

# 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
<b>Export Credit Guarantees and Insurance</b>			
<b>Income</b>			
Gross premium income		490,737	207,169
Less ceded to reinsurers		(160,932)	(29,748)
<b>Net premium income</b>	<b>3(a)</b>	<b>329,805</b>	<b>177,421</b>
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
<b>Total income</b>		<b>333,902</b>	<b>237,518</b>
<b>Expenses</b>			
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)	–
<b>Total expenses</b>		<b>(441,217)</b>	<b>(93,988)</b>
<b>Net income/(loss) arising from Export Credit Guarantees and Insurance Activities</b>		<b>(107,315)</b>	<b>143,530</b>
<b>Export Finance Assistance</b>			
<b>Income</b>			
Net investment return	3(b)	14,585	39,084
Net foreign exchange gain	6	–	43,648
<b>Total income</b>		<b>14,585</b>	<b>82,732</b>
<b>Expenses</b>			
Staff costs	7	(6,412)	(5,583)
Other administration and operating costs	8	(4,589)	(3,846)
Net foreign exchange loss	6	(113,489)	–
<b>Total expenses</b>		<b>(124,490)</b>	<b>(9,429)</b>
<b>Net income/(loss) arising from Export Finance Assistance Activities</b>		<b>(109,905)</b>	<b>73,303</b>
<b>Net operating income/(loss) for the year</b>		<b>(217,220)</b>	<b>216,833</b>

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
<b>Non-current assets:</b>			
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
<b>Total non-current assets</b>		<b>2,891,581</b>	<b>1,586,677</b>
<b>Current assets:</b>			
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
<b>Total current assets</b>		<b>430,127</b>	<b>374,931</b>
<b>Total assets</b>		<b>3,321,708</b>	<b>1,961,608</b>
<b>Current liabilities:</b>			
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)
<b>Total current liabilities</b>		<b>(188,149)</b>	<b>(171,205)</b>
<b>Non-current assets plus net current assets</b>		<b>3,133,559</b>	<b>1,790,403</b>
<b>Non-current liabilities</b>			
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)	–
<b>Total non-current liabilities</b>		<b>(2,120,250)</b>	<b>(1,317,623)</b>
<b>Assets less liabilities</b>		<b>1,013,309</b>	<b>472,780</b>
<b>Taxpayers' equity</b>			
Exchequer Financing		(2,155,673)	(3,106,838)
Cumulative Trading Surplus		3,684,456	3,791,771
General Fund		(515,474)	(212,153)
<b>Total taxpayers' equity</b>		<b>1,013,309</b>	<b>472,780</b>

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
<b>Cash flows from operating activities</b>			
Net operating income/(loss)		(217,220)	216,833
<b>Adjustments for non-cash transactions:</b>			
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
<b>Movements in Working Capital other than cash:</b>			
– 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)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>352,617</b>	<b>320,575</b>
<b>Cash flows from investing activities</b>			
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
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(1,110,154)</b>	<b>(307,845)</b>
<b>Net cash inflow/(outflow) from operating and investing activities</b>		<b>(757,537)</b>	<b>12,730</b>
<b>Cash flows from financing activities</b>			
Receipts from the Consolidated Fund (Supply):			
– relating to the current year		870,195	125,000
<b>Net cash inflow/(outflow) from financing activities</b>		<b>870,195</b>	<b>125,000</b>
<b>Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund</b>		<b>112,658</b>	<b>137,730</b>
Payments to the Consolidated Fund:			
– relating to the prior year	13	(137,730)	(187,649)
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>		<b>(25,072)</b>	<b>(49,919)</b>
Cash and cash equivalents at the beginning of the year	13	137,730	187,649
<b>Cash and cash equivalents at the end of the year</b>	<b>13</b>	<b>112,658</b>	<b>137,730</b>

The net increase in cash and cash equivalents in the year includes the effect of foreign exchange rate changes on cash held in foreign currency of £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
<b>Balance at 1 April 2019</b>		<b>(3,230,474)</b>	<b>3,648,241</b>	<b>(149,286)</b>	<b>268,481</b>
<b>Changes in taxpayers' equity for 2019-20</b>					
<b>Non-Cash Adjustments:</b>					
Auditors' remuneration	8	196	–	–	196
<b>Movements in Reserves:</b>					
Transfers between reserves		136,170	–	(136,170)	–
Recognised in Statement of Comprehensive Net Income		–	143,530	73,303	216,833
<b>Total recognised income and expense for 2019-20</b>		<b>136,366</b>	<b>143,530</b>	<b>(62,867)</b>	<b>217,029</b>
Amounts arising in year payable to the consolidated fund		(12,730)	–	–	(12,730)
<b>Balance at 31 March 2020</b>		<b>(3,106,838)</b>	<b>3,791,771</b>	<b>(212,153)</b>	<b>472,780</b>
<b>Changes in taxpayers' equity for 2020-21</b>					
<b>Non-Cash Adjustments:</b>					
Auditors' remuneration	8	212	–	–	212
<b>Movements in Reserves:</b>					
Transfers between reserves		193,416	–	(193,416)	–
Recognised in Statement of Comprehensive Net Income		–	(107,315)	(109,905)	(217,220)
<b>Total recognised income and expense for 2020-21</b>		<b>193,628</b>	<b>(107,315)</b>	<b>(303,321)</b>	<b>(217,008)</b>
Amounts arising in year payable to the consolidated fund	13	757,537	–	–	757,537
<b>Balance at 31 March 2021</b>		<b>(2,155,673)</b>	<b>3,684,456</b>	<b>(515,474)</b>	<b>1,013,309</b>

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 contracts (refer to Note 1(D) below for details) and the deferral of the application of IFRS 9 (refer to Note 1(A) above for details).

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

## Significant uncertainty arising from the nature of UKEF's Underwriting Activity (Accounts 1 – 3 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
<b>Income</b>							
Gross premium income	–	433,444	–	–	–	57,293	490,737
Less ceded to reinsurers	–	(128,962)	–	–	–	(31,970)	(160,932)
<b>Net premium income</b>	<b>–</b>	<b>304,482</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>25,323</b>	<b>329,805</b>
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	–	–	–	–	–	–	–
<b>Total income</b>	<b>6,912</b>	<b>305,170</b>	<b>5,028</b>	<b>267</b>	<b>9,290</b>	<b>25,323</b>	<b>351,990</b>
<b>Expenses</b>							
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)
<b>Total expenses</b>	<b>(11,502)</b>	<b>(408,903)</b>	<b>(1,366)</b>	<b>(292)</b>	<b>(122,897)</b>	<b>(24,250)</b>	<b>(569,210)</b>
<b>Net income / (loss)</b>	<b>(4,590)</b>	<b>(103,733)</b>	<b>3,662</b>	<b>(25)</b>	<b>(113,607)</b>	<b>1,073</b>	<b>(217,220)</b>

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
<b>Income</b>						
Gross premium income	–	207,169	–	–	–	207,169
Less ceded to reinsurers	–	(29,730)	(18)	–	–	(29,748)
<b>Net premium income</b>	<b>–</b>	<b>177,439</b>	<b>(18)</b>	<b>–</b>	<b>–</b>	<b>177,421</b>
Net investment return income	39,789	1,886	–	760	38,324	80,759
Claims credit	10,868	–	–	–	–	10,868
Changes in insurance liabilities net of reinsurance	–	–	18	–	–	18
Net foreign exchange gain	7,130	4,018	–	–	43,648	54,796
<b>Total income</b>	<b>57,787</b>	<b>183,343</b>	<b>–</b>	<b>760</b>	<b>81,972</b>	<b>323,862</b>
<b>Expenses</b>						
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)
<b>Total expenses</b>	<b>(496)</b>	<b>(95,825)</b>	<b>(1,279)</b>	<b>(745)</b>	<b>(8,684)</b>	<b>(107,029)</b>
<b>Net income</b>	<b>57,291</b>	<b>87,518</b>	<b>(1,279)</b>	<b>15</b>	<b>73,288</b>	<b>216,833</b>

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
<b>Non-current assets:</b>							
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
<b>Total non-current assets</b>	<b>170,059</b>	<b>632,068</b>	<b>691,652</b>	<b>1,068</b>	<b>1,176,062</b>	<b>220,672</b>	<b>2,891,581</b>
<b>Current assets:</b>							
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
<b>Total current assets</b>	<b>87,734</b>	<b>237,568</b>	<b>(84,563)</b>	<b>4,298</b>	<b>109,739</b>	<b>75,351</b>	<b>430,127</b>
<b>Total assets</b>	<b>257,793</b>	<b>869,636</b>	<b>607,089</b>	<b>5,366</b>	<b>1,285,801</b>	<b>296,023</b>	<b>3,321,708</b>
<b>Current liabilities:</b>							
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)
<b>Total current liabilities</b>	<b>(49,680)</b>	<b>(192,380)</b>	<b>84,632</b>	<b>(2,895)</b>	<b>21,054</b>	<b>(48,881)</b>	<b>(188,150)</b>
<b>Non-current assets plus net current assets</b>	<b>208,113</b>	<b>677,256</b>	<b>691,721</b>	<b>2,471</b>	<b>1,306,855</b>	<b>247,142</b>	<b>3,133,558</b>
<b>Non-current liabilities</b>							
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)
<b>Total non-current liabilities</b>	<b>–</b>	<b>(1,742,676)</b>	<b>(108,415)</b>	<b>(39)</b>	<b>–</b>	<b>(269,119)</b>	<b>(2,120,249)</b>
<b>Assets less liabilities</b>	<b>208,113</b>	<b>(1,065,420)</b>	<b>583,306</b>	<b>2,432</b>	<b>1,306,855</b>	<b>(21,977)</b>	<b>1,013,309</b>
<b>Taxpayers' equity</b>							
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)
<b>Total taxpayers' equity</b>	<b>208,113</b>	<b>(1,065,420)</b>	<b>583,306</b>	<b>2,432</b>	<b>1,306,855</b>	<b>(21,977)</b>	<b>1,013,309</b>

## 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
<b>Non-current assets:</b>						
Equipment and intangible assets	–	318	–	–	–	318
Financial assets						
– Fair value through income	–	–	–	339	–	339
– Loans & receivables	–	–	–	2,342	959,510	961,852
Insurance contracts						
– Insurance assets	220,129	26,737	–	–	–	246,866
– Reinsurers' share of insurance liabilities	–	333,113	26,189	–	–	359,302
Insurance and other receivables	–	18,000	–	–	–	18,000
<b>Total non-current assets</b>	<b>220,129</b>	<b>378,168</b>	<b>26,189</b>	<b>2,681</b>	<b>959,510</b>	<b>1,586,677</b>
<b>Current assets:</b>						
Financial assets						
– Fair value through income	–	–	–	440	–	440
– Loans & receivables	–	–	–	2,456	149,911	152,367
Insurance contracts						
– Insurance assets	42,319	26,390	–	–	–	68,709
Insurance and other receivables	–	15,703	–	–	(18)	15,685
Cash and cash equivalents	67,248	179,907	(10,724)	5,148	(103,849)	137,730
<b>Total current assets</b>	<b>109,567</b>	<b>222,000</b>	<b>(10,724)</b>	<b>8,044</b>	<b>46,044</b>	<b>374,931</b>
<b>Total assets</b>	<b>329,696</b>	<b>600,168</b>	<b>15,465</b>	<b>10,725</b>	<b>1,005,554</b>	<b>1,961,608</b>
<b>Current liabilities:</b>						
Financial liabilities						
– Financial liabilities held at fair value	–	–	–	(125)	–	(125)
Consolidated Fund (Payable) / Receivable	(67,248)	(179,907)	10,724	(5,148)	103,849	(137,730)
Provisions	–	(3,770)	–	–	–	(3,770)
Insurance and other payables	(449)	(29,116)	–	4	(19)	(29,580)
<b>Total current liabilities</b>	<b>(67,697)</b>	<b>(212,793)</b>	<b>10,724</b>	<b>(5,269)</b>	<b>103,830</b>	<b>(171,205)</b>
<b>Non-current assets plus net current assets</b>	<b>261,999</b>	<b>387,375</b>	<b>26,189</b>	<b>5,456</b>	<b>1,109,384</b>	<b>1,790,403</b>
<b>Non-current liabilities</b>						
Financial liabilities						
– Financial liabilities held at fair value	–	–	–	(123)	–	(123)
Insurance contracts						
– Insurance liabilities	–	(1,206,128)	(111,372)	–	–	(1,317,500)
<b>Total non-current liabilities</b>	<b>–</b>	<b>(1,206,128)</b>	<b>(111,372)</b>	<b>(123)</b>	<b>–</b>	<b>(1,317,623)</b>
<b>Assets less liabilities</b>	<b>261,999</b>	<b>(818,753)</b>	<b>(85,183)</b>	<b>5,333</b>	<b>1,109,384</b>	<b>472,780</b>
<b>Taxpayers' equity</b>						
Exchequer Financing	(1,446,170)	(2,801,945)	(185,593)	4,682	1,322,188	(3,106,838)
Cumulative Trading Surplus	1,708,169	1,983,192	100,410	–	–	3,791,771
General Fund	–	–	–	651	(212,804)	(212,153)
<b>Total taxpayers' equity</b>	<b>261,999</b>	<b>(818,753)</b>	<b>(85,183)</b>	<b>5,333</b>	<b>1,109,384</b>	<b>472,780</b>

### 3. Premium Income & Net investment return

#### 3(a) Premium Income

	2020-21 £'000	2019-20 £'000
<b>Underwriting Premium Income:</b>		
<b>Insurance contracts premium receivable (IFRS4)</b>		
<b>Current Underwriting Year:</b>		
Gross Premium	453,981	200,400
Less ceded to reinsurers	(158,577)	(8,118)
<b>Net Premium income</b>	<b>295,404</b>	<b>192,282</b>
<b>Previous Underwriting Years:</b>		
Gross Premium	14,930	77
Less ceded to reinsurers	(2,355)	(21,630)
<b>Net Premium income</b>	<b>12,575</b>	<b>(21,553)</b>
<b>Summary</b>		
Gross Premium	468,911	200,477
Less ceded to reinsurers	(160,932)	(29,748)
<b>Net Premium income</b>	<b>307,979</b>	<b>170,729</b>
<b>Financial guarantees premium amortised (IAS39)</b>		
<b>Summary</b>		
Gross Premium	21,826	6,692
Less ceded to reinsurers	-	-
<b>Net Premium income</b>	<b>21,826</b>	<b>6,692</b>
<b>Total Net premium income</b>	<b>329,805</b>	<b>177,421</b>

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

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

## 3(b) Net Investment Return

	Note	Account 1 £'000	Account 2 £'000	2020-21 Total £'000	2019-20 Total £'000	
<b>Export Credit Guarantees and Insurance</b>						
Interest income	4	3,409	357	3,766	41,181	
Other income		-	331	331	494	
<b>Total Income</b>		<b>3,409</b>	<b>688</b>	<b>4,097</b>	<b>41,675</b>	
<b>Net Income</b>		<b>3,409</b>	<b>688</b>	<b>4,097</b>	<b>41,675</b>	
	Note	Account 3 £'000	Account 4 £'000	Account 5 £'000	2020-21 Total £'000	2019-20 Total £'000
<b>Export Finance Assistance</b>						
Amortised loans & receivables income	9(b)	5,028	240	39,876	45,144	44,202
Gain in fair value of derivatives		-	489	-	489	640
<b>Total Income</b>		<b>5,028</b>	<b>729</b>	<b>39,876</b>	<b>45,633</b>	<b>44,842</b>
Impairment of loans & receivables	9(b)	-	-	(30,586)	(30,586)	(5,385)
Loss in fair value of derivatives		-	(462)	-	(462)	(373)
<b>Total Costs</b>		<b>-</b>	<b>(462)</b>	<b>(30,586)</b>	<b>(31,048)</b>	<b>(5,758)</b>
<b>Net Income</b>		<b>5,028</b>	<b>267</b>	<b>9,290</b>	<b>14,585</b>	<b>39,084</b>

#### 4. Interest receivable

	Note	Account 1 £'000	Account 2 £'000	2020-21 Total £'000	2019-20 Total £'000
<b>Interest arising from claims</b>					
– 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
<b>Interest credit for the year</b>		<b>3,409</b>	<b>357</b>	<b>3,766</b>	<b>41,181</b>

Other Interest includes bank interest on balances with commercial banks.

#### 5. Net claims credit and provision for likely claims

	Note	Account 1 £'000	Account 2 £'000	2020-21 Total £'000	2019-20 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
<b>Provision on claims authorised and paid in the year</b>		<b>–</b>	<b>(53,985)</b>	<b>(53,985)</b>	<b>(3,724)</b>
Net change in provisions for claims authorised and paid in previous years		3,503	4,677	8,180	13,152
<b>Claims credit/(charge) for the year</b>	<b>10(a)</b>	<b>3,503</b>	<b>(49,308)</b>	<b>(45,805)</b>	<b>9,428</b>
Change in provision for claims on financial guarantees	17(c)	–	(8,683)	(8,683)	(2,154)
<b>Net claims credit &amp; provision for likely claims</b>		<b>3,503</b>	<b>(57,991)</b>	<b>(54,488)</b>	<b>7,274</b>

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
<b>Export Credit Guarantees and Insurance</b>						
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
<b>Net foreign exchange gain/(loss) for year</b>		<b>(11,015)</b>	<b>(13,472)</b>	<b>(108)</b>	<b>(24,595)</b>	<b>11,148</b>

		Account 5 £'000	Account 6 £'000	Total £'000	Total £'000
<b>Export Finance Assistance</b>					
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)
<b>Net foreign exchange gain/(loss) for year</b>		<b>(113,489)</b>	<b>–</b>	<b>(113,489)</b>	<b>43,648</b>

	Total £'000	Total £'000
<b>Summary:</b>		
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
<b>Net foreign exchange gain/(loss) for year</b>	<b>(138,084)</b>	<b>54,796</b>

Day-to-day transactions are converted at the rates prevailing on the original transaction date. Assets and liabilities are re-valued at the year-end rates. The table below shows the exchange rates applicable on the principal currencies.

Currency 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
<b>Total Costs before provision movements</b>	<b>28,413</b>	<b>24,471</b>
Early Retirement Provision utilisation & adjustment	–	(10)
<b>Total Staff Costs</b>	<b>28,413</b>	<b>24,461</b>
<b>Of which:</b>		
– 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
Accommodation	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
<b>Total Other Administrative Costs</b>	<b>20,333</b>	<b>16,849</b>
<b>Of which:</b>		
– Export Credit Guarantees and Insurance	15,744	13,003
– Export Finance Assistance	4,589	3,846
<b>Included in the above figures:</b>		
– 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
<b>Total</b>	<b>312</b>	<b>779</b>
<b>Falling due:</b>		
– 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
<b>Total</b>	<b>1,977,542</b>	<b>1,114,219</b>
<b>Falling due:</b>		
– 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
<b>Movements:</b>					
<b>Balance at 1 April 2019</b>		–	<b>10,027</b>	<b>807,249</b>	<b>817,276</b>
– Loans advanced	21	–	–	383,651	383,651
– Loans recovered		–	(5,142)	(70,799)	(75,941)
– Net foreign exchange gain/(loss)		–	–	44,393	44,393
– Amortised income		–	493	43,709	44,202
– Other movement in working capital		–	(580)	(93,397)	(93,977)
– Impairment provision		–	–	(5,385)	(5,385)
<b>Balance at 31 March 2020</b>		–	<b>4,798</b>	<b>1,109,421</b>	<b>1,114,219</b>
– 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)
<b>Balance at 31 March 2021</b>		<b>668,489</b>	<b>2,175</b>	<b>1,306,878</b>	<b>1,977,542</b>
<b>Of which:</b>					
– 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)
<b>Falling due:</b>					
– 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
<b>Total</b>	<b>277,068</b>	<b>315,575</b>
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
<b>Recoverable claims – gross</b>			
<b>Balance at 1 April 2019</b>	<b>433,377</b>	<b>213,373</b>	<b>646,750</b>
Claims & recoverable expenditure approved in the year	–	7,678	7,678
Recoveries made in the year	(38,474)	(32,947)	(71,421)
Recoveries abandoned in the year	1	(1,104)	(1,103)
Net foreign exchange movements	6,789	1,972	8,761
<b>Balance at 31 March 2020</b>	<b>401,693</b>	<b>188,972</b>	<b>590,665</b>
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)
<b>Balance at 31 March 2021</b>	<b>350,227</b>	<b>249,534</b>	<b>599,761</b>
<b>Recoverable claims – provisions</b>			
<b>Balance at 1 April 2019</b>	<b>265,484</b>	<b>134,786</b>	<b>400,270</b>
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
<b>Balance at 31 March 2020</b>	<b>257,078</b>	<b>136,359</b>	<b>393,437</b>
(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)
<b>Balance at 31 March 2021</b>	<b>239,728</b>	<b>181,353</b>	<b>421,081</b>
Net recoverable claims as at:			
<b>– 31 March 2021</b>	<b>110,499</b>	<b>68,181</b>	<b>178,680</b>
– 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
<b>Interest on unrecovered claims – gross</b>			
<b>Balance at 1 April 2019</b>	<b>1,004,320</b>	<b>147,639</b>	<b>1,151,959</b>
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
<b>Balance at 31 March 2020</b>	<b>1,015,016</b>	<b>156,614</b>	<b>1,171,630</b>
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)
<b>Balance at 31 March 2021</b>	<b>964,336</b>	<b>165,336</b>	<b>1,129,672</b>
<b>Interest on unrecovered claims – provisions</b>			
<b>Balance at 1 April 2019</b>	<b>899,703</b>	<b>146,774</b>	<b>1,046,477</b>
Increase in provisions in the year	(12,128)	9,124	(3,004)
Recoveries abandoned in the year	–	(2)	(2)
Net foreign exchange movements	9,608	204	9,812
<b>Balance at 31 March 2020</b>	<b>897,183</b>	<b>156,100</b>	<b>1,053,283</b>
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)
<b>Balance at 31 March 2021</b>	<b>866,348</b>	<b>164,936</b>	<b>1,031,284</b>
Net interest on unrecovered claims as at:			
<b>– 31 March 2021</b>	<b>97,988</b>	<b>400</b>	<b>98,388</b>
– 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
<b>Movements summary</b>	
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)
<b>Total Movements</b>	<b>(19,744)</b>
<b>Balance at 31 March 2020</b>	<b>359,302</b>
<b>Movements summary</b>	
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
<b>Total Movements</b>	<b>218,621</b>
<b>Balance at 31 March 2021</b>	<b>577,923</b>

Movements are summarised within Note 18.

## 12. Insurance and other receivables

	31 March 2021 £'000	31 March 2020 £'000
<b>Export Credit Guarantees and Insurance:</b>		
Insurance premium receivables	329,261	30,874
Insurance prepayments and accrued income	45,923	2,706
Other receivables	128	105
<b>Total</b>	<b>375,312</b>	<b>33,685</b>
Falling due:		
– within 1 year	<b>132,649</b>	<b>15,706</b>
– after more than 1 year	<b>242,663</b>	<b>18,000</b>

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
<b>Balance at 1 April 2019</b>	<b>187,649</b>
Net cash inflow to UKEF	12,730
Receipts from the Consolidated Fund	
– in respect of amounts received in the current year	125,000
Payments to the Consolidated Fund	
– in respect of amounts received in the previous year	(187,649)
<b>Balance at 31 March 2020</b>	<b>137,730</b>
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)
<b>Balance at 31 March 2021</b>	<b>112,658</b>

	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
<b>Total</b>	<b>112,658</b>	<b>137,730</b>

#### 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
<b>Amounts due to the Consolidated Fund</b>	<b>112,658</b>	<b>137,730</b>
Payments to the Consolidated Fund relating to the prior year	(137,730)	(187,649)
<b>(Decrease) / Increase in cash</b>	<b>(25,072)</b>	<b>(49,919)</b>

#### 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
<b>Total</b>	<b>58</b>	<b>248</b>
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
<b>Total</b>	<b>112,658</b>	<b>137,730</b>
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
<b>Export Credit Guarantees and Insurance</b>		
Insurance payables – amounts due to policyholders	116	104
Income Tax and National Insurance	656	551
Deferred income and other payables	321,964	28,910
<b>Total</b>	<b>322,736</b>	<b>29,565</b>
<b>Export Finance Assistance</b>		
Other payables	24	15
<b>Total</b>	<b>24</b>	<b>15</b>
Falling due:		
– within 1 year	63,059	29,580
– after more than 1 year	259,701	–
<b>Total</b>	<b>322,760</b>	<b>29,580</b>

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
<b>Total</b>	<b>12,413</b>	<b>3,770</b>
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
<b>Insurance liabilities – Gross of reinsurance</b>				
<b>Balance at 1 April 2019</b>	<b>1,163,765</b>	<b>111,372</b>	<b>–</b>	<b>1,275,137</b>
Movements				
– Addition to the underwriting funds in the year	169,844	–	–	169,844
– Release of excess funds – cash	(1,687)	–	–	(1,687)
– Release of excess funds – credit	(123,455)	–	–	(123,455)
– Other fund movements	(488)	–	–	(488)
– Change in insurance liabilities on closed funds	(1,851)	–	–	(1,851)
<b>Total Movements</b>	<b>42,363</b>	<b>–</b>	<b>–</b>	<b>42,363</b>
<b>Balance at 31 March 2020</b>	<b>1,206,128</b>	<b>111,372</b>	<b>–</b>	<b>1,317,500</b>
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
<b>Total Movements</b>	<b>498,337</b>	<b>(2,957)</b>	<b>47,630</b>	<b>543,010</b>
<b>Balance at 31 March 2021</b>	<b>1,704,465</b>	<b>108,415</b>	<b>47,630</b>	<b>1,860,510</b>
<b>Insurance liabilities – Net of reinsurance</b>				
<b>Balance at 1 April 2019</b>	<b>810,890</b>	<b>85,201</b>	<b>–</b>	<b>896,091</b>
Movements				
– Addition to the underwriting funds in the year	161,727	–	–	161,727
– Release of excess funds – cash	(187)	–	–	(187)
– Release of excess funds – credit	(75,791)	–	–	(75,791)
– Other fund movements	(22,100)	(18)	–	(22,118)
– Change in insurance liabilities on closed funds	(1,524)	–	–	(1,524)
<b>Total Movements</b>	<b>62,125</b>	<b>(18)</b>	<b>–</b>	<b>62,107</b>
<b>Balance at 31 March 2020</b>	<b>873,015</b>	<b>85,183</b>	<b>–</b>	<b>958,198</b>
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
<b>Total Movements</b>	<b>308,729</b>	<b>–</b>	<b>15,660</b>	<b>324,389</b>
<b>Balance at 31 March 2021</b>	<b>1,181,744</b>	<b>85,183</b>	<b>15,660</b>	<b>1,282,587</b>

	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
<b>Summary of movements</b>				
<b>2019-20</b>				
Gross changes in insurance liabilities	42,363	–	–	42,363
Reinsurers' share of changes in insurance	19,762	(18)	–	19,744
<b>Changes in insurance liabilities (net of reinsurance)</b>	<b>62,125</b>	<b>(18)</b>	<b>–</b>	<b>62,107</b>
<b>2020-21</b>				
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)
<b>Changes in insurance liabilities (net of reinsurance)</b>	<b>308,729</b>	<b>–</b>	<b>15,660</b>	<b>324,389</b>

Movements in reinsurance are analysed within Note 11.

## Schedule of Expected Loss

As part of its liability adequacy testing process, UKEF assesses the carrying value of its insurance liabilities against a schedule of Expected Loss. The Expected Loss does not take into account any additional margins that are required to compensate UKEF for the inherent risk that actual losses may significantly exceed the Expected Loss. The derived Expected Loss is not therefore regarded by UKEF to be a reliable estimate of the likely eventual outturn (with insufficient information available for open fund years to determine definitively and with a high degree of confidence the level of claims that will be ultimately experienced) and is presented for indicative purposes. Credit funds up to and including 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
<b>Accounts 2, 3 &amp; 6</b>										
<b>Credit funds</b>										
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	–	–	–	–	–	–	–	–	–
<b>Cash funds</b>										
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	–	–	–	–	–	–	–	–	–	–
<b>Credit fund total</b>	<b>13,831</b>	<b>56,951</b>	<b>56,497</b>	<b>65,202</b>	<b>16,516</b>	<b>35,966</b>	<b>166,991</b>	<b>183,377</b>	<b>76,790</b>	<b>77,729</b>
<b>Cash fund total</b>	<b>–</b>	<b>5,940</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>43</b>	<b>1,833</b>	<b>20</b>	<b>668</b>
<b>Expected Loss total</b>	<b>13,831</b>	<b>62,891</b>	<b>56,497</b>	<b>65,202</b>	<b>16,516</b>	<b>35,966</b>	<b>167,034</b>	<b>185,210</b>	<b>76,810</b>	<b>78,397</b>
<b>Summary</b>										<b>758,354</b>
<b>Expected Loss Summary:</b>						<b>funds 2011-12 to 2020-21 open £'000</b>	<b>funds 2011-12 to 2020-21 closed £'000</b>	<b>funds 2011-12 to 2020-21 total £'000</b>	<b>funds years to 2010-11 closed £'000</b>	<b>funds grand total £'000</b>
<b>Accounts 2, 3 &amp; 6</b>										
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
<b>As at 31 March 2021</b>		
Interest rate swap arrangements on Export Finance Loan Guarantees	9	11
Interest rate derivative contracts entered into for hedging purposes	–	–
<b>Net impact on profit or loss</b>	<b>9</b>	<b>11</b>
<b>As at 31 March 2020</b>		
Interest rate swap arrangements on Export Finance Loan Guarantees	(6)	45
Interest rate derivative contracts entered into for hedging purposes	–	–
<b>Net impact on profit or loss</b>	<b>(6)</b>	<b>45</b>

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
<b>As at 31 March 2021</b>				
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)
<b>As at 31 March 2020</b>				
Interest rate swap arrangements on Export Finance Loan Guarantees	2,387	5,098	–	7,485
Interest rate derivative contracts entered into for hedging purposes	2,017	1,720	–	3,737

## 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
<b>As at 31 March 2021</b>				
<b>Financial assets:</b>				
– 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
<b>Financial liabilities:</b>				
– Fair value through profit or loss	(39)	–	(19)	(58)
Insurance and other payables	(231,101)	(88,992)	(2,667)	(322,760)
<b>Financial Commitments:</b>				
– Account 3 amounts available	297,436	–	–	297,436
– Account 4 amounts available	–	–	–	–
– Account 5 amounts available	9,693	473,665	295,250	778,608
<b>As at 31 March 2020</b>				
<b>Financial assets:</b>				
– 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
<b>Financial liabilities:</b>				
– Fair value through profit or loss	(102)	(81)	(65)	(248)
Insurance and other payables	(28,277)	–	(1,303)	(29,580)
<b>Financial Commitments:</b>				
– 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
<b>As at 31 March 2021</b>			
<b>Account 3: Direct Lending</b>			
– Loans at amortised cost	668,489	–	668,489
– Commitments	297,436	–	297,436
<b>Account 4: Direct Lending</b>			
– Loans at amortised cost	2,175	–	2,175
– Commitments	–	–	–
<b>Account 5: Direct Lending</b>			
– Loans at amortised cost	–	1,306,878	1,306,878
– Commitments	–	778,608	778,608
<b>As at 31 March 2020</b>			
<b>Account 5: Direct Lending</b>			
– Loans at amortised cost	376,795	732,626	1,109,421
– Commitments	38,421	858,401	896,822

**20(b)(ii) Credit concentration risk**

The following table provides information regarding the credit concentration of loans at amortised cost & loan commitments:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
<b>As at 31 March 2021</b>					
<b>Account 3: Direct Lending</b>					
– Loans at Cost	–	–	668,489	–	668,489
– Commitments	–	–	297,436	–	297,436
<b>Account 4: Direct Lending</b>					
– Loans at Cost	–	–	–	2,175	2,175
– Commitments	–	–	–	–	–
<b>Account 5: Direct Lending</b>					
– Loans at cost	4,837	32,750	1,269,291	–	1,306,878
– Commitments	–	–	778,608	–	778,608
<b>As at 31 March 2020</b>					
<b>Account 5: Direct Lending</b>					
– 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
<b>Amounts at Risk, gross of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	2,340,204	3,368,452	5,708,656
Other	938,228	9,822,751	10,760,979
<b>Total</b>	<b>3,278,432</b>	<b>13,191,203</b>	<b>16,469,635</b>
<b>Account 3: Insurance Contracts</b>			
Other	3,206,766	–	3,206,766
<b>Total</b>	<b>3,206,766</b>	<b>–</b>	<b>3,206,766</b>
<b>Account 6: Insurance Contracts</b>			
Asset-backed	139,193	545,210	684,404
Other	–	5,869	5,869
<b>Total</b>	<b>139,193</b>	<b>551,080</b>	<b>690,273</b>
<b>Account 2: Financial Guarantees</b>	834,644	1,132,021	1,966,665
<b>Account 6: Financial Guarantees</b>	–	6,500,904	6,500,904
<b>Total</b>	<b>834,644</b>	<b>7,632,925</b>	<b>8,467,569</b>
<b>Amounts at Risk, net of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	1,457,562	2,101,550	3,559,112
Other	916,602	7,713,867	8,630,469
<b>Total</b>	<b>2,374,164</b>	<b>9,815,417</b>	<b>12,189,581</b>
<b>Account 3: Insurance Contracts</b>			
Other	2,081,564	–	2,081,564
<b>Total</b>	<b>2,081,564</b>	<b>–</b>	<b>2,081,564</b>
<b>Account 6: Insurance Contracts</b>			
Asset-backed	139,193	130,632	269,825
Other	–	5,869	5,869
<b>Total</b>	<b>139,193</b>	<b>136,501</b>	<b>275,694</b>
<b>Account 2: Financial Guarantees</b>	834,644	1,132,021	1,966,665
<b>Account 6: Financial Guarantees</b>	–	6,500,904	6,500,904
<b>Total</b>	<b>834,644</b>	<b>7,632,925</b>	<b>8,467,569</b>

	Investment grade £'000	Non-investment grade £'000	Total £'000
<b>Expected Loss, gross of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	11,820	638,946	650,766
Other	6,049	488,114	494,163
<b>Total</b>	<b>17,869</b>	<b>1,127,060</b>	<b>1,144,929</b>
<b>Account 3: Insurance Contracts</b>			
Other	6,404	–	6,404
<b>Total</b>	<b>6,404</b>	<b>–</b>	<b>6,404</b>
<b>Account 6: Insurance Contracts</b>			
Asset-backed	1,778	22,414	24,192
Other	–	394	394
<b>Total</b>	<b>1,778</b>	<b>22,808</b>	<b>24,586</b>
<b>Account 2: Financial Guarantees</b>	<b>8,763</b>	<b>36,588</b>	<b>45,351</b>
<b>Account 6: Financial Guarantees</b>	<b>–</b>	<b>288,904</b>	<b>288,904</b>
<b>Total</b>	<b>8,763</b>	<b>325,492</b>	<b>334,255</b>
<b>Expected Loss, net of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	8,272	365,423	373,695
Other	5,862	385,393	391,255
<b>Total</b>	<b>14,134</b>	<b>750,816</b>	<b>764,950</b>
<b>Account 3: Insurance Contracts</b>			
Other	4,245	–	4,245
<b>Total</b>	<b>4,245</b>	<b>–</b>	<b>4,245</b>
<b>Account 6: Insurance Contracts</b>			
Asset-backed	1,778	5,730	7,508
Other	–	394	394
<b>Total</b>	<b>1,778</b>	<b>6,124</b>	<b>7,902</b>
<b>Account 2: Financial Guarantees</b>	<b>8,763</b>	<b>36,588</b>	<b>45,351</b>
<b>Account 6: Financial Guarantees</b>	<b>–</b>	<b>288,904</b>	<b>288,904</b>
<b>Total</b>	<b>8,763</b>	<b>325,492</b>	<b>334,255</b>

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Account 2 and Account 3 portfolio as at 31 March 2020:

	Investment grade £'000	Non-investment grade £'000	Total £'000
<b>Amounts at Risk, gross of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	4,397,587	2,544,239	6,941,826
Other	3,094,244	7,642,998	10,737,242
<b>Total</b>	<b>7,491,831</b>	<b>10,187,237</b>	<b>17,679,068</b>
<b>Account 3: Insurance Contracts</b>			
Other	3,400,712	–	3,400,712
<b>Total</b>	<b>3,400,712</b>	<b>–</b>	<b>3,400,712</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>8,994</b>	<b>749,687</b>	<b>758,681</b>
<b>Amounts at Risk, net of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	1,902,383	2,544,239	4,446,622
Other	1,491,336	7,642,998	9,134,334
<b>Total</b>	<b>3,393,719</b>	<b>10,187,237</b>	<b>13,580,956</b>
<b>Account 3: Insurance Contracts</b>			
Other	2,214,192	–	2,214,192
<b>Total</b>	<b>2,214,192</b>	<b>–</b>	<b>2,214,192</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>8,994</b>	<b>749,687</b>	<b>758,681</b>

	Investment grade £'000	Non-investment grade £'000	Total £'000
<b>Expected Loss, gross of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	42,881	95,146	138,027
Other	45,597	224,099	269,696
<b>Total</b>	<b>88,478</b>	<b>319,245</b>	<b>407,723</b>
<b>Account 3: Insurance Contracts</b>			
Other	7,250	–	7,250
<b>Total</b>	<b>7,250</b>	<b>–</b>	<b>7,250</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>31</b>	<b>27,982</b>	<b>28,013</b>
<b>Expected Loss, net of reinsurance</b>			
<b>Account 2: Insurance Contracts</b>			
Asset-backed	9,801	95,146	104,947
Other	8,124	224,098	232,222
<b>Total</b>	<b>17,925</b>	<b>319,244</b>	<b>337,169</b>
<b>Account 3: Insurance Contracts</b>			
Other	4,796	–	4,796
<b>Total</b>	<b>4,796</b>	<b>–</b>	<b>4,796</b>
<b>Account 2: Financial Guarantees</b>			
<b>Total</b>	<b>31</b>	<b>27,982</b>	<b>28,013</b>

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
<b>Recoverable claims – gross</b>			
Account 1	2,129	348,098	350,227
Account 2	13,852	235,682	249,534
<b>Total</b>	<b>15,981</b>	<b>583,780</b>	<b>599,761</b>
<b>Recoverable claims – net of provisions</b>			
Account 1	2,121	108,378	110,499
Account 2	13,798	54,383	68,181
<b>Total</b>	<b>15,919</b>	<b>162,761</b>	<b>178,680</b>
<b>Interest on unrecovered claims – gross</b>			
Account 1	4	964,332	964,336
Account 2	27	165,309	165,336
<b>Total</b>	<b>31</b>	<b>1,129,641</b>	<b>1,129,672</b>
<b>Interest on unrecovered claims – net of provisions</b>			
Account 1	4	97,984	97,988
Account 2	27	373	400
<b>Total</b>	<b>31</b>	<b>98,357</b>	<b>98,388</b>

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
<b>Recoverable claims – gross</b>			
Account 1	6,193	395,500	401,693
Account 2	44,321	144,651	188,972
<b>Total</b>	<b>50,514</b>	<b>540,151</b>	<b>590,665</b>
<b>Recoverable claims – net of provisions</b>			
Account 1	6,167	138,448	144,615
Account 2	42,068	10,545	52,613
<b>Total</b>	<b>48,235</b>	<b>148,993</b>	<b>197,228</b>
<b>Interest on unrecovered claims – gross</b>			
Account 1	32	1,014,984	1,015,016
Account 2	203	156,411	156,614
<b>Total</b>	<b>235</b>	<b>1,171,395</b>	<b>1,171,630</b>
<b>Interest on unrecovered claims – net of provisions</b>			
Account 1	32	117,801	117,833
Account 2	203	311	514
<b>Total</b>	<b>235</b>	<b>118,112</b>	<b>118,347</b>

### 20(c)(ii) Credit concentration risk

UKEF assesses its concentration risk, and its exposure to catastrophic loss, through controls which set limits for exposure to individual countries. Additionally, the Enterprise Risk and Credit Committee reviews large corporate risks on a case-by-case basis taking into account UKEF's risk appetite for new business in a given country and the rating and financial profile of the corporate concerned.

Information is presented based upon the geographical location of the ultimate obligor.

The table below provides an indication of the concentration of credit risk within the UKEF Account 2, 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
<b>Amounts at Risk, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
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
<b>Total</b>	<b>5,486,467</b>	<b>971,554</b>	<b>7,857,240</b>	<b>2,154,374</b>	<b>16,469,635</b>
<b>Account 3: Insurance Contracts</b>					
Other	1,125,202	–	2,081,564	–	3,206,766
<b>Total</b>	<b>1,125,202</b>	<b>–</b>	<b>2,081,564</b>	<b>–</b>	<b>3,206,766</b>
<b>Account 6: Insurance Contracts</b>					
Asset-backed	480,946	–	203,458	–	684,404
Other	5,869	–	–	–	5,869
<b>Total</b>	<b>486,815</b>	<b>–</b>	<b>203,458</b>	<b>–</b>	<b>690,273</b>
<b>Account 2: Financial Guarantees</b>	1,966,665	–	–	–	1,966,665
<b>Account 6: Financial Guarantees</b>	6,500,904	–	–	–	6,500,904
<b>Total</b>	<b>8,467,569</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8,467,569</b>
<b>Amounts at Risk, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
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
<b>Total</b>	<b>1,663,973</b>	<b>861,616</b>	<b>7,748,307</b>	<b>1,915,685</b>	<b>12,189,581</b>
<b>Account 3: Insurance Contracts</b>					
Other	–	–	2,081,564	–	2,081,564
<b>Total</b>	<b>–</b>	<b>–</b>	<b>2,081,564</b>	<b>–</b>	<b>2,081,564</b>
<b>Account 6: Insurance Contracts</b>					
Asset-backed	66,368	–	203,457	–	269,825
Other	5,869	–	–	–	5,869
<b>Total</b>	<b>72,237</b>	<b>–</b>	<b>203,457</b>	<b>–</b>	<b>275,694</b>
<b>Account 2: Financial Guarantees</b>	1,966,665	–	–	–	1,966,665
<b>Account 6: Financial Guarantees</b>	6,500,904	–	–	–	6,500,904
<b>Total</b>	<b>8,467,569</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8,467,569</b>

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
<b>Expected Loss, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	388,689	130,903	23,112	108,062	650,766
Other	96,652	11,431	326,267	59,813	494,163
<b>Total</b>	<b>485,341</b>	<b>142,334</b>	<b>349,379</b>	<b>167,875</b>	<b>1,144,929</b>
<b>Account 3: Insurance Contracts</b>					
Other	2,158	–	4,246	–	6,404
<b>Total</b>	<b>2,158</b>	<b>–</b>	<b>4,246</b>	<b>–</b>	<b>6,404</b>
<b>Account 6: Insurance Contracts</b>					
Asset-backed	18,672	–	5,521	–	24,193
Other	394	–	–	–	394
<b>Total</b>	<b>19,066</b>	<b>–</b>	<b>5,521</b>	<b>–</b>	<b>24,587</b>
<b>Account 2: Financial Guarantees</b>	45,351	–	–	–	45,351
<b>Account 6: Financial Guarantees</b>	288,904	–	–	–	288,904
<b>Total</b>	<b>334,255</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>334,255</b>
<b>Expected Loss, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	168,832	128,398	23,112	53,353	373,695
Other	11,905	10,183	309,354	59,813	391,255
<b>Total</b>	<b>180,737</b>	<b>138,581</b>	<b>332,466</b>	<b>113,166</b>	<b>764,950</b>
<b>Account 3: Insurance Contracts</b>					
Other	–	–	4,245	–	4,245
<b>Total</b>	<b>–</b>	<b>–</b>	<b>4,245</b>	<b>–</b>	<b>4,245</b>
<b>Account 6: Insurance Contracts</b>					
Asset-backed	1,988	–	5,521	–	7,509
Other	394	–	–	–	394
<b>Total</b>	<b>2,382</b>	<b>–</b>	<b>5,521</b>	<b>–</b>	<b>7,903</b>
<b>Account 2: Financial Guarantees</b>	45,351	–	–	–	45,351
<b>Account 6: Financial Guarantees</b>	288,904	–	–	–	288,904
<b>Total</b>	<b>334,255</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>334,255</b>

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
<b>Amounts at Risk, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	3,621,058	440,816	1,358,536	1,521,416	6,941,826
Other	2,084,493	902,453	6,450,765	1,299,531	10,737,242
<b>Total</b>	<b>5,705,551</b>	<b>1,343,269</b>	<b>7,809,301</b>	<b>2,820,947</b>	<b>17,679,068</b>
<b>Account 3: Insurance Contracts</b>					
Other	1,186,520	–	2,214,192	–	3,400,712
<b>Total</b>	<b>1,186,520</b>	<b>–</b>	<b>2,214,192</b>	<b>–</b>	<b>3,400,712</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>758,681</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>758,681</b>
<b>Amounts at Risk, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	1,431,983	414,152	1,358,536	1,241,951	4,446,622
Other	533,520	850,519	6,450,764	1,299,531	9,134,334
<b>Total</b>	<b>1,965,503</b>	<b>1,264,671</b>	<b>7,809,300</b>	<b>2,541,482</b>	<b>13,580,956</b>
<b>Account 3: Insurance Contracts</b>					
Other	–	–	2,214,192	–	2,214,192
<b>Total</b>	<b>–</b>	<b>–</b>	<b>2,214,192</b>	<b>–</b>	<b>2,214,192</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>758,681</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>758,681</b>

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
<b>Expected Loss, gross of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	58,456	24,294	14,050	41,227	138,027
Other	48,208	15,583	165,088	40,817	269,696
<b>Total</b>	<b>106,664</b>	<b>39,877</b>	<b>179,138</b>	<b>82,044</b>	<b>407,723</b>
<b>Account 3: Insurance Contracts</b>					
Other	2,454	–	4,796	–	7,250
<b>Total</b>	<b>2,454</b>	<b>–</b>	<b>4,796</b>	<b>–</b>	<b>7,250</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>28,013</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>28,013</b>
<b>Expected Loss, net of reinsurance</b>					
<b>Account 2: Insurance Contracts</b>					
Asset-backed	37,126	24,420	14,050	29,351	104,947
Other	11,597	14,720	165,088	40,817	232,222
<b>Total</b>	<b>48,723</b>	<b>39,140</b>	<b>179,138</b>	<b>70,168</b>	<b>337,169</b>
<b>Account 3: Insurance Contracts</b>					
Other	–	–	4,796	–	4,796
<b>Total</b>	<b>–</b>	<b>–</b>	<b>4,796</b>	<b>–</b>	<b>4,796</b>
<b>Account 2: Financial Guarantees</b>					
<b>Total</b>	<b>28,013</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>28,013</b>

## 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
<b>Recoverable claims</b>				
– Gross	396,787	157,512	45,462	599,761
– Provisions	(321,294)	(75,630)	(24,157)	(421,081)
<b>Interest on unrecovered claims</b>				
– Gross	931,395	181,706	16,571	1,129,672
– Provisions	(866,234)	(148,579)	(16,471)	(1,031,284)
<b>Net insurance assets at 31 March 2021</b>	<b>140,654</b>	<b>115,009</b>	<b>21,405</b>	<b>277,068</b>

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:

	<b>Pounds Sterling £'000</b>	<b>US Dollar £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
<b>Recoverable claims</b>				
– Gross	431,223	155,878	3,564	590,665
– Provisions	(320,717)	(69,391)	(3,329)	(393,437)
<b>Interest on unrecovered claims</b>				
– Gross	916,372	238,486	16,772	1,171,630
– Provisions	(843,819)	(192,786)	(16,678)	(1,053,283)
<b>Net insurance assets at 31 March 2020</b>	<b>183,059</b>	<b>132,187</b>	<b>329</b>	<b>315,575</b>

#### 20(d) Liquidity risk

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

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

	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
<b>As at 31 March 2021:</b>						
<b>Account 2: Insurance Contracts</b>						
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)
<b>Net amounts at risk</b>	<b>1,882,643</b>	<b>5,905,946</b>	<b>3,478,838</b>	<b>850,945</b>	<b>71,209</b>	<b>12,189,581</b>
<b>Account 3: Insurance Contracts</b>						
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)
<b>Net amounts at risk</b>	<b>69,049</b>	<b>1,013,415</b>	<b>982,224</b>	<b>16,876</b>	<b>–</b>	<b>2,081,564</b>
<b>Account 6: Insurance Contracts</b>						
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)
<b>Net amounts at risk</b>	<b>23,525</b>	<b>96,065</b>	<b>115,378</b>	<b>40,726</b>	<b>–</b>	<b>275,694</b>
<b>Account 2: Financial Guarantees</b>						
Gross Amounts at Risk	286,319	1,562,742	117,604	–	–	1,966,665
Less: Amounts at Risk ceded to reinsurers	–	–	–	–	–	–
<b>Net amounts at risk</b>	<b>286,319</b>	<b>1,562,742</b>	<b>117,604</b>	<b>–</b>	<b>–</b>	<b>1,966,665</b>
<b>Account 6: Financial Guarantees</b>						
Gross Amounts at Risk	1,108,642	5,392,262	–	–	–	6,500,904
Less: Amounts at Risk ceded to reinsurers	–	–	–	–	–	–
<b>Net amounts at risk</b>	<b>1,108,642</b>	<b>5,392,262</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,500,904</b>
<b>As at 31 March 2020:</b>						
<b>Account 2: Insurance Contracts</b>						
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)
<b>Net amounts at risk</b>	<b>2,080,482</b>	<b>6,606,134</b>	<b>4,019,460</b>	<b>774,696</b>	<b>100,184</b>	<b>13,580,956</b>
<b>Account 3: Insurance Contracts</b>						
Gross Amounts at Risk	67,774	1,156,287	2,118,544	58,107	–	3,400,712
Less: Amounts at Risk ceded to reinsurers	(26,062)	(422,433)	(733,057)	(4,968)	–	(1,186,520)
<b>Net amounts at risk</b>	<b>41,712</b>	<b>733,854</b>	<b>1,385,487</b>	<b>53,139</b>	<b>–</b>	<b>2,214,192</b>
<b>Account 2: Financial Guarantees</b>						
Gross Amounts at Risk	296,495	462,186	–	–	–	758,681
Less: Amounts at Risk ceded to reinsurers	–	–	–	–	–	–
<b>Net amounts at risk</b>	<b>296,495</b>	<b>462,186</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>758,681</b>

By the nature of some of UKEF's products significant payments could be required within a few days in the event of default. The necessary arrangements for this have been pre-agreed with HM Treasury.

## 20(e) Risk measurement

UKEF uses its own portfolio risk simulation model (PRISM) to undertake all portfolio-level credit risk modelling, and to monitor and report on its potential future exposure for its Account 2, 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		
<b>As at 31 March 2021:</b>				
<b>Account 2: Insurance Contracts</b>				
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)
<b>Account 3: Insurance Contracts</b>				
Increase in Expected Loss	2,020	7,750	2,550	2,126
Decrease in net income for the year	–	–	–	–
<b>Account 6: Insurance Contracts</b>				
Increase in Expected Loss	3,834	7,386	–	143
Decrease in net income for the year	–	–	–	–
<b>As at 31 March 2020:</b>				
<b>Account 2: Insurance Contracts</b>				
Increase in Expected Loss	162,925	322,392	18,971	124,014
Decrease in net income for the year	(2,677)	(25,849)	(0)	(1,578)
<b>Account 3: Insurance Contracts</b>				
Increase in Expected Loss	2,418	8,066	2,999	2,402
Decrease in net income for the year	–	–	–	–

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
<b>Movements:</b>				
<b>Balance at 1 April 2019</b>	–	<b>647,572</b>	–	<b>647,572</b>
Loans issued & effective	–	609,610	–	609,610
Amounts drawn	–	(383,651)	–	(383,651)
Net foreign exchange adjustments	–	34,751	–	34,751
Change in Cover	–	(11,460)	–	(11,460)
<b>Balance at 31 March 2020</b>	–	<b>896,822</b>	–	<b>896,822</b>
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
<b>Balance at 31 March 2021</b>	<b>297,436</b>	<b>778,608</b>	–	<b>1,076,044</b>

## 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
<b>Summary: Gross of reinsurance</b>		
Account 2	18,436,300	18,437,749
Account 3	3,206,766	3,400,712
Account 6	7,191,177	–
<b>Total</b>	<b>28,834,243</b>	<b>21,838,461</b>
<b>Summary: Net of reinsurance</b>		
Account 2	14,156,246	14,339,637
Account 3	2,081,564	2,214,192
Account 6	6,776,598	–
<b>Total</b>	<b>23,014,408</b>	<b>16,553,829</b>

## 22(a) Products accounted as insurance contracts on a fund accounted basis

The following tables summarise movements in Amounts at Risk (AAR) on issued and effective products which are accounted under IFRS4:

Gross of reinsurance	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
<b>Balance at 1 April 2019</b>	<b>17,927,754</b>	<b>3,396,643</b>	<b>–</b>	<b>21,324,397</b>
Guarantees and insurance policies issued and effective	3,572,900	–	–	3,572,900
Run off	(3,329,777)	(61,839)	–	(3,391,616)
Net foreign exchange adjustments	772,286	93,984	–	866,270
Interest rate adjustments	(479,880)	(28,076)	–	(507,956)
Change in Valuation	(784,215)	–	–	(784,215)
<b>Balance at 31 March 2020</b>	<b>17,679,068</b>	<b>3,400,712</b>	<b>–</b>	<b>21,079,780</b>
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
<b>Balance at 31 March 2021</b>	<b>16,469,635</b>	<b>3,206,766</b>	<b>690,273</b>	<b>20,366,674</b>

  

Net of reinsurance	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
<b>Balance at 1 April 2019</b>	<b>13,181,177</b>	<b>2,284,993</b>	<b>–</b>	<b>15,466,170</b>
Guarantees and insurance policies issued and effective	3,387,255	–	–	3,387,255
Run off	(2,388,409)	(52,886)	–	(2,441,295)
Net foreign exchange adjustments	560,814	61,677	–	622,491
Interest rate adjustments	(422,080)	(23,648)	–	(445,728)
Change in Valuation	(737,801)	–	–	(737,801)
Change in Cover	–	(55,944)	–	(55,944)
<b>Balance at 31 March 2020</b>	<b>13,580,956</b>	<b>2,214,192</b>	<b>–</b>	<b>15,795,148</b>
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)
<b>Balance at 31 March 2021</b>	<b>12,189,581</b>	<b>2,081,564</b>	<b>275,694</b>	<b>14,546,839</b>

## 22(b) Products accounted for as financial guarantees

The following table summarises movements in Amounts at Risk (AAR) on issued and effective products which are accounted for under IAS 39:

<b>Gross &amp; Net of reinsurance</b>	<b>Account 2 £'000</b>	<b>Account 6 £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2019</b>	<b>213,514</b>	<b>–</b>	<b>213,514</b>
Guarantees and insurance policies issued and effective	111,934	–	111,934
Run off	(121,430)	–	(121,430)
Net foreign exchange adjustments	2,208	–	2,208
Interest rate adjustments	(82)	–	(82)
Change in Valuation	552,537	–	552,537
<b>Balance at 31 March 2020</b>	<b>758,681</b>	<b>–</b>	<b>758,681</b>
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)
<b>Balance at 31 March 2021</b>	<b>1,966,665</b>	<b>6,500,904</b>	<b>8,467,569</b>

## 23. Related party transactions

UKEF is a department of the Secretary of State for International Trade. As such, it has a number of transactions with other government departments and other central government bodies.

None of the members of UKEF's Board or their related parties has undertaken any material transactions with UKEF during the year.

## 24. Events after the reporting period

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.