholders. A report detailing findings and suggested improvements was accepted by the Board and an action plan established for implementing key recommendations during 2020-21 and beyond.

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

Quality of data used by the Board

The UKEF Board meetings covered a variety of topics to support the running of the department and meeting our objectives, including the impact of Covid-19 on the UKEF portfolio, the MoU between UKEF and DIT, the Industrial Strategy and the Target Operating Model. The Chief Executive's Office provided a comprehensive secretariat service to the Board and its committees to ensure the effective and efficient administration of the Board and its activities. The Board was provided with high-quality Board papers prior to each meeting to aid informed discussion and decision making.

Audit & Risk committees

The annual reports of the Audit and Risk Committees can be found on pages 176-180. Their respective chairs formally report on their activities to the Board.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises at least 3 non-executive directors and is chaired by the Chair of the UKEF Board. This committee considers and agrees on proposals from the Chief Executive on individual pay decisions according to the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service (SCS) members.

It also ensures that these recommendations consider any requirements or guidance from the Cabinet Office, including that the average increase to the SCS pay bill is within any centrally determined budget. The committee also advise the Board on the effectiveness of systems for identifying and developing leadership and high potential, scrutinising the incentive structure and succession planning for the Board and the senior leadership of the Department.

Executive Committee

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

- **Gordon Welsh**, Business Group Director: responsible for our support for exporters and product development

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

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

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

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

A register of interests is kept up-to-date to identify any potential conflicts of interest involving senior executives and, if necessary, address them. One conflict of interest was raised this year and was managed in line with the relevant procedure.

UKEF has robust policies and supporting processes in place governing the declaration and management of outside business activities, financial interests and conflicts of interest. The relevant policies and procedures are published on the UKEF intranet and regular reminders are sent to staff regarding their obligations in this area. All staff are required to make an annual return covering the declaration of in-scope financial interests. Staff are required to disclose potential conflicts of interest as they arise, and to seek permission to undertake any outside business activities prior to taking them up. Staff joining UKEF are required to make relevant declarations as part of the pre-employment checking process and it is also covered in the new joiner induction.

Governance in 2020–21

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

- all instructions given to me by ministers were in accordance with the EIGA, the Consent and applicable international agreements
- UKEF met all its financial objectives
- UKEF suffered no material operational losses
- UKEF had no major security breaches, data thefts or losses
- I met ministers regularly to brief them on issues related to UKEF, and also briefed as necessary UKGI, HMT and DIT officials so that they could provide informed advice to ministers if and when required
- the appropriate balance of non-executive directors and ex-officio members on the UKEF Board was maintained
- the Executive Committee met at least twice a month throughout the year
- the UKEF Board met 10 times in the year, the Audit Committee met 7 times, the Risk Committee met 4 times and the Remuneration and Nominations Committee met 3 times, all consistent with their terms of reference

Exports Minister Graham Stuart addressing UKEF at the 2021 Staff Conference

Ministerial Directions

In the Governance Statement in the UKEF Annual Report and Accounts 2018-19, I disclosed a Ministerial Direction, made on 5 July 2018, for the export of Typhoon aircraft and associated equipment and services to Qatar. Due to the size, final maturity and nature of the transaction, it was not possible for UKEF to support the financing package within its normal underwriting criteria. UKEF's underwriting criteria are agreed as part of the HM Treasury Consent, and transactions outside of these would be considered 'irregular' under the terms of Managing Public Money.

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

The Secretary of State for International Trade consulted with ministerial colleagues including the Chancellor of the Exchequer, who all concluded that the instruction was in the national interest.

Accordingly, the Secretary of State for International Trade instructed me, with the consent of HM Treasury to facilitate the transaction.

UKEF's package of support for the export of Typhoon and Hawk aircraft to Qatar was vital to securing the deal for BAE Systems and MBDA UK. Support in the form of guarantees for 2 buyer credits to finance the BAE Systems and MBDA UK contracts respectively was provided and an option to draw on UKEF direct lending to supplement the buyer credits was also granted to the State of Qatar as part of the financing package. However, this option was not exercisable until the 2020-21 financial year. This option was taken up in 2020-21.

In the Governance Statement in the UKEF Annual Report and Accounts 2019-20, I disclosed a Ministerial Direction, made on 15 April 2019, to increase UKEF's total risk capacity for Iraq to £2 billion to enable further priority projects to be supported in this country on UKEF's standard terms of underwriting.

The uplift in risk capacity for Iraq to £2 billion fell outside of UKEF's established risk framework. Therefore, it was outside my authority to approve such a rise and required a Ministerial Direction. As at 18 June, no business has yet been underwritten under this direction.

During 2020-21 UKEF supported 1 transaction in Iraq which was the fourth phase of General Electric's ongoing "Power Up Program" which entails providing essential maintenance parts and services for various power stations. This transaction was supported under the available limit within UKEF's established risk framework (Accounts 2 and 5) rather than under the increased country limit provided by the Ministerial Direction (Account 3). UKEF intends to use the Account 3 uplift in Iraq capacity only when no capacity remains under its established risk framework. Any use of the Account 3 uplift will be reported in UKEF's Annual Report and Accounts.

UKEF wrote to the Comptroller and Auditor General (C&AG) about both Ministerial Directions during 2018-19 and 2019-20 respectively and the C&AG briefed the Chair of the Public Accounts Committee (PAC). UKEF has received no further requests for information from the PAC about the Qatar transaction or the increase to UKEF's Iraq country limit.

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

Name of Board member	Role	UKEF Board	Audit Committee	Risk Committee	Remuneration and Nominations Committee
Alistair Clark	Ex-officio Board member, Export Guarantees Advisory Council	10/11	–	–	–
Cameron Fox	Executive Board member	10/11	7/7**	4/4**	–
Noel Harwerth	Non-executive Chair	11/11	4/7**	4/4**	3/3
Shalini Khemka (to 28 February 2021)	Non-executive Board member	10/10***	–	–	2/2
John Mahon (to 31 August 2020)	Ex-officio Board member, Department for International Trade	5/5***	–	–	–
Madelaine McTernan (to 30 November 2020)	Ex-officio Board member, UK Government Investments	7/8***	5/5	3/3	1/1
Andrew Mitchell* (from 22 October 2020)	Ex-officio Board member, Department for International Trade	4/5	–	–	–
Candida Morley* (from 17 December 2020)	Ex-officio Board member, UK Government Investments	3/3	2/2	1/1	1/1
Samir Parkash	Executive Board member	11/11	7/7**	4/4**	–
Oliver Peterken	Non-executive Board member and Chair of Risk Committee	11/11	7/7	4/4	3/3
Louis Taylor	Executive Board member	11/11	7/7**	4/4**	2/3**
Lawrence Weiss	Non-executive Board member and Chair of Audit Committee	11/11	7/7	4/4	3/3
Kim Wiehl	Non-executive Board member	11/11	7/7	4/4	3/3

* Meetings took place before appointees joined the organisation
** Not a member of the committee but attends its meetings (except in relation to matters presenting a conflict of interest)
*** Stood down from the Board during the year

National Audit Office (NAO) and Public Accounts Committee (PAC) reports

In July 2020, the NAO published a report examining DIT and UKEF's progress and performance on export support objectives.[4] This report noted that they had made a good start in developing a strategy and operating arrangements to better support UK businesses in trading overseas, and made a number of recommendations for both departments to follow.

Based on the NAO report, the Public Accounts Committee conducted an inquiry into Government support for UK exporters, and in September 2020, alongside colleagues from DIT, I gave evidence to the Committee. The PAC published their report[5] in October 2020.

Work is underway to implement the recommendations made in both the NAO and PAC reports, and this is detailed in the government's response to the PAC, published in January 2021.[6] Recommendations included:

- establishing a Memorandum of Understanding with DIT
- developing a more integrated approach for working with other government departments, such as BEIS and UK Research and Innovation
- proactively targeting the green technology and renewable energy markets
- increasing the number of small and medium sized enterprises UKEF supports
- making it simpler for smaller businesses to apply for export finance

Memorandum of Understanding between UKEF and DIT

On 30 March 2021, DIT and UKEF signed an MoU which will encourage ever closer collaboration to support and grow UK exports. This MoU sets out how DIT and UKEF, within their respective remits, will jointly deliver shared objectives for trade, exports, and investment. This agreement builds on the strengths of each department and enhances the already strong collaboration between DIT and UKEF by linking teams at all levels to collaborate on mutually agreed actions.

Progress will be reported in each department's future Annual Reports and the UKEF Board will be kept abreast of progress on a quarterly basis.

We have refocused the department's programme of cross-government engagement to ensure that UKEF is better integrated with other government departments and engages with them in a more systematic way. The team has so far worked closely with:

- Cabinet Office and HM Treasury on the Plan for Growth
- Department for the Environment, Food and Rural Affairs on food and drink exports
- Ministry of Defence on the Defence and Security Industrial Strategy
- Department for Education on the International Education Strategy
- BEIS, FCDO, DIT and Cabinet Office on the government's policy on support for overseas fossil fuel projects

In green technology and renewable energy, UKEF is helping drive major investments into UK exporters transitioning to green energy. UKEF's Export Development Guarantee (EDG) can now finance major investments into sustainability in the UK and is already helping support energy transition in the automotive industry. Using the EDG, UKEF has guaranteed over £1.5 billion of loans to Nissan, Ford and Jaguar Land Rover that will help finance their transition to electric vehicle production.

Overseas, UKEF has £2 billion dedicated to financing clean growth projects that will create export opportunities for UK businesses. Since 2019, UKEF has financed over £800 million of renewable energy projects, which include 3 major offshore wind farm projects in Taiwan, and backing for solar powered projects in Spain, Ghana and Zambia.

Recognising that the last year has been particularly challenging for small and medium sized enterprises (SMEs), UKEF has worked hard to increase the number of SMEs it supports. In November 2020, UKEF launched a new "Exporters' Edge" marketing campaign featuring the work of its export finance managers working across the regions and nations of the UK, supporting businesses of all sizes, but predominately SMEs.

In December 2020, UKEF launched the SME-focused General Export Facility (GEF), a new flexible export guarantee scheme that can be used by businesses looking for support valued up to around £25 million. In February 2021, UKEF launched a new guarantee scheme, the Standard Buyer Loan Guarantee, that will help smaller exporters to get paid while allowing their customers an extended period to repay a bank loan guaranteed by UKEF under simplified documentation.

Last year UKEF increased its delegated bank limit from £2 million to £5 million to allow more SME applications to be guaranteed automatically, speeding up the process for exporters – typically SMEs – and their participating banks. Whenever an application meets certain criteria, UKEF's guarantee will be automatically granted to the participating bank, minimising application response times and making the process quicker and simpler for smaller businesses to apply for export finance.

Third-party delivery partners

UKEF works with a network of partners, including commercial finance lenders, commercial insurance brokers, other export credit agencies, other government departments, industry bodies and intermediaries. More information about our partners and operations can be found on pages 65-70.

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

Risk management and assurance

UKEF is committed to following best practice and public sector standards in areas of governance, accountability, transparency and risk management. Our approach to risk management is described in detail in the Chief Risk Officer's report on pages 71-111.

UKEF's Enterprise Risk Framework provides senior management with a consistent structure and documented approach to identifying, assessing, evaluating and reporting known and emerging risks across UKEF. The framework fosters continuous monitoring, promotes good risk awareness across the organisation and encourages sound operational and strategic decision making.

Risk culture

A strong risk culture is central to good risk management, starting with the 'tone from the top'. Senior leaders within UKEF are key influencers in inculcating the high standards of behaviour and conduct expected in all our teams. To ensure that the Board is kept apprised of UKEF's primary risks and the effectiveness of UKEF's risk management, it receives a monthly report from the Chief Risk Officer covering credit, enterprise and operational risks.

Our risk culture is reinforced by the Civil Service Code and its core values of integrity, honesty, objectivity and impartiality. It forms part of our decision-making process for strategy setting, business planning, product governance, change management, customer service, resourcing and third-party suppliers and partners.

3 lines of defence

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

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

Strategic risk

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

The strategic risk register is reviewed and updated by the Executive Committee and by the Risk Committee acting on behalf of the Board. The register captures risks that may arise across any combination of our 9 primary enterprise risk categories (as detailed on page 75 of the Chief Risk Officer's Report) within ERM and which have the potential to affect the department's financial performance, reputation or business plan.

Operational risk

Operational risk management (ORM) is an integral part of the Enterprise Risk Framework. Effective management of operational risk is central to achieving our strategic aim of ensuring no viable UK export fails for lack of finance or insurance. UKEF's Operational Risk Policy details the minimum requirements for managing the department's operational risk. This in turn enables staff to make informed decisions based on a sound understanding of our operational risks.

UKEF's approach to ORM is designed to:

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

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

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

Enterprise Risk Division actively works with the other second and third line assurance functions and all heads of division across UKEF to reinforce ownership and accountability for risk management, and to ensure the appropriate design, implementation and monitoring of controls is undertaken. Risk is considered in significant strategic decisions by Executive Committee and the Board, in major new projects by Change Board and Executive Committee, and in other prioritisation and resource allocation commitments throughout the business.

UKEF has further developed its second line of defence capability in 2020-21. A programme of assurance testing has commenced to provide senior management with assurance that key controls are in place and operating in accordance with defined procedures.

Governance assurance processes

Each Group in UKEF identifies and manages their key operational risks using the risk and control assessment process which is reviewed and updated quarterly as a minimum. A bi-annual control environment attestation is also completed by all Executive Committee members and submitted to me. This has given us a more robust understanding of our risk and control environment, and greater confidence in its assurance.

In addition, at year-end, supported by a non-executive member of the Board, I chaired a panel which challenged directors on their control and assurance responsibilities, informed by the risk and control assessments, the bi-annual control environment attestation and any reported incidents.

Financial crime compliance

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

In 2020-21, Compliance Division undertook a number of recruitment activities to further bolster the team and recruitment will continue in 2021-22. In order to ensure that UKEF can access external expertise, and maintain up-to-date knowledge, 2 consultancy contracts were placed on a “call-off as needed” basis. Over time, these will ensure that UKEF’s internal compliance skills continue to develop and increase.

In July 2020, Spotlight on Corruption published a report into the “role of UKEF in fighting corruption in a post-coronavirus and post-Brexit trade drive”. UKEF has given careful consideration to the issues raised in the report, and in particular to each of the recommendations made. UKEF has subsequently met with Spotlight on Corruption alongside EGAC to discuss the report recommendations. Work relating to the report’s recommendations will continue in 2021-22. UKEF acknowledges Spotlight on Corruption’s positive recognition of the department’s actions in relation to the Airbus case, removing Special Handling Arrangements in 2017, reforming UKEF’s anti-corruption procedures and the role played at the OECD in relation to the development and implementation of the revised OECD Recommendation on Bribery and Officially Supported Export Credits.

Compliance Division has implemented changes to UKEF’s external website, to bring together information relating to financial crime compliance into a single external webpage. This is intended to provide greater visibility to customers and external stakeholders on developments in relation to UKEF’s approach to financial crime compliance. This page will remain under regular review and will be updated and added to over time.

Esi Eshun was appointed Director of Legal and Compliance in December 2020

UKEF has implemented an automated processing system to support the Business Group, Due Diligence Unit and Compliance Division in undertaking due diligence screening of parties in UKEF transactions. The system facilitates a more effective flow of information in relation to due diligence screenings and supports improved management information and reporting. The full impact of the introduction of the system will be seen during 2021-2022 at the end of the first full year of operation.

In line with commercial practice, UKEF has undertaken a refreshed financial crime risk assessment. The purpose of this is to provide an assessment of the inherent risk faced by UKEF in relation to financial crime risk, existing controls in place (and their effectiveness) and the resulting residual risk. The outcome of the assessment will consider recommendations for future updates to UKEF's compliance framework and associated controls, systems and management information.

As business volumes have increased, so have the number and complexity of transactions reviewed by Compliance Division. Some UKEF customers and transactions remain challenging from a compliance perspective, either as a result of ongoing law enforcement investigations or as a result of issues that have been brought to light by UKEF's own due diligence. UKEF is dealing with such customers and transactions with appropriate rigour, and is applying enhanced and proportionate due diligence processes designed to ensure that the risk of supporting a transaction tainted by financial crime is appropriately managed. Data relating to financial crime compliance activities will continue to be published retrospectively. This data is hosted on the EGAC website.

Cyber security & information risks

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

UKEF's security framework provides an overview of our approach to ensuring the information assurance of our people, processes and technology. These include background checks on recruitment, resilience training and empowerment of line managers to raise concerns about threats posed by staff. The framework includes a description of the pan-government security environment, overarching principles, and a commentary on UKEF's approach to the mandatory security outcomes set out by the Cabinet Secretary.

To enhance the department's cyber security capability, UKEF has a dedicated protective monitoring function to identify vulnerabilities and threats to our IT infrastructure.

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

In January 2021 UKEF was assessed by the Government Security Group as having exceeded the standards on all 4 technical areas (cyber, personnel, physical and incident management). This has been independently assessed and verified by an external NCSC cyber security professional organisation.

In 2020-21, UKEF established a Knowledge and Information Management function to promote good information governance and maintain compliance with statutory obligations. UKEF has an Information Management Framework which provides a high-level view of the department's information management structure and direction for information management practice, as well as roles and responsibilities for managing information. The department has a Data Protection Policy which sets out what UKEF is required to do to ensure that all staff who process personal data do so in accordance with the UK General Data Protection Regulation.

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

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

Record transfer

Section 3(4) of the Public Records Act 1958 (PRA) requires departments to transfer to The National Archives those records which have been selected for permanent preservation by the time the records are 20 years old. UKEF holds a number of records created between 1996 and 1998, which are potentially in scope of section 3(4), and which are beyond their due date for transfer to the National Archives. These records are currently subject to a retention instrument authorised by The National Archives Advisory Council which extends the retention period by 1 year. The Knowledge and Information Management team has a plan in place to meet our compliance against the PRA by 2022.

Business Continuity Plan

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

Covid-19

UKEF invested considerable resources into Business Continuity Planning preparation during 2019-20 and as a result the transition to remote working was relatively seamless. Throughout 2020-21 all UKEF staff were able to work remotely, all systems and processes functioned as expected.

This was further enhanced by the provision of office equipment and hardware to ensure the home working environment was optimally configured. The UKEF Incident Management Team oversaw the transition and stood down at the end of Quarter 2 when it was assessed that the organisation was functioning in a "business as usual" manner.

Temporary Covid-19 Risk Framework

During the Covid-19 crisis the government established a temporary £10 billion risk framework (UKEF Temporary Covid-19 Risk Framework (TCRF)) to allow UKEF to continue to provide financial support to UK exporters whose credit ratings have been impacted by Covid-19. More details about the TCRF can be found on page 81.

Internal audit

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

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

The Audit Committee, acting on behalf of the Board, approves the Internal Audit Charter.

Based on IAAD's continued engagement throughout 2020-21, the Head of Internal Audit's opinion in relation to the adequacy and effectiveness of the framework of governance, risk management and control was 'Moderate'. This opinion raised thematic issues which are consistent with the contents of this governance statement, including requirements for stronger controls over the IT network, improved monitoring and reporting of the level of UK content in the deals that UKEF support, maintaining the strong level of control over the activities of the Business Group, and continuing the improvements already made to the organisation's culture.

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

Whistleblowing policy

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

No disclosures were made under the policy in 2020-21.

Significant risks and mitigating measures

Monitoring and Reporting UK Content

UKEF has a policy in place whereby we will only support export contracts that comply with a certain minimum level of UK content. However, we do not currently consistently verify the reported level of UK content in the contracts that we support. I am grateful to Internal Audit for bringing this to my attention and I will make sure that the issue is fully addressed in 2021. The risk of not doing so is that banks and exporters do not fully comply with our policy. I am pleased to say that an internal audit in Spring 2020 did not find UKEF had supported any non-compliant contracts.

Business Group: Key Controls

The key controls operating in our Business Group would likely have the greatest consequences for the department if they did not work appropriately. Failure of control could lead to errors or delays in providing exporters with the advice and support that they need as well as legal claims, breaches in security, financial loss, fraud, reputational damage, an adverse impact on the well-being of our employees, and the departure of key members of our staff.

For this reason, the key controls of the Business Group are now audited by IAAD every year. I am pleased to say that no major issues were reported in 2020-21 and that our internal auditors found a very strong level of management control.

Organisational culture

The strong level of control reported by IAAD also reflected the findings of the first ever internal audit of our culture. This audit reported a very high level of appreciation among our staff of the need for internal control, a widespread awareness of the 3 lines of defence model, and a recognition of the importance of risk management and compliance. It was pleasing to see that a strong appreciation of the values of the Civil Service Code was also reported.

Litigation risk

UKEF is currently defending a judicial review in relation to climate related decision making in the Mozambique Liquified Natural Gas project.

Corporate Governance Code for Central Government Departments

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

Louis Taylor
Chief Executive and Accounting Officer

18 June 2021

Notes

1 This letter is available here: gov.uk/government/publications/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities
2 gov.uk/government/organisations/export-guarantees-advisory-council
3 gov.uk/government/organisations/uk-export-finance/about/our-governance#management-structure
4 nao.org.uk/report/department-for-international-trade-and-uk-export-finance-support-for-exports/
5 committees.parliament.uk/publications/3195/documents/29615/default/
6 committees.parliament.uk/publications/4584/documents/46348/default/

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed UKEF to prepare for each financial year accounts detailing the resources acquired, held or disposed of during the year and the use of resources by UKEF during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of UKEF and of its net resource outturn, changes in taxpayers' equity and cash flows for the financial year. In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

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

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKEF's assets, are set out in Managing Public Money published by the HM Treasury. As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that UKEF's auditors are aware of that

Louis Taylor
Chief Executive and Accounting Officer

information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

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

Louis Taylor
Chief Executive and Accounting Officer

18 June 2021

Audit Committee report

Lawrence Weiss
Chair, Audit Committee

The Audit Committee report should be read in conjunction with the Governance Statement which can be found on pages 153-173.

UK Export Finance's Audit Committee Terms of Reference require the Audit Committee to have at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. Currently I serve as Chair alongside Oliver Peterken and Kim Wiehl – all of whom meet the relevant requirements for independence. Candida Morley is also a member of the Committee, representing UK Government Investments (UKGI) having joined it in January 2021. At the end of November 2020, Madelaine McTernan stepped down as member of the Committee.

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

The Audit Committee Terms of Reference also provide that at least 1 member of the Committee:

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

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

Key tasks and responsibilities

In general, the Audit Committee:

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

Activities in this year

During 2020-21, in particular the following topics were discussed:

- financial crime compliance
- planning for the change from LIBOR to risk-free rates
- control over UK content
- post balance sheet events 2019-20
- straight through processing
- IAAD work plans, IAAD findings and management implementation of remedial actions
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgments and estimates in financial statements
- changes to accounting policies relating to new products, financial reporting changes, the deferment of the application of IFRS 9 & 17

The Audit Committee meets at least 4 times in each year. In 2020-21 it met 7 times.

Lawrence Weiss
Chair, Audit Committee

18 June 2021

Risk Committee report

Oliver Peterken
Chair, Risk Committee

The Risk Committee report should be read in conjunction with the Governance Statement which can be found on pages 153-173.

UK Export Finance's Risk Committee Terms of Reference require the Committee to be made up of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. Currently I serve as Chair, alongside Lawrence Weiss and Kimberley Wiehl, all of whom meet the relevant requirements for independence to serve on this committee. Candida Morley is also a member of the Committee, representing UK Government Investments (UKGI). Candida replaced Madelaine McTernan, who stepped down from the Risk Committee at the end of November 2020.

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

The Risk Committee Terms of Reference also provide that at least 1 member of the Risk Committee: will also be a member of the Audit Committee to help facilitate coordination between the Risk and Audit Committees

Key tasks and responsibilities

In general, the Risk Committee:

- examines and reviews any material changes to UKEF's key strategic, operational, compliance, credit, country and reputational risks and considers the adequacy of the arrangements for effective risk management and control
- considers the completeness of the risk profile presented and identify and evaluate potential emerging or new risk issues facing the organisation as a whole
- considers the Key Risk Indicators, as set out by the Chief Risk Officer
- considers risk reports from the Chief Risk Officer

- Considers management assurances on Operational Risk, Compliance and Information Assurance
- Reviews reports on the management of major incidents, and lessons learned in the areas relevant to the Committee's scope

Activities in this year:

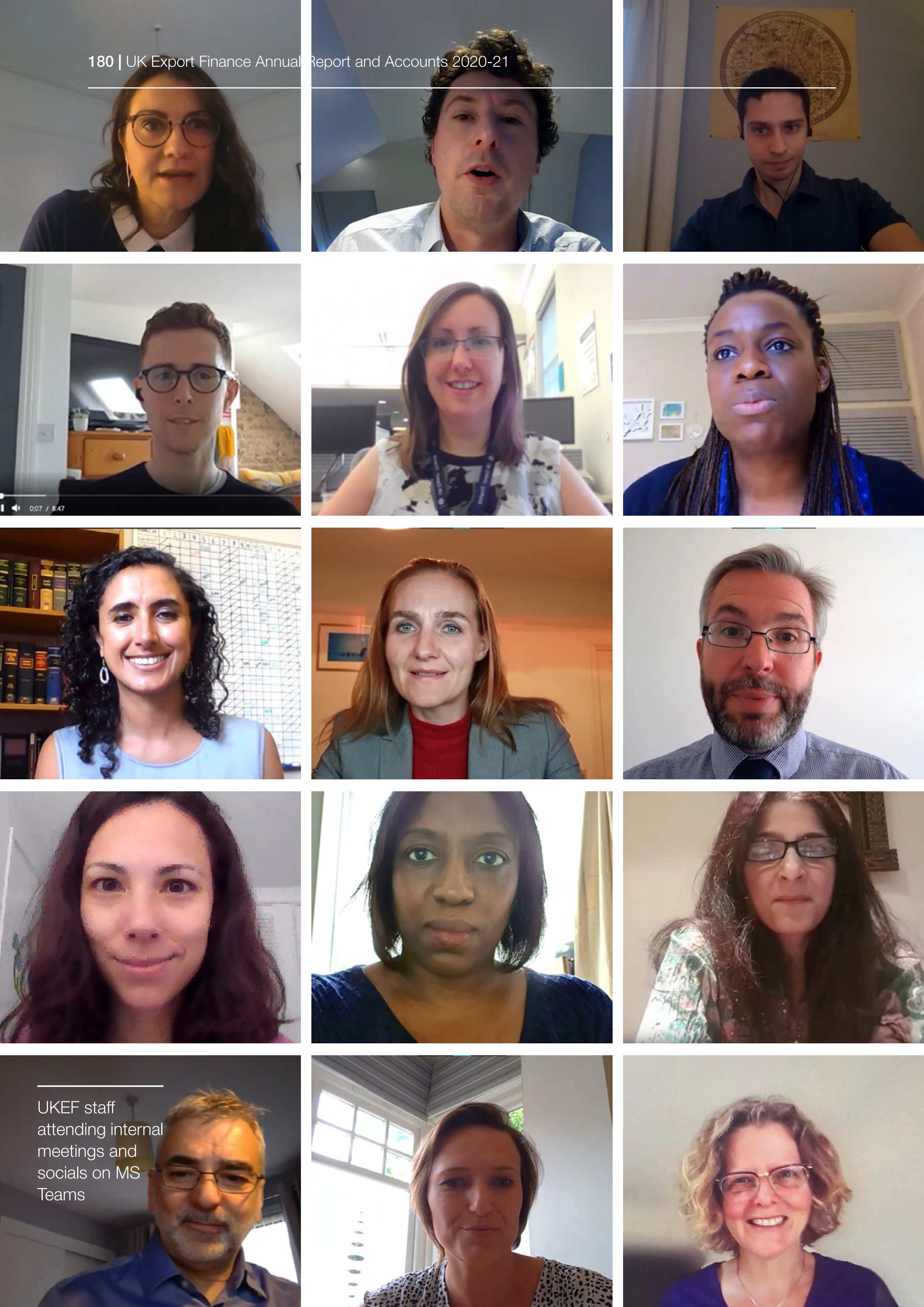
During 2020-21 the following topics were discussed:

- the UKEF portfolio in light of the changing Covid-19 picture
- airline restructuring
- enterprise, operational and strategic risks
- claims scenario analysis
- stress testing and reverse stress testing
- Risk Management Group delegated authorities
- Pricing and credit methodology statements

The Risk Committee meets at least 4 times in each year. In 2020-21 it met 4 times.

Oliver Peterken
Chair, Risk Committee

18 June 2021



UKEF staff attending internal meetings and socials on MS Teams

Our people: staff and remuneration report

The last 12 months have been the most challenging we have faced in recent times. The response of our staff was nothing short of sensational. From the front to the back of our business we have pushed the boundaries, delivering a record set of financial results while providing support to exporters across the UK. Our ambitious change programme remains on track, and the organisation continues to grow and develop.

We have striven to support our staff through the pandemic, providing office equipment to individual homes and implementing more flexible ways of working. We launched new communication channels, a new intranet, and moved all internal events online, including "Ask me Anything" sessions with senior leaders to keep staff engaged and informed while working remotely.

Our staff-led Social Group produced a range of events to raise spirits and ensure staff maintained their ties with colleagues and the department, including quizzes, coffee socials, and photo competitions. We placed a strong focus on mental health and resilience, and actively promoted this approach to respond to the rapidly changing environment. For example, we put additional support in place for our working parents during periods of school closures.

In 2020-21, UKEF's headcount reached a 20-year high, now standing at 403 headcount (397 full-time equivalent (FTE) employees), evidence of the growing demand for UKEF's products and services. Our workforce's growth was facilitated by the HR team completing 171 recruitment campaigns, almost 4 times higher than when I joined the department in 2015. We plan to expand the workforce further during 2021-22 as we head towards 570 UK-based staff, supported by our Spending Review settlement for the coming year.

We have also continued to expand our overseas network of International Export Finance Executives to 11 markets, with a further 4 individuals due to start in Q1 2021-22. These new hires will be covering markets in Malaysia, Philippines, Egypt and North America. The network is also projected to increase further in size during 2021-22 to reach up to 30 key export markets.

Learning & Development activities were significantly disrupted by the pandemic and as a result the average development undertaken per person was 3.4 days, below our 5 days aspiration. Diversity and inclusion remain priorities, and we are very proud that, with 31% of staff identifying as being from ethnic minority groups, we are the most ethnically diverse ministerial department in government. We have also seen the proportion of female staff rise from 37% to 39.2%, while the number of staff declaring a disability almost doubled to 4.2%.

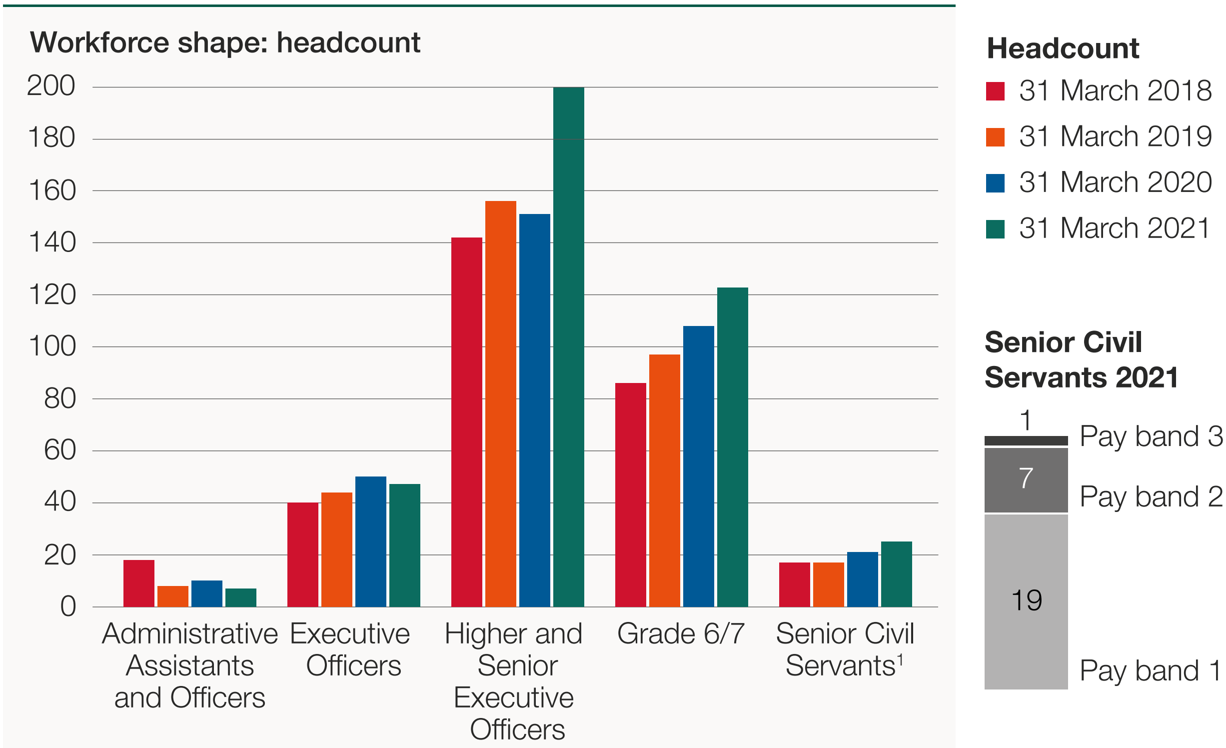
Shane Lynch
Resources Director

Our ambition is to have the most engaged workforce in the Civil Service, and we achieved our highest ever staff engagement score of 71% in this year's annual Civil Service People Survey, making UKEF staff the second most engaged of any ministerial department. We also achieved our highest ever score in all 9 subcategories and are considered a high performing government department.

We launched our 2020-24 People Strategy in April 2020 and have begun to implement it. Transforming this strategy fully into reality will require the commitment and support of all UKEF staff. Our success as a business depends on us harnessing all our talents.

Workforce snapshot

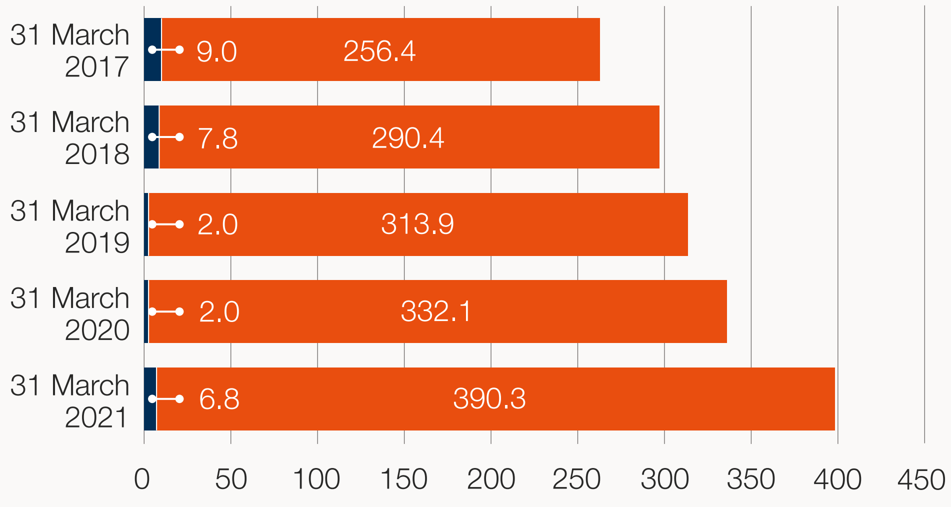
As of 31 March 2021, the directly employed workforce stood at 403 (397.1 FTE). This represents an increase of 18.2% over the previous 12 months and 47.8% over the last 4 years. A strong performance from the UKEF recruitment team has seen vacancy levels fall to their lowest rate in a decade and the department is close to its maximum budgeted headcount.



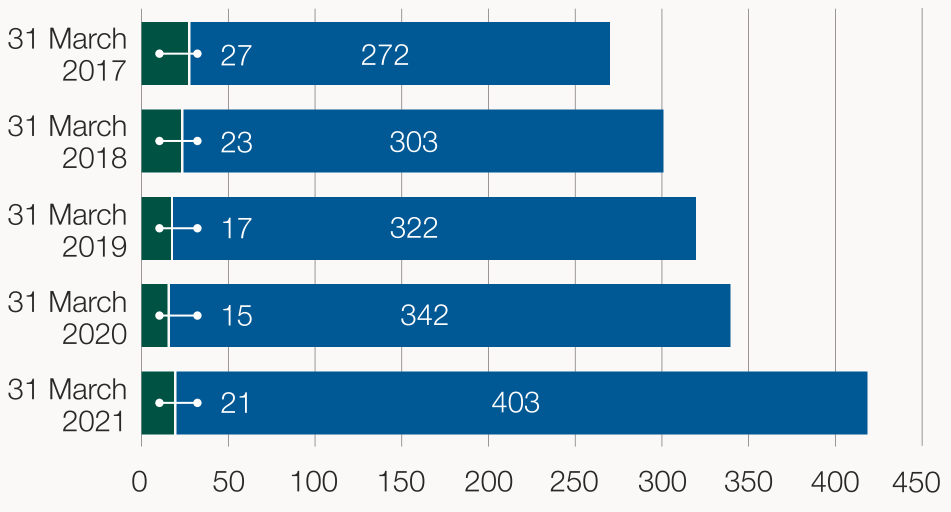
UKEF's total staff costs for 2020-21 were £28.4 million (2019-20 £24.5 million) as detailed in Notes 7 and 8 to the accounts; of which £28.1 million relates to staff with a permanent contract and £0.3 million relates to staff on other contracts. The employment costs and declarations of interest relating to UKEF's ministers and special advisers are disclosed in the Department for International Trade's Annual Report and Accounts.

A further 19 off-payroll staff were engaged on average per month, predominately supporting our Transformation, Change & Innovation team. For 2020-21 we were set a target of £2.1 million and expenditure was below that at £1.8 million.

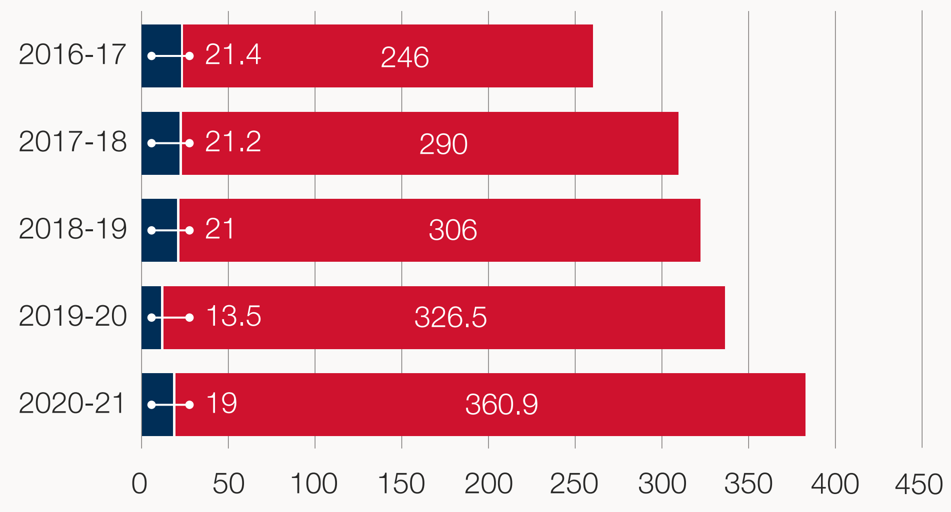
Employee numbers – Full Time Equivalents



Payroll/off-payroll staff – headcount[3]



Payroll/off-payroll staff – average full time equivalent over the financial year



Recruitment

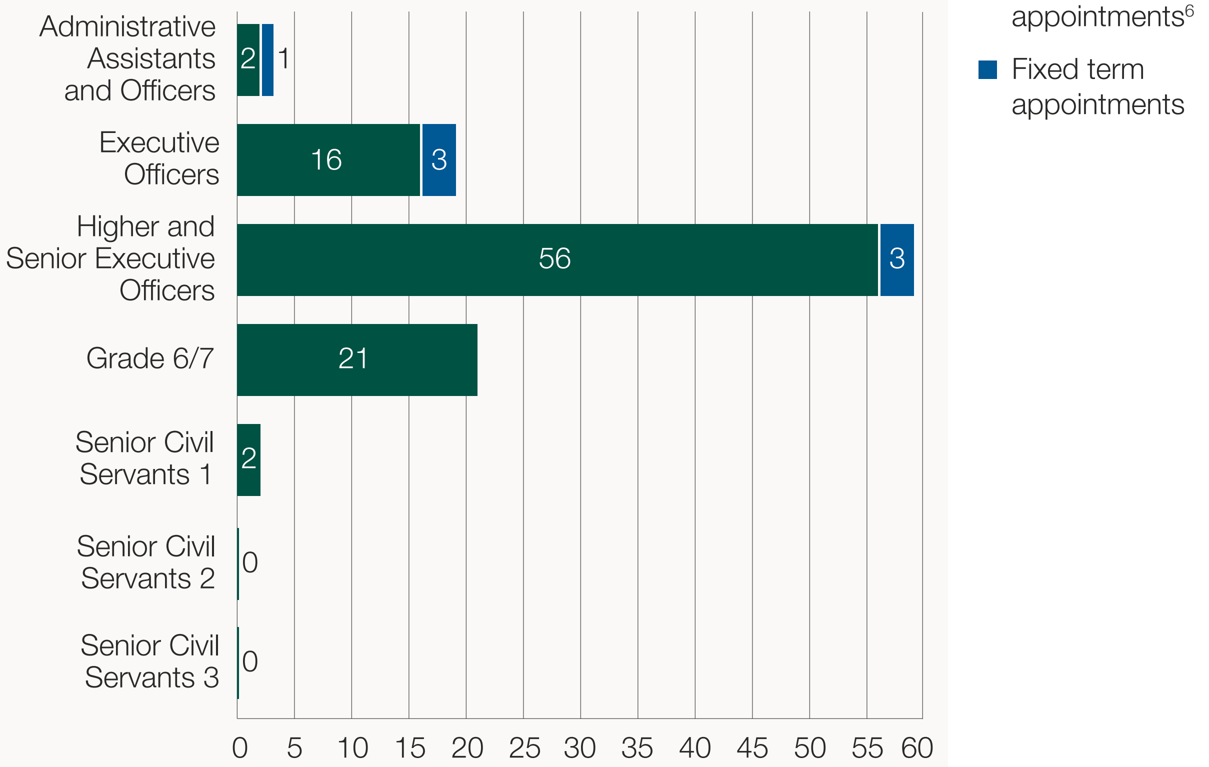
We delivered 171 recruitment campaigns in 2020-21 (an increase of 41% when compared to 2019-20), which resulted in 104 new joiners to UKEF and a further 44 internal moves where employees benefited from either promotion or lateral career development. Over 67% of our hires came from the private sector, reflecting the uniquely commercial nature of UKEF's work within the Civil Service. Staff promotions filled a further 26% of vacancies, a testament to the department's talent and our ability to offer career progression. Furthermore, the number of successful female applicants rose from 32% in 2019-20, to 43% in 2020-21.

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

Staff turnover has decreased during 2020-21 from 16.23% (2019-20) to 12.02% by the end of March 2021.

All UKEF recruitment is carried out in accordance with the relevant employment legislation and the recruitment principles issued by the Civil Service Commission. In compliance with Business Appointment rules, the department is transparent in the advice given to individual applications for senior staff, including special advisers.

Appointments in 2020-21 by grade



Diversity and Inclusion

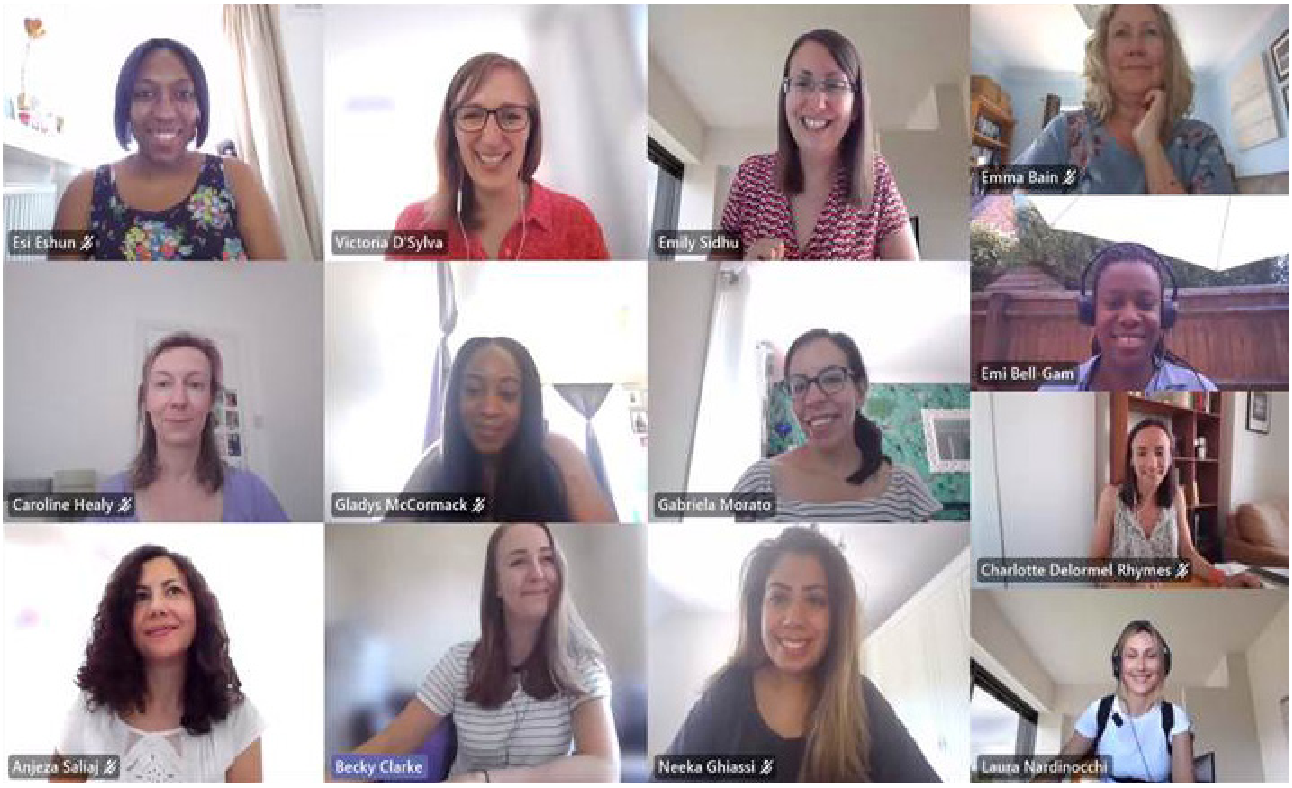
The “Value all” pillar of our 2020-24 People Strategy set out our ambition to improve the diversity of our workforce and ensure that all staff are given the opportunity to flourish in a work environment where they feel supported, valued and included.

UKEF is now leading the way amongst government departments, with 31% of staff identifying as being from ethnic minority groups, compared to 12.7% for the wider Civil Service. 39.2% of our staff are female, an increase from 37.0% in 2020. The proportion of staff declaring a disability has almost doubled year on year to 4.2%. We recognise that despite the progress made over the last 12 months, more can be done to ensure equal opportunity at all levels of our workforce, and that strong diversity is evenly present throughout the organisation. In line with the ambitions in the remaining years of the People Strategy, we will continue to work with all UKEF staff to this end.

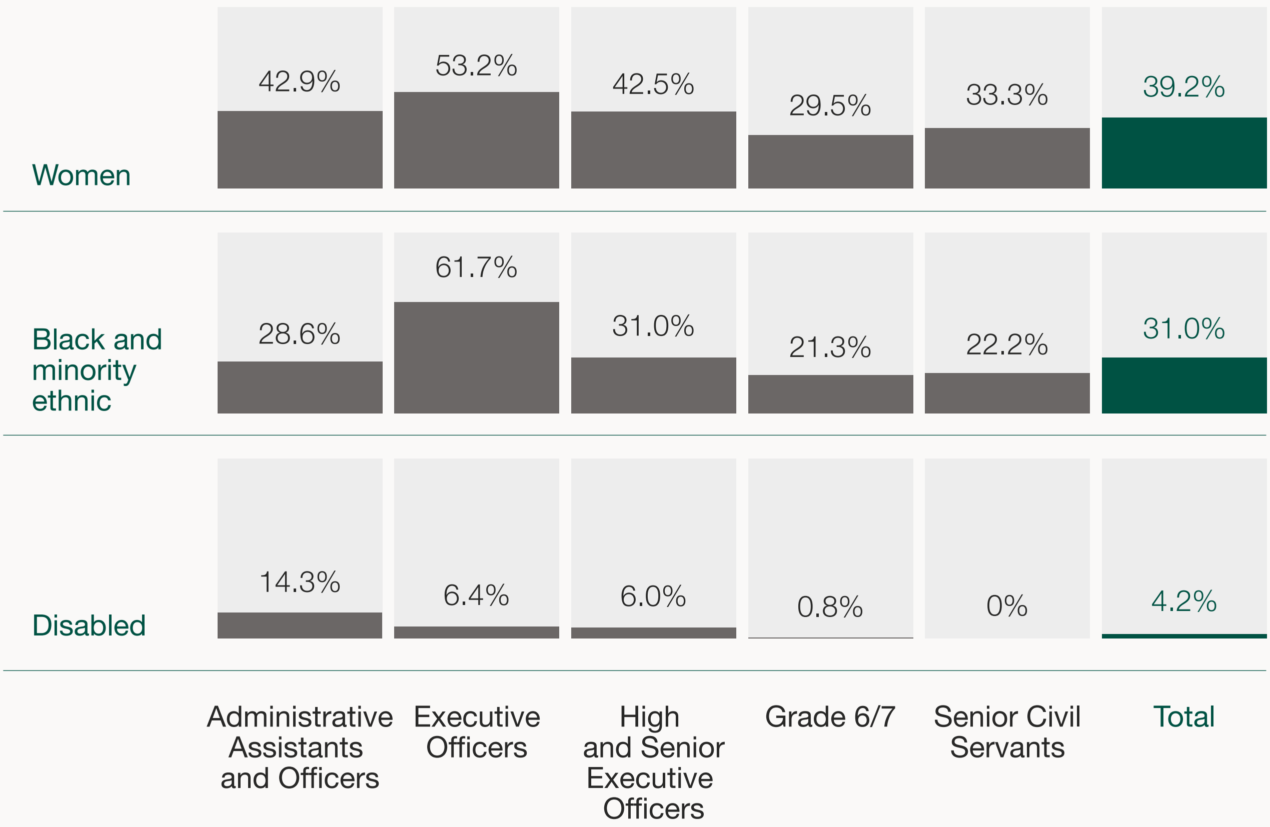
One key enabler of diversity is the recruitment process. The selection process is anonymised to protect against bias, and we offer a guaranteed interview scheme to disabled applicants. All UKEF staff are required to complete training on inclusion in the Civil Service. All recruitment was undertaken online due to the ongoing pandemic. In 2020-21 34.3% of new hires were from ethnic minority groups and 43% were female.

Our colleagues have an essential role to play in creating an inclusive working environment, and our staff networks have become important agents for change. In 2020-21 our Group for Ethnic Minority Staff (GEMS) network was inaugurated, and we also created a group of Disability Advocates to add to our active and well-established Gender Network.

A joint meeting of UKEF’s Gender Network and Group for Ethnic Minorities



UKEF staff diversity as of 31 March 2021



Learning and development

We want to create a work environment where learning and continuous development are at the centre of enabling our staff to achieve their potential.

To deliver our Business Plan, we have identified the following priority learning areas for the department:

- Leadership and management
- Customer focus
- Digital
- Data
- Continuous improvement and change management
- Resilience and wellbeing

We also continued to deliver technical training programmes to develop skills that are often unique to UKEF, including legal awareness, compliance, underwriting, the financial impacts of climate change, credit risk analysis and project financing.

The year was particularly challenging for UKEF's Learning & Development team who had to migrate the entire staff offer to a virtual platform whilst balancing the need to induct a large number of new staff into the department with continuing to meet the development requirements of our existing workforce. There was also significant disruption to the external learning and development market with conferences, seminars and face to face learning activities particularly badly affected.

As a result of this disruption the average number of days spent on formal learning and development activities per employee fell to 3.4 days (5.2 days in 2019-20) with a total of 9,439 hours of learning delivered (12,484 hours in 2019-20). The average spend per head was £784 (£1,143 in 2019-20).

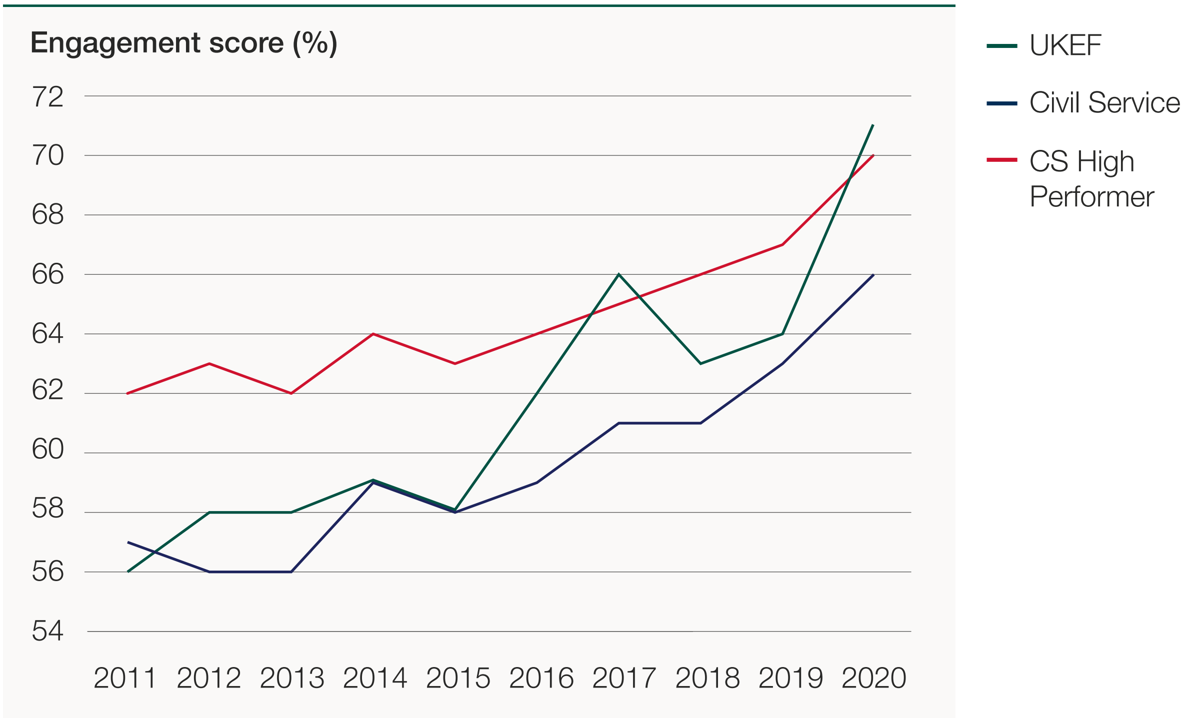
This year's figures represent an excellent performance by our Learning & Development team and demonstrate UKEF's commitment to creating a strong learning culture where all staff have the opportunity to develop their experience, skills and knowledge.

Engagement

We achieved our highest ever staff engagement score of 71% in the annual Civil Service People Survey, and we are now considered to be a "high performing department".

UKEF's score for "Organisational objectives and purpose" was 95%, another record, higher than the previous 11 years of the survey and in the top 5% of the Civil Service. We also achieved strong increases under "Leadership and Managing Change", and another highest ever score for "Learning & Development".

Our ambition is to remain a high performing government department, and we are using the feedback from this year's survey to improve our performance further.



We launched a new intranet in April, which has been widely adopted by staff. We have since produced a flow of news and blogs to keep staff informed and engaged while working remotely. We saw a marked increase in the use of MS Teams and produced 65 virtual events through the year including all-staff Town Hall events, "Ask me Anything" sessions with senior leadership, and staff quizzes to raise spirits while we work remotely.

We delivered UKEF's first virtual all-staff conference in January, attended by 99% of staff and featuring talks from Exports Minister Graham Stuart MP, the UKEF Board and Executive Committee members, customers, a wellbeing expert and colleagues from across grades, divisions, and staff networks.

Health, safety and wellbeing

UKEF has an employee assistance programme that supports employees in addressing challenges across their work, family and personal lives, as well as an occupational health service to ensure we put in place any reasonable adjustments to support employees in the workplace.

UKEF offers a range of benefits designed to support staff wellbeing, including a cycle to work scheme, eye tests, workstation assessments, flu vaccinations and annual health screening.

We have seen a significant reduction in our sickness levels from 7.2 days per employee in 2015-16 to 2.5 days in 2020-21. This is below the ONS reported average for the public sector (5.6 days).

	31 March 2021	31 March 2020	31 March 2019
Average working days lost	2.5	4.3	2.98
% staff with no sickness absence	69.6%	58.4%	55.7%

Trade union facility time

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

HR tracks attendance at these meetings, and they equated to an estimated 123 hours of facility time between 7 staff, with an estimated cost of £3,354 during 2020-21. This equates to each of the 7 trade union officials spending less than 1% of their working hours on facility time, and time spent on paid trade union activities as a percentage of total paid facility time hours is estimated to be 100%.

Reward and recognition

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

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

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

All pay remits must be approved by a Secretary of State or responsible minister, and each department, through its Accounting Officer, is responsible for the propriety and regularity of the pay award to staff. UKEF operated its 2020-21 pay award and performance awards within the guidance set by HM Treasury.

UKEF also operates an in-year reward scheme to recognise exceptional pieces of work, effort or activity that support UKEF in achieving its overall objectives. We made 352 awards to employees through this scheme in 2020-21, up from 234 in the previous year.

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

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

Remuneration and Nominations Committee

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

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

As of 31 March 2021, the membership was:

- Noël Harwerth, non-executive Chair
- Lawrence M. Weiss, non-executive Board member
- Oliver Peterken, non-executive Board member
- Kimberley Wiehl, non-executive Board member
- Candida Morley, ex-officio Board member
- Alistair Clark, ex-officio Board member

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

Salary and pension entitlements for directors

The salary and pension entitlements of the Management Board level Executive Directors of UKEF are set out below. These disclosures have been subject to external audit.

Officials	Salary £'000		Bonus payments £'000		Pension Benefits[7] £'000		Total £'000	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
Louis Taylor, Chief Executive	255-260	250-255	30-35	30-35	n/a	n/a	285-290	280-285
Cameron Fox, Chief Finance & Operating Officer	135-140	135-140	0	0	55	54	190-195	190-195
Samir Parkash, Chief Risk Officer	200-205	195-200	7.5-10	0	n/a	n/a	210-215	195-200

Notes

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

Bonuses are based on attained performance levels and are made as part of the appraisal process. The Cabinet Office sets the parameters for SCS performance awards. Due to the nature of the performance appraisal cycle, end-of-year bonuses are paid in the year following that for which the performance has been assessed; therefore, the bonuses reported in 2020-21 relate to performance in 2019-20.

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

Pay multiples

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

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

	2020-21	2019-20
Band of highest paid director's remuneration[8] (£000)	285-290	280-285
Median total[9] (£)	44,681	43,604
Remuneration ratio[10]	6.4	6.5

In both 2020-21 and the previous year, no employees received remuneration in excess of the highest paid director. Employee remuneration ranged from £23,626-£290,000 (2019-20, £22,938-£285,000).

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

Civil Service pensions

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

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

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

Pension benefits[11]	Accrued pension at pension age as at 31/3/21 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2021	CETV at 31 March 2020	Real increase in CETV	Employer contribution to partnership pension account
Officials	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**Nearest £100**
Louis Taylor Chief Executive	0	0	0	0	0	38,300
Cameron Fox Chief Finance & Operating Officer	19	3	221	178	26	0
Samir Parkash Chief Risk Officer	0	0	0	0	0	29,700

Accrued pension

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

Cash equivalent transfer values

A cash equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued due to their total membership of the pension scheme, not just their service in the senior capacity to which the disclosure requirement applies.

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

Real increase in CETV

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

Staff pension costs

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha” – are unfunded multi-employer defined benefit schemes but UKEF is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2016. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation.

For 2020-21, employers’ contributions of £4,642,189 were payable to the PCSPS and CSOPS (2019-20 £4,078,546) at 1 of 4 rates in the range 26.6% to 30.3% of pensionable pay, based on salary bands.

The Scheme Actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2020-21 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employer’s contributions of £299,113 (2019-20: £249,694) were paid to a single provider, Legal & General. Employer contributions are age-related and range from 8% to 14.75% of pensionable pay.

The employer also matches employees’ contributions of up to 3% of pensionable earnings. In addition, employer contributions of £10,704 (2019-20: £8,972), 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Fees paid to Non-Executive Directors and Council members

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

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

Non-executive member	Fees for 2020-21 £000	Fees for 2019-20 £000
Noël Harwerth Chair of UKEF Board, Member of Remuneration and Nominations Committee	45-50	45-50
Lawrence M. Weiss Member of UKEF Board, Member of Risk, Remuneration and Nominations Committee, Chair of Audit Committee	15-20	15-20
Kimberley Wiehl Member of UKEF Board, Member of Audit, Risk, Remuneration and Nominations Committee	10-15	10-15
Oliver Peterken Member of UKEF Board, Chair of Risk Committee, Member of Audit, Remuneration and Nominations Committee	15-20	15-20
Shalini Khemka Member of UKEF Board, Member of Audit Committee	10-15	10-15
Alistair Clark Chair of EGAC, Ex-officio Member of UKEF Board	0[12]	n/a
Ben Caldecott Member of EGAC	0-5	n/a
Neil Holt Member of EGAC	0-5	n/a
John Morrison Member of EGAC	0-5	n/a
Stephen Prior Member of EGAC	0-5	n/a
Roseline Wanjiru Member of EGAC	0-5	n/a

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

Off-payroll engagements

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

The tables below provide information on those off-payroll engagements paid more than £245 per day during 2020-21.

Off payroll engagements that had lasted longer than 6 months as at 31 March 2021

Number of existing engagements at 31 March 2021	11
of which, had existed for	
less than 1 year	3
between 1 and 2 years	4
between 2 and 3 years	0
between 3 and 4 years	1
4 years or more at the time of reporting	3
Total	11

Tax assurance for new off-payroll engagements

Number of new engagements, plus those that reached 6 months duration, between 1 April 2020 and 31 March 2021	12
Declared Inside IR35	4
Outside IR35	8
No. on Department Payroll	0
Nos reassessed, assurance not received	0

The number of existing and new off payroll engagements has increased since 2019-20, this was in order to support both the UKEF change programme as well as to provide specialised technical support to our Business Group and Risk Management teams.

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

No. of off-payroll engagements of board members, and/or senior officials with significant financial responsibility during the year	3
No. of individuals that have been "deemed" board members and or senior officials with significant financial responsibility during the year	16

Cost of off-payroll engagements

The total cost for 2020-21 including engagements of individuals whose daily cost was less than £245 per day was £1,811,376 (2019-20: £1,484,188).

Expenditure on consultancy

Total expenditure on consultancy in 2020-21 amounted to £948,218 (2019-20, £1,140,281).

Compensation for loss of office

No members of staff left under voluntary exit terms during either 2020-21 or 2019-20.

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

Ill health retirement costs are met by the pension scheme and are not included in the table above. During 2020-21 no individuals retired early on ill-health grounds (2019-20: 0); the total additional accrued pension liabilities in the year amounted to £0 for 2020-21 (2019-20: £0).

Notes

1 21 Senior Civil Servants as at 31 March 2020: SCS3: 1; SCS2: 5; SCS1: 15.
2 Casual refers to those employees engaged on a fixed-term appointment of less than 12 months.
3 In previous years' Annual Report and Accounts we used FTE numbers in the headcount graph.
4 Non-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff.
5 Non-payroll staff encompasses consultants and contingent labour i.e. interim managers, specialist contractors and agency staff.
6 This includes permanent transfers from other government departments.
7 The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.
8 The banded, full time equivalent, annualised of the highest paid director as at 31 March 2021.
9 The median, FTE total remuneration of the staff, excluding the highest paid director as at 31 March 2021.
10 The pay multiple (ratio) between the highest paid director and all other staff.
11 Louis Taylor and Samir Parkash chose not to be covered by the Civil Service pension arrangements during the reporting year.
12 Alistair Clark has waived his fee due to employment commitments.

Yorkshire boat builder Parkol Marine Engineering sold a new fishing trawler to Ireland thanks to UKEF

Parliamentary Accountability and Audit

Statement of Outturn against Parliamentary Supply

Louis Taylor
Chief Executive and Accounting Officer

For the year ended 31 March 2021

In addition to the primary statements prepared under International Financial Reporting Standard (IFRS), the Government Financial Reporting Manual (FReM) requires UKEF to prepare a Statement of Outturn against Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contains a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (Note 1); a reconciliation of outturn to net operating expenditure in the Statement of Comprehensive Net Income and then put brackets around SOCNI, so it reads (SOCNI) to tie the SoPS to the financial statements (Note 2) and a reconciliation of outturn to net cash requirement (Note 3).

The SoPS and Estimates are compiled against the budgeting framework, which is similar, but different to, IFRS. An understanding of the budgeting framework and an explanation of key terms is provided on pages 113-125, in the financial review section of the performance report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

Summary tables 2020-21

									2020-21	2019-20
		Outturn			Estimate				Outturn vs Estimates saving/(excess)	Outturn
Type of spend	SoPS note	Voted £'000	Non-Voted £'000	Total £'000	Voted £'000	Non-Voted £'000	Total £'000	Voted £'000	Total £'000	Total £'000
Departmental Expenditure Limit (DEL)										
Resource	1.1	(499)	–	(499)	(499)	–	(499)	–	–	911
Capital	1.2	784	–	784	800	–	800	–	16	135
Total DEL		**285**	**–**	**285**	**301**	**–**	**301**	**–**	**16**	**1,046**
Annually Managed Expenditure (AME)										
Resource	1.1	217,719	–	217,719	753,420	–	753,420	–	535,701	(217,744)
Capital	1.2	1,109,370	–	1,109,370	1,486,958	–	1,486,958	–	377,588	307,710
Total AME		**1,327,089**	**–**	**1,327,089**	**2,240,378**	**–**	**2,240,378**	**–**	**913,289**	**89,966**
Total Budget										
Resource	1.1	217,220	–	217,220	752,921	–	752,921	–	535,701	(216,833)
Capital	1.2	1,110,154	–	1,110,154	1,487,758	–	1,487,758	–	377,604	307,845
Total		**1,327,374**	**–**	**1,327,374**	**2,240,679**	**–**	**2,240,679**	**–**	**913,305**	**91,012**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2020-21

	SoPS Note	2020-21			2019-20
		Outturn £'000	Estimate £'000	Outturn vs Estimate, savings/(excess) £'000	Outturn £'000
Net cash requirement	3	757,537	1,696,390	938,853	(12,730)

Administration Costs 2020-21

	SoPS Note	2020-21			2019-20
		Outturn £’000	Estimate £’000	Outturn vs Estimate, savings/(excess) £'000	Outturn £’000
Administration costs	1.1	(499)	(499)	–	(384)

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

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

The Notes on pages 218-276 form part of the Statement of Outturn against Parliamentary Supply.

Notes to the SoPS, 2020-21

SoPS1. Outturn detail, by Estimate Line

SoPS1.1 Analysis of resource outturn by Estimate line

											2020-21	2019-20
	Resource outturn							Estimate			Outturn vs Estimate, saving/ (excess) £'000	Outturn
Type of spend (Resource)	Administration			Programme			Total £'000	Total £'000	Virements £'000	Total inc. virements £'000		
	Gross £'000	Income £'000	Net £'000	Gross £'000	Income £'000	Net £'000						Total £'000
Voted spending in DEL												
A. Export Credit Guarantees and Investments	48,782	(49,281)	(499)	–	–	–	(499)	(499)	–	(499)	–	911
Total	**48,782**	**(49,281)**	**(499)**	**–**	**–**	**–**	**(499)**	**(499)**	**–**	**(499)**	**–**	**911**
Voted spending in AME												
B. Export Credits	–	–	–	437,307	(318,492)	118,815	118,815	371,816	–	371,816	253,001	(135,012)
C. Fixed Rate Export Finance Assistance	–	–	–	462	(489)	(27)	(27)	418	–	418	445	(267)
D. Loans and interest equalisation	–	–	–	–	(240)	(240)	(240)	(235)	–	(235)	5	(493)
E. Direct Lending	–	–	–	144,075	(44,904)	99,171	99,171	381,421	–	381,421	282,250	(81,972)
Total	**–**	**–**	**–**	**581,844**	**(364,125)**	**217,719**	**217,719**	**753,420**	**–**	**753,420**	**535,701**	**(217,744)**
Total Resource	**48,782**	**(49,281)**	**(499)**	**581,844**	**(364,125)**	**217,719**	**217,220**	**752,921**	**–**	**752,921**	**535,701**	**(216,833)**

Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury).

Explanation of variances between Resource Outturn by Estimate:

A. Voted spending in Resource DEL (RDEL) – UKEF operates (with HM Treasury consent) a zero-net RDEL regime for administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2019 SR(19) UKEF has a maximum amount of income which can be used to fully offset expenditure. Annually, as part of the Supply Estimates process, HM Treasury approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium to cover risk and administration costs.

Typically, a net RDEL outturn of zero shows that UKEF is covering its administration costs from the premium that was written. In 2020-21, however, a small part of RDEL Administration budget, £0.5 million, was transferred from its RDEL to CDEL budget to allow UKEF to carry out an essential laptop refresh for all staff. This budget was in addition to CDEL budget of £0.3 million voted as part of the Supply Estimate process 2020-21.

This meant that UKEF's net RDEL administration budget in 2020-21 became negative due to the previously agreed treatment of the departmental income used to offset the operating costs. The budget transfer from RDEL to CDEL had a zero-net impact on the total DEL budget in 2020-21.

As part of RDEL budget transfer UKEF sought contingency funding from HMT to allow the department to access the funds for purchasing the laptops prior to the Supplementary Estimate 2020-21 being laid, therefore allowing quicker access to the funding than otherwise would have been possible.

B. Export Credits £253 million – the variance is largely a result of the changing economic conditions, including the impact of Covid-19, in regard to the recoverability of insurance assets, change in claims, as well as underwriting fund and foreign exchange movements.

E. Direct Lending £282 million – the variance relates to foreign exchange movements on expected lending activity which cannot be forecast with certainty and which is unhedged. A more detailed explanation of UKEF's foreign exchange risk can be found in the Chief Risk Officer's Report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS1.2 Analysis of capital outturn by Estimate line

							2020-21	2019-20
			Outturn			Estimate	Outturn vs Estimate, saving/ (excess) £'000	Outturn £'000
Type of spend (Capital)	Gross £'000	Income £'000	Net £'000	Total £'000	Virements £'000	Total inc. virements £'000		
Voted spending in DEL								
A. Export Credit Guarantees and Investments	784	–	784	800	–	800	16	135
Total	**784**	**–**	**784**	**800**	**–**	**800**	**16**	**135**
Voted spending in AME								
B. Export Credits	–	–	–	–	–	–	–	–
C. Fixed Rate Export Finance Assistance	–	–	–	–	–	–	–	–
D. Loans and interest equalisation	–	(2,564)	(2,564)	(2,056)	–	(2,056)	508	(5,142)
E. Direct Lending	1,237,627	(125,693)	1,111,934	1,489,014	–	1,489,014	377,080	312,852
Total	**1,237,627**	**(128,257)**	**1,109,370**	**1,486,958**	**–**	**1,486,958**	**377,588**	**307,710**
Total Capital	**1,238,411**	**(128,257)**	**1,110,154**	**1,487,758**	**–**	**1,487,758**	**377,604**	**307,845**

Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury).

Explanation of variances between Capital Outturn and Estimate:

E. Direct Lending £377 million – the lower usage of the Direct Lending facility is due to slower utilisation than the headroom provided (to meet possible demand) in the Estimate. Some of the forecast Direct Lending deals have been delayed until 2021-22. More details of UKEF's risks including, foreign currency and liquidity risk can be found in the Chief Risk Officer's Report in the Performance section of the Annual Report and Note 20 of the financial statements.

SoPS2 Reconciliation of outturn to net operating expenditure

The total resource outturn in the SoPS is the same as net operating expenditure in the SoCNE, therefore this reconciliation is not relevant for UKEF.

SoPS3 Reconciliation of net resource outturn to net cash requirement

	SoPS Note	Outturn £'000	Estimate £'000	Outturn vs Estimate, saving/ (excess) £'000
Resource Outturn	**SoPS1.1**	**217,220**	**752,921**	**535,701**
Capital Outturn	**SoPS1.2**	**1,110,154**	**1,487,758**	**377,604**
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation & amortisation of equipment and intangible assets		(209)	(430)	(221)
Net foreign exchange differences & other non cash items		(87,118)	(476,403)	(389,285)
New provisions and adjustments to previous provisions		(438,815)	(893,422)	(454,607)
Adjustments to reflect movements in working balances:				
Increase/(Decrease) in receivables		249,038	736,606	487,568
(Increase)/Decrease in payables		(292,733)	89,360	382,093
Use of provisions		–	–	–
Net cash requirement		**757,537**	**1,696,390**	**938,853**

Parliamentary Accountability Disclosures

These disclosures are subject to audit.

Losses

In 2020-21, UKEF made realised and unrealised foreign exchange losses totalling £138 million (as disclosed in Note 6 of the financial statements). These were incurred as part of business as usual activities but are required to be disclosed in this report.

Other Parliamentary Accountability Disclosures

In 2020-21 UKEF has not made any special payments or gifts and does not have any remote contingent liabilities.

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

Louis Taylor

Louis Taylor
Chief Executive and Accounting Officer

18 June 2021

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Export Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2021 under the Government Resources and Accounts Act 2000. The financial statements comprise the Department's Statements of; Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

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

In my opinion, the financial statements:

- give a true and fair view of the state of the Department's affairs as at 31 March 2021 and of the Department's net operating loss for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1(B) to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities. The long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years. Details of the impact of this on the financial statements are provided in Note 1(B) to the financial statements.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2021 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Export Credits Guarantee Department in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Export Credits Guarantee Department's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Export Credits Guarantee Department's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Export Credits Guarantee Department is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Export Credits Guarantee Department and its environment obtained in the course of the audit, I have not identified material misstatements in the performance and

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

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

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Export Credits Guarantee Department's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Export Credits Guarantee Department will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Export Credits Guarantee Department's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Export Credits Guarantee Department's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Export Credits Guarantee Department's controls relating to compliance with the Export and Investment Guarantees Act 1991 and the HM Treasury consents made thereunder and the UK government sanctions regime;
- discussing among the engagement team and involving relevant internal specialists, including areas around the valuation of insurance assets and liabilities, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals;
- obtaining an understanding of Export Credits Guarantee Department's framework of authority as well as other legal and regulatory frameworks that the Export Credits Guarantee Department operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Export Credits Guarantee Department. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000, Managing Public Money, Employment Law, tax legislation, the Export and Investment Guarantees Act 1991 and the HM Treasury consents made thereunder and the UK government sanctions regime.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating

the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- for transactions selected for testing ensured that appropriate authorisations, in line with HM Treasury consents and frameworks, had been obtained.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

21 June 2021

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

Financial Statements

UK Export Finance 2020-21
at 31 March 2021

Statement of Comprehensive Net Income

For the year ended 31 March 2021

	Note	2020-21 £'000	2019-20 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		490,737	207,169
Less ceded to reinsurers		(160,932)	(29,748)
Net premium income	**3(a)**	**329,805**	**177,421**
Net investment return	3(b)	4,097	41,675
Net claims credit & provision for likely claims	5	–	7,274
Net foreign exchange gain	6	–	11,148
Total income		**333,902**	**237,518**
Expenses			
Net claims charge for the year	5	(54,488)	–
Changes in insurance liabilities (net of reinsurance)	18	(324,389)	(62,107)
Staff costs	7	(22,001)	(18,878)
Other administration and operating costs	8	(15,744)	(13,003)
Net foreign exchange loss	6	(24,595)	–
Total expenses		**(441,217)**	**(93,988)**
Net income/(loss) arising from Export Credit Guarantees and Insurance Activities		**(107,315)**	**143,530**
Export Finance Assistance			
Income			
Net investment return	3(b)	14,585	39,084
Net foreign exchange gain	6	–	43,648
Total income		**14,585**	**82,732**
Expenses			
Staff costs	7	(6,412)	(5,583)
Other administration and operating costs	8	(4,589)	(3,846)
Net foreign exchange loss	6	(113,489)	–
Total expenses		**(124,490)**	**(9,429)**
Net income/(loss) arising from Export Finance Assistance Activities		**(109,905)**	**73,303**
Net operating income/(loss) for the year		**(217,220)**	**216,833**

All income and expenditure is derived from continuing operations.

The Notes on pages 218-276 form part of these accounts.

Statement of Financial Position

As at 31 March 2021

	Note	31 March 2021 £'000	31 March 2020 £'000
Non-current assets:			
Equipment and intangible assets		893	318
Financial assets			
– Fair value through profit or loss	9(a)	49	339
– Loans and receivables	9(b)	1,845,501	961,852
Insurance contracts			
– Insurance assets	10	224,552	246,866
– Reinsurers' share of insurance liabilities	11	577,923	359,302
Insurance and other receivables	12	242,663	18,000
Total non-current assets		**2,891,581**	**1,586,677**
Current assets:			
Financial assets			
– Fair value through profit or loss	9(a)	263	440
– Loans and receivables	9(b)	132,041	152,367
Insurance contracts			
– Insurance assets	10	52,516	68,709
Insurance and other receivables	12	132,649	15,685
Cash and cash equivalents	13	112,658	137,730
Total current assets		**430,127**	**374,931**
Total assets		**3,321,708**	**1,961,608**
Current liabilities:			
Financial liabilities			
– Fair value through profit or loss	15	(19)	(125)
Consolidated Fund Payable	16	(112,658)	(137,730)
Provisions	17(b)	(12,413)	(3,770)
Insurance and other payables	17(a)	(63,059)	(29,580)
Total current liabilities		**(188,149)**	**(171,205)**
Non-current assets plus net current assets		**3,133,559**	**1,790,403**
Non-current liabilities			
Financial liabilities			
– Fair value through profit or loss	15	(39)	(123)
Insurance contracts			
– Insurance liabilities	18	(1,860,510)	(1,317,500)
Insurance and other payables	17(a)	(259,701)	–
Total non-current liabilities		**(2,120,250)**	**(1,317,623)**
Assets less liabilities		**1,013,309**	**472,780**
Taxpayers' equity			
Exchequer Financing		(2,155,673)	(3,106,838)
Cumulative Trading Surplus		3,684,456	3,791,771
General Fund		(515,474)	(212,153)
Total taxpayers' equity		**1,013,309**	**472,780**

The Notes on pages 218-276 form part of these accounts.

Louis Taylor
Chief Executive and Accounting Officer
18 June 2021

Statement of Cash Flows

For the year ended 31 March 2021

	Note	2020-21 £'000	2019-20 £'000
Cash flows from operating activities			
Net operating income/(loss)		(217,220)	216,833
Adjustments for non-cash transactions:			
Depreciation & amortisation			
– Depreciation of equipment	8	209	310
Other:			
– Audit fees	8	212	196
– Amortised loans & receivables income	9(b)	(45,144)	(44,202)
– Net unrealised foreign exchange (gain) / loss on net assets other than cash	6	132,050	(53,227)
Provisions:			
– Insurance liabilities net of reinsurance movement	18	324,389	62,107
– Financial guarantees provision movement	17(b)	8,683	2,154
– Claims provision movement	10(a)	45,805	(9,428)
– Interest on claims provision movement	10(b)	29,352	(3,004)
– Early retirement and dilapidation movement		–	(9)
– Impairment of uninsured Capital Loans		30,586	5,385
Movements in Working Capital other than cash:			
– Claims assets before provisions	10(a)	(37,095)	63,743
– Interest on claims assets before provisions	10(b)	(13,690)	(6,986)
– Loans & receivables	9(b)	147,509	93,977
– Insurance & other receivables		(346,229)	(11,395)
– Insurance & other payables		292,923	4,213
– Financial assets held at fair value	9(a)	467	328
– Financial liabilities held at fair value	15	(190)	(420)
Net cash inflow/(outflow) from operating activities		**352,617**	**320,575**
Cash flows from investing activities			
Purchase of equipment and intangibles		(784)	(135)
Export Finance Assistance loans:			
– Advances	9(b)	(1,237,627)	(383,651)
– Recoveries	9(b)	128,257	75,941
Net cash inflow/(outflow) from investing activities		**(1,110,154)**	**(307,845)**
Net cash inflow/(outflow) from operating and investing activities		**(757,537)**	**12,730**
Cash flows from financing activities			
Receipts from the Consolidated Fund (Supply):			
– relating to the current year		870,195	125,000
Net cash inflow/(outflow) from financing activities		**870,195**	**125,000**
Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund		**112,658**	**137,730**
Payments to the Consolidated Fund:			
– relating to the prior year	13	(137,730)	(187,649)
Net increase/(decrease) in cash and cash equivalents in the year		**(25,072)**	**(49,919)**
Cash and cash equivalents at the beginning of the year	13	137,730	187,649
Cash and cash equivalents at the end of the year	**13**	**112,658**	**137,730**

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 £6.0 million (refer to Note 6).

The Notes on pages 218-276 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2021

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2019		**(3,230,474)**	**3,648,241**	**(149,286)**	**268,481**
Changes in taxpayers' equity for 2019-20					
Non-Cash Adjustments:					
Auditors' remuneration	8	196	–	–	196
Movements in Reserves:					
Transfers between reserves		136,170	–	(136,170)	–
Recognised in Statement of Comprehensive Net Income		–	143,530	73,303	216,833
Total recognised income and expense for 2019-20		**136,366**	**143,530**	**(62,867)**	**217,029**
Amounts arising in year payable to the consolidated fund		(12,730)	–	–	(12,730)
Balance at 31 March 2020		**(3,106,838)**	**3,791,771**	**(212,153)**	**472,780**
Changes in taxpayers' equity for 2020-21					
Non-Cash Adjustments:					
Auditors' remuneration	8	212	–	–	212
Movements in Reserves:					
Transfers between reserves		193,416	–	(193,416)	–
Recognised in Statement of Comprehensive Net Income		–	(107,315)	(109,905)	(217,220)
Total recognised income and expense for 2020-21		**193,628**	**(107,315)**	**(303,321)**	**(217,008)**
Amounts arising in year payable to the consolidated fund	13	757,537	–	–	757,537
Balance at 31 March 2021		**(2,155,673)**	**3,684,456**	**(515,474)**	**1,013,309**

The Notes on pages 218-276 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 2020-21 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 2020-21 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 the 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.

An initial impact assessment of IFRS 9 and IFRS 17 was completed in 2019. 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 1 of them. As a result, the Department started a multi-year Financial Reporting Changes Programme, involving cross-departmental functions, to implement the 2 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 technical decisions, options and accounting judgements to determine the Department's future accounting policies and their impact. This will then determine the full implementation direction, leading up to the Design of the Programme solution and the implementation of the 2 Standards.

Major FReM changes for 2020-21

UKEF has reviewed the major FReM changes for 2020-21 and determined there are no changes that will have a significant impact on the Department's 2020-21 financial statements.

B. Use of significant judgement and estimates

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

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

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

Significant uncertainty arising from the nature of UKEF's Underwriting Activity (Accounts 1 – 3 and 6)

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 1 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 3 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 9 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
- **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, impairment charge for loans measured at amortised cost, 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
- 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 1 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.

Employees can opt to open a partnership pension account (Group Personal Pension), which is similar to a stakeholder pension with an employer contribution. UKEF makes age-related contributions, as a percentage of pensionable earnings.

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:

1. Fair value through profit or loss
2. 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. For loans, in accordance with IAS 39.AG8, at any point in time the amortised cost is the net present value of the updated future expected cash flows, discounted by the original effective interest rate. Re-estimation of the future cash flows arising from a financial instrument carried at amortised cost normally results in a change in carrying amount, since the revised estimated cash flows are discounted at the original effective interest rate. The necessary adjustment is recognised in profit and loss.

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 1 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 1 of the following Accounts:

- **Account 1:** relates to 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:** relates to 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:** relates to 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:** relates to the provision of direct lending (underwriting in the normal course of Business) (since 2014).
- **Account 6:** relates to all business underwritten and booked under the Temporary Covid Risk Framework (TCRF) – approved by HM Treasury since 2 April 2020.

The TCRF supplementary risk framework was put in place to support the UK economy. For further details about TCRF, refer to the Chief Risk Officer report on page 81.

i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2021

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Income							
Gross premium income	–	433,444	–	–	–	57,293	490,737
Less ceded to reinsurers	–	(128,962)	–	–	–	(31,970)	(160,932)
Net premium income	**–**	**304,482**	**–**	**–**	**–**	**25,323**	**329,805**
Net investment return income	3,409	688	5,028	267	9,290	–	18,682
Claims credit	3,503	–	–	–	–	–	3,503
Changes in insurance liabilities net of reinsurance	–	–	–	–	–	–	–
Net foreign exchange gain	–	–	–	–	–	–	–
Total income	**6,912**	**305,170**	**5,028**	**267**	**9,290**	**25,323**	**351,990**
Expenses							
Claims charge & provision for likely claims	–	(57,991)	–	–	–	–	(57,991)
Changes in insurance liabilities net of reinsurance	–	(308,729)	–	–	–	(15,660)	(324,389)
Staff costs	(284)	(16,735)	(796)	(170)	(5,484)	(4,944)	(28,413)
Other administration and operating costs	(203)	(11,976)	(570)	(122)	(3,924)	(3,538)	(20,333)
Net foreign exchange loss	(11,015)	(13,472)	–	–	(113,489)	(108)	(138,084)
Total expenses	**(11,502)**	**(408,903)**	**(1,366)**	**(292)**	**(122,897)**	**(24,250)**	**(569,210)**
Net income / (loss)	**(4,590)**	**(103,733)**	**3,662**	**(25)**	**(113,607)**	**1,073**	**(217,220)**

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2020

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Income						
Gross premium income	–	207,169	–	–	–	207,169
Less ceded to reinsurers	–	(29,730)	(18)	–	–	(29,748)
Net premium income	**–**	**177,439**	**(18)**	**–**	**–**	**177,421**
Net investment return income	39,789	1,886	–	760	38,324	80,759
Claims credit	10,868	–	–	–	–	10,868
Changes in insurance liabilities net of reinsurance	–	–	18	–	–	18
Net foreign exchange gain	7,130	4,018	–	–	43,648	54,796
Total income	**57,787**	**183,343**	**–**	**760**	**81,972**	**323,862**
Expenses						
Net claims charge for the year	–	(3,594)	–	–	–	(3,594)
Changes in insurance liabilities net of reinsurance	–	(62,125)	–	–	–	(62,125)
Staff costs	(294)	(17,825)	(759)	(441)	(5,142)	(24,461)
Other administration and operating costs	(202)	(12,281)	(520)	(304)	(3,542)	(16,849)
Total expenses	**(496)**	**(95,825)**	**(1,279)**	**(745)**	**(8,684)**	**(107,029)**
Net income	**57,291**	**87,518**	**(1,279)**	**15**	**73,288**	**216,833**

iii. Additional segmental information

For the year ended 31 March 2021, there was 1 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 £128.2 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 2021

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Non-current assets:							
Equipment and intangible assets	–	893	–	–	–	–	893
Financial assets							
– Fair value through income	–	–	–	49	–	–	49
– Loans & receivables	–	–	668,420	1,019	1,176,062	–	1,845,501
Insurance contracts							
– Insurance assets	170,059	54,493	–	–	–	–	224,552
– Reinsurers' share of insurance liabilities	–	522,721	23,232	–	–	31,970	577,923
Insurance and other receivables	–	53,961	–	–	–	188,702	242,663
Total non-current assets	**170,059**	**632,068**	**691,652**	**1,068**	**1,176,062**	**220,672**	**2,891,581**
Current assets:							
Financial assets							
– Fair value through income	–	–	–	263	–	–	263
– Loans & receivables	–	–	69	1,156	130,816	–	132,041
Insurance contracts							
– Insurance assets	38,428	14,088	–	–	–	–	52,516
Insurance and other receivables	10	80,334	–	3	1	52,301	132,649
Cash and cash equivalents	49,296	143,146	(84,632)	2,876	(21,078)	23,050	112,658
Total current assets	**87,734**	**237,568**	**(84,563)**	**4,298**	**109,739**	**75,351**	**430,127**
Total assets	**257,793**	**869,636**	**607,089**	**5,366**	**1,285,801**	**296,023**	**3,321,708**
Current liabilities:							
Financial liabilities							
– Financial liabilities held at fair value	–	–	–	(19)	–	–	(19)
Consolidated Fund (Payable) / Receivable	(49,296)	(143,146)	84,632	(2,876)	21,078	(23,050)	(112,658)
Provisions	–	(12,413)	–	–	–	–	(12,413)
Insurance and other payables	(384)	(36,821)	–	–	(24)	(25,831)	(63,060)
Total current liabilities	**(49,680)**	**(192,380)**	**84,632**	**(2,895)**	**21,054**	**(48,881)**	**(188,150)**
Non-current assets plus net current assets	**208,113**	**677,256**	**691,721**	**2,471**	**1,306,855**	**247,142**	**3,133,558**
Non-current liabilities							
Financial liabilities							
– Financial liabilities held at fair value	–	–	–	(39)	–	–	(39)
– Insurance liabilities	–	(1,704,465)	(108,415)	–	–	(47,630)	(1,860,510)
Insurance and other payables	–	(38,211)	–	–	–	(221,489)	(259,700)
Total non-current liabilities	**–**	**(1,742,676)**	**(108,415)**	**(39)**	**–**	**(269,119)**	**(2,120,249)**
Assets less liabilities	**208,113**	**(1,065,420)**	**583,306**	**2,432**	**1,306,855**	**(21,977)**	**1,013,309**
Taxpayers' equity							
Exchequer Financing	(1,495,466)	(2,944,879)	702,564	2,118	1,603,040	(23,050)	(2,155,673)
Cumulative Trading Surplus	1,703,579	1,879,459	100,260	–	–	1,158	3,684,456
General Fund	–	–	(219,518)	314	(296,185)	(85)	(515,474)
Total taxpayers' equity	**208,113**	**(1,065,420)**	**583,306**	**2,432**	**1,306,855**	**(21,977)**	**1,013,309**

v. Segmental Statement of Financial Position at 31 March 2020

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Non-current assets:						
Equipment and intangible assets	–	318	–	–	–	318
Financial assets						
– Fair value through income	–	–	–	339	–	339
– Loans & receivables	–	–	–	2,342	959,510	961,852
Insurance contracts						
– Insurance assets	220,129	26,737	–	–	–	246,866
– Reinsurers' share of insurance liabilities	–	333,113	26,189	–	–	359,302
Insurance and other receivables	–	18,000	–	–	–	18,000
Total non-current assets	**220,129**	**378,168**	**26,189**	**2,681**	**959,510**	**1,586,677**
Current assets:						
Financial assets						
– Fair value through income	–	–	–	440	–	440
– Loans & receivables	–	–	–	2,456	149,911	152,367
Insurance contracts						
– Insurance assets	42,319	26,390	–	–	–	68,709
Insurance and other receivables	–	15,703	–	–	(18)	15,685
Cash and cash equivalents	67,248	179,907	(10,724)	5,148	(103,849)	137,730
Total current assets	**109,567**	**222,000**	**(10,724)**	**8,044**	**46,044**	**374,931**
Total assets	**329,696**	**600,168**	**15,465**	**10,725**	**1,005,554**	**1,961,608**
Current liabilities:						
Financial liabilities						
– Financial liabilities held at fair value	–	–	–	(125)	–	(125)
Consolidated Fund (Payable) / Receivable	(67,248)	(179,907)	10,724	(5,148)	103,849	(137,730)
Provisions	–	(3,770)	–	–	–	(3,770)
Insurance and other payables	(449)	(29,116)	–	4	(19)	(29,580)
Total current liabilities	**(67,697)**	**(212,793)**	**10,724**	**(5,269)**	**103,830**	**(171,205)**
Non-current assets plus net current assets	**261,999**	**387,375**	**26,189**	**5,456**	**1,109,384**	**1,790,403**
Non-current liabilities						
Financial liabilities						
– Financial liabilities held at fair value	–	–	–	(123)	–	(123)
Insurance contracts						
– Insurance liabilities	–	(1,206,128)	(111,372)	–	–	(1,317,500)
Total non-current liabilities	**–**	**(1,206,128)**	**(111,372)**	**(123)**	**–**	**(1,317,623)**
Assets less liabilities	**261,999**	**(818,753)**	**(85,183)**	**5,333**	**1,109,384**	**472,780**
Taxpayers' equity						
Exchequer Financing	(1,446,170)	(2,801,945)	(185,593)	4,682	1,322,188	(3,106,838)
Cumulative Trading Surplus	1,708,169	1,983,192	100,410	–	–	3,791,771
General Fund	–	–	–	651	(212,804)	(212,153)
Total taxpayers' equity	**261,999**	**(818,753)**	**(85,183)**	**5,333**	**1,109,384**	**472,780**

3. Premium Income & Net investment return

3(a) Premium Income

	2020-21 £'000	2019-20 £'000
Underwriting Premium Income:		
Insurance contracts premium receivable (IFRS4)		
Current Underwriting Year:		
Gross Premium	453,981	200,400
Less ceded to reinsurers	(158,577)	(8,118)
Net Premium income	**295,404**	**192,282**
Previous Underwriting Years:		
Gross Premium	14,930	77
Less ceded to reinsurers	(2,355)	(21,630)
Net Premium income	**12,575**	**(21,553)**
Summary		
Gross Premium	468,911	200,477
Less ceded to reinsurers	(160,932)	(29,748)
Net Premium income	**307,979**	**170,729**
Financial guarantees premium amortised (IAS39)		
Summary		
Gross Premium	21,826	6,692
Less ceded to reinsurers	–	–
Net Premium income	**21,826**	**6,692**
Total Net premium income	**329,805**	**177,421**

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	2020-21 Total £'000	2019-20 Total £'000
Export Credit Guarantees and Insurance					
Interest income	4	3,409	357	3,766	41,181
Other income		–	331	331	494
Total Income		**3,409**	**688**	**4,097**	**41,675**
Net Income		**3,409**	**688**	**4,097**	**41,675**

	Note	Account 3 £'000	Account 4 £'000	Account 5 £'000	2020-21 Total £'000	2019-20 Total £'000
Export Finance Assistance						
Amortised loans & receiveables income	9(b)	5,028	240	39,876	45,144	44,202
Gain in fair value of derivatives		–	489	–	489	640
Total Income		**5,028**	**729**	**39,876**	**45,633**	**44,842**
Impairment of loans & receivables	9(b)	–	–	(30,586)	(30,586)	(5,385)
Loss in fair value of derivatives		–	(462)	–	(462)	(373)
Total Costs		**–**	**(462)**	**(30,586)**	**(31,048)**	**(5,758)**
Net Income		**5,028**	**267**	**9,290**	**14,585**	**39,084**

4. Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2020-21 Total £'000	2019-20 Total £'000
Interest arising from claims					
– interest charged in the year	10(b)	23,461	9,642	33,103	37,772
– net increase / (decrease) in provisions for unrecovered interest	10(b)	(20,067)	(9,285)	(29,352)	3,004
Interest arising from claims net of provisions		3,394	357	3,751	40,776
Other Interest		15	–	15	405
Interest credit for the year		**3,409**	**357**	**3,766**	**41,181**

Other Interest includes bank interest on balances with commercial banks.

5. Net claims credit and provision for likely claims

	Note			2020-21	2019-20
		Account 1 £'000	Account 2 £'000	Total £'000	Total £'000
Amounts authorised and paid in the year	10(a)	–	(106,894)	(106,894)	(7,678)
Expected recoveries on claims authorised and paid in the year		–	52,909	52,909	3,954
Provision on claims authorised and paid in the year		**–**	**(53,985)**	**(53,985)**	**(3,724)**
Net change in provisions for claims authorised and paid in previous years		3,503	4,677	8,180	13,152
Claims credit/(charge) for the year	**10(a)**	**3,503**	**(49,308)**	**(45,805)**	**9,428**
Change in provision for claims on financial guarantees	17(c)	–	(8,683)	(8,683)	(2,154)
Net claims credit & provision for likely claims		**3,503**	**(57,991)**	**(54,488)**	**7,274**

There is no reinsurance element included within the figures above.

6. Net foreign exchange gain / (loss)

	Note				2020-21	2019-20
		Account 1 £'000	Account 2 £'000	Account 6 £'000	Total £'000	Total £'000
Export Credit Guarantees and Insurance						
Net foreign exchange gain/(loss) arising on:						
– recoverable claims after provisions	10(a)	(6,740)	(3,098)	–	(9,838)	5,063
– recoverable interest on claims after provisions	10(b)	(4,271)	(26)	–	(4,297)	2,875
– insurance premium receivables		–	(4,497)	(105)	(4,602)	1,750
– financial guarantees provisions		–	40	–	40	19
– insurance payables		170	(3,163)	148	(2,845)	(128)
– cash		(174)	(2,728)	(151)	(3,053)	1,569
Net foreign exchange gain/(loss) for year		**(11,015)**	**(13,472)**	**(108)**	**(24,595)**	**11,148**

		Account 5 £'000	Account 6 £'000	Total £'000	Total £'000
Export Finance Assistance					
Net foreign exchange gain/(loss) arising on:					
– loans & receivables	9(b)	(113,096)	–	(113,096)	44,393
– payables		2,588	–	2,588	–
– cash		(2,981)	–	(2,981)	(745)
Net foreign exchange gain/(loss) for year		**(113,489)**	–	**(113,489)**	**43,648**

	Total £'000	Total £'000
Summary:		
Net foreign exchange gain/(loss) for year on cash assets	(6,034)	1,588
Net foreign exchange gain/(loss) for year on net assets other than cash	(132,050)	53,208
Net foreign exchange gain/(loss) for year	**(138,084)**	**54,796**

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 equivalent to £1		
Currency	**31 March 2021**	**31 March 2020**
Euro	1.17	1.13
Japanese Yen	152.42	133.75
US Dollars	1.38	1.24

7. Staff costs

	2020-21 £'000	2019-20 £'000
Salaries and Wages	21,067	18,005
Social Security Costs	2,394	2,112
Early Retirement Payments	–	10
Other Pension Costs	4,952	4,344
Total Costs before provision movements	**28,413**	**24,471**
Early Retirement Provision utilisation & adjustment	–	(10)
Total Staff Costs	**28,413**	**24,461**
Of which:		
– Export Credit Guarantees and Insurance	22,001	18,878
– Export Finance Assistance	6,412	5,583

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

	2020-21 £'000	2019-20 £'000
Agency Staff	1,812	1,484
Training	244	346
Recruitment	126	136
Travel & Subsistence	(3)	1,022
Accomodation	2,484	2,587
IT Other	5,263	4,005
Project Costs	2,513	1,679
Legal	790	490
Marketing & Business Promotion	2,198	1,988
Depreciation	209	310
Irrecoverable VAT	2,310	1,372
Other Administration	2,387	1,430
Total Other Administrative Costs	**20,333**	**16,849**
Of which:		
– Export Credit Guarantees and Insurance	15,744	13,003
– Export Finance Assistance	4,589	3,846
Included in the above figures:		
– Audit Fees	212	196

The 2020-21 audit fee figure includes additional £16k for the auditors engagement on the Financial Reporting Changes (FRC) Programme – (refer to accounting policy Note 1(A) – Future Accounting Developments for further details about the FRC Programme).

9. Financial assets

9(a) Fair value through profit or loss

	31 March 2021 £'000	31 March 2020 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	312	779
Total	**312**	**779**
Falling due:		
– within 1 year	263	440
– after more than 1 year	49	339

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 2021 £'000	31 March 2020 £'000
Loans & receivables	1,977,542	1,114,219
Total	**1,977,542**	**1,114,219**
Falling due:		
– within 1 year	132,041	152,367
– after more than 1 year	1,845,501	961,852

	Note	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Movements:					
Balance at 1 April 2019		**–**	**10,027**	**807,249**	**817,276**
– Loans advanced	21	–	–	383,651	383,651
– Loans recovered		–	(5,142)	(70,799)	(75,941)
– Net foreign exchange gain/(loss)		–	–	44,393	44,393
– Amortised income		–	493	43,709	44,202
– Other movement in working capital		–	(580)	(93,397)	(93,977)
– Impairment provision		–	–	(5,385)	(5,385)
Balance at 31 March 2020		**–**	**4,798**	**1,109,421**	**1,114,219**
– Loans advanced	21	702,564	–	535,063	1,237,627
– Loans recovered		–	(2,564)	(125,693)	(128,257)
– Net foreign exchange gain/(loss)		–	–	(113,096)	(113,096)
– Amortised income		9,179	240	54,458	63,877
– Other movement in working capital		(39,103)	(299)	(108,107)	(147,509)
– Revision to cash flows		(4,151)	–	(14,582)	(18,733)
– Impairment provision		–	–	(30,586)	(30,586)
Balance at 31 March 2021		**668,489**	**2,175**	**1,306,878**	**1,977,542**
Of which:					
– Capital loans recoverable		702,564	2,118	1,603,040	2,307,722
– Net interest receivable		69	57	6,629	6,755
– Recoverable expenses incurred			–	–	–
– Unamortised income		(29,993)	–	(244,046)	(274,039)
– Revision to cash flows		(4,151)	–	(14,582)	(18,733)
– Impairment Provisions		–	–	(44,163)	(44,163)
Falling due:					
– within 1 year		69	1,156	130,816	132,041
– after more than 1 year		668,420	1,019	1,176,062	1,845,501

Loans are calculated on the amortised cost basis (refer to accounting policy Note 1(J)). During the year, the carrying amounts were adjusted to reflect actual and revised estimated cash flows.

The fair value of Export Finance Loans for Account 3 was £736,040,000 (2019-20: nil), Account 4 was £2,317,000 (2019-20: £5,177,000) and Account 5 £1,665,547,000 (2019-20: £1,601,747,000).

10. Insurance assets

	31 March 2021 £'000	31 March 2020 £'000
Recoverable claims	178,680	197,228
Interest on unrecovered claims	98,388	118,347
Total	**277,068**	**315,575**
Falling due:		
– within 1 year	52,516	68,709
– after more than 1 year	224,552	246,866

Insurance assets are shown at their expected recoverable amount. The majority of the balances are subject to market rates of interest.

10(a) Recoverable claims

	Account 1 £'000	Account 2 £'000	Total £'000
Recoverable claims – gross			
Balance at 1 April 2019	**433,377**	**213,373**	**646,750**
Claims & recoverable expenditure approved in the year	–	7,678	7,678
Recoveries made in the year	(38,474)	(32,947)	(71,421)
Recoveries abandoned in the year	1	(1,104)	(1,103)
Net foreign exchange movements	6,789	1,972	8,761
Balance at 31 March 2020	**401,693**	**188,972**	**590,665**
Claims & recoverable expenditure approved in the year	–	106,894	106,894
Recoveries made in the year	(30,879)	(38,920)	(69,799)
Recoveries abandoned in the year	(9,890)	(125)	(10,015)
Net foreign exchange movements	(10,697)	(7,287)	(17,984)
Balance at 31 March 2021	**350,227**	**249,534**	**599,761**
Recoverable claims – provisions			
Balance at 1 April 2019	**265,484**	**134,786**	**400,270**
Release of provisions in the year	(10,868)	1,440	(9,428)
Recoveries abandoned in the year	1	(1,104)	(1,103)
Net foreign exchange movements	2,461	1,237	3,698
Balance at 31 March 2020	**257,078**	**136,359**	**393,437**
(Release)/increase of provisions in the year	(3,503)	49,308	45,805
Recoveries abandoned in the year	(9,890)	(125)	(10,015)
Net foreign exchange movements	(3,957)	(4,189)	(8,146)
Balance at 31 March 2021	**239,728**	**181,353**	**421,081**
Net recoverable claims as at:			
– 31 March 2021	**110,499**	**68,181**	**178,680**
– 31 March 2020	144,615	52,613	197,228
– 31 March 2019	167,893	78,587	246,480

Claims approved during the year increased significantly from last year – for further details about claims and recoveries, refer to the *Chief Risk Officer* report in the Performance report.

There are no recoverable claims on Accounts 3,4 and 6.

10(b) Interest on unrecovered claims

	Account 1 £'000	Account 2 £'000	Total £'000
Interest on unrecovered claims – gross			
Balance at 1 April 2019	**1,004,320**	**147,639**	**1,151,959**
Interest charged in the year	27,259	10,513	37,772
Interest received in the year	(29,037)	(1,749)	(30,786)
Recoveries abandoned in the year	–	(2)	(2)
Net foreign exchange movements	12,474	213	12,687
Balance at 31 March 2020	**1,015,016**	**156,614**	**1,171,630**
Interest charged in the year	23,461	9,642	33,103
Interest received in the year	(18,968)	(445)	(19,413)
Recoveries abandoned in the year	(33,845)	1	(33,844)
Net foreign exchange movements	(21,328)	(476)	(21,804)
Balance at 31 March 2021	**964,336**	**165,336**	**1,129,672**
Interest on unrecovered claims – provisions			
Balance at 1 April 2019	**899,703**	**146,774**	**1,046,477**
Increase in provisions in the year	(12,128)	9,124	(3,004)
Recoveries abandoned in the year	–	(2)	(2)
Net foreign exchange movements	9,608	204	9,812
Balance at 31 March 2020	**897,183**	**156,100**	**1,053,283**
Increase in provisions in the year	20,067	9,285	29,352
Recoveries abandoned in the year	(33,845)	1	(33,844)
Net foreign exchange movements	(17,057)	(450)	(17,507)
Balance at 31 March 2021	**866,348**	**164,936**	**1,031,284**
Net interest on unrecovered claims as at:			
– 31 March 2021	**97,988**	**400**	**98,388**
– 31 March 2020	117,833	514	118,347
– 31 March 2019	104,617	865	105,482

11. Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2019	379,046
Movements summary	
Addition to the underwriting funds in the year	8,117
Net decrease in open cash funds	(1,500)
Net decrease in open credit funds	(47,664)
Other fund movements	21,630
Net decrease in insurance liabilities on closed funds	(327)
Total Movements	**(19,744)**
Balance at 31 March 2020	**359,302**
Movements summary	
Addition to the underwriting funds in the year	158,924
Net decrease in open cash funds	–
Net decrease in open credit funds	(10,077)
Other fund movements	44,747
Net decrease in insurance liabilities on closed funds	25,027
Total Movements	**218,621**
Balance at 31 March 2021	**577,923**

Movements are summarised within Note 18.

12. Insurance and other receivables

	31 March 2021 £'000	31 March 2020 £'000
Export Credit Guarantees and Insurance:		
Insurance premium receivables	329,261	30,874
Insurance prepayments and accrued income	45,923	2,706
Other receivables	128	105
Total	**375,312**	**33,685**
Falling due:		
– within 1 year	**132,649**	**15,706**
– after more than 1 year	**242,663**	**18,000**

The insurance premium receivables include the premium amounts receivable for Export Development Guarantees written during the year. The EDG product was launched in July 2020. For further details about UKEF's Export Development Guarantee product, refer to the Performance section of the Annual Report.

13. Cash and cash equivalents

	£'000
Balance at 1 April 2019	**187,649**
Net cash inflow to UKEF	12,730
Receipts from the Consolidated Fund	
– in respect of amounts received in the current year	125,000
Payments to the Consolidated Fund	
– in respect of amounts received in the previous year	(187,649)
Balance at 31 March 2020	**137,730**
Net cash inflow to UKEF	(757,537)
Receipts from the Consolidated Fund:	
– in respect of amounts received in the current year	870,195
Payments to the Consolidated Fund:	
– in respect of amounts received in the previous year	(137,730)
Balance at 31 March 2021	**112,658**

	31 March 2021 £'000	31 March 2020 £'000
Government Banking Service	2,534	63,072
Commercial banks and cash in hand	110,124	74,658
Total	**112,658**	**137,730**

14. Reconciliation of Net Cash Requirement to decrease in cash

	2020-21 £'000	2019-20 £'000
Net cash inflow / (outflow) from operating and investing activities	(757,537)	12,730
Receipts from the Consolidated Fund relating to the current year	870,195	125,000
Amounts due to the Consolidated Fund	**112,658**	**137,730**
Payments to the Consolidated Fund relating to the prior year	(137,730)	(187,649)
(Decrease) / Increase in cash	**(25,072)**	**(49,919)**

15. Financial liabilities at fair value

	31 March 2021 £'000	31 March 2020 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	40	103
Interest rate derivative contracts entered into for hedging purposes	18	145
Total	**58**	**248**
Falling due:		
– within 1 year	19	125
– after more than 1 year	39	123

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 2021 £'000	31 March 2020 £'000
Amounts payable to the Consolidated Fund	112,658	137,730
Total	**112,658**	**137,730**
Falling due:		
– within 1 year	112,658	137,730

The balance due within 1 year represents UKEF's bank balance as at 31 March 2021.

17. Insurance and other payables

17(a) Insurance liabilities

	31 March 2021 £'000	31 March 2020 £'000
Export Credit Guarantees and Insurance		
Insurance payables – amounts due to policyholders	116	104
Income Tax and National Insurance	656	551
Deferred income and other payables	321,964	28,910
Total	**322,736**	**29,565**
Export Finance Assistance		
Other payables	24	15
Total	**24**	**15**
Falling due:		
– within 1 year	63,059	29,580
– after more than 1 year	259,701	–
Total	**322,760**	**29,580**

A significant increase in deferred income and other payables is due to premium amounts being deferred on Export Development Guarantees issued during the year. For further details about UKEF's Export Development Guarantee, refer to Performance section of the Annual Report.

17(b) Provisions for financial guarantees

	31 March 2021 £'000	31 March 2020 £'000
Provisions for likely claims on financial guarantees	12,413	3,770
Total	**12,413**	**3,770**
Falling due:		
– within 1 year	**12,413**	**3,770**
– after more than 1 year	–	–

The movement in the provision for financial guarantees includes £8,683,000 (2019-20: £2,154,000) (see Note 5) and (£40,000) (2019-20: (£19,000)) 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 3 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 9 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	Account 6 £'000	Total £'000
Insurance liabilities – Gross of reinsurance				
Balance at 1 April 2019	**1,163,765**	**111,372**	**–**	**1,275,137**
Movements				
– Addition to the underwriting funds in the year	169,844	–	–	169,844
– Release of excess funds – cash	(1,687)	–	–	(1,687)
– Release of excess funds – credit	(123,455)	–	–	(123,455)
– Other fund movements	(488)	–	–	(488)
– Change in insurance liabilities on closed funds	(1,851)	–	–	(1,851)
Total Movements	**42,363**	**–**	**–**	**42,363**
Balance at 31 March 2020	**1,206,128**	**111,372**	**–**	**1,317,500**
Movements				
– Addition to the underwriting funds in the year	379,788	–	47,630	427,418
– Release of excess funds – cash	(846)	–	–	(846)
– Release of excess funds – credit	(61,853)	–	–	(61,853)
– Other fund movements	136,099	(2,957)	–	133,142
– Change in insurance liabilities on closed funds	45,149	–	–	45,149
Total Movements	**498,337**	**(2,957)**	**47,630**	**543,010**
Balance at 31 March 2021	**1,704,465**	**108,415**	**47,630**	**1,860,510**
Insurance liabilities – Net of reinsurance				
Balance at 1 April 2019	**810,890**	**85,201**	**–**	**896,091**
Movements				
– Addition to the underwriting funds in the year	161,727	–	–	161,727
– Release of excess funds – cash	(187)	–	–	(187)
– Release of excess funds – credit	(75,791)	–	–	(75,791)
– Other fund movements	(22,100)	(18)	–	(22,118)
– Change in insurance liabilities on closed funds	(1,524)	–	–	(1,524)
Total Movements	**62,125**	**(18)**	**–**	**62,107**
Balance at 31 March 2020	**873,015**	**85,183**	**–**	**958,198**
Movements				
– Addition to the underwriting funds in the year	252,834	–	15,660	268,494
– Release of excess funds – cash	(846)	–	–	(846)
– Release of excess funds – credit	(51,776)	–	–	(51,776)
– Other fund movements	88,395	–	–	88,395
– Change in insurance liabilities on closed funds	20,122	–	–	20,122
Total Movements	**308,729**	**–**	**15,660**	**324,389**
Balance at 31 March 2021	**1,181,744**	**85,183**	**15,660**	**1,282,587**

	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Summary of movements				
2019-20				
Gross changes in insurance liabilities	42,363	–	–	42,363
Reinsurers' share of changes in insurance	19,762	(18)	–	19,744
Changes in insurance liabilities (net of reinsurance)	**62,125**	**(18)**	**–**	**62,107**
2020-21				
Gross changes in insurance liabilities	498,337	(2,957)	47,630	543,010
Reinsurers' share of changes in insurance liabilities	(189,608)	2,957	(31,970)	(218,621)
Changes in insurance liabilities (net of reinsurance)	**308,729**	**–**	**15,660**	**324,389**

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 2011-12 and cash fund years up to and including 2017-18 are closed years.

	2011-12 fund year £'000	2012-13 fund year £'000	2013-14 fund year £'000	2014-15 fund year £'000	2015-16 fund year £'000	2016-17 fund year £'000	2017-18 fund year £'000	2018-19 fund year £'000	2019-20 fund year £'000	2020-21 fund year £'000
Accounts 2, 3 & 6										
Credit funds										
At end of year	32,460	33,987	34,208	46,367	28,315	32,214	43,848	127,410	72,685	77,729
1 year later	28,421	26,790	34,184	44,703	29,114	26,001	49,578	110,027	76,790	–
2 years later	20,398	26,204	35,429	48,413	21,070	24,134	42,298	183,377	–	–
3 years later	21,011	24,580	35,278	36,502	17,589	26,603	166,991	–	–	–
4 years later	17,117	22,511	20,860	44,479	17,535	35,966	–	–	–	–
5 years later	15,215	13,443	17,559	30,047	16,516	–	–	–	–	–
6 years later	8,331	8,158	21,376	65,202	–	–	–	–	–	–
7 years later	3,727	10,272	56,497	–	–	–	–	–	–	–
8 years later	3,831	56,951	–	–	–	–	–	–	–	–
9 years later	13,831	–	–	–	–	–	–	–	–	–
Cash funds										
At end of year	71	8,860	69	261	480	689	383	6,365	91	668
1 year later	12	7,314	14	291	–	16	100	2,575	20	–
2 years later	12	7,583	171	78	–	–	62	1,833	–	–
3 years later	–	9,438	27	40	–	–	43	–	–	–
4 years later	–	4,462	–	18	–	–	–	–	–	–
5 years later	–	3,928	–	20	–	–	–	–	–	–
6 years later	–	3,335	–	–	–	–	–	–	–	–
7 years later	–	2,354	–	–	–	–	–	–	–	–
8 years later	–	5,940	–	–	–	–	–	–	–	–
9 years later	–	–	–	–	–	–	–	–	–	–
Credit fund total	**13,831**	**56,951**	**56,497**	**65,202**	**16,516**	**35,966**	**166,991**	**183,377**	**76,790**	**77,729**
Cash fund total	**–**	**5,940**	**–**	**–**	**–**	**–**	**43**	**1,833**	**20**	**668**
Expected Loss total	**13,831**	**62,891**	**56,497**	**65,202**	**16,516**	**35,966**	**167,034**	**185,210**	**76,810**	**78,397**
Summary										**758,354**

Expected Loss Summary:	funds 2011-12 to 2020-21 open £'000	funds 2011-12 to 2020-21 closed £'000	funds 2011-12 to 2020-21 total £'000	funds years to 2010-11 closed £'000	funds grand total £'000
Accounts 2, 3 & 6					
Credit fund total	736,019	13,831	749,850	18,681	768,531
Cash fund total	2,521	5,983	8,504	63	8,567
Expected Loss total	738,540	19,814	758,354	18,744	777,098

The 2018-19 credit fund year includes £4,245,315 Expected Loss relating to Account 3, and the 2020-21 credit fund year includes £7,902,312 Expected Loss relating to Account 6.

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**
e. **Risk measurement**

20(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates (and other prices). UKEF is exposed to market risk through its holdings of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme. In addition, UKEF has a significant exposure to foreign currency risk, primarily due to holding US dollar denominated assets in the form of loans and receivables and net unrecovered claims. UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer Note 20(a)(ii) and 20(c)(iii)). In addition, there is some foreign exchange market risk which is explained in Note 20(a)(ii).

UKEF has established principles and policies to be followed in respect of management of the key market risks to which it is exposed.

20(a)(i) Interest rate risk

Interest rate risk arises primarily from the operation of the FREF scheme, under which UKEF supports the provision of fixed rate finance to overseas borrowers. Such official financing support is provided by a number of governments or export credit agencies pursuant to the OECD Arrangement on Officially Supported Export Credits (the OECD Arrangement). The minimum fixed interest rates which may be supported under the OECD Arrangement in this manner are called Commercial Interest Reference Rates (CIRR).

Support is provided in the form of interest make up (IMU) arrangements between UKEF and the lending bank under Export Finance Loans. These IMU arrangements are effectively interest rate swaps between UKEF and the lending bank. The lending bank provides funding for the export loan at a floating rate (usually LIBOR plus a margin). UKEF makes up the difference when the lender's floating rate, inclusive of margin, is higher than the agreed fixed rate. Conversely, where the floating rate, inclusive of margin, is lower than the fixed rate, UKEF receives the difference from the lender.

UKEF seeks to limit its exposure to interest rate risk through the use of effective hedging instruments such as interest rate swaps.

Sensitivities to movements in interest rates were:

	1% increase in interest rates £'000	1% decrease in interest rates £'000
As at 31 March 2021		
Interest rate swap arrangements on Export Finance Loan Guarantees	9	11
Interest rate derivative contracts entered into for hedging purposes	–	–
Net impact on profit or loss	**9**	**11**
As at 31 March 2020		
Interest rate swap arrangements on Export Finance Loan Guarantees	(6)	45
Interest rate derivative contracts entered into for hedging purposes	–	–
Net impact on profit or loss	**(6)**	**45**

Sensitivities to movements at 5% increase and decrease in interest rate volatility were nil (2019-20: nil) for interest rate swap arrangements.

The maturity profile of UKEF's interest rate derivatives, expressed at their notional value, is as follows:

	1 year or less £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
As at 31 March 2021				
Interest rate swap arrangements on Export Finance Loan Guarantees	1,496	1,526	–	3,022
Interest rate derivative contracts entered into for hedging purposes	(1,509)	–	–	(1,509)
As at 31 March 2020				
Interest rate swap arrangements on Export Finance Loan Guarantees	2,387	5,098	–	7,485
Interest rate derivative contracts entered into for hedging purposes	2,017	1,720	–	3,737

20(a)(ii) Foreign currency risk

Foreign currency risk arises from 2 main areas: transaction risk and translation risk. Transaction risk is the risk of movements in the sterling value of foreign currency receipts on conversion into sterling. Translation risk is the risk that UKEF's Statement of Financial Position and net operating income will be adversely impacted by changes in the sterling value of foreign currency denominated assets and liabilities from movements in foreign currency exchange rates. UKEF is heavily exposed to translation risk due to the value of non-sterling assets and liabilities held. The most significant exposure relates to insurance assets (refer Note 20(c)(iii) below).

UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk.

The currency profile of UKEF's financial instruments and its capital loan commitments is set out below.

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2021				
Financial assets:				
– Fair value through profit or loss	–	312	–	312
– Account 3 loans at amortised cost	668,489	–	–	668,489
– Account 4 loans at amortised cost	2,175	–	–	2,175
– Account 5 loans at amortised cost	15,865	900,683	390,330	1,306,878
Insurance and other receivables	266,793	93,592	14,927	375,312
Financial liabilities:				
– Fair value through profit or loss	(39)	–	(19)	(58)
Insurance and other payables	(231,101)	(88,992)	(2,667)	(322,760)
Financial Commitments:				
– Account 3 amounts available	297,436	–	–	297,436
– Account 4 amounts available	–	–	–	–
– Account 5 amounts available	9,693	473,665	295,250	778,608
As at 31 March 2020				
Financial assets:				
– Fair value through profit or loss	17	755	7	779
– Account 4 loans at amortised cost	4,798	–	–	4,798
– Account 5 loans at amortised cost	–	901,239	208,182	1,109,421
Insurance and other receivables	27,816	635	5,234	33,685
Financial liabilities:				
– Fair value through profit or loss	(102)	(81)	(65)	(248)
Insurance and other payables	(28,277)	–	(1,303)	(29,580)
Financial Commitments:				
– Account 5 amounts available	25,297	544,317	327,208	896,822

The sensitivity to changes in foreign exchange of US dollar denominated loans held at amortised cost at 31 March 2021 is as follows:

- 10% increase would increase the carrying value by £81,880 (31 March 2020 by £81,931)

20(b) Credit Risk

Credit risk is the risk of loss in value of financial assets due to lending counterparties failing to meet all or part of their obligations as they fall due. Credit risk related to UKEF's insurance contracts, including financial guarantees, is discussed under Insurance Risk (Note 20(c)(i) below).

UKEF has implemented policies and procedures that seek to minimise credit losses on the credit risk it takes. Full details can be found in the *Chief Risk Officer's Report* in the Performance section of the Annual Report.

20(b)(i) Credit risk

The following table summarises the credit exposure of loans at amortised cost & loan commitments (Investment grade is defined as a credit rating of BBB minus or above):

	Investment grade £'000	Non-investment grade £'000	Total £'000
As at 31 March 2021			
Account 3: Direct Lending			
– Loans at amortised cost	668,489	–	668,489
– Commitments	297,436	–	297,436
Account 4: Direct Lending			
– Loans at amortised cost	2,175	–	2,175
– Commitments	–	–	–
Account 5: Direct Lending			
– Loans at amortised cost	–	1,306,878	1,306,878
– Commitments	–	778,608	778,608
As at 31 March 2020			
Account 5: Direct Lending			
– Loans at amortised cost	376,795	732,626	1,109,421
– Commitments	38,421	858,401	896,822

20(b)(ii) Credit concentration risk

The following table provides information regarding the credit concentration of loans at amortised cost & loan commitments:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
As at 31 March 2021					
Account 3: Direct Lending					
– Loans at Cost	–	–	668,489	–	668,489
– Commitments	–	–	297,436	–	297,436
Account 4: Direct Lending					
– Loans at Cost	–	–	–	2,175	2,175
– Commitments	–	–	–	–	–
Account 5: Direct Lending					
– Loans at cost	4,837	32,750	1,269,291	–	1,306,878
– Commitments	–	–	778,608	–	778,608
As at 31 March 2020					
Account 5: Direct Lending					
– Loans at cost	5,582	47,618	1,056,221	–	1,109,421
– Commitments	–	–	896,822	–	896,822

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 3 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 9 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, Account 3 and Account 6 portfolio as at 31 March 2021:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	2,340,204	3,368,452	5,708,656
Other	938,228	9,822,751	10,760,979
Total	**3,278,432**	**13,191,203**	**16,469,635**
Account 3: Insurance Contracts			
Other	3,206,766	–	3,206,766
Total	**3,206,766**	**–**	**3,206,766**
Account 6: Insurance Contracts			
Asset-backed	139,193	545,210	684,404
Other	–	5,869	5,869
Total	**139,193**	**551,080**	**690,273**
Account 2: Financial Guarantees	834,644	1,132,021	1,966,665
Account 6: Financial Guarantees	–	6,500,904	6,500,904
Total	**834,644**	**7,632,925**	**8,467,569**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	1,457,562	2,101,550	3,559,112
Other	916,602	7,713,867	8,630,469
Total	**2,374,164**	**9,815,417**	**12,189,581**
Account 3: Insurance Contracts			
Other	2,081,564	–	2,081,564
Total	**2,081,564**	**–**	**2,081,564**
Account 6: Insurance Contracts			
Asset-backed	139,193	130,632	269,825
Other	–	5,869	5,869
Total	**139,193**	**136,501**	**275,694**
Account 2: Financial Guarantees	834,644	1,132,021	1,966,665
Account 6: Financial Guarantees	–	6,500,904	6,500,904
Total	**834,644**	**7,632,925**	**8,467,569**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	11,820	638,946	650,766
Other	6,049	488,114	494,163
Total	**17,869**	**1,127,060**	**1,144,929**
Account 3: Insurance Contracts			
Other	6,404	–	6,404
Total	**6,404**	**–**	**6,404**
Account 6: Insurance Contracts			
Asset-backed	1,778	22,414	24,192
Other	–	394	394
Total	**1,778**	**22,808**	**24,586**
Account 2: Financial Guarantees	8,763	36,588	45,351
Account 6: Financial Guarantees	–	288,904	288,904
Total	**8,763**	**325,492**	**334,255**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	8,272	365,423	373,695
Other	5,862	385,393	391,255
Total	**14,134**	**750,816**	**764,950**
Account 3: Insurance Contracts			
Other	4,245	–	4,245
Total	**4,245**	**–**	**4,245**
Account 6: Insurance Contracts			
Asset-backed	1,778	5,730	7,508
Other	–	394	394
Total	**1,778**	**6,124**	**7,902**
Account 2: Financial Guarantees	8,763	36,588	45,351
Account 6: Financial Guarantees	–	288,904	288,904
Total	**8,763**	**325,492**	**334,255**

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 and Account 3 portfolio as at 31 March 2020:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	4,397,587	2,544,239	6,941,826
Other	3,094,244	7,642,998	10,737,242
Total	**7,491,831**	**10,187,237**	**17,679,068**
Account 3: Insurance Contracts			
Other	3,400,712	–	3,400,712
Total	**3,400,712**	**–**	**3,400,712**
Account 2: Financial Guarantees			
Total	**8,994**	**749,687**	**758,681**
Amounts at Risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	1,902,383	2,544,239	4,446,622
Other	1,491,336	7,642,998	9,134,334
Total	**3,393,719**	**10,187,237**	**13,580,956**
Account 3: Insurance Contracts			
Other	2,214,192	–	2,214,192
Total	**2,214,192**	**–**	**2,214,192**
Account 2: Financial Guarantees			
Total	**8,994**	**749,687**	**758,681**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Expected Loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	42,881	95,146	138,027
Other	45,597	224,099	269,696
Total	**88,478**	**319,245**	**407,723**
Account 3: Insurance Contracts			
Other	7,250	–	7,250
Total	**7,250**	**–**	**7,250**
Account 2: Financial Guarantees			
Total	**31**	**27,982**	**28,013**
Expected Loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	9,801	95,146	104,947
Other	8,124	224,098	232,222
Total	**17,925**	**319,244**	**337,169**
Account 3: Insurance Contracts			
Other	4,796	–	4,796
Total	**4,796**	**–**	**4,796**
Account 2: Financial Guarantees			
Total	**31**	**27,982**	**28,013**

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 2021:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims – gross			
Account 1	2,129	348,098	350,227
Account 2	13,852	235,682	249,534
Total	**15,981**	**583,780**	**599,761**
Recoverable claims – net of provisions			
Account 1	2,121	108,378	110,499
Account 2	13,798	54,383	68,181
Total	**15,919**	**162,761**	**178,680**
Interest on unrecovered claims – gross			
Account 1	4	964,332	964,336
Account 2	27	165,309	165,336
Total	**31**	**1,129,641**	**1,129,672**
Interest on unrecovered claims – net of provisions			
Account 1	4	97,984	97,988
Account 2	27	373	400
Total	**31**	**98,357**	**98,388**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2020:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims – gross			
Account 1	6,193	395,500	401,693
Account 2	44,321	144,651	188,972
Total	**50,514**	**540,151**	**590,665**
Recoverable claims – net of provisions			
Account 1	6,167	138,448	144,615
Account 2	42,068	10,545	52,613
Total	**48,235**	**148,993**	**197,228**
Interest on unrecovered claims – gross			
Account 1	32	1,014,984	1,015,016
Account 2	203	156,411	156,614
Total	**235**	**1,171,395**	**1,171,630**
Interest on unrecovered claims – net of provisions			
Account 1	32	117,801	117,833
Account 2	203	311	514
Total	**235**	**118,112**	**118,347**

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, Account 3 and Account 6 portfolios as at 31 March 2021.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	3,193,739	332,796	1,023,967	1,158,154	5,708,656
Other	2,292,728	638,758	6,833,273	996,220	10,760,979
Total	**5,486,467**	**971,554**	**7,857,240**	**2,154,374**	**16,469,635**
Account 3: Insurance Contracts					
Other	1,125,202	–	2,081,564	–	3,206,766
Total	**1,125,202**	**–**	**2,081,564**	**–**	**3,206,766**
Account 6: Insurance Contracts					
Asset-backed	480,946	–	203,458	–	684,404
Other	5,869	–	–	–	5,869
Total	**486,815**	**–**	**203,458**	**–**	**690,273**
Account 2: Financial Guarantees	1,966,665	–	–	–	1,966,665
Account 6: Financial Guarantees	6,500,904	–	–	–	6,500,904
Total	**8,467,569**	**–**	**–**	**–**	**8,467,569**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,324,434	291,247	1,023,967	919,464	3,559,112
Other	339,539	570,369	6,724,340	996,221	8,630,469
Total	**1,663,973**	**861,616**	**7,748,307**	**1,915,685**	**12,189,581**
Account 3: Insurance Contracts					
Other	–	–	2,081,564	–	2,081,564
Total	**–**	**–**	**2,081,564**	**–**	**2,081,564**
Account 6: Insurance Contracts					
Asset-backed	66,368	–	203,457	–	269,825
Other	5,869	–	–	–	5,869
Total	**72,237**	**–**	**203,457**	**–**	**275,694**
Account 2: Financial Guarantees	1,966,665	–	–	–	1,966,665
Account 6: Financial Guarantees	6,500,904	–	–	–	6,500,904
Total	**8,467,569**	**–**	**–**	**–**	**8,467,569**

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	388,689	130,903	23,112	108,062	650,766
Other	96,652	11,431	326,267	59,813	494,163
Total	**485,341**	**142,334**	**349,379**	**167,875**	**1,144,929**
Account 3: Insurance Contracts					
Other	2,158	–	4,246	–	6,404
Total	**2,158**	**–**	**4,246**	**–**	**6,404**
Account 6: Insurance Contracts					
Asset-backed	18,672	–	5,521	–	24,193
Other	394	–	–	–	394
Total	**19,066**	**–**	**5,521**	**–**	**24,587**
Account 2: Financial Guarantees	45,351	–	–	–	45,351
Account 6: Financial Guarantees	288,904	–	–	–	288,904
Total	**334,255**	**–**	**–**	**–**	**334,255**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	168,832	128,398	23,112	53,353	373,695
Other	11,905	10,183	309,354	59,813	391,255
Total	**180,737**	**138,581**	**332,466**	**113,166**	**764,950**
Account 3: Insurance Contracts					
Other	–	–	4,245	–	4,245
Total	**–**	**–**	**4,245**	**–**	**4,245**
Account 6: Insurance Contracts					
Asset-backed	1,988	–	5,521	–	7,509
Other	394	–	–	–	394
Total	**2,382**	**–**	**5,521**	**–**	**7,903**
Account 2: Financial Guarantees	45,351	–	–	–	45,351
Account 6: Financial Guarantees	288,904	–	–	–	288,904
Total	**334,255**	**–**	**–**	**–**	**334,255**

The following table provides an indication of the concentration of credit risk within the UKEF Account 2 and Account 3 portfolio as at 31 March 2020:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	3,621,058	440,816	1,358,536	1,521,416	6,941,826
Other	2,084,493	902,453	6,450,765	1,299,531	10,737,242
Total	**5,705,551**	**1,343,269**	**7,809,301**	**2,820,947**	**17,679,068**
Account 3: Insurance Contracts					
Other	1,186,520	–	2,214,192	–	3,400,712
Total	**1,186,520**	**–**	**2,214,192**	**–**	**3,400,712**
Account 2: Financial Guarantees					
Total	**758,681**	**–**	**–**	**–**	**758,681**
Amounts at Risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,431,983	414,152	1,358,536	1,241,951	4,446,622
Other	533,520	850,519	6,450,764	1,299,531	9,134,334
Total	**1,965,503**	**1,264,671**	**7,809,300**	**2,541,482**	**13,580,956**
Account 3: Insurance Contracts					
Other	–	–	2,214,192	–	2,214,192
Total	**–**	**–**	**2,214,192**	**–**	**2,214,192**
Account 2: Financial Guarantees					
Total	**758,681**	**–**	**–**	**–**	**758,681**

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Expected Loss, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	58,456	24,294	14,050	41,227	138,027
Other	48,208	15,583	165,088	40,817	269,696
Total	**106,664**	**39,877**	**179,138**	**82,044**	**407,723**
Account 3: Insurance Contracts					
Other	2,454	–	4,796	–	7,250
Total	**2,454**	**–**	**4,796**	**–**	**7,250**
Account 2: Financial Guarantees					
Total	**28,013**	**–**	**–**	**–**	**28,013**
Expected Loss, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	37,126	24,420	14,050	29,351	104,947
Other	11,597	14,720	165,088	40,817	232,222
Total	**48,723**	**39,140**	**179,138**	**70,168**	**337,169**
Account 3: Insurance Contracts					
Other	–	–	4,796	–	4,796
Total	**–**	**–**	**4,796**	**–**	**4,796**
Account 2: Financial Guarantees					
Total	**28,013**	**–**	**–**	**–**	**28,013**

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 2021:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
– Gross	396,787	157,512	45,462	599,761
– Provisions	(321,294)	(75,630)	(24,157)	(421,081)
Interest on unrecovered claims				
– Gross	931,395	181,706	16,571	1,129,672
– Provisions	(866,234)	(148,579)	(16,471)	(1,031,284)
Net insurance assets at 31 March 2021	**140,654**	**115,009**	**21,405**	**277,068**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2021 is as follows:

- 10% increase would increase the carrying value by £10,455,000 (31 March 2020 by £12,017,000)
- 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 2020:

	Pounds Sterling £'000	US Dollar £'000	Other £'000	Total £'000
Recoverable claims				
– Gross	431,223	155,878	3,564	590,665
– Provisions	(320,717)	(69,391)	(3,329)	(393,437)
Interest on unrecovered claims				
– Gross	916,372	238,486	16,772	1,171,630
– Provisions	(843,819)	(192,786)	(16,678)	(1,053,283)
Net insurance assets at 31 March 2020	**183,059**	**132,187**	**329**	**315,575**

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:

	1 year or less £'000	Between 1 and 5 years £'000	Between 5 and 10 years £'000	Between 10 and 15 years £'000	Between 15 years and more £'000	Total £'000
As at 31 March 2021:						
Account 2: Insurance Contracts						
Gross Amounts at Risk	2,169,432	8,612,985	4,377,650	1,182,117	127,451	16,469,635
Less: Amounts at Risk ceded to reinsurers	(286,789)	(2,707,039)	(898,812)	(331,172)	(56,242)	(4,280,054)
Net amounts at risk	**1,882,643**	**5,905,946**	**3,478,838**	**850,945**	**71,209**	**12,189,581**
Account 3: Insurance Contracts						
Gross Amounts at Risk	105,512	1,597,158	1,485,642	18,454	–	3,206,766
Less: Amounts at Risk ceded to reinsurers	(36,463)	(583,743)	(503,418)	(1,578)	–	(1,125,202)
Net amounts at risk	**69,049**	**1,013,415**	**982,224**	**16,876**	**–**	**2,081,564**
Account 6: Insurance Contracts						
Gross Amounts at Risk	59,599	237,778	290,123	102,773	–	690,273
Less: Amounts at Risk ceded to reinsurers	(36,074)	(141,713)	(174,745)	(62,047)	–	(414,579)
Net amounts at risk	**23,525**	**96,065**	**115,378**	**40,726**	**–**	**275,694**
Account 2: Financial Guarantees						
Gross Amounts at Risk	286,319	1,562,742	117,604	–	–	1,966,665
Less: Amounts at Risk ceded to reinsurers	–	–	–	–	–	–
Net amounts at risk	**286,319**	**1,562,742**	**117,604**	**–**	**–**	**1,966,665**
Account 6: Financial Guarantees						
Gross Amounts at Risk	1,108,642	5,392,262	–	–	–	6,500,904
Less: Amounts at Risk ceded to reinsurers	–	–	–	–	–	–
Net amounts at risk	**1,108,642**	**5,392,262**	**–**	**–**	**–**	**6,500,904**
As at 31 March 2020:						
Account 2: Insurance Contracts						
Gross Amounts at Risk	2,332,370	9,748,690	4,710,907	786,917	100,184	17,679,068
Less: Amounts at Risk ceded to reinsurers	(251,888)	(3,142,556)	(691,447)	(12,221)	–	(4,098,112)
Net amounts at risk	**2,080,482**	**6,606,134**	**4,019,460**	**774,696**	**100,184**	**13,580,956**
Account 3: Insurance Contracts						
Gross Amounts at Risk	67,774	1,156,287	2,118,544	58,107	–	3,400,712
Less: Amounts at Risk ceded to reinsurers	(26,062)	(422,433)	(733,057)	(4,968)	–	(1,186,520)
Net amounts at risk	**41,712**	**733,854**	**1,385,487**	**53,139**	**–**	**2,214,192**
Account 2: Financial Guarantees						
Gross Amounts at Risk	296,495	462,186	–	–	–	758,681
Less: Amounts at Risk ceded to reinsurers	–	–	–	–	–	–
Net amounts at risk	**296,495**	**462,186**	**–**	**–**	**–**	**758,681**

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, Account 3 and Account 6 insurance business. See Chief Risk Officer's report, portfolio modelling section.

Stress testing and scenario analysis

We use PRISM to conduct regular scenario analysis and stress testing of the Account 2, 3 and 6 portfolios 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. In addition to this, climate-related scenarios are being considered and going forward will be incorporated into our portfolio risk management processes and reporting (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 +2 years £'000	Reduced recovery rates -20% £'000
	1 notch £'000	2 notches £'000		
As at 31 March 2021:				
Account 2: Insurance Contracts				
Increase in Expected Loss	132,707	323,234	34,860	198,746
Decrease in net income for the year	(27,986)	(104,172)	(527)	(68,760)
Account 3: Insurance Contracts				
Increase in Expected Loss	2,020	7,750	2,550	2,126
Decrease in net income for the year	–	–	–	–
Account 6: Insurance Contracts				
Increase in Expected Loss	3,834	7,386	–	143
Decrease in net income for the year	–	–	–	–
As at 31 March 2020:				
Account 2: Insurance Contracts				
Increase in Expected Loss	162,925	322,392	18,971	124,014
Decrease in net income for the year	(2,677)	(25,849)	(0)	(1,578)
Account 3: Insurance Contracts				
Increase in Expected Loss	2,418	8,066	2,999	2,402
Decrease in net income for the year	–	–	–	–

There is no remaining exposure on Accounts 1.

Sensitivity analysis for Account 2 and Account 6 Financial Guarantee Contracts is not considered to have any significant impact on net income for the year.

21. Capital Loan Commitments

The following table summarises the movement in amounts authorised and available to be drawn on issued and effective lending products which are accounted for on an amortised cost basis under IAS 39:

	Account 3 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Movements:				
Balance at 1 April 2019	**–**	**647,572**	**–**	**647,572**
Loans issued & effective	–	609,610	–	609,610
Amounts drawn	–	(383,651)	–	(383,651)
Net foreign exchange adjustments	–	34,751	–	34,751
Change in Cover	–	(11,460)	–	(11,460)
Balance at 31 March 2020	**–**	**896,822**	**–**	**896,822**
Loans issued & effective	1,000,000	463,370	–	1,463,370
Amounts drawn	(702,564)	(535,063)	–	(1,237,627)
Net foreign exchange adjustments	–	(57,028)	–	(57,028)
Interest rate adjustments	–	–	–	–
Change in Valuation	–	–	–	–
Change in Cover	–	10,507	–	10,507
Balance at 31 March 2021	**297,436**	**778,608**	**–**	**1,076,044**

22. Contingent liabilities

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

	31 March 2021 £'000	31 March 2020 £'000
Summary: Gross of reinsurance		
Account 2	18,436,300	18,437,749
Account 3	3,206,766	3,400,712
Account 6	7,191,177	–
Total	**28,834,243**	**21,838,461**
Summary: Net of reinsurance		
Account 2	14,156,246	14,339,637
Account 3	2,081,564	2,214,192
Account 6	6,776,598	–
Total	**23,014,408**	**16,553,829**

22(a) Products accounted as insurance contracts on a fund accounted basis

The following tables summarise movements in Amounts at Risk (AAR) on issued and effective products which are accounted under IFRS4:

Gross of reinsurance	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Balance at 1 April 2019	**17,927,754**	**3,396,643**	**–**	**21,324,397**
Guarantees and insurance policies issued and effective	3,572,900	–	–	3,572,900
Run off	(3,329,777)	(61,839)	–	(3,391,616)
Net foreign exchange adjustments	772,286	93,984	–	866,270
Interest rate adjustments	(479,880)	(28,076)	–	(507,956)
Change in Valuation	(784,215)	–	–	(784,215)
Balance at 31 March 2020	**17,679,068**	**3,400,712**	**–**	**21,079,780**
Guarantees and insurance policies issued and effective	3,163,109	–	726,653	3,889,762
Run off	(3,083,971)	(65,172)	–	(3,149,143)
Net foreign exchange adjustments	(1,499,532)	(128,774)	–	(1,628,306)
Interest rate adjustments	31,274	–	–	31,274
Change in Valuation	179,687	–	(36,380)	143,307
Balance at 31 March 2021	**16,469,635**	**3,206,766**	**690,273**	**20,366,674**

Net of reinsurance	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Balance at 1 April 2019	**13,181,177**	**2,284,993**	**–**	**15,466,170**
Guarantees and insurance policies issued and effective	3,387,255	–	–	3,387,255
Run off	(2,388,409)	(52,886)	–	(2,441,295)
Net foreign exchange adjustments	560,814	61,677	–	622,491
Interest rate adjustments	(422,080)	(23,648)	–	(445,728)
Change in Valuation	(737,801)	–	–	(737,801)
Change in Cover	–	(55,944)	–	(55,944)
Balance at 31 March 2020	**13,580,956**	**2,214,192**	**–**	**15,795,148**
Guarantees and insurance policies issued and effective	2,277,081	–	285,815	2,562,896
Run off	(2,416,493)	(48,784)	–	(2,465,277)
Net foreign exchange adjustments	(1,126,980)	(83,844)	–	(1,210,824)
Interest rate adjustments	70,104	–	–	70,104
Change in Valuation	(195,087)	–	(10,121)	(205,208)
Balance at 31 March 2021	**12,189,581**	**2,081,564**	**275,694**	**14,546,839**

22(b) Products accounted for as financial guarantees

The following table summarises movements in Amounts at Risk (AAR) on issued and effective products which are accounted for under IAS 39:

Gross & Net of reinsurance	Account 2 £'000	Account 6 £'000	Total £'000
Balance at 1 April 2019	**213,514**	**–**	**213,514**
Guarantees and insurance policies issued and effective	111,934	–	111,934
Run off	(121,430)	–	(121,430)
Net foreign exchange adjustments	2,208	–	2,208
Interest rate adjustments	(82)	–	(82)
Change in Valuation	552,537	–	552,537
Balance at 31 March 2020	**758,681**	**–**	**758,681**
Guarantees and insurance policies issued and effective	1,540,729	6,540,257	8,080,986
Run off	(256,604)	–	(256,604)
Net foreign exchange adjustments	(3,517)	–	(3,517)
Interest rate adjustments	(5,685)	–	(5,685)
Change in Valuation	(66,939)	(39,353)	(106,292)
Balance at 31 March 2021	**1,966,665**	**6,500,904**	**8,467,569**

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

Since 31 March 2021 UKEF expects to pay claims in respect of 2 airlines; Air Mauritius has entered voluntary administration and Malaysia Airlines' (MAB) debts are subject to an ongoing consensual restructure and there will be a related impact on future cash flow. 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 2021 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:

Name	31 March 2021 Amounts at Risk (net) £m	Year ended 31 March 2021 Gross first year exposure (see note) £m
Air Mauritius	2	2
Malaysia Airlines	112	77

Note: Financial impact is expected to be significantly lower when reinsurance and asset recoveries are taken into account.

The Accounting Officer authorised these financial statements for issue on the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

Annexes

Business supported

Export Credits

Exporter/ Investor	Buyer/Airline/ Operating Lessor/Borrower	Project/Goods and Services	Product	Maximum Liability (£)
Benin				
Sogea Satom UK Limited	Benin, Min of Finance	Rehabilitation of a road	Direct Lending	92,879,871
Colombia				
Learjet INC	Clinica Uros S A	Learjet 75 Liberty aircraft	Asset-based Guarantee	1,737,117
Dubai				
Airbus S.A.S	Emirates	Airbus aircraft	Asset-based Guarantee	142,678,015
ASGC Construction LLC	EMAAR Properties	Construction of a hotel	Supplier Credit Finance Guarantee	127,083,429
Egypt				
Bombardier Transportation UK Ltd	Egypt, Min of Finance	2 monorail lines including rolling stock	Buyer Credit Guarantee	936,685,695
Ethiopia				
Airbus S.A.S	Ethiopian Airlines Group	Airbus aircraft	Asset-based Guarantee	65,834,066
Finland				
Airbus S.A.S	Finnair OYJ	Airbus aircraft	Asset-based Guarantee	30,623,098
Ghana				
Aqua Africa Limited	Ghana, Min of Finance	Solar-powered water pumps	Direct Lending	31,051,043
Tesab Engineering Ltd	Legna Construction Works	Supply of construction equipment	Supplier Credit Finance Guarantee	1,333,712
Tyllium UK Limited	Ghana, Min of Finance	Development and construction of a hospital	Buyer Credit Guarantee	34,841,842
Tyllium UK Limited	Ghana, Min of Finance	Development and construction of a hospital	Direct Lending	21,254,596

Exporter/ Investor	Buyer/Airline/ Operating Lessor/Borrower	Project/Goods and Services	Product	Maximum Liability (£)
Indonesia				
Lockheed Martin Global, Inc.	Indonesia, Min of Finance	C-130J Transport Aircraft	Buyer Credit Guarantee	74,591,445
Thales UK Limited	Indonesia, Min of Finance	Air defence system	Buyer Credit Guarantee	29,804,276
not disclosed[1]	not disclosed	not disclosed	Bond Insurance Policy	6,307,776
Iraq				
General Electric Global Services	Min of Finance, Iraq	Power plant maintenance/ refurbishment	Buyer Credit Guarantee	5,630,290
General Electric Global Services	Min of Finance, Iraq	Power plant maintenance/ refurbishment	Direct Lending	32,736,185
Luxembourg				
Various	N/A – Borrower and Guarantor only. Borrower: Subsea 7 UK Finance PLC	Non-contract specific support	Export Development Guarantee	321,414,793
Mexico				
Royal IHC Limited	Drebbel de Mexico S. de R.L. de C.V	Supply of cable-laying vessel	Standard Buyer Loan Guarantee	3,631,014
Mozambique				
Various	Mozambique LNG1 Financing Company	Liquefied natural gas plant	Direct Lending	271,441,001
Various	Mozambique LNG1 Financing Company	Liquefied natural gas plant	Buyer Credit Guarantee	638,777,583
Netherlands				
Airbus S.A.S	Aercap Holdings N.V.	Airbus aircraft	Asset-based Guarantee	£92,409,907
The Boeing Company	Aercap Holdings N.V.	Rolls-Royce-powered Boeing aircraft	Asset-based Guarantee	90,632,973
Portugal				
L3 Commercial Training Solutions Limited	Transportes Aéreos Portugueses	Airbus A330 full flight simulator	Asset-based Guarantee	5,909,897
Qatar				
BAE Systems (Operations) Limited	Qatar, Min of Finance	Typhoon and Hawk aircraft	Direct Lending	1,130,554,961

Exporter/ Investor	Buyer/Airline/ Operating Lessor/Borrower	Project/Goods and Services	Product	Maximum Liability (£)
Thailand				
Global Attractions Ltd	Harbor Mall Company Ltd	Supply of play centre equipment	Supplier Credit Finance Guarantee	600,326
Tunisia				
CDE Global Limited	Sebri Group	Supply of materials handling equipment	Standard Buyer Loan Guarantee	11,274,864
Turkey				
Airbus S.A.S	Pegasus Hava Tasimaciligi Anon Pegasus Airlines	Airbus aircraft	Asset-based Guarantee	71,393,210
Rolls-Royce Plc	Turk Hava Yollari A O (THY) (Turkish Airlines)	Rolls-Royce engines	Buyer Credit Guarantee	19,003,321
Uganda				
Lagan Dott Namanve Limited	Uganda, Min of Finance	Redevelopment of industrial park	Direct Lending	77,712,450
Lagan Dott Namanve Limited	Uganda, Min of Finance	Redevelopment of industrial park	Asset-based Guarantee	124,606,420
United Kingdom				
British Airways	British Airways	Non-contract specific support	Export Development Guarantee	1,976,108,275
easyJet Plc	easyJet Plc	Non-contract specific support	Export Development Guarantee	1,228,019,858
Ford Motor Company UK Ltd	Ford Motor Company UK Ltd	Non-contract specific support	Export Development Guarantee	601,721,600
Nissan Motor Company UK Ltd	Nissan Motor Company UK Ltd	Non-contract specific support	Export Development Guarantee	530,640,000
Rolls-Royce Plc	Rolls-Royce Holdings Plc	Non-contract specific support	Export Development Guarantee	1,008,201,000
Rolls-Royce Plc	Rolls-Royce Plc	Non-contract specific support	Supply Chain Discount	362,515,860
Rolls-Royce Plc	Rolls-Royce Plc	Non-contract specific support	Export Development Guarantee	1,965,412,327
United States				
GE Caledonian Limited	Atlas AIR Worldwide Holdings	Aircraft engine overhauls	Buyer Credit Guarantee	12,879,852

Trade finance and insurance: businesses supported by sector

Product type	Number of exporters	Small and medium-sized enterprises	Number of destination countries	Maximum liabilities
Administrative and support service activities				
Bond support	1	1	1	720,192
Export Insurance (EXIP)	3	3	3	255,1188
Export Working Capital Scheme	0	0	0	0
Agriculture, forestry and fishing				
Bond support	0	0	0	0
Export Insurance (EXIP)	5	5	5	425,248
Export Working Capital Scheme	0	0	0	–
Construction				
Bond support	5	5	4	1,168,738
Export Insurance (EXIP)	5	3	5	11,344,236
Export Working Capital Scheme	0	0	0	0
Defence				
Bond support	2	2	3	169,711
Export Insurance (EXIP)	1	0	1	not disclosed
Export Working Capital Scheme	2	2	9	2,004,401
Education				
Bond support	1	1	1	2,682,210
Export Insurance (EXIP)	0	0	0	0
Export Working Capital Scheme	0	0	0	0
Information and communication				
Bond support	7	7	10	2,193,371
Export Insurance (EXIP)	4	4	4	282,950
Export Working Capital Scheme	2	2	2	481,973

Product type	Number of exporters	Small and medium-sized enterprises	Number of destination countries	Maximum liabilities
Manufacturing				
Bond support	44	39	43	31,451,145
Export Insurance (EXIP)	16	12	14	4,292,196
Export Working Capital Scheme	21	20	21	21,489,064
Motion picture, video and television production activities				
Bond support	3	3	4	4,411,152
Export Insurance (EXIP)	0	0	0	0
Export Working Capital Scheme	0	0	0	0
General Export Facility	1	1	1	800,000
Professional, scientific and technical activities				
Bond support	9	8	10	4,410,051
Export Insurance (EXIP)	5	4	3	5,782,165
Export Working Capital Scheme	4	4	6	1,040,265
General Export Facility	1	1	1	613,366
Wholesale and retail trade; repair of motor vehicles and motorcycles				
Bond support	3	2	3	4,744,696
Export Insurance (EXIP)	27	24	20	8,323,272
Export Working Capital Scheme	5	4	10	4,341,690
General Export Facility	1	1	1	2,400,000

Sponsorship

Sponsorship in relation to the UK Trade and Export Finance Forum	
HSBC	£25,000
Lloyds	£15,000
Standard Chartered	£10,000
Santander	£6,000

Notes

1 Details not disclosed due to reasons of commercial confidentiality.

Sustainability of our estate

UKEF has reported annually on the sustainability of its estate since 2006, with the aim to operate the estate efficiently and reduce the environmental impact of operations and their associated costs.

UKEF's estate

UKEF is based at 1 Horse Guards Road (1HGR), London, SW1A 2HQ. UKEF is a minor occupier of 1 HGR, accounting for 7.68% of the total internal area. As landlord, HM Treasury (HMT) is responsible for the provision of all energy and utility services. HMT follows government procurement best practice in procuring those contracts.

Greening Government Commitments

The Greening Government Commitments (GGC) are the government's commitments for delivering sustainable operations and procurement. They aim to significantly the government's environmental impact by reducing emissions of greenhouse gases (GHG), reducing waste, reducing water usage and making procurement more sustainable.

Due to the pandemic the majority of UKEF staff were operating from home, therefore, the impact on building services was significantly reduced.

Summary of performance

Area	2020-21	2019-20	2018-19
Estate Waste (tonnes)-recycled	1.45	11.81	12.56
% of waste recycled	59.77%	59.33%	58.89%
Estate Water (m^3)	626	2,010	2,149

Energy from the Estate	2020-21	2019-20	2018-19
Electricity (Kw/H)	363,785	454,852	451,366
Gas (m3)	29	404	396
Whitehall District Heating System (Mw/H)	126	107	114

	2020-21	2019-20
Domestic travel – KgCO2	1,530	17,890
International – KgCO2	790	460,800

Due to the pandemic both international and domestic air travel reduced significantly in 2020-21 and UKEF used MS Teams in order to facilitate business meetings with domestic and overseas clients.

Waste

UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste and continue to reduce the amount of waste generated and increase the proportion of waste which is recycled.

UKEF is working with the building landlord to achieve this objective. UKEF has recycling points located strategically around the office. Furthermore, single use plastics have been removed from all refreshment areas.

All information technology waste is either recycled or reused through UKEF's contract with the Disposal Services Agency. UKEF continues to improve processes and systems which will reduce the amount of paper consumed.

	2020-21	2019-20	2018-19
Confidential Waste (Kilogram)	504.81	3,771.59	4,357.63
Toner Recycling (Kilogram)	–	7.15	24.48
Mixed Recycling (Kilogram)	465.17	4,162.11	3,692.10
Compostable Waste (Kilogram)	13.44	290.76	–
General Non Recycled Waste (Incinerated) – Kg	974.18	8,094.00	8,771.26
Recycled Waste (Kilogram)	1,447.20	11,810.02	12,563.23

Water

UKEF's water is not measured separately from other tenants and UKEF reports water consumption as being a proportion for the whole building at 1HGR. Again, due to the impact of the pandemic, the number of staff utilising services in 1HGR was significantly reduced. The landlord has updated taps in all of the building's restrooms, which has reduced rates of water consumption.

Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through Crown Commercial Services. Additionally, UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place committing them to sustainable provision.

Biodiversity and natural environment

UKEF's London office has no access to or control over external land. Therefore, UKEF does not have a biodiversity plan.

Notes

- all 1HGR utility payments (including water, waste and energy) are included in the set annual lease payments. The figures used above have been apportioned to departmental costs based on floor occupancy of 7.68%
- business travel gross emissions do not include journeys made by bus or taxi

UKEF core tables

Total Resource and Capital Spending for UKEF

The tables on the following pages provide a summary of the department's expenditure outturn for 2016-17 through to 2020-21, along with the planned expenditure for 2021-22. The outturn and planned expenditure is recorded on the same basis as the information on financial performance in the Statement of Parliamentary Supply beginning on page 199. They represent the spending incurred collectively across UKEF in meeting its objectives detailed in the Performance Report beginning on page 9.

Resource

£'000	Outturn					Plans
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Resource DEL (Admin & Prog)						
Staff costs	16,613	19,824	21,625	24,471	28,413	38,973
Other administration and operating costs*	13,728	13,799	15,940	16,849	20,333	36,152
Total	**30,341**	**33,623**	**37,565**	**41,320**	**48,746**	**75,125**
*Includes depreciation	180	127	272	310	209	525
AME provisions utilisation						
Dilapidations	(127)	0	0	0	0	0
Staff Early Retirement	(115)	52	(187)	(10)	0	0
Total	**(242)**	**52**	**(187)**	**(10)**	**0**	**0**
Resource AME						
B. Export Credits	(130,031)	(24,519)	(74,420)	(135,012)	118,815	326,237
C. Fixed Rate Export Finance Assistance	(1,435)	(621)	(290)	(267)	(27)	104
D. Loans & interest Equalisation	(2,819)	(1,694)	(799)	(493)	(240)	(101)
E. Direct lending	(15,097)	22,215	(53,484)	(81,972)	99,171	422,144
Total	**(149,382)**	**(4,619)**	**(128,993)**	**(217,744)**	**217,719**	**748,384**

Capital

£'000	Outturn					Plans
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Capital DEL	64	671	79	135	784	1,600
Capital AME	250,724	167,736	426,448	307,710	1,109,370	1,881,142

Note: data for future years beyond 2021-22 is not held, and is therefore not included in this report. Only 5 historic years and 1 future year is included.

Resource DEL

Resource DEL (RDEL) – For UKEF this represents the administrative cost associated with running the department (known as Administration and Programme DEL). Resource DEL has mostly remained unchanged over the preceding 5 years with the increase occurring from 2017-18 onwards primarily due to Staffing costs, Marketing (GREAT Campaign from 2018-19, and marketing operational from 2020-21), and IT Costs costs from 2020-21 onwards. The increase in staff numbers is to aid the department's strategic and corporate needs, to enable business growth, which has beens matched by an ambitious IT strategy and investment upgrade from 2020-21 onwards. Resource DEL outturn and plans are shown on the gross basis to allow better transparency and visibility of how the spend evolved over the period. Supply Estimates, however, show Resource DEL on the net basis. Resource DEL Admin is fully offset with AME income generated by the department.

Capital DEL

Capital DEL (CDEL) – For UKEF this typically represents IT hardware, but can include software purchases (licences). In 2021-22 this also includes cost in relation to office refurbishment and smarter working programme in response to Covid-19.

Resource AME

Resource AME (RAME) – For UKEF this represents underwriting and export finance activities, including income received while supporting the exporters. Both are expected to fluctuate significantly owing to the nature of the business activity, as well as the impact on foreign exchange movements. RAME is shown on the net basis. According to the arrangement with HMT it is used to offset UKEF operating costs (RDEL). From 2020-21 Export Credits and DL have increased significantly due to volatility and uncertainty in market, particularly in response to Covid-19. These figures include provision for claims and foreign exchange volatility.

Capital AME

Capital AME (CAME) – For UKEF this represents lending activity (mostly Direct Lending Facility related). Direct Lending facility can fluctuate considerably due to the nature of the activity. From 2018-19 onwards there has been a steady increase in the number of deals made. Capital AME is shown on the net basis.

Glossary

Term	Description
Active portfolio management (APM)	Work to reduce concentrations of risk in the portfolio to decrease the chance of losses, and/or free up headroom to support more business. APM is currently focused on buying case-by-case reinsurance from the private market where value for money is achieved.
Amount at risk (AAR)	AAR is equivalent to the accounting term 'contingent liability'. This represents the unexpired portion of the total risks supported by UKEF, essentially amounts still owed to banks or exporters where UKEF could face a claim. AAR would normally be less than maximum liability by the amount of expired risk. It is the measurement of exposure for issued business.
Below minimum risk standard limit	The total exposure limit agreed with HMT that sets the total amount UKEF can commit to for corporate risk obligors below a minimum rating. The limit is set at £5 billion.
Bond insurance policy (BIP)	Cover for the unfair calling of bonds (except tender bonds) or for the fair calling of bonds caused by certain political events.
Bond support scheme (BSS)	A scheme under which UKEF provides guarantees to lenders in respect of bonds related to UK exports. Where a lender issues a contract bond (or procures its issue by an overseas lender) in respect of a UK export contract, we can typically guarantee 80% of the value of the bond.
Buyer credit (BC)	A finance facility in which, normally, a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services.
Claims	Amounts paid out by UKEF under guarantees or insurance where there has been a default and UKEF is required to honour its obligations to the bank/insured party.
Commercial Interest Reference Rate (CIRR)	The minimum interest rate UKEF charges for direct loans, in accordance with the OECD Arrangement on Officially Supported Export Credits.
Commitment	A case not yet the subject of an issued guarantee, but for which UKEF has agreed the terms of its support and provided its commitment to the bank/exporter. Cases at this stage are included in UKEF's portfolio as the department has agreed to accept the risk.

Term	Description
Common Approaches	The rules agreed at the OECD for ECA due diligence in regards to environmental, social and human rights aspects of projects supported.
Concentration	This typically refers to either sector or regional concentration in the risk portfolio, indicating where UKEF has a greater proportion of its exposure.
Corporate (risk)	These are risks on commercial trading and financial institutions which are capable of being put into liquidation or receivership.
Counterparty	UKEF refers to other entities who have a relationship with the department, but are not the key source of risk on transactions as a counterparty. Examples include ECAs who provide reinsurance, or agent banks providing loans which UKEF supports.
Country limit	The maximum amount of cover available for a particularly country as agreed under the exposure management framework.
Credit period	The period over which a loan is repaid by the borrower, or for insurance products, the period for contractual payment by the buyer.
Credit quality	This typically refers to the level of default risk of an entity or the portfolio. For example, it can be measured by the proportion of investment grade rated (low risk) obligors versus non-investment grade rated (high risk) obligors.
Direct lending (DL)	Under the Direct Lending Facility, UKEF provides loans within an overall limit of £8 billion to overseas buyers, allowing them to finance the purchase of capital goods and/or services from UK exporters. Of that limit, £2 billion has been allocated to support clean growth projects and £1 billion for defence transactions.
Effective business	Business where UKEF has provided a guarantee or insurance, received premium and all other conditions have been satisfied so that UKEF is on risk.
Expected loss (EL)	How much UKEF estimates it should lose. For cases, the statistical estimate of the most likely financial outcome on a case, based on the likelihood of default and estimates of recoveries; and for the whole portfolio, the sum of the individual transaction expected losses, representing the mean of the loss distribution.
Export credit agency (ECA)	Most developed and emerging economies have an ECA. Although structure and organisation differs, they all exist to promote exports by providing insurance, reinsurance and guarantees to exporters and banks on behalf of the state. Many ECAs have reinsurance arrangements with each other (see reinsurance).

Term	Description
Export Development Guarantee	A guarantee of up to 80% to support working capital facilities, which are not tied to specific export contracts but instead support a company's general export business activities or investment requirements in support of exports. Minimum loan size of £25 million.
Export insurance policy (EXIP)	An insurance facility provided by UKEF to exporters that covers them against the risk of not being paid under their export contract. Cover can be provided for both cash and credit payment terms.
Export working capital scheme (EWCS)	A scheme provided by UKEF to assist UK exporters gain access to working capital finance (both pre- and post-shipment) in respect of specific export contracts. Under the scheme, UKEF provides guarantees to lenders to cover the credit risks associated with approved export working capital facilities. We can guarantee up to 80% of the lender facility.
Exposure	A generic term referring to the value of the risks UKEF is holding. For pre-issue business this is measured by maximum liability and for issued business this is measured by amount at risk. Exposure can be net of reinsurance and some measures of exposure also include claims.
Exposure management framework (EMF)	A framework for setting prudent restrictions on the concentrations in the portfolio. For country limits, this is based on a matrix and limits are determined by the size of the economy and the country's Expected Loss. For sectors, regions and obligors, this is based on the percentage of the portfolio attributed to that slice of risk.
Facility	The name given to each individual provision of support by UKEF.
General Export Facility	A scheme under which UKEF provides guarantees to lenders where finance is not tied to specific export contracts, covering a range of facility types to support a company's general export business activities. Facility types can include trade loans and bonds. Designed with SMEs in mind, the guarantee covers up to 80% of the value of the facility and is made available via UKEF's streamlined digital application process.
Horizon of risk	The total period of time where UKEF is on cover. For credit transactions, this includes both the pre-credit period (or drawdown) period and the repayment period.
Loss given default (LGD)	An estimate of the loss to UKEF at the time of default (also known as loss coefficient). The recovery rate is the inverse of this statistical estimate. The LGD is used with the probability of default to determine the expected loss.
Market risk appetite (MRA)	The level of potential new business that UKEF can underwrite in a specific country calculated by subtracting existing business (on a weighted basis) from the total agreed country limit.

Term	Description
Maximum commitment	The maximum amount of exposure that the UKEF portfolio can reach under the HMT Consent, currently £50 billion.
Maximum liability (ML)	The measurement of exposure for pre-issue business. Maximum liability is the maximum value of the amount of claims payable under a particular UKEF product, including any interest.
OECD	The organisation of nation states known as the Organization for Economic Co-operation and Development.
OECD Arrangement	The OECD Arrangement on Guidelines for Officially Supported Export Credits, sometimes referred to as "the Consensus" or "the Arrangement". This limits competition on export credits among members of the OECD when providing official support for export credits of 2 years or more. The Arrangement covers all officially supported export credits except those for agricultural produce and military equipment. Aircraft, ships, nuclear power plants, water and renewable energy projects are subject to separate sector understandings.
Overseas investment insurance (OII)	This scheme provides a UK investor with insurance for up to 15 years against political risks in respect of a new investment overseas. It may also be available to UK banks in respect of overseas lending, whether or not it is in connection with a UK investment or export. The risk covered by this product is that certain events (war, expropriation, restriction on remittances) mean the investor suffers a loss on their investment. It does not cover the commercial risk of the investment being unprofitable.
Paris Club (PC)	The Paris Club is an informal group of official creditors whose role is to find coordinated and sustainable solutions to payment difficulties experienced by debtor countries. Debts from sovereigns are handled by the Paris Club.
Persistence of default	A factor considered in UKEF's country risk assessments. This is an estimate of the number of years during which a country is expected to remain in default, before being able to resume some form of debt service. Used in conjunction with sovereign risk rating and loss coefficient to determine expected loss rate.
Premium Income issued, or Premium Issued	Premium Income issued, or Premium Issued, is the total amount of premium that UKEF will theoretically receive over the lifetime of the insurance or guarantee policy. Like Maximum Liability, this is fixed in time in its original currency, when the policy is issued, but its sterling value can then vary with FX movements. This includes premium for all products, and is the value we use in the financial objectives we set for our premium policy, Pricing Adequacy Index and Premium-to-risk ratio.

Term	Description
Premium earned	Premium earned is based on Accounting Standards (as Note 1 of the Financial Statements). This does not include premium from direct lending, which is amortised as interest income, and uses an exchange rate fixed at the point when premium is received (rather than month-end rates, as for premium income issued).
Premium risk ratio (PRR)	PRR assesses the extent to which UKEF premium income on new cases is sufficient to cover the risks associated with those cases. The risks are measured as both the expected loss and a charge on unexpected loss. PRR's can be calculated for individual cases, and the PRR for new business in each year is a financial objective. PRR is an in-year measure, with a target ratio of premium:expected loss (plus charge on unexpected loss) of 1.35.
Pricing adequacy index (PAI)	PAI assesses the extent to which UKEF premium income is sufficient to cover both risks and costs. PAI is measured over a 3-year rolling period, and has a target that the ratio of net earned premium to risks and costs should always be greater than 1. Risks are defined as in the premium risk ratio as expected loss and a charge on unexpected loss, and costs are UKEF's admin costs.
Probability of default	A statistical measure of the likelihood of an entity or transaction defaulting on debt obligations. Letter ratings correspond to a specific estimate of probability of default based on historical data of the outcomes for each letter rating.
Project finance (PF)	Transactions which are dependent on generating sufficient revenue from a project to service debt, once commissioned.
Provisions or provisioning	Amounts which are set aside within UKEF's trading accounts to allow for non-recovery of claims already paid and of claims to be paid in the future.
Public (risk)	Risk that is assessed to be with an entity linked to the government, but which does not benefit from full state support or a guarantee (for example a local municipality or a state utility).
Recoveries	Amounts that UKEF has been able to get back after paying a claim (e.g. through restructuring, sale of assets etc).
Reinsurance	UKEF shares risk by reinsuring it with other partners in 2 main ways: sharing a proportion of transaction with other ECAs based on the amount of content produced in that country (ECA reinsurance); or purchasing reinsurance directly from the private sector to reduce risk concentrations (see active portfolio management).
Risk appetite limit (RAL)	A risk weighted cap on the maximum amount of risk that UKEF can take on. Calculated as the 99.1%-tile of the portfolio loss distribution (see loss distribution), with a maximum of £5 billion.

Term	Description
Run-off	UKEF's risk reduces as loan repayments are made or insurance risks expire. The way in which the amounts at risk reduce is called the run-off.
Short-term (ST)	UKEF's short-term products are: bond support guarantees, working capital guarantees (including the new General Export Facility) and export insurance policies under 2 years.
Sovereign (risk)	Risks considered as being effectively upon the state itself.
Stress testing	This is a form of scenario analysis where one considers the potential adverse impact of theoretical changes in the state of the world. UKEF carries out portfolio stress testing semi-annually, based on a number of defined stresses and scenarios.
Supplier credit finance facility (SCF)	A finance facility in which a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services. This product is typically used for deals below £30 million. The SCF can also be used to guarantee Bills of Exchange or Promissory Notes issued by the borrower.
Supply Chain Discount Guarantee (SCD)	A guarantee of up to 80% provided by UKEF to a lender to support a supply chain finance facility provided by the lender to an exporter. Suppliers can draw on the facility to discount approved invoices; the exporter then makes payment to the lender at the face value of the invoice at maturity. UKEF covers the risk of the exporter failing to repay the lender.
Unexpected loss (UEL)	Measures statistical losses above EL to a certain degree of confidence. UKEF uses 99.1%.
Ultimate obligor (UO)	The final source of repayment risk. In some transactions, a number entities might be responsible for ensuring there is no default, but the ultimate obligor is the key entity for determining the riskiness of the structure.

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