UK Export Finance

Annual Report and Accounts 2022-23

UK Export Finance

Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2022-23

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

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

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Alissia Deane,
the Export Finance Manager
for West Yorkshire

Minister's foreword

UKEF provides an essential service as the UK's export credit agency, but its merits become especially prominent in times of uncertainty.

Lord Offord of Garvel
Minister for Exports

The department's support, through the loans, guarantees and insurance it provides, is vital for helping to get businesses trading, so we can deliver the economic growth that is a priority for this government.

This is why, this year, we increased its maximum capacity from £50 billion to £60 billion, meaning that it can help more British businesses of all sizes to export. This enables the department to support more jobs, fuel growth and lubricate the crucial gears of international trade.

Those gears are driving a lot of trade. I am delighted to report another very successful year for UKEF, in which it has issued £6.5 billion of financial support, supporting 532 businesses, and backed 55,000 jobs around the country. For each of those businesses, UKEF's support can be a turning point, increasing their scale and transforming their business model.

I am proud that UK exports in 2022-23 increased on the previous year, proving the continued value of British exports to the world in spite of global economic shocks. This is a testament to the resilience and ambition of UK businesses, but it is also the result of government support and collaboration, in which UKEF plays a vital part.

All this against a difficult economic backdrop, affecting people around the world. UK businesses have felt this acutely, compounded by the continuing recovery from Covid-19 and the economic impact of Russia's illegal invasion of Ukraine.

This department can help shape the response to these shocks. UKEF's proactive support for Ukraine will be an important part of the cross-government response.

The same can be said for the climate crisis. The UK is home to businesses leading the technological changes that will help the world to achieve net zero. UKEF ensures that British innovation is exported to the world, and can help to deliver on the UK's ambition to be a global leader on climate change.

Those innovations contribute to immense economic and social benefits in the UK. Levelling up and the just transition go hand in hand, delivering job opportunities to communities across our country. As has been the trend in recent years, a significant proportion of exporters UKEF has supported (82% this year) are based outside London. Exporting businesses are more competitive, pay higher wages and are more profitable. Economic growth and our future prosperity lie, in part, in exports, which is why further increasing them is among this government's highest priorities.

UKEF's extensive and ambitious approach has facilitated trade, job creation, and community improvement, making a significant contribution to government aims. Even in the face of challenging economic circumstances, UKEF has again shown its unwavering commitment to providing British businesses with the necessary support to thrive in the global marketplace.

Lord Offord of Garvel
Minister for Exports
22 June 2023

Members of the **UKEF Executive Committee**, March 2023

Chair's statement

It scarcely seems any time since my first report as Chair back in 2017, yet now I am delivering my final one. And what a year it has been.

Noël Harwerth
Chair

UKEF remains ever more flexible, embracing challenges with an appetite for innovation and continuous improvement.

Over the past five years, UKEF has consistently provided record levels of support to UK exports, with a staggering £6.5 billion provided this year. Once more, I am pleased to see that such a high proportion (84%) of our direct customers are small and medium-sized enterprises (SMEs), which does not even include all those indirectly supported through the lengthy supply chains behind our exports.

UKEF has paid out on claims this year; that is an inevitable consequence of its role, operating in markets where actuarial risk is greater, yet the commercial sector is hesitant to venture. And UKEF is experienced in managing, mitigating and recovering such claims – just consider its aerospace portfolio.

This year, UKEF experienced transitions in its leadership, including changes in the role of Chief Executive Officer (CEO). While there were multiple CEO transitions, I want to emphasize that they were managed seamlessly.

I must pay tribute to Louis Taylor, who led UKEF for 7 years following his appointment in 2015. Louis steered UKEF through the uncertainties following the Brexit referendum and the lengthy exit process, and through the pandemic, seeing UKEF achieve record levels of support for exporters against a backdrop of global business challenges. Louis's insights are sorely missed, and I wish him all the best at the British Business Bank. I am grateful to our new CEO, Tim Reid, who is putting his own stamp on a flourishing department.

During the interim period, we were fortunate to have Samir Parkash as the Interim CEO, ensuring a seamless continuation of UKEF's operations. I extend my sincere appreciation to Samir for his excellent work during this time.

I also thank Lawrence Weiss for his diligent work over 4 and a half years as Chair of the Audit Committee and 6 years as a fellow non-executive director; and welcome Charlotte Morgan, who replaces Lawrence on the Board and the Audit Committee.

While the past year involved some changes in senior management and board positions, I am confident that the leadership team, both past and present, has played a pivotal role in guiding UKEF towards success.

We are grateful for their contributions and are excited about the future as we continue to build on our achievements.

I am proud of UKEF's achievements during my tenure as its Chair. UKEF continues to expand its product range, including the step change of non-contract-specific guarantees. The Export Development Guarantee and General Export Facility have both had an immense impact, reflecting the innovation that is so characteristic of UKEF's approach.

That thirst for innovation is also evident in UKEF's response to the new government policy over fossil fuel projects, and the need to act urgently on climate change. UKEF has launched its own comprehensive Climate Change Strategy and continues to develop a green finance portfolio and pipeline.

I am delighted that UKEF now employs more women in senior roles than when I became Chair. Achieving equity remains a work in progress, but the department is moving in the right direction and remains committed to addressing the gender pay gap.

I am also heartened by UKEF's reputation beyond Whitehall. The British Exporters Association (BExA) has long been a critical friend, and it has regularly scored us highly on the range and nature of our products. UKEF scored 9 out of 10 yet again in BExA's latest report on our range of products and their usability for customers.

I have enjoyed my time as Chair of UKEF, relishing the resilience, enthusiasm and application of its staff, the insight and motivations of its leadership, and the huge support that it continues to render to our exporters.

Noël Harwerth
Chair
22 June 2023

UKEF meeting with an Albanian delegation, including Prime Minister Edi Rama, to discuss UK-Albania trade in March 2023

Performance report

About
UK Export Finance

Who we are

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

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

Our mission

We advance prosperity by ensuring no viable UK export fails for lack of finance or insurance, doing that sustainably and at no net cost to the taxpayer over time.

We help UK companies:

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

How we do it

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

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

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

2022-23 in figures

£6.5 bn
Financial support issued

55,000
UK jobs supported

£46.3 bn
Maximum annual exposure

210
SMEs supported

£60 bn
Capacity to support exports

532
Exporters supported

This year's milestones

2023 Best export credit agency

GTR 2023 Leaders in Trade

2022

APRIL:

- Launched a new online sovereign premium rate calculator
- Backed hydrogen technologies with an export development guarantee to secure a £400 million loan for Johnson Matthey

MAY:

- Signed a cooperation agreement with the Saudi Arabian export credit agency, Saudi Export-Import Bank
- Helped Northern Ireland-based Circular Group secure a major £4 million recycling contract

JUNE:

- Recognised as the leading export credit agency in sustainable financing by TXF, with 3 Export Finance Deal of the Year awards for Renewables, Healthcare and Rail sectors
- Provided an Export Development Guarantee to JDR Cables to support a £100 million loan to fund a new state-of-the-art subsea cable facility in Blyth, Northumberland to serve offshore wind farms
- UKEF's first deal in Jordan supported the construction of 4 new factories and a corporate office in Aqaba using UK construction suppliers

JULY:

- In UKEF's first direct deal in Senegal, provided a £116.5 million loan using a mix of Buyer Credit and Direct Lending to purchase fire-fighting and other life-saving emergency equipment

AUGUST:

- Supported the world's first all-electric quad bike business as it invests in its supply chain and funds expansion in North America

SEPTEMBER:

- Supported the maritime sector with a bond support deal with Middlesbrough shipbuilder Parkol Marine Engineering
- Launched a new online service to obtain quick non-binding quotes for UKEF export insurance

OCTOBER:

- Samir Parkash appointed interim Chief Executive Officer
- Announced 2 landmark finance packages worth a combined £175 million for vital construction projects in Benin and Togo
- Supported an £89 million loan to Brazilian aircraft maker Embraer to source UK components

NOVEMBER:

- Provided export development support for the world's first hydrogen-powered, zero carbon double decker bus
- Announced Virgin Money as the latest partner bank for the General Export Facility
- At COP27, announced a new debt solution to help developing countries with climate shocks by introducing Climate Resilient Debt Clauses into loan agreements
- Launched the new Bills & Notes Guarantee to enhance our suite of products for smaller export credit transactions

DECEMBER:

- Provided support for export of IT hardware and software services to Kenya, demonstrating ability to support smaller export credit transactions with Apple Bank

2023

JANUARY:

- Tim Reid appointed Chief Executive Officer
- Announced support for a 250-bed specialist burns hospital in Angola, to be constructed with UK suppliers in a leading role
- Issued a joint statement with G7 Export Credit Agencies expressing support for Ukraine

FEBRUARY:

- Published a new Sustainability Policy Statement on how we will understand and drive the long-term sustainability of transactions and address both current and future sustainability and credit risks

MARCH:

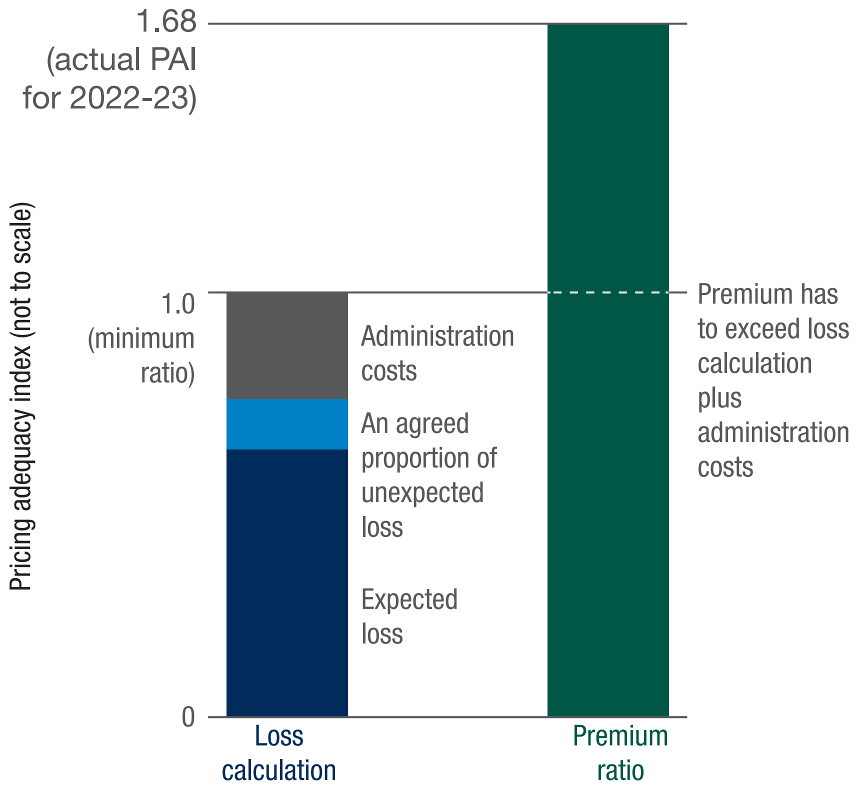
- Total capacity to support exports raised to £60 billion
- Announced the appointment of the first International Export Finance Executive for South Korea
- Welcomed the government's 2023 Green Finance Strategy alongside the British Business Bank, UK Research and Innovation and the UK Infrastructure Bank
- Outlined a £4 billion ambition for closer export ties with Albania through a partnership in economic development and sustainable projects in Albania and the wider Western Balkans

Financial objectives

The Treasury agrees a standing consent with UKEF, providing parameters within which we can operate. These parameters embed fiscal responsibility in the way we work. The Treasury sets our financial objectives, which are designed to enable us to support UK exporters while making sure UKEF:

- receives a return that is at least adequate to cover the cost of the risks it is assuming
- does not expose the taxpayer to the risk of excessive loss
- covers its operating costs

A fuller description of our financial objectives, risk appetite and controls can be found in the Governance Statement on page 109.



How UKEF calculates premiums to make sure it covers costs and losses
You can find a fuller description of our financial objectives, risk appetite and controls in the Governance Statement on page 109.

Performance against objectives

Objective and description	Results
Maximum commitment This measure places a cap on the maximum amount of nominal risk exposure (the total amount of taxpayers' money that may be put at risk by UKEF).	**Met** The highest recorded maximum exposure in the year was **£46.3 billion**, against a maximum permissible level of £50 billion.
Risk appetite limit This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated portfolio loss distribution.	**Met** UKEF's 99.1 percentile of portfolio loss distribution did not exceed **£3.5 billion** against a maximum permissible level of £5 billion.
Reserve index This index ensures that UKEF has accumulated, over time, enough revenue to cover possible losses, to a 77.5% level of confidence.	**Met** The reserve index did not fall below **1.94** in the year, against a target minimum of 1.00.
Pricing adequacy index This index tests whether, over time, UKEF earns enough premium income to cover all its risk and operating costs. It is measured over 3 different periods:	
(i) past 2 years and present year.	**Met** This index was **1.68** at 31 March 2023, against a monthly minimum target of 1.00.
(ii) previous, present and (forecast) next year.	**Met** This index did not fall below **1.50**, against a monthly target minimum of 1.00.
(iii) present year and (forecast) next 2 years.	**Met** This index did not fall below **1.48**, against a monthly target minimum of 1.00.
Premium-to-risk ratio This measure ensures that each year UKEF charges enough premium to cover the cost of risk, together with a sufficient margin to contribute a material amount to administrative costs.	**Met** This ratio did not fall below **1.57**, against a target minimum of 1.35.

These financial objectives apply to business issued since 1991. There are no specific financial objectives in respect of outstanding exposures on business supported before 1991 other than to recover amounts owed to UKEF, while taking account of the government's policy on debt forgiveness. As authorised by HM Treasury, the Temporary Covid-19 Support Account is exempt from UKEF's standard portfolio level financial objectives and risk appetite limit. These financial objectives apply to the Guarantees & Insurance Account and Direct Lending Account. The only exception is the maximum commitment objective, which includes all active accounts.

The total amount of nominal credit risk exposure that the department may incur (set at £50 billion under the HM Treasury consent for the financial year) is now at £60 billion as of 31 March 2023.

How to read the performance chapter

The performance chapter is a comprehensive overview of UKEF's financial performance over the past year, including our objectives, risks and focus for the year ahead. To make sense of this information, it's useful to understand UKEF's purpose and structure.

UKEF is a self-funding, income-generating department with a mandate to support UK exports and overseas investment where support is not available from the private sector alone. We operate under the consent of HM Treasury, which sets UKEF's financial objectives. These objectives make sure we are financially responsible when taking risks - something we have to do to provide financial support that the private sector cannot.

Our financial performance is best viewed **over the business cycle**, not just against a single year. This is because our business involves supporting loans that can take more than 10 years to repay, and losses from unrecovered claims can take many years to assess. It provides a more comprehensive view of our financial performance.

As you read through this chapter, you will also encounter various performance metrics and account descriptions. These include our headline metrics, such as the **maximum liability** of new business supported in the year and the **premium income** we've earned to protect the department against the risk of loss.

These metrics have been consistently and reliably reported over time, showing trends in UKEF's support and providing a measure of our output. You will also find new context and metrics on the broader impacts of our support and its effect on the economies and communities in which we work.

Our accounts

UKEF operates 6 accounts, each defined by the nature of business supported by the department. Three of the 6 accounts are active and 3 are closed, with old exposure running off.

In previous Annual Reports, we've referred to these accounts by number. To make it easier to understand how they are used, we have given the accounts more descriptive names in this report. We will continue to use these new account names in the future to make things clear and easy to understand.

Each of our active accounts plays a crucial role in helping UKEF achieve its financial objectives and fulfil its mission to support UK exports. While our closed accounts are no longer active, they provide important historical context for understanding our department's evolution over time.

Active accounts

Old account number	New account name	Account description
Account 2	Guarantees & Insurance Account	Relates to the credit risk arising from guarantees and insurance issued by UKEF for business since April 1991.
Account 3	National Interest Account	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 5	Direct Lending Account	Relates to the provision of direct lending (in the normal course of business) since it was introduced in 2014.

Closed accounts

Old account number	New account name	Account description
Account 1	Pre-1991 Guarantees & Insurance Account	Relates to guarantees and insurance issued for business before 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.
Account 4	Fixed Rate Export Finance Account	Relates to the provision of Fixed Rate Export Finance (FREF) to banks (closed to new business since 31 March 2011), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements. UKEF has no exposure remaining in this account.
Account 6	Temporary Covid-19 Support Account	Relates to all business underwritten and booked under the Temporary Covid-19 Risk Framework from opening on 2 April 2020 to when it closed to new business on 31 July 2022.

Jane Cooper, the Export Finance Manager team's Regional Head for London and South East

Chief Executive's report

We are committed to delivering for our customers and making a real-world impact. Our efforts to serve more customers are paying off and we are now supporting more small-to-medium sized businesses than at any time in the last 30 years.

Tim Reid
Chief Executive Officer

UKEF's mission is more critical than ever before. As the newly appointed CEO, I am proud to lead an organisation with such an essential role in driving economic growth and job creation, and such a significant impact on communities in the UK and abroad.

Our flexibility and strong risk management have enabled us to both grow our portfolio, which has doubled in the past 4 years, and continue to self-fund. This has allowed UKEF to take on business rapidly in the national interest on behalf of ministers, whether supporting exports to Ukraine or helping businesses weather the impact of Covid-19.

This has not gone unnoticed. Our customers say that our support is essential to their export success. We have an 80% customer satisfaction score. Still, we want to do more.

To continue to grow and diversify our customer base, we are developing new products, investing in technology, expanding our delivery network and building on the success of our general working capital products.

We are prioritising our support for small and medium-sized enterprises (SMEs), core customers for UKEF. This will mean providing better customer service, more accessible products and working with a wider range of lenders. To break new ground and serve SMEs' needs, we must continue to think differently and try new approaches.

Of course, we must always balance our commitment to growth and innovation with strong risk management and fiscal discipline. This balance is the cornerstone of our structure and mission to protect the UK taxpayer. By carefully managing risk, we can continue to support viable UK exports while safeguarding taxpayers' money.

That's why balancing the financial risks posed by climate change with opportunities to drive low-carbon trade is central to our operations. We help businesses targeting net-zero exports, supporting the transition to a low-carbon economy by financing the development of technologies such as electric vehicles and renewable energy. Management of sustainability is embedded in all our operations and we are continuing to improve our response to the energy transition and wider sustainability trends.

One of many examples is our support of JDR Cables, a renewable energy specialist based in Blyth, Northumberland. JDR received a £100 million working capital loan backed by UKEF to build a new state-of-the-art subsea cable manufacturing facility. This support will help JDR secure more national and international contracts and create over 170 high quality UK jobs.

As the world shifts towards net zero, JDR's exporting potential is significant, with 2,571 offshore wind farms and projects in over 50 countries. By supporting companies like JDR with general working capital, we are contributing to the UK's clean growth industry and helping to create a more sustainable future.

We are also making a difference to lives overseas. Six new hospitals are being built across Côte d'Ivoire, providing healthcare to millions of people and creating jobs for thousands, backed by direct lending from UKEF this year. Behind this significant achievement are scores of UK suppliers exporting materials and services. This is just one of the many ways in which UKEF is making a real impact on people's lives and livelihoods, and contributing to the UK's reputation as a reliable trading partner.

In my short time here, I have been inspired by the commitment and dedication of our people to make such powerful impacts. I am focussed on making UKEF the best place to work and grow your career in the Civil Service.

I am proud that UKEF has the most ethnically diverse workforce in the government, with an inclusive culture that values everyone. We have welcomed many exceptional female leaders, with Julia Beck (Director of Strategy & Impact), Esi Eshun (Interim Director of Business Group) and Jayne Whymark (Interim Director of Legal) all appointed to new roles in the executive team this year.

I'd also like to express deep gratitude for Louis Taylor's outstanding contribution to UKEF over the past 7 years. His work has helped make UKEF what it is today. Samir Parkash has also been an invaluable source of support to me, both earlier in the year when stewarding UKEF as Interim CEO, and now in his role as Chief Risk Officer.

I am honoured to be part of a team of dedicated and passionate individuals who are committed to making a positive difference. As we continue to serve our customers better and support more exporters, I am sure that together we can create a better workplace for our people to deliver, ensuring UKEF will continue to make a positive impact on the UK economy – and beyond.

2022-23 in review

2022-23 was a challenging year globally, with inflation and an energy crisis causing difficulties for businesses, restricting liquidity and increasing the cost of debt. However, UKEF has once again provided certainty of support to UK exporters during this challenging period, providing £6.5 billion of financial support to further UK exports – a testament to the strength and diversity of our products and services.

This has resulted in continued growth in demand for our general working capital products. The Export Development Guarantee accounted for 51% of the £6.5 billion we issued and 70% of customers were supported using the General Export Facility. We are delivering flexible support to exporters to suit their financing needs, making our guarantee more accessible than ever before.

UKEF's business volumes have been unusually high in recent years due to unprecedented support for businesses during the pandemic using the Temporary Covid-19 Support Account, which closed to new business this year. UKEF remains committed to serving a diverse range of customers and sectors, and our financial performance strongly reflects this commitment.

Such sustained, record-breaking levels of support have brought UKEF close to its £50 billion commitment limit for the first time this year. The Treasury raised our commitment level to £60 billion for 2023-24, ensuring we can continue to negotiate support for the nearly £10 billion of commitments in our pipeline.

How we calculate the number of exporters we have directly supported

By providing insurance, guarantees and loans, and by helping companies find the support they need from the private sector, UKEF makes exports happen which might not happen otherwise.

In addition to companies we've directly supported with a product, our direct support also includes firms that are paid directly by a drawdown from a UKEF facility, where the buyer is sourcing goods and services from the UK as a result of UKEF's intervention. These are called Tier 2 suppliers.

For companies to be included in our 'directly supported' figure, we require evidence of them securing business on projects we are supporting. This is a condition of our support when we agree on transactions for overseas projects. We also include private market assists when UKEF engagement has had a material contribution to an export receiving support from the private sector.

Our customer base has remained consistently high over the past 3 years when compared to previous business cycles. I am particularly pleased that in this financial year, the number of exporters we supported directly with a product increased significantly to 251 UK exporters, and that 84% of these were SMEs. Such consistent levels of support have not been delivered since the 5 years from 1987 to 1992, when the Export Credit Guarantees Department of the time was 4 times the size of UKEF today, when much of its operations were privatised. While proud of this growth, I recognise that there are still many UK exporters who could benefit from our support. I remain committed to reaching more businesses and helping them achieve their export ambitions.

What must underpin our continued and growing support for UK exports is the ability to cover our operating costs and credit losses so we operate at no net cost to the taxpayer over time. It's why the department charges companies a risk-based premium for its support and has robust portfolio management and recoveries processes in place to offset losses.

This year, we returned a profit of £303 million for the UK exchequer and earned £313 million of premium income to protect the taxpayer against the risk of business issued this year – staying well within our financial objectives as we seek to break even over the business cycle.

As an export credit agency, paying out claims is what brings value to UKEF's guarantee. This year, we paid out £122 million in net claims, largely driven by continuing airline defaults following the pandemic and new claims arising from countries struggling to service their debt thanks to market volatility and rising interest rates. We also received £125 million in recoveries this year from historic claims, as we seek to recoup the cost of claims paid on any defaulted loan we support.

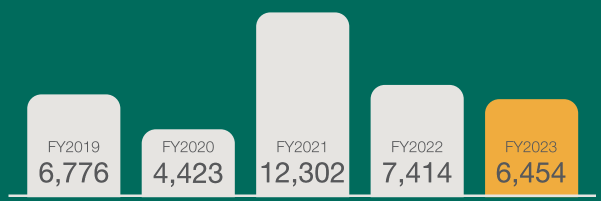
The commitment of UKEF staff to serving customers, managing risk, acting responsibly and making the greatest possible impact has been invaluable in achieving this consistent level of support over time. UKEF will continue to build on this strong foundation. Retaining and recruiting talented people is at the core of our plan to drive growth in the future.

Tim Reid
Chief Executive and Accounting Officer
22 June 2023

5-year summary*

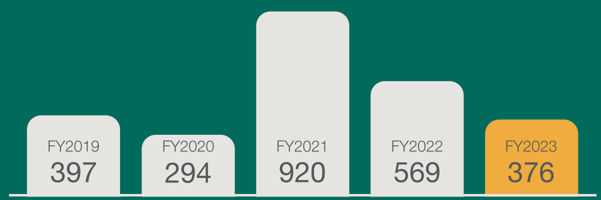
Financial overview

Business supported (£m)

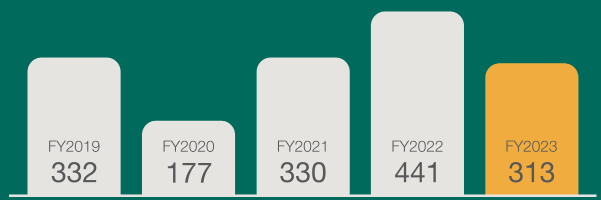


Value of commitments (£m)

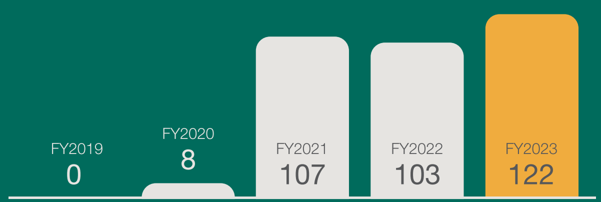
Premium income issued (£m)



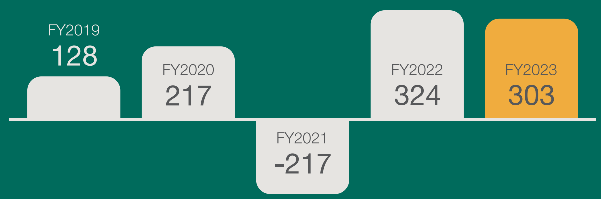
Premium income earned (£m)



Claims paid (£m)



Net operating outturn (£m)



How our support for exporters breaks down

*definitions for each indicator can be found on page 23

Our achievements in 2022-23

Implementing the Export Strategy

We said:	We did:
Work closely with other parts of the government to develop an innovation-to-export pathway that supports businesses to commercialise quicker	Worked alongside the British Business Bank and UK Research and Innovation to signpost available finance and funding support Explored new product interventions that could support early-stage companies Alongside the British Business Bank (BBB), UK Research and Innovation (UKRI), and the UK Infrastructure Bank (UKIB), established the new UK Public Financial Institutions Green Finance and Sustainability Forum
Increase awareness of UKEF's product offering	Supported 115 events both domestically and internationally, including our annual conference with close to 800 delegates Increased communications across our channels and through partners to raise awareness of UKEF's offering Generated over 6,500 leads from marketing activities of exporters that we could support now or in the future
Create a joined-up and coherent cross-government proposition that meets the financing needs of British businesses	Expanded product availability to address specific finance challenges, targeting SMEs, clean growth and future exporters Launched new products, including a Bills & Notes Guarantee scheme and tailored Export Development Guarantee for green exporters Signed a new cooperation agreement with the Department for Business and Trade and strengthened referrals

Maritime, life sciences and clean growth sectors

We said:	We did:
Expand support for clean growth sectors to help build the UK supply chain, accelerating the global green transition	Became the first export credit agency in the world to introduce Climate Resilient Debt Clauses Launched clean growth and future exporter enhancements to the Export Development Guarantee as part of the Export Strategy
Develop interim portfolio decarbonisation targets and more robust climate-related financial disclosures	Improved the data quality of our financed emissions estimate and set an interim decarbonisation target for our aviation exposure Improved our understanding of risk through climate-driven scenario analysis, for both sovereign and corporate exposure
Increase focus on maritime and life sciences sectors so that the UK can better support those growing industries to export around the globe	Researched priority sectors to make sure our marketing and product development can meet their needs Established ways of working with the Department for Business and Trade sectors team to increase awareness and mutual collaboration

Global Britain

We said:	We did:
Continue to influence our peers to strengthen the Coal-Fired Power Understanding and modernise the OECD Arrangement to help preserve a level playing field for British businesses abroad	Took a leading role in the modernisation of the OECD Arrangement Reached agreement in principle on reforms that will provide more flexible terms for most standard Arrangement transactions Agreed a wider range of green or climate friendly project types that could benefit from incentives under the Arrangement
Work across government to actively support and help increase defence sector exports, building relationships with new customers and tailoring our product offering	Supported a number of major campaigns by UK defence exporters, responding to increased demand for national defence and security services this year
Deepen collaboration between UKEF's International Export Finance Executives and other government officials at posts in British Missions to support the UK's government-to-government and trade offering	Expanded our overseas network and origination team to 30, with recruitment underway in Africa and South American markets

Trade for good

We said:	We did:
Strengthen collaboration with British International Investment (formerly CDC) to leverage the government's debt and equity financing offers in developing countries	Organised teach-in events across both organisations to educate staff Deepened engagement across organisations to present a coherent UK finance and investment offer internationally
Work alongside the Department for International Trade (now Department for Business and Trade) and the Foreign, Commonwealth & Development Office (FCDO) to promote the developmental benefits of trade through the International Development Strategy	Worked alongside FCDO, Department for Business and Trade and international partners to increase support for countries by helping to facilitate finance for clean, green and critical infrastructure Supported the launch of the British Investment Partnerships
Enhance and report on our approach to identify, mitigate and prevent modern slavery in our portfolio	Strengthened our modern slavery due diligence across our product range, to be reported at a cross-government level

Levelling up

We said:	We did:
Continue to widen availability of the General Export Facility with new delivery partners to reach more SMEs across the UK	Provided support worth £325 million for working capital loans via the General Export Facility, making it our most used facility in 2022-23 Increased the number of financial institutions onboarded to the General Export Facility to 9
Use the Export Finance Manager network and product innovations to reach more SMEs whose turnover is less than £10 million a year	Directly supported 251 customers with UKEF products – 84% of them SMEs Developed new product concepts and conducted research into how we can better support this target market, with development continuing this year
Continue to focus on digitising the customer journey to increase efficiency and improve our digital offering	Hired new staff to support the digitisation efforts (though the recruitment market for skilled roles has remained challenging)

Levelling up (continued)

We said:	We did:
Continue to focus on digitising the customer journey to increase efficiency and improve our fintech offering	Launched a new customer-friendly website to make it easier for exporters to access information and apply for finance Launched the Digital Trade Finance Service, supporting our short-term business

Great place to work

Our 2020-24 People Strategy ensures a highly engaged workforce in a culture of continuous development. We support staff excellence through effective management, leadership, and recognition of diverse contributions.

We said:	We did:
Build our teams	Increased our headcount from 492 in April 2022 to 523 in March 2023 Expanded our overseas network based in priority regions across the world
Nurture our people	Delivered a record number of learning hours Exceeded our aspiration for staff to spend an average of 5 days a year on learning and development activities
Lead and inspire	Invested heavily in our management and leadership capabilities Rolled out bespoke development programmes for colleagues at various stages of their careers, complemented by access to wider Civil Service talent programmes
Work smart	Continued to embed our hybrid working model Completed the refurbishment of our Westminster workspace
Value all	Increased the diversity of our workforce to record levels, with 45.3% of staff identifying as female, 34.4% from ethnic minority groups and 6.9% having a disability Recorded the highest engagement score of any government department as part of the annual Civil Service People Survey

The year ahead

Ministerial priorities for UKEF

Every year, the ministers outline their priorities for UKEF for the year.[1] This year, Lord Offord's 4 main expectations for UKEF in 2023-24 are as follows.

Drive economic growth by supporting more UK exporters as part of the government's Export Strategy.

In 2023-24, we will:

- increase outreach to new markets and sectors for more UK exporters
- continue to expand UKEF's presence in international markets to stimulate growth and create more exporting routes for UK businesses
- improve accessibility and services for SMEs, particularly those with smaller turnovers

Further improve UKEF's quality of service to reach and attract UK exporters

In 2023-24, we will:

- improve customer experience and service quality through data-driven modernisation
- use innovation, automation, and digitalisation to simplify and optimise the customer journey
- collaborate with other public finance institutions to promote a joined-up government financing offer

1. Department for Business and Trade. Annual Priorities Letter to UKEF. May 2023. [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1160518/Lord_Offord_-_Annual_Priorities_Letter_to_UK_Export_Finance.pdf]

Support the outcomes of the government's new Integrated Review

In 2023-24, we will:

- work closely with the Department for Business and Trade, Ministry of Defence, Treasury, and FCDO to deepen relationships with overseas stakeholders and tailor UKEF's defence product offering accordingly, supporting wider security, defence, development, and foreign policy priorities
- explore ways to strengthen and protect critical minerals supply chains and provide support in important geo-strategic countries and regions such as Ukraine and the Indo-Pacific to meet the UK's economic security needs
- collaborate with the Department for Business and Trade to support government-to-government partnerships, unlocking financing and exports for countries in key regions and helping allies to buy British

Maximise the real-world impact of UKEF's work at home and overseas

In 2023-24, we will:

- proactively seek growth opportunities for green exports in low-carbon sectors
- focus on increasing development impact in low and middle-income countries
- reach a more diverse customer base, including underserved businesses in every part of the UK, to support more exporters

Spending review

In the 2021 spending review, UKEF secured an incremental increase of approximately 20% a year. This significant achievement empowered us to leverage additional growth opportunities and ensure the long-term sustainability of our operations.

It enabled us to effectively deliver on our existing priorities while also reinforcing critical areas of the business and adapting to new challenges. These include:

- driving UKEF's Climate Change Strategy
- fulfilling our commitments under the Task Force on Climate-related Financial Disclosures
- implementing the Financial Reporting Changes Programme
- fortifying our cyber security and resilience in alignment with recommendations from the Cabinet Office
- expanding our overseas network in priority markets

By using the settlement to its fullest extent, we are well positioned to achieve our objectives in the year ahead and continue making a positive impact on UK exporters and the global trade landscape.

Our impact

UKEF's support helps UK businesses compete more effectively in global markets and take advantage of new opportunities for growth. This helps create jobs, lift wages, and increase productivity across all nations and regions in the UK, all of which help to grow the UK's economy.

Beyond this direct benefit to UK exporters, UKEF has a much wider positive impact overseas, helping to grow the global economy while promoting sustainable development around the world. Essential projects that improve the lives of people worldwide, such as new hospitals or better access to electricity in rural areas of Africa, can happen because of what we do.

"Free and fair trade is what global prosperity and security are based on"

Kemi Badenoch
Secretary of State for Business and Trade

UKEF is committed to maximising the positive real-world impact of our support. That is why we continually strive to understand and drive the outcomes of our work, using economic, social and environmental indicators to measure our impact. This will lay the foundations for our next business plan, which will be launched in the next financial year.

Business and Trade Secretary **Kemi Badenoch** addressing the Pontignano Forum in Italy

Delivering the government's priorities

UKEF plays a critical role in supporting the government's business, trade and foreign policy priorities. As a government department and a financial institution, we must deliver our mandate in a way that makes our taxpayer-backed support go as far as possible.

The economic disruption caused by the Covid-19 pandemic and, latterly, Russia's illegal invasion of Ukraine has focussed scrutiny on UKEF's public policy impact in recent years.

To assist UK exporters as rapidly as possible following the outbreak of Covid-19, UKEF established the Temporary Covid-19 Risk Framework (TCRF) in April 2020, under specific approval from ministers and HM Treasury. In 2022-23, an additional £1.1 billion of support was provided under this framework. This framework closed to new business in the year. The total issued since it was launched in April 2020 was nearly £10 billion.

Ministers also directed UKEF to maintain cover for exports to Ukraine and end all cover for Russia and Belarus. In 2022-23, UKEF provided payment risk insurance to cover exports to Ukraine and agreed commitments worth over £50 million to support the Government of Ukraine, working closely with international counterparts.

The government's Integrated Review also recognised UKEF's support as a key financing tool. The review helps to align UKEF's support with the UK's efforts to forge new trading relationships around the world, using our accessible product range and on-the-ground support in developing markets.

We now have 20 International Finance Executives placed in strategic markets worldwide to help win business for UK suppliers, coupled with 27 Export Finance Managers based in regions across the UK to directly finance UK exporters. This in turn allows us to support businesses across the union, including companies in North Ireland, Scotland and Wales.

In 2022-23, UKEF also made significant progress towards fulfilling its commitments to the UK's Export Strategy. This included making the Export Development Guarantee fully operational, onboarding new financial institutions to the General Export Facility and relaunching our Bills & Notes Guarantee. These developments highlight UKEF's role as a lever of government to help UK businesses succeed in the global marketplace.

20
export finance executives

27
export finance managers

Supporting economic growth

The numbers do not add up to the total jobs supported and GVA figure as they are rounded to the nearest thousand and one decimal place respectively.

The value of the loans, guarantees and insurance policies provided in 2022-23 was £6.5 billion. This means that UKEF supports the direct production of goods and delivery of services by UK exporters and also generates indirect benefits through the wider supply chain.

This translates to support for jobs and economic activity across the UK, which UKEF measures using a gross value added (GVA) figure. So when UKEF supports a transaction, it's not just about helping a single company, it's also contributing to the growth of the UK economy as a whole[1].

Direct impact

UKEF facilitates exports, which supports jobs and economic activity within the beneficiary company

Indirect impact (supply chain)

the beneficiary company purchases from suppliers who employ staff and support economic activity in the UK

Total impact[2]

economic activity, wages, profits, jobs

55,000

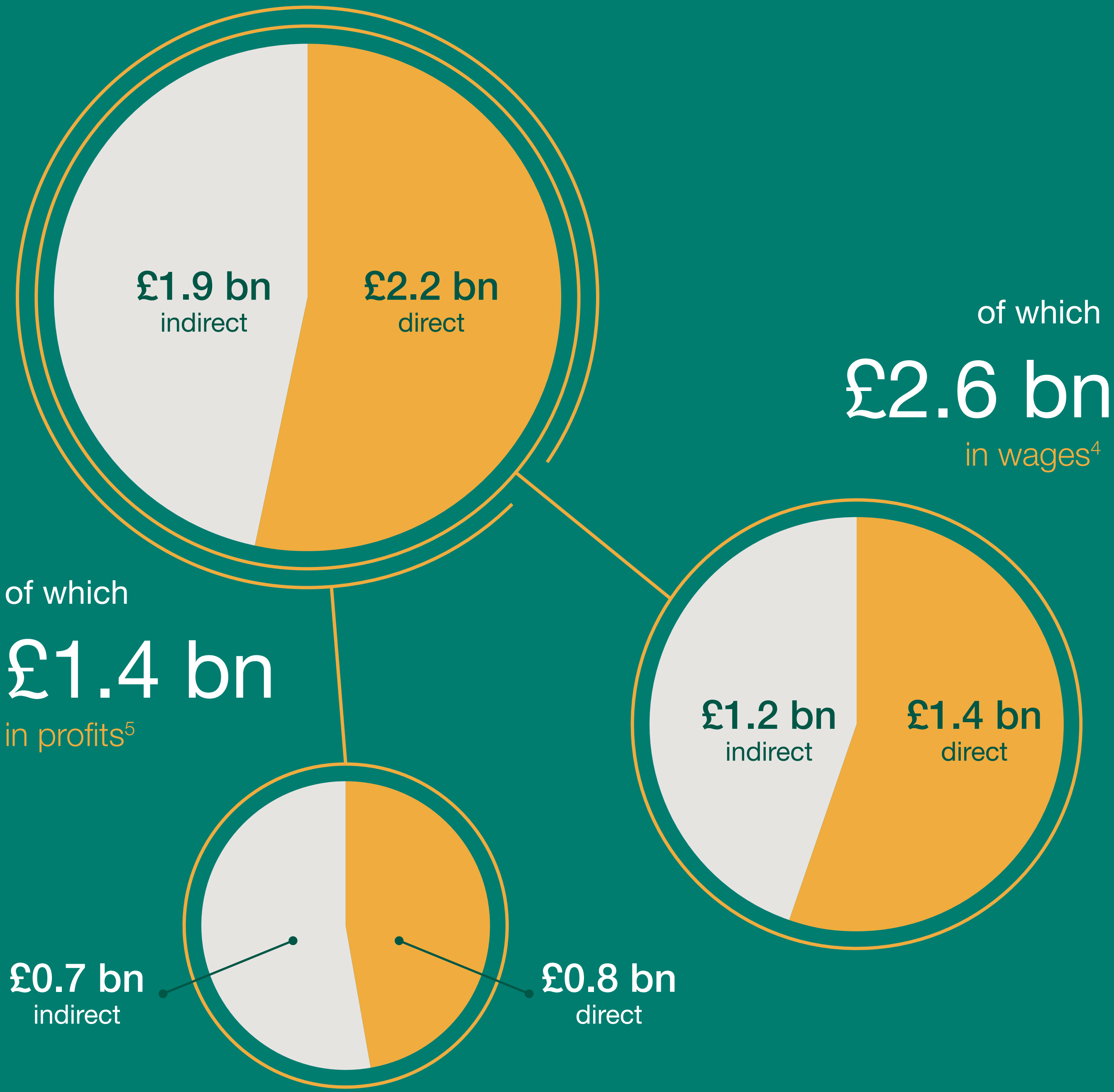
full-time equivalent (FTE) jobs


= 2,000 jobs

29,000 indirect

27,000 direct

£4.1 billion



1. Read more information about our methodology at [https://www.gov.uk/government/publications/uk-export-finance-economic-impacts-of-our-support-2022-to-2023].

2. UKEF's economic impact analysis uses a similar methodology as US EXIM.

3. Gross value added is the economic value generated by the production of goods and services by a firm, industry or sector. It is the value produced minus the cost of all intermediate inputs and raw materials. It can also be measured as the sum of incomes (wages and profits) generated by UK residents or firms producing goods and services.

4. Wages refer to compensation of employees, which is defined as the total benefits or remuneration received by employees. This includes wages and salaries, but also employers' social contributions like pensions.

5. Profits refer to gross operating surplus and mixed income. Gross operating surplus is the portion of income or value derived from production by firms and is broadly analogous to profits. Mixed income is the surplus earned by the self-employed; that is, the share of value not going to paid employees.

Spotlight on trade finance

UKEF's trade finance business provides financial support and insurance directly to UK exporters, making sure they get paid for exports and can navigate the risks of international trade. It is designed as targeted support for small and medium-sized enterprises (SMEs) who export.

The General Export Facility, a trade finance product launched in December 2020, has quickly become UKEF's most popular product. This year, Virgin Money and Newable joined the main 5 UK banks in deploying the facility.

One beneficiary in 2022-23 was Hull-based Paneltex, which produces refrigerated and temperature-controlled vehicles. Established 30 years ago, today it employs nearly 600 people and 25% of its sales are exported. UKEF supported a £4 million General Export Facility through Barclays to support its growing export business.

The development of UKEF's trade finance products means smaller companies are better able to access support for their export growth. We have made the process for insurance cover even more accessible by offering online applications and streamlining the process for our customers.

Hunter Safety Solutions, which exports health and safety consulting and training services throughout Europe, approached UKEF to highlight the challenge of rising costs linked to its exporting activities. UKEF was able to arrange a £300,000 working capital facility, working with new partner lender Newable.

Spotlight on overseas projects and UK export development

Export credits

UKEF connects overseas project sponsors and buyers with UK exporters. We do this by assisting them with financing major development projects while requiring an agreed minimum UK content.

In 2022-23, UKEF supported 21 projects in Africa and the Middle East, with £650 million provided in total.

This included £130 million of support for the construction of a new specialist burns hospital in Angola. UKEF provided a mix of guaranteed finance and direct lending to the Angolan Ministry of Finance, with a proportion of the project to be fulfilled by UK supplies, including building materials, electrical equipment and medical supplies.

UKEF announced further enhancements to its product range for smaller export credit transactions, with a new Bills & Notes Guarantee launched in November 2022. This joined our existing Standard Buyer Loan Guarantee, which supported 5 transactions in 2022-23, including a £900,000 loan guarantee for the export of IT hardware and software by Vesper Technologies to a cloud services provider in Nairobi.

UK export development

Larger corporate exporters have replicated the success of the General Export Facility in supporting SMEs by using UKEF's Export Development Guarantee. It has allowed UKEF to expand its support beyond its traditional customer base of manufacturers, with support for e-commerce provider The Hut Group, football club Wolverhampton Wanderers and multimedia firm Future Plc. This is in addition to continued support for car manufacturers, with further support for Ford Plc. Total support under Export Development Guarantee facilities was £3.3 billion in 2022-23.

Doing business sustainably

Acting sustainably is now an important part of UKEF's mission, and we are focussed on embedding this across our activities and updating our approach periodically to keep pace with the rapid development of this area. That's why we published a new Sustainability Policy Statement in February 2023.

On page 82 is UKEF's 3rd report following the recommendations of the Task Force on Climate-related Financial Disclosures. It details how UKEF identifies and manages climate-related risk and opportunities. We are building on this work to better measure and manage our impacts across a range of sustainability outcomes.

International engagement

As the first Export Credit Agency (ECA) to end new support for overseas fossil fuel projects, in line with UK government policy that prohibits such support other than in certain defined and limited circumstances, we engage with fellow ECAs and other stakeholders to explain and advocate for the adoption of similar approaches across the sector.

We continue to support the implementation of the COP26 Statement on International Public Support for the Clean Energy Transition, signed by 39 countries and public finance agencies.

This year we played a leading role in modernising the Organisation for Economic Cooperation and Development (OECD) Arrangement on Officially Supported Export Credits. We advocated for changes to make sure the Arrangement adapts to meet the demands of a competitive global landscape and that ECAs can support the global transition to a net zero economy.

UKEF also became the first ECA to announce that it will offer Climate Resilient Debt Clauses in its direct sovereign lending from 2023-24. The clauses will offer low-income countries and small island developing states the ability to defer debt repayments in the event of a severe climate shock or natural disaster.

Financing sustainable growth

UKEF has had a positive impact in developing markets as a pillar of British Investment Partnerships. By crowding in finance for important social and economic infrastructure projects, we act as a bridge between Official Development Assistance and concessional and commercial finance. In 2022-23, we supported 8 infrastructure projects overseas worth £2 billion.

Because of the nature of our activities, UKEF has a significant impact on progress towards the United Nations' Sustainable Development Goals (SDGs). Under our Focussed Alignment strategy, we identify projects and supply chains with positive SDG-related impacts that we could support. Our approach focusses on changing behaviour, collecting and measuring data, and communicating our impact.

We work closely with the Foreign, Commonwealth and Development Office, the Department for Business and Trade, and British International Investment to support the government's international development objectives, which was highlighted in the UK's new Green Finance Strategy in March 2023.

We continue to develop our approach to sustainability by:

- ➜ engaging with host countries to better understand their SDG priorities
- ➜ learning from other private sector partners about their approach to sustainability
- ➜ building our understanding of the potential SDG impact of transactions throughout their lifecycle
- ➜ enhancing how we communicate our impact on the SDGs and how sustainability objectives interact with UKEF's overall mission

Spotlight on clean growth

As the world transitions to a greener future, UKEF is committed to supporting clean growth industries through its full range of products. In 2022-23, we backed a £400 million loan for Johnson Matthey, which will support research and development in sustainable technologies and hydrogen. The financing represented the biggest single investment for a UK company researching hydrogen-based energy.

Our support for low-emission vehicles continued with a guarantee on an £18 million Green Trade Loan and an £8 million Green Bank Guarantee for Wrightbus, which aims to manufacture 3,000 zero-emissions buses by 2024 – enough to comprise 10% of the UK's total fleet. The new UKEF-backed finance, provided by Barclays, will allow Wrightbus to scale up production to meet demand, including for the world's first hydrogen-powered, zero-emission double decker bus.

Our growing SME customer base included a range of clean growth transactions. We also provided a new facility for SME Eco Charger, maker of the world's first all-electric quad bike. Based in Ilfracombe, Devon, Eco Charger was able to double its working capital facility from HSBC thanks to a guarantee from UKEF. This funding flexibility allows the company to import bike frames in larger and regular quantities, speeding up production as it seeks to grow its business in North America.

We have also aligned our global origination network towards the development of clean growth projects, with a target of at least 50% of new business originating from sectors that contribute to clean and green economic development. This commitment to clean growth is continuously evaluated as prospective projects progress into active transactions, while new opportunities are identified across all sectors.

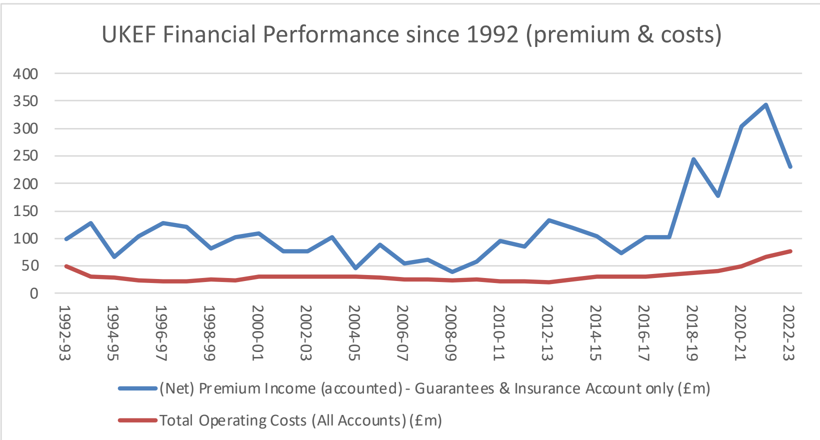
Fiscal responsibility

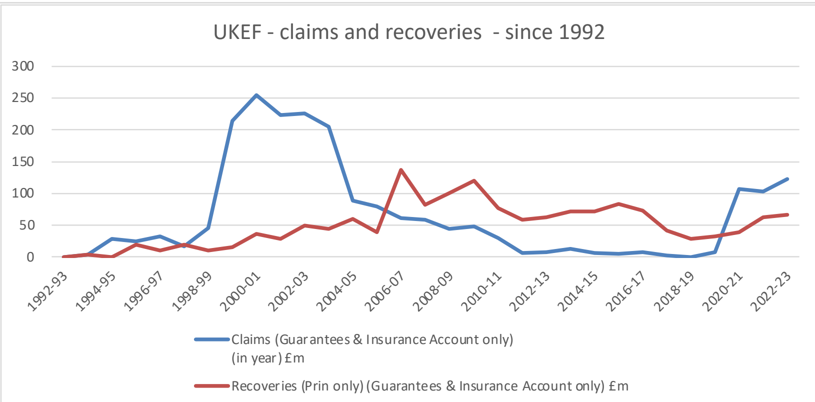
UKEF operates at no net cost to the taxpayer over time, meeting financial objectives set by HM Treasury to ensure fiscal responsibility while supporting UK exports. We take on risk to stimulate UK exports and, when economic conditions change, pay claims on some of our guarantees and insurance policies.

It is thanks to our ability to rigorously manage financial risk that we can make sure our taxpayer-backed support goes as far as possible to deliver on the government's wider objectives. Our approach and results are outlined in more detail by our Chief Risk Officer from page 58.

We also carefully manage our operational risks to prevent fraud and error from business activities across all of our accounts. These risks, and how we recover losses, are outlined in more detail by our Chief Risk Officer from page 58 and in the Governance Statement on page 109.

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





Note: To allow for reporting on a consistent basis over this historic period, these graphs refer to principal recoveries from the Guarantees & Insurance Account only, which is UKEF's main business account in operation since 1991. All the data is sourced from UKEF's published Annual Report and Accounts.

Spotlight on aerospace

UKEF has a long and proud history of working with the UK aerospace sector, supporting UK manufacturers such as Airbus, Boeing and Rolls-Royce. The sector is critical to the UK economy, contributing billions in GDP each year and directly providing over 200,000 jobs across all regions of the country.

In 2022-23, UKEF expanded its impact by supporting its first transaction with Brazilian aircraft maker Embraer, the 3rd largest commercial jet manufacturer in the world. This will support UK exporters to supply critical components and technology for Embraer aircraft, which fly 145 million passengers every year.

Working with JP Morgan as the arranging and lending bank, UKEF provided a guarantee on an £89 million loan to Embraer. Supplies include Martin-Baker ejector seats, designed and manufactured in the UK for the Tucano aircraft.

In total in 2022-23, we provided £1.5 billion of support for aerospace exports. This included £548 million of support for Airbus deliveries, a £938 million Export Development Guarantee facility for Rolls-Royce and a £5.7 million loan guarantee for the sale of flight simulators made in Crawley.

The aerospace sector is aware of the need to decarbonise, with emissions inherent in the sector, investing in new sustainable fuels and technologies. Aligned with this, UKEF has set targets to reduce its emissions exposure from the aerospace sector. These targets are outlined in the Task Force on Climate-related Financial Disclosures report page 82.

Economic context

Inflation and war dominated the global economic outlook in 2022-23. The year began with a fragile recovery from the Covid-19 pandemic and a new shock from the invasion of Ukraine.

Covid-19 became less of a concern as vaccination rates increased and new variants did not have as much impact as feared. Except for China, most of the world fully reopened, dropping restrictions and other containment measures over the year.

But high inflation – due in part to the aftermath of the pandemic, in part to the supply disruptions caused by the war and continued Covid-driven lockdowns in China – presented a new challenge for policymakers and our customers. Controlling inflation moved to the forefront of government objectives in 2022, with annual global inflation averaging 8.7% (compared to 4.7% in 2021).

Some countries – particularly energy producers – benefitted from the high commodity prices that both resulted from and fuelled global inflation. Brent crude oil prices reached US$127/bbl in March 2022 and remained above US$100/bbl until August 2022. The outlook now depends on global economic growth, ongoing restrictions on Russian energy exports and production measures by the OPEC+ group of oil producers.

UKEF CEO **Tim Reid** meeting officials from the South Korean export credit agency, Korea EXIM

But most countries have also needed to balance their efforts to reduce inflation, to some degree, against the negative effects of higher debt-servicing costs on households and corporates.

Rising interest rates

Interest rates rose very rapidly through 2022-23 – faster than any period since 2008 – as central banks around the world shifted from supporting growth to controlling inflation.

Emerging market central banks responded first and more aggressively but in some cases, particularly in Latin America and Eastern Europe, have now stopped or paused their tightening cycles. Developed markets responded later but embarked on significantly more interest rate rises than initially anticipated. In the USA, still the world's largest consumer and source of demand, the Federal Reserve increased the Fund rate from 0.25-0.50% to 4.75-5.00%.

Higher interest rates are slowing inflation, but it is not yet fully under control. There are signs it is becoming embedded in some countries, as higher prices feed into labour disputes. A key source of inflationary pressure – the war in Ukraine – looks likely to continue much longer than first thought.

US inflation was still 5% in March 2023, well above the Federal Reserve's 2% target. The International Monetary Fund (IMF) expects global inflation to remain elevated at around 7% in 2023.

The endpoint for US monetary tightening will be a key factor in the global economic outlook through 2023. In 2022-23, contrary to historical experience, such rapid tightening of monetary policy did not trigger a recession in the advanced economies around the world. But there is still a risk that further interest rate rises are needed and that they contribute to more defaults – in sovereigns, corporates, or households. The collapse of Silicon Valley Bank in early March 2023 raised concerns that higher interest rates posed a threat to financial stability.

The Federal Reserve has signalled that it will soon stop raising rates, but this depends on the evolution of domestic and external inflationary pressures.

Emerging markets

Higher interest rates in advanced economies meant significant capital outflows from emerging market bonds in 2022, with investors seeking safer assets amid fears of a global recession. Many emerging markets saw their currency depreciate, fuelling further domestic inflation and increasing pressure on debt servicing costs and sovereign balance sheets.

This was especially tough on smaller, weaker emerging markets, given their foreign currency borrowing (largely in US$). An increasing number of countries turned to the IMF for assistance. For example, Sri Lanka, Ghana and Egypt sought support from the IMF due to substantial stresses on their balance of payments, and Ghana and Sri Lanka required debt restructuring.

Fitch's number of sovereign downgrades in 2022 was the 2nd worst on record for emerging markets after the Covid-19 pandemic. The predominantly negative rating actions reflect the highly challenging macroeconomic and financial environment and the limited fiscal resources left to sovereigns after the pandemic and global recession.

There may be more pressure to come for emerging market currencies, if advanced economy inflation persists and interest rates rise further.

International tension

As the war in Ukraine continues into 2023 and tension across regions intensifies, wider geopolitical fragmentation is expected to continue, causing further supply shocks to the global economy.

Tension between the USA and China is likely to lead to further economic fragmentation and 'friend-shoring'. More protectionist measures from the US could increase trade tension between the USA and Europe. And with more than 50% of semiconductors manufactured in Taiwan, the China-Taiwan dispute could pose risks for semiconductor manufacturing, causing further supply chain disruptions in key sectors.

Food security is likely to remain a concern as long as the war in Ukraine continues, given the previously important role both Russia and Ukraine have played in global grain and fertilizer exports. The pressure this has placed on food exports and prices in some African countries adds to the fiscal pressure on struggling sovereigns and is also increasingly impacted by climate change - related effects on growing conditions.

UK outlook

The UK economy grew by 4.1% in 2022, but the Office for Budget Responsibility (OBR) now expects a contraction of 0.2% in 2023. The IMF also thinks that the UK economy will shrink in 2023.

Annual UK inflation is still well above the Bank of England's 2% target, at 10.1% in March 2023, and the OBR forecasts 6.1% inflation for 2023. In response, the Bank of England increased interest rates for the 10th consecutive time in February 2023, from 3.5% to 4.0%.

Although markets expect little further increase, this will add to pressure on households and businesses through higher borrowing costs.

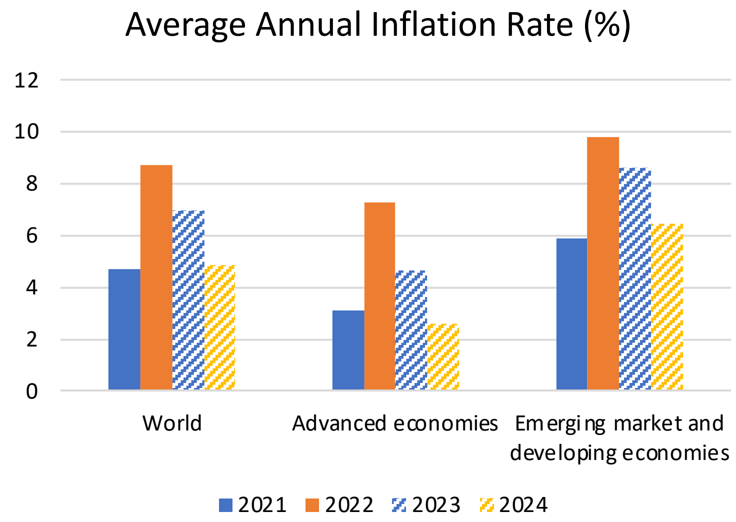
UKEF outlook

With higher interest rates and elevated inflation, we anticipate greater risk of default for more indebted sovereigns and corporates in 2023-24.

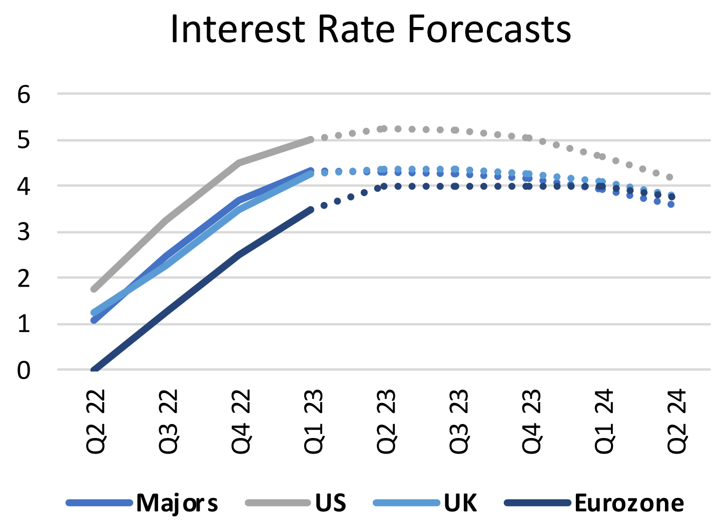
As financial conditions are expected to remain tight, debt refinancing will become more difficult, and in some cases inaccessible, for sovereigns and corporates at the lower end of the rating scale, eroding longer-term debt sustainability. Interest rates, however, seem close to peaking and could come down a little over the second half of the financial year – albeit likely in tandem with slower economic growth.

The challenging macroeconomic environment and tight financial conditions will likely lead to more demand for UKEF's services in the coming year, as businesses try to recover from this recent period of unprecedented shocks.

Export credit agencies, including UKEF, tend to support commercial banks and exporters through financial and economic disruption to keep credit and trade working – as in the 2008 global financial crisis and the pandemic. UKEF remains well placed and ready to support UK exports. Our effective risk management framework will ensure we can manage the risks of a growing portfolio and meet our financial objectives, despite ongoing global uncertainty.



Source: International Monetary Fund, World Economic Outlook Database, April 2023



Source: Bloomberg

Note: Majors represents an average for Australia, Canada, Denmark, Eurozone, Japan, New Zealand, Norway, Sweden, Switzerland, UK and US

Jo Archer, the Export Finance Manager for Bedfordshire, Cambridgeshire and Northamptonshire

Chief Finance and Operating Officer's report

This report describes and comments on UKEF's financial performance for the year ended 31 March 2023. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Chief Risk Officer's report (see page 58).

Cameron Fox
Chief Finance and
Operating Officer

Financial results overview

We achieved another strong financial performance relative to our recent history, surpassing previous years when considering business issued through our regular accounts and continuing to operate with a modest profit. This success is particularly noteworthy as it comes after two years marked by significant volumes issued through the Temporary Covid-19 Support Account, which ceased accepting new business this year.

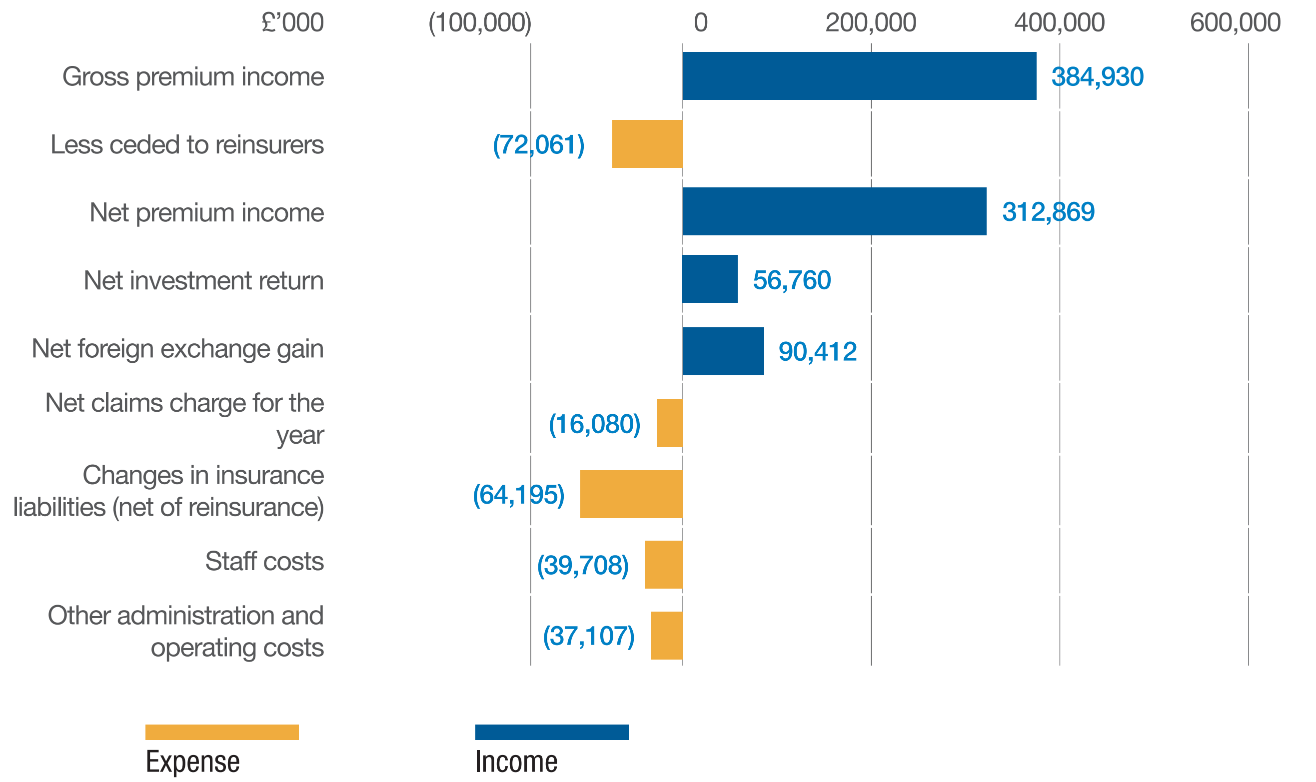
Net operating gain:

- 2022-23: £303 million
  on a foreign exchange-adjusted basis: £213 million
- 2021-22: £324 million
  on a foreign exchange-adjusted basis: £279 million

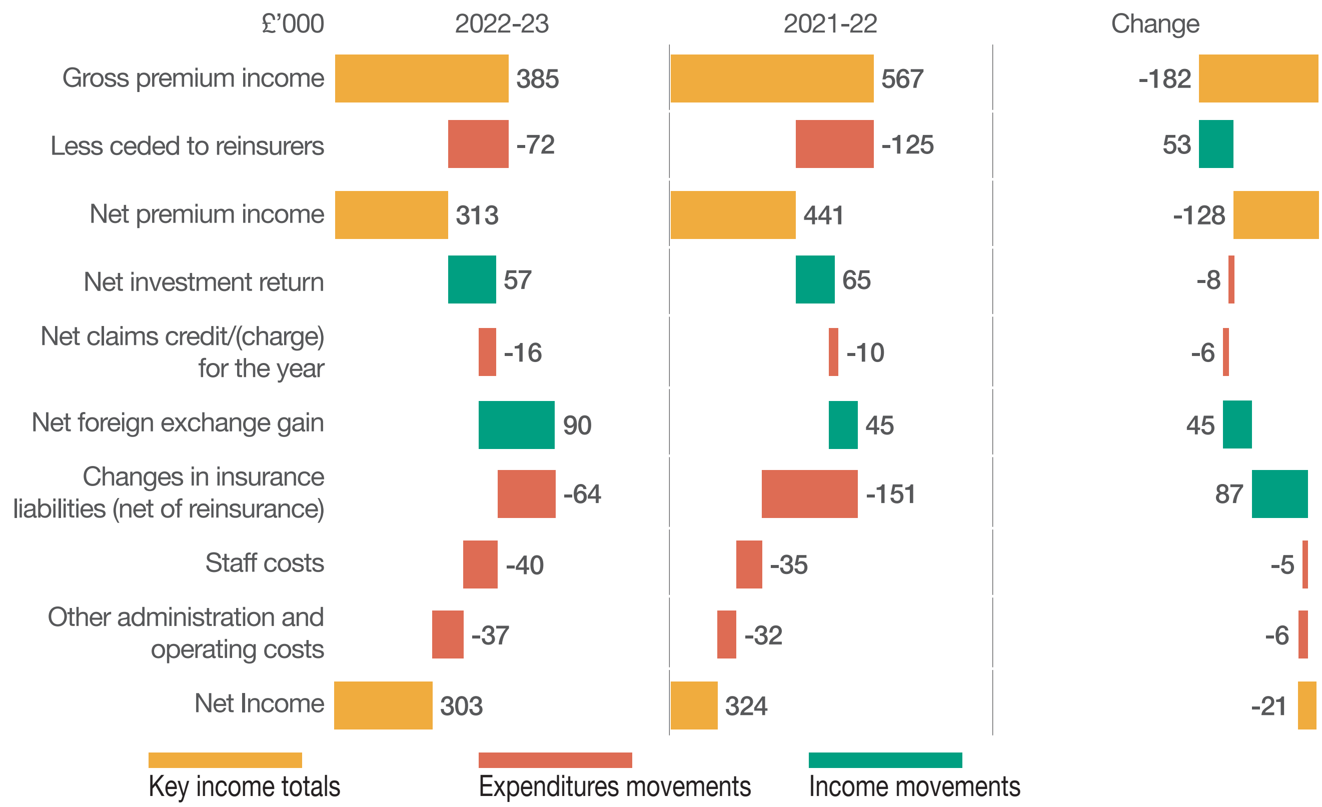
This change is driven by a combination of a decrease in net investment return (largely increased loan impairments), increased reserving requirements and additional planned operating costs to support the delivery of the business plan. See the Chief Risk Officer's report on page 58 for more details of this years impairments and provisions.

Summary of profit and loss	2022-23 £'000	2021-22 £'000
Income		
Gross premium income	384,930	566,736
Less ceded to reinsurers	(72,061)	(125,493)
Net premium income	**312,869**	**441,243**
Net investment return	56,760	65,222
Net foreign exchange gain	90,412	45,124
Total income	**460,041**	**551,589**
Expenses		
Net claims charge for the year	(16,080)	(10,078)
Changes in insurance liabilities (net of reinsurance)	(64,195)	(151,284)
Staff costs	(39,708)	(34,756)
Other administration and operating costs	(37,107)	(31,506)
Total expenses	**(157,090)**	**(227,624)**
Net income/(loss)	**302,951**	**323,965**
Net income/(loss) (FX-adjusted)	**212,539**	**278,841**

Statement of comprehensive net income for 2022-23



Comparison of statement of comprehensive net income for 2022-23



Insurance and underwriting activity (premium income)

Net premium income revenue earned:

- 2022-23: £313 million
- 2021-22: £441 million

Net insurance premiums written decreased by £128 million since 2021-22. This was a result of overall lower levels of business supported this year, as the impact of Covid-19 and the associated record levels of support have normalised, but also due to the nature of business underwritten and timing of that.

For the breakdown of insurance premiums, see note 3 to the financial statements (page 172). Also see note 1 for details of the relevant accounting policies (page 161).

Net investment return

Net investment return for export credit guarantees and insurance activities:

- 2022-23: £22 million
- 2021-22: £14 million

Net investment return for export finance activities:

- 2022-23: £35 million
- 2021-22: £51 million

Net investment return mainly comprises interest income receivable for the year, impairments and provisions on loans and receivables.

Decreases in provisions in relation to the aerospace portfolio in the current year are largely responsible for the change in return for export credit guarantees and insurance activities. An increase in impairments on the growing direct lending loan portfolio is mainly responsible for the reduction in return for export finance activities.

For the breakdown of net investment return, see note 4 to the financial statements (page 173). Also see note 1 for details of the relevant accounting policy (page 161).

Net claims credit (and provisions for likely claims)

Net claims paid:

- 2022-23: £122 million
- 2021-22: £103 million

Since the beginning of the Covid-19 pandemic, UKEF has experienced a significant increase in claims paid, mainly related to the downturn in the airline sector. Other sectors have so far remained materially unaffected.

A number of airlines' financial positions have now improved and recoveries have been made. During 2022-23, however, a number of sovereigns including Sri Lanka and Ghana experienced significant economic stress, resulting in an increase in claims paid and, therefore, in provision charges.

See the Chief Risk Officer's report for more details of UKEF's claims position.

Also see notes 1d, 6 and 11 to the financial statements. Note 1d explains the significant uncertainty arising from UKEF's underwriting activities (page 163). Note 6 provides a breakdown of net claims credit (page 174) and note 11 provides details of recoverable claims and unrecovered interest (page 178).

Foreign exchange

During the year, sterling depreciated by approximately 6% against the US dollar and nearly 4% against the euro.

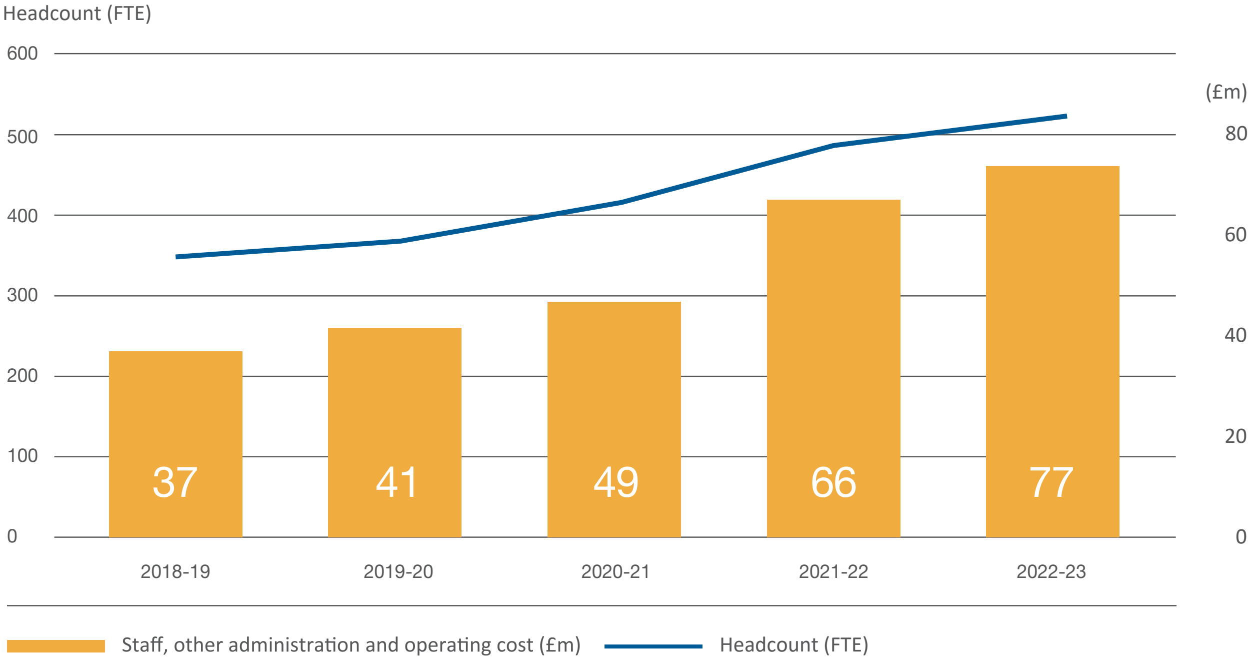
Net foreign exchange gain:

- 2022-23: £90 million
- 2021-22: £45 million

As a significant proportion of UKEF's guarantees, insurance policies and loans are written in foreign currencies (mainly the US dollar but also in euro), UKEF is exposed to foreign currency risk and associated volatility in terms of the financial results.

UKEF is not authorised by HM Treasury to hedge exchange rate exposures.

Operating costs and headcount



See notes 7 and 18 to the financial statements, which include details of the currency profile of our insurance assets, financial instruments and capital loan commitments.

Reserving for insurance liabilities

(Net) underwriting funds at year end:

- 2022-23: £1,498 million
- 2021-22: £1,434 million

UKEF applies the fund basis of accounting for its medium and long-term business. The increase in funds was the result of new business written in-year.

Releases from the funds during the year (arising from business written in 2013 and 2019) amounted to some £47 million in 2022-23, compared with £40 million in 2021-22. This release (which is a surplus of premium written over risk and costs of writing the business) reflects the quality of the underwriting and credit decisions made in 2013 and 2019.

See note 16 to the financial statements for the detailed movements in the underwriting funds (page 181). Also see note 1E for details of the relevant accounting policy, explaining the fund basis of accounting (page 164).

Operating costs

- 2022-23: £77 million
- 2021-22: £66 million

A planned increase in staff and project costs, both linked to Business Plan objectives and UKEF's spending review 2021 settlement, were largely responsible for the increase in operating costs. For more details, see the Our People: Remuneration and Staff report section (page 130).

Long-term assets and liabilities

Direct lending loans at year end:

- 2022-23: £3,032 million
- 2021-22: £2,808 million

Gross recoverable claims at year end:

- 2022-23: £560 million
- 2021-22: £534 million

Given the nature of the business that UKEF supports, the department has a significant holding of long-term assets and liabilities. UKEF's major asset classes are direct lending loans and recoverable claims (both denominated in a range of currencies, predominantly US dollars).

The direct lending loan book continued to grow this year. Gross recoverable claims increased, owing to an increase in claims paid and foreign exchange movements.

UKEF's most significant liability relates to insurance reserving.

Financial results by account

UKEF currently operates 6 accounts.

Account 1: Pre - 1991 Guarantees & Insurance - this relates to guarantees and insurance issued for business before 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.

Account 2: Guarantees and Insurance - relates to the credit risk arising from guarantees and insurance issued for business since April 1991.

Account 3: National Interest - 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: Fixed Rate Export Finance - 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. (The scheme closed in 2011 for new business and during the course of 2022-23 all remaining exposure ran off).

Account 5: Direct Lending - relates to the provision of direct lending (in the normal course of business) since 2014.

Account 6: Temporary Covid-19 Support - relates to all business underwritten and booked under the Temporary Covid-19 Risk Framework (TCRF) – approved by HM Treasury since 2 April 2020 and closed from new business from 31 July 2022.

Management commentary - 5 year summary

	2022-23 £m	2021-22 £m	2020-21 £m	2019-20 £m	2018-19 £m
Overall value of guarantees and insurance policies issued and effective:					
New business supported – net of reinsurance – Account 2: Guarantees and Insurance	4,950	5,458	3,818	3,499	3,372
New business supported – net of reinsurance – Account 3: National Interest	1	–	–	–	2,139
New business supported – net of reinsurance – Account 6: Temporary Covid-19 Support	1,114	1,395	6,826	–	–
Total new business supported – net of reinsurance	6,065	6,853	10,644	3,499	5,511
Amounts at risk – gross of reinsurance – accounts 2, 3, 6	39,244	34,393	28,834	21,838	21,538
Statement of comprehensive net income:					
Premium income net of reinsurance	313	441	330	177	332
Staff, other administration and operating costs	77	66	49	41	37
Foreign exchange gain/(loss)	90	45	-138	55	46
Net operating income – total	303	324	-217	217	128

	2022-23 £m	2021-22 £m	2020-21 £m	2019-20 £m	2018-19 £m
– Account 1: Pre 1991 Guarantees & Insurance	30	18	-4	57	35
– Account 2: Guarantees and Insurance	110	157	-104	88	45
– Account 3: National Interest	11	12	4	-1	0
– Account 4: Fixed Rate Export Finance	0	0	0	0	1
– Account 5: Direct Lending	81	59	-114	73	47
– Account 6: Temporary Covid-19 Support	71	78	1	0	0
Net operating income – foreign exchange – adjusted	213	279	-79	162	82
Statement of cash flows:					
Claims recoveries – total	94	92	70	71	69
– Account 1: Pre 1991 Guarantees & Insurance	33	30	31	38	39
– Account 2: Guarantees and Insurance	61	62	39	33	30
Interest recoveries in the year – total	31	25	19	31	31
– Account 1: Pre 1991 Guarantees & Insurance	28	24	19	29	30
– Account 2: Guarantees and Insurance	3	1	0	2	1
Claims paid – total	122	103	107	8	0
– Account 2: Guarantees and Insurance	122	103	107	8	0
Net cash flow from operating activities – total	312	576	353	321	484
– Account 1: Pre 1991 Guarantees & Insurance	62	53	49	67	69
– Account 2: Guarantees and Insurance	125	428	168	181	241
– Account 3: National Interest	9	10	38	-11	95
– Account 4: Fixed Rate Export Finance	0	0	0	0	1
– Account 5: Direct Lending	61	85	98	84	78
– Account 6: Temporary Covid-19 Support	55	74	23	–	–
Statement of financial position:					
Recoverable claims before provisioning	560	534	600	591	647
– Account 1: Pre 1991 Guarantees & Insurance	198	240	350	402	433
– Account 2: Guarantees and Insurance	362	294	250	189	214
Recoverable claims after provisioning	220	184	179	197	247
– Account 1: Pre 1991 Guarantees & Insurance	69	87	110	145	168
– Account 2: Guarantees and Insurance	151	97	69	52	79
Interest on unrecovered claims after provisioning	73	87	98	118	106
– Account 1: Pre 1991 Guarantees & Insurance	73	87	98	117	105
– Account 2: Guarantees and Insurance	0	0	0	1	1
Underwriting funds – net of reinsurance	1,498	1,434	1,283	958	896
– Account 2: Guarantees and Insurance	1,371	1,318	1,182	873	811
– Account 3: National Interest	85	85	85	85	85
– Account 6: Temporary Covid-19 Support	42	31	16	–	–
Recoverable capital loans before provisioning	3,032	2,808	2,308	1,327	967
– Account 3: National Interest	1,000	1,000	703	–	–
– Account 4: Fixed Rate Export Finance	0	1	2	5	10
– Account 5: Direct Lending	2,032	1,807	1,603	1,322	957

(All results rounded to the nearest million)

Pre - 1991 Guarantees & Insurance Account

The main activity related to this account is the administration and collection of the claims paid out against guarantees and insurance policies. All exposure on this account relates to historic claims paid out before 1991.

In accordance with standard accounting practice, UKEF provides prudently against the possible non-recovery of debts. Where the outlook for recovery improves or worsens, we reduce or increase the level of provision accordingly, releasing profit or loss to the statement of comprehensive net income.

An increase in net interest income – resulting from provision reductions, recoveries and foreign exchange movements – was responsible for the change in net operating income this year.

The decrease in gross claims this year was due to recoveries. See the Chief Risk Officer's report for further details.

Net operating income:

- 2022-23: £30 million
- 2021-22: £19 million

Recoveries of claims paid:

- 2022-23: £33 million
- 2021-22: £30 million

Recoveries of interest on claims paid:

- 2022-23: £28 million
- 2021-22: £24 million

Balances for gross claims:

- 2022-23: £198 million
- 2021-22: £240 million

Balances for net claims:

- 2022-23: £69 million
- 2021-22: £87 million

Interest on net unrecovered claims:

- 2022-23: £73 million
- 2021-22: £87 million

Guarantees & Insurance Account

A decrease in net premium income, driven by lower business supported, was largely responsible for the change in the net operating result, combined with fund top-ups (increased reserving requirements).

Total of guarantees and insurance policies (net of reinsurance) issued and effective during the year:

- 2022-23: £4,950 million
- 2021-22: £5,458 million

Net premium income:

- 2022-23: £228 million
- 2021-22: £343 million

Net operating income:

- 2022-23: £110 million
- 2021-22: £157 million

Release from funds:

- 2022-23: £47 million
- 2021-22: £40 million

Claim recoveries:

- 2022-23: £61 million
- 2021-22: £62 million

Gross claims balances:

- 2022-23: £362 million
- 2021-22: £294 million

Net claims balances:

- 2022-23: £151 million
- 2021-22: £97 million

National Interest Account

There was only one new deal written during the year 2022-23 in relation to support for an export to Ukraine. See the annexes for business supported for further details.

The significant extant exposure dates back to 2018-19 and relates to support provided for BAE Systems and MBDA UK, for the provision of military aircraft and related equipment to the State of Qatar.

Fixed Rate Export Finance Account

FREF has been closed to new business since 2011, with all remaining exposure running off during the course of 2022-23.

Direct Lending Account

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

UKEF's direct lending capacity for the overall facility is £8 billion. There are 51 signed loans, of which 49 are currently effective.

An additional 2 loans (Ghana) were assessed as impaired in the year ending 31 March 2023. Five loans in total are now impaired.

See note 1 to the financial statements (page 161) for details of the relevant accounting policy.

Net operating gain:

- 2022-23: £81 million
- 2021-22: £59 million

The main driving factor behind this change was a foreign exchange gain of £78 million, compared with a gain of £36 million in 2021-22 (as most of the loans originated were in US dollars).

Net investment return:

- 2022-23: £19 million
- 2021-22: £36 million

This difference is largely due to an increase in impairment losses.

New loans originated (not including facility increases):

- 2022-23: 5 (signed and effective)
- 2021-22: 6 (signed and effective)

Loan impairment on the portfolio:

- 2022-23: £59 million
- 2021-22: £38 million

Temporary Covid-19 Support Account

This account relates to UKEF's Temporary Covid-19 Risk Framework (TCRF), which closed for new business from 31 July 2022. See the Chief Risk Officer's report for further commentary on the performance of the TCRF.

Net operating gain:

- 2022-23: £71 million
- 2021-22: £78 million

This change was largely the result of reduced levels of business, as the account is now in run-off.

Total of guarantees and insurance policies (net of reinsurance) issued and effective:

- 2022-23: £1,114 million
- 2021-22: £1,395 million

Net premium income:

- 2022-23: £85 million
- 2021-22: £99 million

Financial reporting changes

As outlined in note 1 to the financial statements (page 161), UKEF currently applies International Accounting Standard (IAS) 39: Financial instruments – recognition and measurement.

Although this standard has been replaced by International Financial Reporting Standard (IFRS) 9: Financial instruments, the standard will be effective for UKEF at the same time when IFRS 17 becomes effective. This is because UKEF has utilised a temporary exemption from applying IFRS 9.

The International Accounting Standards Board 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 simultaneously. In the public sector, IFRS 17 application has been delayed by 2 years until 2025-26; therefore UKEF, like other central government departments, will adopt this for an annual period beginning on 1 April 2025.

Where UKEF applies IAS 39, the 'incurred loss' model is in effect for impairments. This leads to different results than applying IFRS 9, which uses the forward-looking 'expected loss' model.

Budgeting framework

UKEF's expenditure is presented in both the Statement of Outturn against Parliamentary Supply (page 141) and the financial statements (page 156).

The financial statements apply IFRS as adapted and interpreted by the Financial Reporting Manual, which is produced by HM Treasury.

The Statement of Outturn against Parliamentary Supply, on the other hand, reports the department's expenditure into different budgetary categories, each with its own control limits that Parliament has voted on.

The total amount a department spends is referred to as the Total Managed Expenditure (TME). This is split into:

- Departmental Expenditure Limits (DEL), which covers spending that is subject to limits set in the spending review. Departments may not exceed the limits that they have been set in this budgetary category
- Annually Managed Expenditure (AME), which covers spending that is demand-led or exceptionally volatile in a way that could not be controlled by the department

Both budgetary categories, DEL and AME, can be further split into resource and capital budgets. Resource budgets capture current expenditure while capital budgets capture new investment and financial transactions. The resource budgets further split into admin and programme budgets.

UKEF's resource DEL admin budget is a token amount (£1,000), with the gross costs covered from the premium income the department receives. The resource DEL programme budget is nil.

The capital DEL programme budget, resource AME budget and capital AME programme budget are all relevant to UKEF activities and set through the supply estimates process.

Explanation of variances between estimate and outturn summary

Parliament sets a limit on the annual amount of resources and capital that UKEF can consume through the supply estimates process.

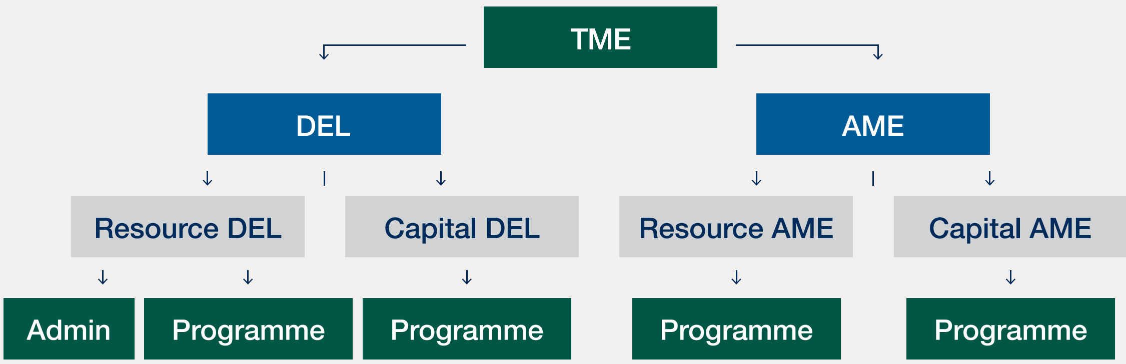
In the absence of any operating income outside the ambit of the supply estimate, UKEF's net resource outturn and net operating cost or income are identical.

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

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

For further variance explanations, see the Statement of Outturn against Parliamentary Supply on page 141.

How department spend is categorised in the Statement of Outturn against Parliamentary Supply



UKEF's supply estimate vs actual outturn for the year 2022-23

	SoPS note	Outturn £'000	Estimate £'000	Variance £'000m
Resource budget spending				
Departmental Expenditure Limit (DEL)	SoPS1.1	0	2	2
Annually Managed Expenditure (AME)	SoPS1.1	(302,951)	1,109,391	1,412,342
Resource total & net operating cost/ (income)		**(302,951)**	**1,109,393**	**1,412,344**
Non-budget/resource total	SoPS1.1	0	0	0
Net resource outturn & net operating cost/ (income)		**(302,951)**	**1,109,393**	**1,412,344**
Capital budget spending				
Departmental Expenditure Limit (DEL)	SoPS1.2	1,002	2,216	1,214
Annually Managed Expenditure (AME)	SoPS1.2	129,317	798,953	669,636
Capital total payments/(receipts)		**130,319**	**801,169**	**670,850**

Chief Risk Officer's report

Note: this section provides a review of developments in 2022-23. It should be read in conjunction with the Governance Statement on page 109, which describes UKEF's enterprise risk management framework and control environment.

The role of risk management at UKEF is to ensure that all risks, including emerging risks, across UKEF are identified, assessed, evaluated and mitigated where appropriate; and ultimately reported and monitored across the organisation.

Samir Parkash
Chief Risk Officer

We do this by designing, implementing and constantly reviewing the enterprise risk management framework such that all risks can be reviewed in a structured, consistent and logical fashion, to facilitate sound operational and strategic decision-making.

In addition to strictly defined requirements laid down under the consent from HM Treasury, UKEF has a control environment to help manage and mitigate our risk exposures. Collaboration and risk management go hand in hand here. Our Enterprise Risk & Credit Committee (ERiCC) is made up of representatives from different teams within UKEF, working together to ensure that our primary risks (defined in our risk taxonomy on page 60) are appropriately managed.

We also have a suite of policies, procedures and controls which govern our day-to-day operations.

Operating Environment And Mandates

Treasury consent and risk appetite

Parliament sets a limit on the commitments into which UKEF may enter. This limit is expressed in special drawing rights (SDR), an international reserve asset created by the International Monetary Fund (IMF) and set at SDR67.7 billion (approximately £74 billion).

UKEF's powers may only be exercised with the consent of HM Treasury. The Treasury agrees a standing consent with UKEF, providing parameters within which we can operate without needing to seek explicit approval, as well as our financial objectives and reporting requirements.

UKEF's financial objectives, set by HM Treasury, are designed to enable us to fulfil our mandate of supporting UK exporters at no net cost to the taxpayer over time while ensuring that credit risk and pricing:

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

For the outturn against all our financial objectives for the financial year 2022-23, see page 17.

Financial objectives

1. **Premium-to-risk ratio (PRR):** the premium we charge must reflect the risk taken. Each month, we must show that the premium charged on the overall business issued, or forecast to be issued in the financial year, will be at least 1.35 times greater than an agreed level of expected and unexpected loss measured for each transaction at the time of pricing.

2. **Pricing adequacy index (PAI):** the premium we charge must be sufficient for us to operate at no net cost to the taxpayer over time. While the PRR is measured only over the current financial year, our PAI considers a 5-year timescale, applied across 3 accounting periods:

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

For each period, UKEF must demonstrate that the actual and forecast premium will cover and exceed the cost of doing business – meaning administration costs and an agreed level of possible losses.

Business and premium forecasts are based on the judgements of our underwriters, who draw on transaction pipeline information, market intelligence and the likelihood of transactions materialising within the current or future financial years. We also perform regular sensitivity analyses to supplement these central forecasts and test the robustness of forecast financial performance against our PRR and PAI targets.

3. **Maximum commitment:** the total amount of nominal credit risk exposure that the department may incur; previously set at £50 billion under the HM Treasury consent and now at £60 billion as of 31 March 2023

4. **Risk appetite limit:** a form of economic capital limit of £5 billion, set at £6 billion as of 31 March 2023

5. **Reserve index:** an index that measures whether UKEF has accumulated enough reserves over time to cover its possible credit losses at the 77.5 percentile on its portfolio loss distribution

These objectives do not apply to our Temporary Covid-19 Risk Framework portfolio or National Interest Account (business issued on the written direction of ministers – see page 55).

Pricing

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

A key principle of our pricing is to maintain a level playing field. We therefore operate within the Organisation for Economic Cooperation and Development (OECD) Arrangement (a framework for the orderly use of officially supported export credits), where it applies. This requires all export credit agencies (ECAs) to charge risk-based premiums sufficient to cover their long-term operating costs and credit losses.

It mirrors the World Trade Organisation Agreement on Subsidies and Countervailing Measures, which classifies export credit guarantee programmes that do not cover their long-term operating costs and losses as "prohibited subsidies".

It is also our objective to support UK exporters' competitiveness, and it is our policy to set the lowest possible premium rates. In doing so we take into account:

- the minimum rates set out by the OECD (where applicable – and in practice, the vast majority of our medium/long-term transactions are priced at these rates).
- our international obligations, including subsidy rules
- no individual premium being below the expected loss of the associated transaction
- aggregate premiums satisfying our financial objectives

Economic capital and the risk appetite limit

Economic capital (often referred to as capital at risk or CaR) is a measure of risk based on potential future losses. It can be considered as a buffer to cover unexpected losses over a defined future period at a specified confidence level.

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

Unexpected loss accounts for the potential for actual losses to exceed expected losses, reflecting the uncertainty inherent in calculating future losses. Unexpected loss will tend to increase if a portfolio has high risk concentrations and/or the risks in the portfolio are strongly correlated. UKEF defines unexpected loss as the difference between the portfolio expected loss and the 99.1% value of the loss distribution.

The risk appetite limit set by HM Treasury means that UKEF must manage its credit risk-taking activities such that total losses, as modelled by our portfolio risk management simulation model, will not (with a 99.1% degree of certainty) exceed £5 billion (or £6 billion as of 31 March 2023).

In other words, at no time should portfolio expected loss, plus provisions against claims already paid, plus portfolio unexpected loss, exceed that limit. (This limit excludes business transacted in our Temporary Covid-19 Support Account or, under ministerial direction, in our National Interest Account, for example in Ukraine.)

Risk taxonomy

The UKEF enterprise risk management framework sets out how the business consistently manages risk across all primary risk categories and how it maintains oversight of the risks.

In 2022-23, we completed a number of initiatives to enhance the way we identify, monitor and manage our risks. These include:

- a fully revised and updated risk taxonomy
- a prototype to measure our position against the defined risk appetite for each of our primary risks
- continuing to develop our enterprise risk management reporting
- additional independent oversight of our control environment certificate (CEC)

To achieve its business objectives, UKEF is exposed to various risks . These risks can be a result of both internal and external factors.

Our risk taxonomy identifies 6 primary risk categories. These provide senior management with a structured approach to managing known and emerging risks across UKEF. Each primary risk is owned by a member of the Executive Committee (or in some cases two members), who has executive oversight of that risk and is responsible for managing it within UKEF's risk appetite.

Some of the risks UKEF takes support our business plan: credit risk, for example. Other risks are inherent in our business activities, such as operational risk and the risk of fraud or error. However, these risks are managed via the control framework that operates across the department.

We consider conduct and reputational risks on a transversal basis rather than as a separate risk type, as these risks can crystallise as a cause or consequence of any of the risks in our taxonomy.

Primary risk	Definition
Strategic & business risk	The risk of direct or indirect loss arising from suboptimal business strategy or failure to respond positively to changes in the business environment
Political risk	The risk that political decisions, events or conditions will have a significant impact on the department's strategic objectives and priorities
Sustainability risk	The risk that UKEF's activities undermine its sustainability commitments or compromise its current and future license to operate
Financial risk (including credit & market risk)	The risk of claims being made against UKEF, and of it suffering ultimate loss arising from defaults by counterparties against which UKEF has a financial exposure The risk of financial records not being adequately maintained
Compliance & legal risks	The risk of being exposed to censure, financial loss, civil or criminal proceedings due to failing to comply with applicable laws, regulations or legal obligations
Operational risk (including infrastructure & cyber risk)	The risk of direct or indirect financial losses resulting from inadequate or failed internal processes, people, systems or external events

The risks that UKEF manages can change quickly in the environment where we operate. Therefore we actively review and enhance our enterprise risk management framework and policies to make sure they remain dynamic and appropriate for the risks under management. We are proactive about horizon scanning to assess the internal and external risk environments and consider our risks with both a forward view and lessons learned. Each risk type has an appropriate risk monitoring and reporting structure with responsibility to a designated committee.

More detail on UKEF's governance and internal control environment, including risks related to the performance of internal controls, can be found in the Governance Statement on page 109. And note 18 to the financial statements on page 184 describes the nature and extent of the risks for UKEF arising from financial instruments and insurance contracts.

Risk Management And Controls

Financial risk management

Credit risk is the principal source of financial risk for UKEF.

All material credit risks must be approved by the CEO, ERiCC or a designated member of the Business or Risk Management Groups within appropriate delegated authority. Further, UKEF may not give an individual commitment in excess of £200 million without the agreement of HM Treasury. Once approved, we regularly monitor credit exposures at both the portfolio and individual transaction level. We also meet with our largest corporate and sovereign obligors to discuss any risks.

ERiCC oversees portfolio-level monitoring, keeping the weighted average credit rating of the UKEF portfolio firmly in mind. This includes stress testing and scenario analysis every 6 months and a monthly review of portfolio movements, particularly focussing on exposure, expected loss and unexpected loss changes. Monthly management information reports the performance of the credit portfolio against our financial objectives. Detailed portfolio packs are presented to the Risk Committee on a regular basis.

We regularly update the ratings allocated on the back of meetings with sovereigns and corporates to countries and individual obligors, which feed through to the transactional level.

Where these ratings become stressed, UKEF maintains watch lists of obligors. If an obligor becomes so stressed that a significant increase in credit risk occurs or is expected – for example, if the credit of a non-sovereign borrower deteriorates such that UKEF might reasonably expect to pay out under a guarantee or insurance policy – then the risk is managed by a dedicated unit within the Risk Management Group.

Portfolio modelling

UKEF uses its own portfolio risk simulation model (PRISM) to model credit risk at the portfolio level and to produce portfolio loss distribution curves. We also use the model:

- for stress testing
- to simulate the extent and timing of potential cash outflows as a result of claims payments
- to inform cash flow forecasts
- for liquidity management

Risk concentrations

Given UKEF's role, it is inevitable that we will have risk concentrations in our portfolio.

Our portfolio modelling quantifies those concentration risks and helps to determine the maximum amount of exposure UKEF might assume on a single obligor or group of related obligors.

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

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

Modelling assumptions

Our portfolio modelling (via PRISM) operates under a range of assumptions, including correlation matrices and credit default behaviour.

It is essential to keep these assumptions as up-to-date and as robust as possible. We do this through a regular review process, re-examining each assumption every 3 years. Each review is accompanied by a report to ERiCC, with recommendations for action as appropriate.

We have also worked on expanding our portfolio modelling capacity through 2022-23 to enable UKEF's future compliance with International Financial Reporting Standard (IFRS) 9, and as part of our UKEF-wide Financial Reporting Changes programme (see the Chief Finance and Operating Officer's report on page 47 for more details).

A core objective of IFRS9 is to incorporate a (or identify an existing) forward-looking component into our portfolio modelling, using forecasts of macroeconomic variables. We have looked at how to do this in each area of our existing portfolio modelling suite, using a wide range of data sources, transformations and econometric techniques, and reflecting where we found the impact of macroeconomic factors is greatest. We found evidence of macroeconomic sensitivity in our loss given default assumptions, particularly in our aerospace (or asset-backed) portfolio; and in our probability of default assumptions, given appropriate segmentation of our exposures by risk category.

We found less macroeconomic sensitivity in our exposure at default (EAD) assumptions. However, this served as a timely review of the assumptions we use for the EADs in our PRISM suite, prompting us to tighten the utilisation assumptions used in modelling the risk in some of our products. We also confirmed that our current method is IFRS9 compliant – and required no further augmentation.

In 2023-24 we will complete construction of our new risk models, which will combine our research and macroeconomic forecasts to produce forecasts of expected credit loss, which is an essential component of achieving future IFRS9 compliance.

Stress testing and scenario analysis

Our policy is to stress test our credit portfolio extensively every 6 months.

Stress testing assesses the impact of various adverse scenarios. These scenarios are designed to reflect potential emerging risks, such as a geopolitical crisis or a collapse in oil prices, and more generic shocks, such as a 3-notch rating downgrade of sovereigns and corporates across the portfolio.

We continually monitor the risk environment to make sure we are revalidating, updating and expanding our range of scenarios and stresses as necessary. We have developed our scenario in 3 areas in particular:

As we began 2022-23, it became clear that the balance of risks was shifting away from the direct impact of Covid-19 – which dominated our concerns over the previous 2 years – and toward the recovery, and how that would be managed. We therefore worked more to understand and articulate the impact of inflation and rising interest rates on our portfolio.

Geopolitical risk has also become a much greater concern. The war in Ukraine has proved much longer than initially expected and the consequences for the global economy and political environment have been more extensive, prompting focus on similar areas of tension around the world. We have therefore developed scenarios to understand our vulnerability to further supply chain disruption and fragmentation of the global political system.

And finally, given the progress we have made with building our own climate risk management capacity, including new stress testing models to contribute to our objective of implementing Task Force on Climate-related Financial Disclosures' recommendations, we have developed scenarios exploring both the scale of impact of climate change and the speed with which its impacts are felt – and the consequences for our portfolio.

ERiCC reviews the results of the analysis and considers the impact of each stress or scenario on the value of the 99.1% point of the portfolio loss distribution, relative to the risk appetite limit.

We have remained largely within our financial risk appetite limits even after applying various degrees of stress on our portfolio.

Climate risk management

On page 82 is UKEF's 3rd report following the recommendations of the Task Force on Climate-related Financial Disclosures, which provides a full overview of how UKEF identifies and manages climate-related risks and opportunities.

In this section, we discuss how UKEF manages climate-related credit and financial risks, including stress testing and analytics, and how it integrates climate risk management into its established credit risk policy. We also cover UKEF's approach to assessing and mitigating climate risks in transactions, the implementation of the government's fossil fuel policy, and UKEF's efforts to manage climate risks at a portfolio level.

As part of UKEF's climate risk management, we assess individual transactions with respect to climate-related credit and financial risks and manage the climate risk stress testing and analytics.

Over the year, we have continued to develop and integrate climate risk management into UKEF's established suite of policies. Our climate risk management continues to assess transactions, both at the initial approval stage and throughout the life of our financial support. At approval, the analysed climate risks and mitigating actions of transactions are considered in capital structure, tenor and collateral and UKEF will also seek legally binding commitments and obligations from its obligors under its supported transactions.

The residual climate-related credit risk is captured in probability of default and loss given default, which are both monitored and stress tested regularly.

We conduct semi-annual stress testing exercises to identify emerging risks and possible mitigating action. Over the past year, we developed a new climate risk stress test model which uses the Network for Greening the Financial System's future climate scenarios, while other scenarios focus on market risk.

UKEF has made more progress in building its climate risk management capacity this year. We established the Climate and Environmental, Social and Governance Risk Management Team and hired additional subject matter expertise. UKEF's wider risk team also built their own expertise through climate risk management training.

Assessing Risk

Assessing credit risk

We use the following credit risk assessment process to estimate **expected loss**.

1. We assign a **credit rating** (from AAA to D) to all UKEF's credit risks to reflect estimated probability of default. These probabilities are updated at least annually, using S&P's nomenclature.

2. We estimate the **loss given default**: how much we stand to lose if the obligor defaults, expressed as a percentage. Corporate and project finance loss given default assessments are conducted on a case-by-case basis, considering security, priority ranking, recovery prospects by market and likelihood of restructuring, sale or liquidation. In the case of sovereign risk, **persistence of default** is also included in the calculation of potential loss. Based on empirical research, persistence of default (the estimated duration of a country's default) is calculated as a function of its per capita income, the severity of indebtedness and whether the default is a liquidity event or substantially more material.

3. We estimate **exposure at default**: the credit risk exposure we have at the time of default.

4. We also closely monitor **unexpected loss**, which is integral to our assessment of credit risk appetite.

Assessing sovereign risk

We assess each country in which we have an actual or potential credit exposure and use this assessment to assign a **credit rating**.

Our sovereign risk assessment framework is aligned with the approach that Fitch, Moody's and S&P use – but in addition, UKEF's framework is supplemented by a range of external materials, as well as cross-Whitehall forums, local UK diplomatic representatives, triannual OECD country risk expert meetings and country-specific visits, including meetings with a wide range of stakeholders.

Where no external credit rating exists, we typically use a World Bank-derived credit rating model supplemented by analyst judgement and peer comparisons. In all instances, credit ratings are reviewed by senior management and approved (as appropriate) by ERiCC.

ERiCC systematically reviews UKEF's country limits and associated cover policies. We also hold in-country meetings with all of our largest sovereign obligors. We also maintain a sovereign watch list, which is designed to pick up deterioration of sovereign credit quality within review periods.

Exposure management framework

Our exposure management framework sets individual, country-level limits based on the following principles:

- countries with higher levels of credit risk will have lower limits
- the larger a country's economy (as measured by its GDP), the higher the potential limit
- country limits are set relative to UKEF's notional capital and are consistent with its financial objectives

- the maximum country limit is £5 billion

Active portfolio management

Our active portfolio management strategy aims to reduce concentrations of risk in our portfolio, to decrease the likelihood of idiosyncratic losses.

It also creates headroom under country limits to support more UK exporters. Under this programme, UKEF can buy facultative reinsurance from the private market, subject to cost-benefit analysis and positive value for money.

During 2022-23, UKEF did not place any new transactions in the private insurance market. However, UKEF's broker(s) and panel of insurers were renewed and expanded during the year. We made our first claim under the insurance program at the end of the financial year.

The Paris Club and G20

The Paris Club is an informal group of official creditors (primarily OECD) that cooperates on sovereign risk monitoring and sovereign restructuring operations.

Its decisions are not legally binding, but its members (including the UK) are committed to implementing its decisions in line with principles of solidarity, consensus, fair burden sharing and information sharing; and in partnership with the IMF's programmes of policy conditionality.

In 2020, the Paris Club began formally coordinating with G20 non-Paris Club creditors on sovereign debt restructuring requests from low-income countries.

The G20/Paris Club Common Framework provides a new institutional structure for sovereign debt restructurings required by eligible countries. Sovereign defaults that lead to debt restructuring agreements through the Paris Club or Common Framework are managed by UKEF's Risk Management Group in conjunction with HM Treasury (which leads the government's sovereign debt function).

There are 3 active Common Framework cases in progress (Ghana, Zambia and Ethiopia), with an impact on UKEF's sovereign exposure in Ghana and Zambia.

In 2022 the group reached an agreement on the restructuring of Chad's sovereign debt. UKEF was not a creditor.

For middle-income countries outside of the Common Framework, the UK has been involved in 2 Paris Club restructuring operations. A debt rescheduling was agreed for Argentina in October 2022 to support the country's latest IMF programme; and a debt restructuring negotiation is ongoing with the Government of Sri Lanka.

Paris Club developments are monitored by ERiCC, which must approve any provisions or impairments made against this exposure.

In 2022-23, UKEF received recoveries totalling £61.6 million from countries which continued to make payments under their UK Paris Club debt agreements.

Information sharing by creditors is a crucial component of promoting debt sustainability. The UK, as a creditor to other national governments, is committed to adhering to the highest standards of debt transparency.

Since March 2021, as part of the UK's commitment to the G20 Operational Guidelines for Sustainable Financing, UKEF has published quarterly reports on any new issued and effective sovereign direct lending, sovereign called guarantees or finalised bilateral Paris Club restructuring agreements. The reports capture granular loan-by-loan data, including its use, beneficiary, amount, tenor and type of interest rate. The publications complement HM Treasury's annual report on the outstanding stocks of debt owed by other countries to the UK (including UKEF and the Foreign, Commonwealth and Development Office), aggregated on a country-by-country basis. The UK was the first G7 country to raise our sovereign lending transparency practices to this high standard and secured a commitment from the wider G7 to do the same.

This year, UKEF took proactive steps to enhance the resilience of climate-vulnerable countries' debt sustainability in the face of climate change. Announced on Finance Day at COP27, UKEF will be the first ECA in the world to offer Climate Resilient Debt Clauses in its direct sovereign lending from 2023-24. The clauses will offer low-income countries and small island developing states the ability to defer debt repayments in the event of a severe climate shock or natural disaster. This is part of UKEF's broader ambition to embed climate change into its decision-making in line with its Climate Change Strategy and net zero 2050 target.

Assessing corporate, SME and project finance risk

Risk assessments for our corporate business (which includes our aircraft financing business) and project finance business are principally based on S&P credit rating methodologies supplemented by subjective, judgemental overlays from our team of analysts.

Where support is for smaller direct UK exporters – typically small and medium-sized enterprises (SMEs) – we operate a tiered assessment process, generally dictated by the level of the request.

Smaller requests within defined limits are managed through delegated authority to approved banks and financial institutions fully on behalf of UKEF. Assessments for **larger requests** are assessed through a combination of a bespoke streamlined methodology and the S&P credit rating methodology for SMEs.

The individual analyst's judgement is particularly important when it comes to qualitative factors, such as management, environmental and social factors, climate change and corporate governance.

Where available, we benchmark the resulting credit ratings against industry peers and other relevant market metrics.

Exposures within this area are monitored through a combination of internal annual reassessment and contractual periodic reporting requirements for the delegation approved banks and financial institutions.

The lingering effects of Covid-19 and geo-political events throughout the financial year continue to affect corporate and sovereign cash flows and liquidity profiles, with resulting consequences for leverage. As such, the Risk Management Group remains focussed on cash flow generation and capital structure profiles and, more recently, on interest cover multiples, noting significant increases in global interest rates over the past 12 months.

Assessing financial counterparty risk

UKEF manages its financial counterparties risk, which is primarily to banks and other non-bank financial institutions (NBFIs).

All UKEF transactions require a bank or NBFI, whether as lender, security trustee or payment and collection agent.
We assess all such counterparties to make sure they meet our minimum credit, compliance and climate risk management standards set out in our policies. They can only be approved under specific delegated authority or, where applicable, by ERiCC. Where operating under the SME delegated

authority scheme, banks and financial institutions are also subject to periodic audits of their operations.

The banks and financial institutions are also subject to periodic audits of their operations under the delegated authority scheme.

Our panel of insurers, which was refreshed and expanded this year, has been approved to facilitate our active portfolio management programme. We require all insurers, including general insurers and Lloyd's syndicates, to have a minimum A- equivalent credit rating and acceptable IT security arrangements. Exposure limits are established for each individual insurer. We remain vigilant to the impact of future events on the industry, particularly climate change. All UKEF panel insurers, either directly or via the Lloyd's market, have made long-term commitments to carbon reduction which exceed current regulatory requirements.

2022-23 Risk Performance

In 2022-23, the consequences of Russia's illegal invasion of Ukraine posed new challenges to a fragile global economy still recovering from the impact of Covid-19. Against this volatile backdrop, UKEF's portfolio faced pressure but fared well overall, while UKEF continued to issue significant levels of new business.

After the initial shock of this new war in Europe we were soon faced with the consequences: energy and commodity market disruption and rising prices which, combined with Covid-era policy stimulus, led to high inflation, rises in interest rates, and renewed pressure on cash flow and liquidity.

Nevertheless, UKEF saw an improvement in its portfolio weighted average credit rating from B+ to BB- (our level at the start of the Covid-19 pandemic; the chart opposite shows this in more detail).

But many corporates, and particularly sovereigns, took on more debt to get through the pandemic downturn, which they are now struggling to service given subdued cash flow, high inflation and higher interest rates.

There were more downgrades across our sovereign debtors compared to our corporate portfolio this year. But while there were more sovereign downgrades than upgrades during the year, there were fewer downgrades than last year: 24 compared to 29 in 2021-22.

We expect pressure on our sovereign customers to continue into 2023-24 due to continuing high interest rates and debt levels.

Portfolio trends

UKEF's continued portfolio growth, in issuing £6.5 billion of new business, has brought it close to its £50 billion commitment limit for the first time. At the end of 2022-23 HM Treasury raised this limit to £60 billion for 2023-24, alongside a commensurate increase to our risk appetite limit, from £5 billion to £6 billion.

Our portfolio has doubled over the course of 4 years, and we have largely maintained our portfolio credit quality throughout. This represents a significant success – for both UKEF and the exporters we support – and allows us to continue to grow our support for UK businesses as they navigate challenging operating environments.

Our portfolio limits – including for individual countries – are an important part of our exposure management framework. We are likely to continue to push up against them in the future, as we expect our current growth to continue, but we will always approach any expansion mindful of maintaining effective risk management, with appropriate controls and justification.

A major part of our growth has been through our Export Development Guarantee, which provides direct working capital support for UK exporters and offers slightly better risk quality than our overall portfolio (the average Export Development Guarantee portfolio rating is BB).

This has had the indirect benefit of making our portfolio more diversified geographically and across industries, which makes for more efficient use of our risk appetite limit. Our UK and Export Development Guarantee growth helped address a long-standing issue of regional concentration, with the Middle East share of our exposures falling from 49% in March 2020 to 25% in March 2023.

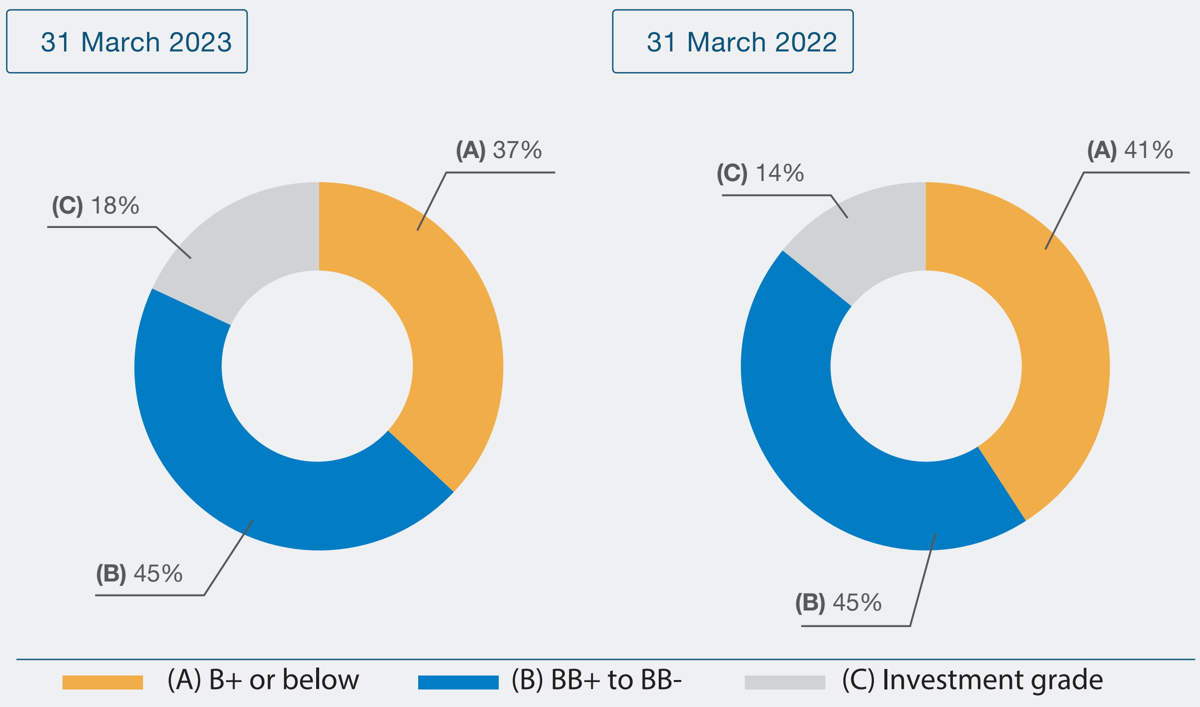
We have also seen very rapid growth in our short-term trade finance business, from a small base, through our General Export Finance product.

This is a delegated product: we operate through banks and other non-bank financial institutions, who administer controls on credit quality on our behalf (see the Governance Statement on page 109). And our obligors are mostly small businesses, with relatively small exposures.

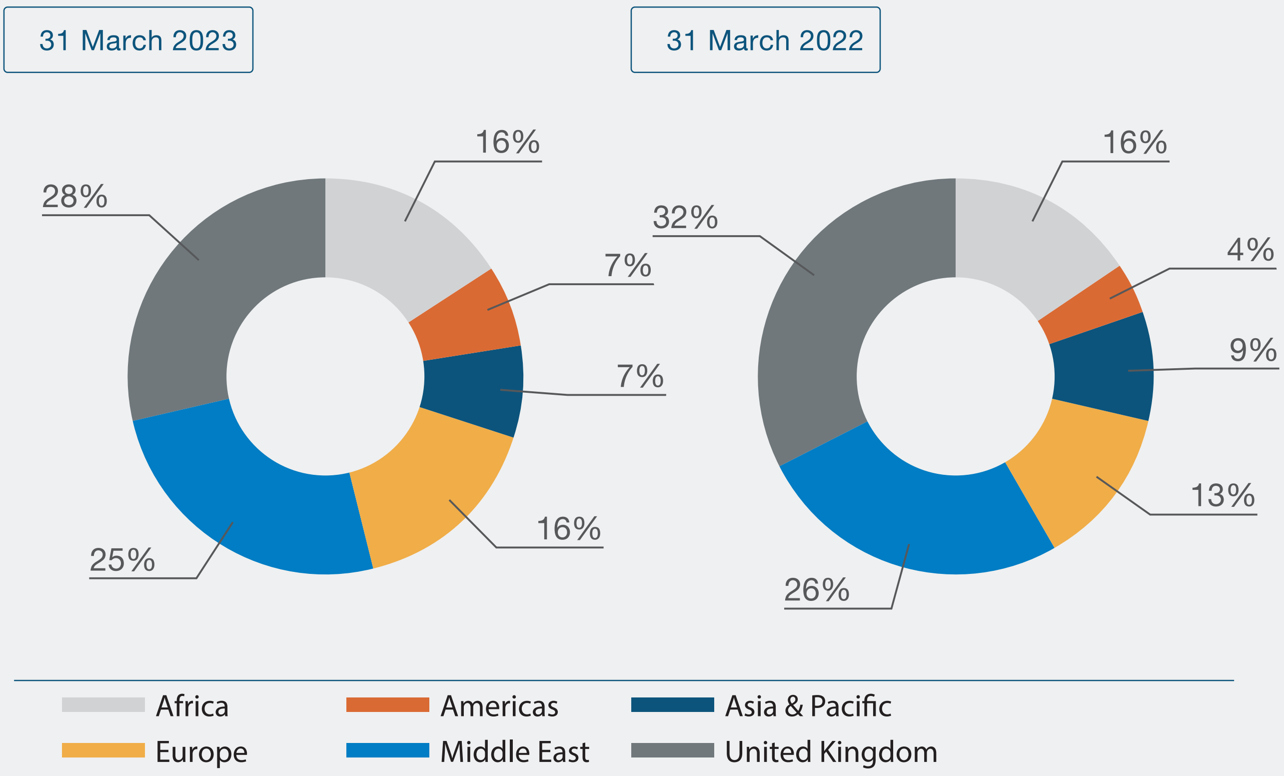
This brings benefits – extending our reach and impact across the UK economy and geographically. We recognise that it is important for UKEF to support more of these businesses, especially during difficult times. However, this also presents challenges from a risk management perspective.

Current higher interest rates are a major pressure for all corporates, but particularly SMEs, who have fewer options for accessing liquidity and may previously have benefitted from Covid-19 support schemes. This has already fuelled a rise in corporate insolvencies in official statistics through 2022. While we are starting to see some signs of distress and claims in our own portfolio, the current impact on UKEF has been limited.

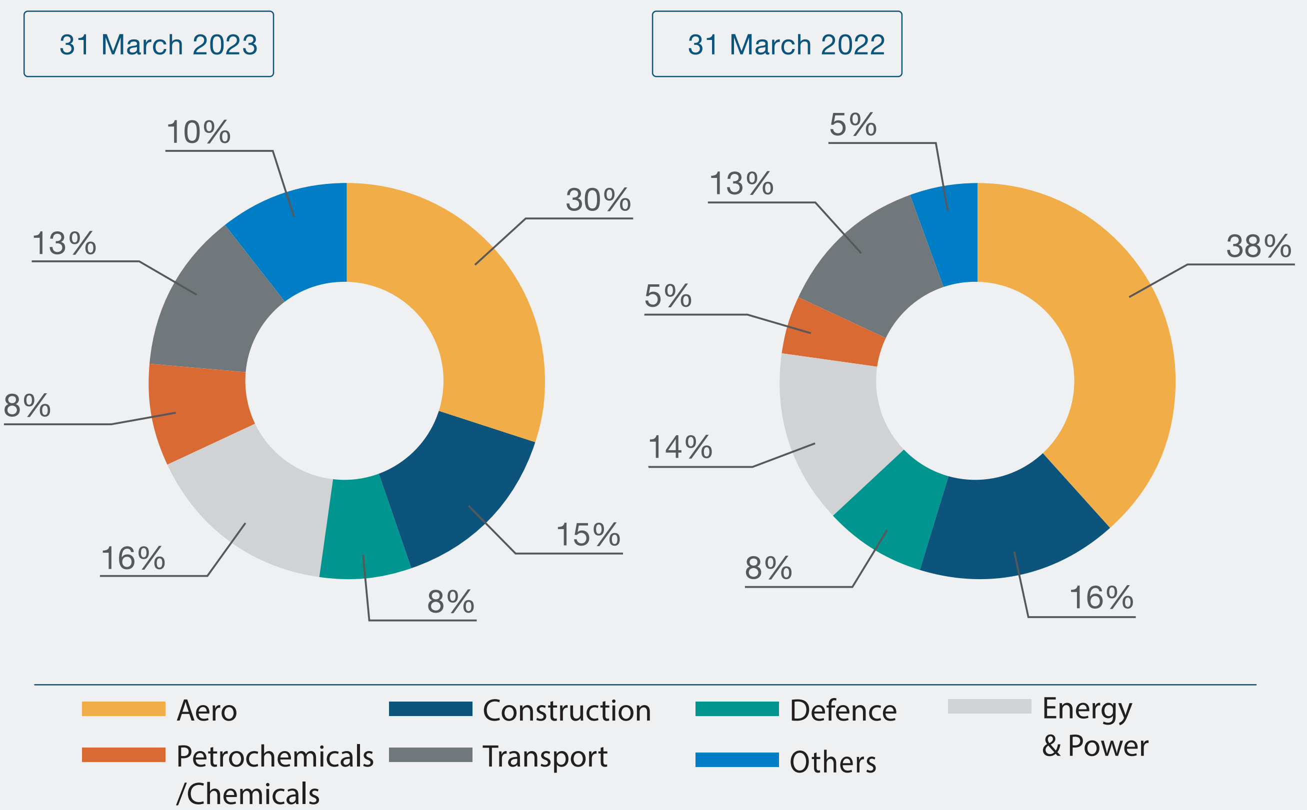
Amount at risk (net of reinsurance) by credit rating



Regional breakdown of amount at risk (net of reinsurance)



Sector breakdown of amount at risk (net of reinsurance)



Despite some positive trends in the overall portfolio, there is little room for complacency. The combination of ongoing geopolitical volatility, inflation, potential further rises in global interest rates and more recent question marks around the stability and liquidity (if not the capitalisation) of the global financial system requires close monitoring.

While we currently have no material direct exposure to Ukraine, the war could be a potential source of further destabilisation for the global economy and our portfolio. And the ongoing sovereign debt restructuring operations for Ghana, Sri Lanka and Zambia are likely to be the single most critical credit issue for UKEF over the next 12-18 months.

We anticipate increased negative credit rating pressure on some of our most indebted, stressed sovereign and SME obligors. We cannot rule out further defaults, with resulting claims and losses. The weighted average credit rating of the UKEF portfolio is expected to come under renewed pressure, despite its improvement this year, but may be offset by our UK-focussed Export Development Guarantee portfolio.

Finally, we are pleased to report that UKEF's Covid-19 Risk Framework has been performing satisfactorily. It has already seen run-offs and is expected to see more in 2023-24.

Claims

UKEF's support is often counter-cyclical. Support to our exporters carries on through the course of economic cycles, in a risk-contained manner. However, owing to the nature of our business, we do tend to pay more claims during tougher economic conditions – such as over the past 3 years.

Since April 2022, UKEF has continued paying claims on airlines that defaulted in the previous years (Air Asia X, Thai Airways, Avianca, Norwegian Air Shuttle and Malaysia Airlines Berhad).

In 2022-23, UKEF paid its first sovereign claims in Sri Lanka and Ghana following the countries' debt service suspension announcements in April 2022 and December 2022 respectively. We also paid a relatively small amount in corporate claims.

In 2022-23, UKEF has paid a total of 79 individual claims, amounting to a net outflow (net of reinsurance) of £122 million, using foreign exchange rates applicable at the time each claim was paid.

Of these, 56 were claims in the aerospace sector, 16 were sovereign claims and 7 were in other areas. The aerospace claims are all secured against aircraft that are the subject of the underlying financings. This materially enhances the possibility of recovering any claims paid.

This was demonstrated by the complete recoveries made in previous years (following the payment of claims) on LATAM, Comair, Thai AirAsia and Air Mauritius; and by the significant inflows of lease rentals from repossessed aircraft.

Claims outlook

The claims outlook is mixed across UKEF's portfolio. Claims in the aerospace sector are decreasing, while claims from sovereign and corporate exposure are starting to increase gradually, although they have remained lower than expected.

We anticipate paying out more sovereign claims for several years, due to the debt service suspension announcements by the governments of Sri Lanka and Ghana. However, the specific timing and scale of these payments will depend on the ongoing debt restructuring negotiations through the Paris Club (Sri Lanka) and G20 Common Framework (Ghana).

In some other key markets where UKEF has higher exposures, such as Turkey and Egypt, sovereign exposure are also vulnerable to negative rating pressure. But these represent only a small portion of the markets where we operate or actively rate.

The airline sector has rebounded strongly from the Covid-19 crisis, with passenger numbers in 2023 close to the 2019 base. The re-opening of China, a critical market for many South-East Asian carriers, has mitigated the threat of further claims. However, we cannot guarantee that the number of distressed obligors in the sector will remain static, given the potential longer-term impacts of Covid-19 and the war in Ukraine. The outlook for any individual obligors will be vulnerable to deterioration in macro- or micro-economic conditions.

Finally, while we do anticipate further defaults across the UK SME sector, to date, these defaults have been modest in both frequency and value.

Outstanding claims paid, provisions and impairments

UKEF has a strong track record of managing claims and recoveries across its portfolio.

Using experience gained from previous downturns, we quickly responded to the Covid-19 crisis by creating new teams and recruiting experienced staff to respond to new stresses. The Special Situations Division was formed in June 2020 to deal with the impact of the crisis on UKEF's aerospace portfolio and has successfully restructured 96% of that portfolio. The team work closely with TCFD colleagues on the emission target challenges (see page 100 and page 101) and with risk and underwriting colleagues in assessing new and emerging risks across the aviation sector.

Claims paid

Outstanding claims paid on the Guarantees and Insurance Account:

- 2022-23: £547 million
- 2021-22: £470 million

This change was due to ongoing payments on aerospace transactions and new payments on sovereign claims. However, some of these paid claims were partially offset by significant recoveries.

Historic sovereign exposure in Zimbabwe still makes up a considerable part of this total exposure at £296 million. The Government of Zimbabwe has been making token payments on its official sector debt (which is entirely in arrears). UKEF has been receiving small quarterly payments since autumn 2021.

We also still hold some outstanding claims, subject to recovery, on business issued and defaulted before 1991. Almost all of the £675 million of outstanding claims paid on this business (down from £725 million in 2021-22) refers to sovereign exposure subject to previous Paris Club restructuring agreements.

Provisions

Overall provisions on claims for Guarantees and Insurance Account business:

- 2022-23: £396 million
- 2021-22: £373 million

This increase was mainly on account of new sovereign claims, only in part offset by successful recoveries in the aerospace sector.

Overall provision amount for historic business issued before 1991:

- 2022-23: £537 million
- 2021-22: £551 million

Impairments

Impairments on Direct Lending Account:

- 2022-23: £59 million
- 2021-22: £38 million

This increase was mainly due to new impairments on Ghana following restructuring requests this financial year, on top of updated impairment allowances for our direct lending facility in Zambia and Ukraine.

Where objective evidence exists of an impairment loss arising from UKEF's direct lending portfolio, we perform a calculation to determine if an impairment loss should be recognised.

Finally, where it is practical and represents value for money, UKEF will restructure corporate debt to enable the obligors to continue to trade out of the crisis. By reviewing and responding to restructuring proposals in-house, we have been able to avoid defaults, minimise loss, and ultimately return greater value to the UK taxpayer over the longer term.

Recoveries

The recovery of claims payments is an integral part of UKEF's mission to operate at no net cost to the taxpayer over time.

Our experience is that periods of high claims activity are followed by long tail of recovery activity. Recoveries are realised in a wide variety of ways depending on the structuring of the original transaction.

Recoveries on **unsecured** transactions usually result from a restructuring and an amended repayment profile. Recoveries on **secured** financings may also arise out of the enforcement of security and realisation of proceeds to repay the claims payment.

Overall recoveries (on all accounts, both principal and interest):

- 2022-23: £125 million
- 2021-22: £117 million

Total recoverable claims (excluding interest on unrecovered claims):

- 2022-23: £560 million
- 2021-22: £534 million

The majority of recoveries related to aerospace claims and Paris Club recoveries.

UKEF received recoveries totalling £61.6 million under UK Paris Club debt agreements. £50.1 million of aerospace recoveries were completed in accordance with agreed rescheduling and final wrap-up of the relevant insolvencies. Recoveries relating to sovereign and corporate debt reschedulings made up the balance.

We expect recoveries from non-sovereign claims paid (mainly the remaining distressed assets in the aerospace portfolio in 2022-23) to take several years to materialise, as we trade, hold or sell assets according to value-for-money calculations which reflect current and future market conditions.

Aerospace recoveries

Of the 119 aircraft which were in insolvency protection at the height of the Covid-19 crisis in June 2020:

- 75 have been repaid or prepaid
- 30 have been successfully restructured

Of the remaining 14 aircraft:

- 9 have been repossessed and are either out on lease earning revenue or are contracted to go on lease in 2023-24
- 5 are in the process of repossession

The economics of each of the new leases should provide a full recovery of all claims paid out under the corresponding guarantees when the original airline failed.

The remaining 5 aircraft (4% of the original distressed fleet) are all A330-300 aircraft which are in the process of repossession from Thai Airways. We are confident that all claims payments will be recouped in full under the settlement agreement and through the leasing and disposal of the repossessed aircraft assets.

Aircraft repossessions	Status at 31 March 2023
6 Boeing 787-9 aircraft, repossessed from Norwegian Air Shuttle	2 aircraft on lease to Air Premia 4 aircraft due to go on lease to LATAM
2 Airbus A330-300 aircraft repossessed from Air Asia X	Leased back to Air Asia X on a restructured operating lease
1 Boeing 787-8 aircraft repossessed from Avianca	Leased back to Avianca on a restructured operating lease

Aerospace recoveries: long term

It is unlikely that all the aircraft UKEF is currently leasing out will remain on lease for the entire length of their respective leases. That is because the recovery strategy envisages an asset sale (with lease attached) to recoup claims paid.

Decisions on leasing or sale are made with the aim of making full recoveries in the long term, over the portfolio as a whole. This requires both a recognition of the likely market conditions and a means to achieve that recovery.

The aerospace market has a history of periodic sharp downturns, followed by recovery, then many years of upturn, before another periodic downturn. While the scale of the pandemic-induced downturn is unprecedented, UKEF has managed to mitigate almost all its exposure to insolvent airlines through negotiated settlements.

While the downturn in the aviation market caused by Covid-19 has been significantly worse than the aggregate of all previous crises, managing and mitigating credit risk taken on behalf of the taxpayer is one of UKEF's core functions, and we have demonstrated that we have the capability needed to respond to the situation.

We continue to manage the much smaller distressed fleet. This will continue over the next few financial years. To illustrate the historical timeframes, UKEF sold its last repossessed 9/11 aircraft in 2016, some 15 years after the crisis.

We have already successfully restructured 96% of our defaulted aircraft fleet and returned a total of £50.1 million in repayments and prepayments from airlines that have been in insolvency protection. Of the remaining distressed fleet, we hope to generate aggregate inflows of US $87 million in 2023-24 and US $130 million in 2024-25 (64% and 95%, respectively, of the claims payments made in those years).

We will select and target asset sales to completely extinguish our exposure where the price and conditions dictate.

Statutory limits

The Export and Investment Guarantees Act (EIGA) 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table below shows the statutory limits at 31 March 2023 and 31 March 2022 and the outstanding commitments against them.

	At 31 Mar 2023				At 31 Mar 2022			
	Sterling £m	Foreign currency SDRm	Sterling equivalent in SDRs SDRm	SDR total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent in SDRs SDRm	SDR total SDRm
Section 6(1) amounts								
Statutory limit		67,700	-	67,700		67,700	-	67,700
Total commitments	14,024	36,439	12,901	49,341	10,432	32,574	9,905	42,479
Section 6(3) amounts								
Statutory limit		26,200	-	26,200		26,200	-	26,200
Total commitments	-	-	-	-	-	-	-	-
Section 6(1) amounts								
Assets		-	-	-		0	-	0
Section 6(3) amounts								
Assets	-	-	-	-	1	-	1	1


620152 9
45G1
MAX. GROSS 32.500 KGS 71.650 LBS
TARE 3.850 KGS 8.490 LBS
NET 28.650 KGS 63.160 LBS
CU. CAP. 76.4 CU.M. 2.698 CU.FT.
CAUTION 9'6" HIGH

Environmental and social risk management report

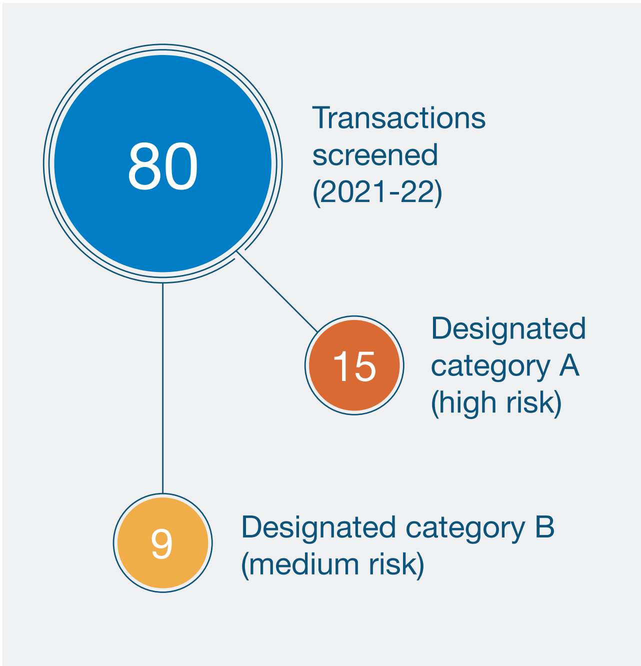
UKEF examines the environmental, social and human rights (ESHR) risks and potential impacts of cases it is asked to support and monitors ESHR performance in line with its ESHR Policy.[1]

We prioritise active collaboration with other financial institutions and export credit agencies (ECAs) regarding ESHR matters, to establish a level playing field and to promote and share good international industry practice across the finance sector.

UKEF's Environmental and Social (E&S) Division screens transactions to identify potential ESHR risks and impacts, and to determine their classification under the scope of the Organisation for Economic Cooperation and Development (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (2016 Revised) (the OECD Common Approaches) and/or the Equator Principles (2020).

In 2022-23, the E&S Division screened 80 transactions – an increase of 3% on the previous year.

Where we identify potentially significant project-related ESHR risks as part of the screening process, we designate the transaction as either category A (high risk), category B (medium risk) or not applicable for categorisation (NA). Where transactions are designated NA, we determine if ESHR risks warrant further assessment and due diligence in an appropriate and reasonable manner. In 2022-23, we designated 15 cases as category A, 9 as category B and 56 as NA.



Where applicable, we then carry out an ESHR review of these transactions and, where needed, put in place measures to make sure the cases become aligned to international ESHR standards. After

1. UKEF. Policy and practice on Environmental, Social and Human Rights due diligence and monitoring. September 2022. [www.gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring]

providing support, we monitor these transactions in a proportionate manner to make sure they remain aligned.

We typically take the International Financial Corporation's (IFC) Performance Standards on Environmental and Social Sustainability as our benchmark ESHR standards. They cover the following 8 topics.

Source: IFC[2]

These project-related standards are intended to represent good international industry practice. They are considered achievable anywhere in the world, using existing technology and at a reasonable cost, when the parties involved in managing and maintaining these standards demonstrate appropriate levels of commitment, capacity and capability.

They also require enough time to implement where gaps have been identified. Hence, in carrying out ESHR reviews, we emphasise early dialogue with exporters and other relevant parties to the transactions. The aim is to make sure that relevant projects and cases made possible by UK exports align with the applicable international ESHR standards, both before we provide our support and throughout the duration of that support.

To achieve this, we work with the relevant parties (project sponsors and UK exporters, for example) to:

- establish and clarify which areas of ESHR management may need improving to meet international standards
- help implement robust management systems that mitigate negative impacts and enable positive impacts

In reviewing ESHR matters, UKEF relies on:

- publicly available information

2. International Finance Corporation. Performance Standards. 2012 [https://www.ifc.org/content/dam/ifc/doc/2023/ifc-performance-standards-2012-en.pdf]

- information supplied directly by the project or relevant corporate entity
- industry and sector initiatives (for example regarding climate and human rights risks)
- dialogue with the ESHR and corporate teams at the project and/or exporter

UKEF assesses and documents these risks and our association with these matters in ESHR documentation (including screenings and reports for category A and B cases) and, where relevant, dedicated climate change and/or human rights reports.

In 2022-23, the E&S Division completed 56 screenings or assessments on cases other than category A or B projects. These included cases where UKEF's support formed Export Development Guarantees as well as support to the civil aviation or defence sectors, and small or short-term transactions. Each of these cases involved senior review and approval before deciding whether to provide financial support.

As well as ensuring operators reduce negative ESHR and climate change **impacts**, the E&S Division considers the ESHR **benefits** inherent to many of the proposed projects we review and monitor. These include:

- low carbon electricity from renewable sources
- enhanced education, health and well-being in communities where we have supported hospitals, health centres and schools
- improved availability of clean water and sanitation from water supply and wastewater treatment projects
- jobs, training and project-related economic growth

By implementing our benchmark ESHR standards appropriately and effectively, we can encourage operators to enhance these developmental benefits beyond the level that may be provided without UKEF's support.

Due diligence

Our ESHR and climate change due diligence and monitoring are carried out by UKEF's professionally qualified and experienced E&S Division, supported by counterparts in co-financing institutions and external E&S consultants, where appropriate.

During 2022-23 the E&S Division has grown to a total of approximately 13 full-time equivalent staff.

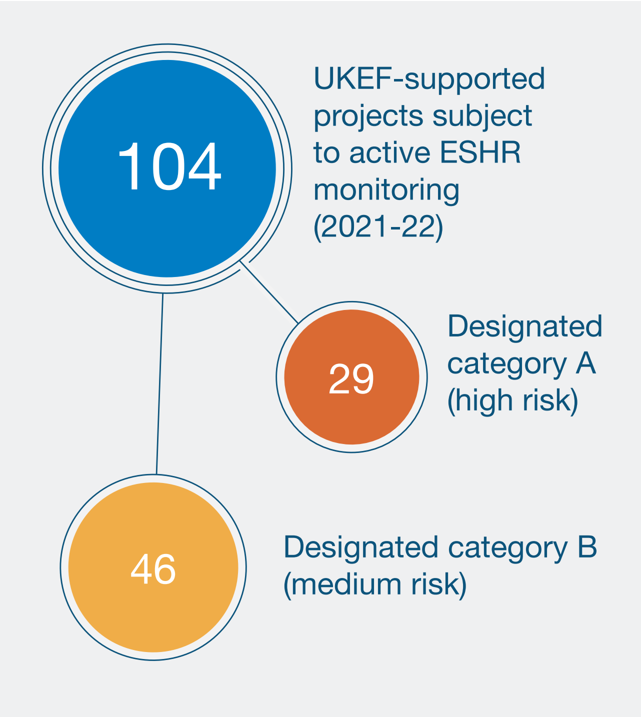
In 2022-23, UKEF worked with a wide variety of project developers and exporters to help them understand and effectively manage the ESHR risks associated with their activities. Additionally, the E&S Division has prepared and delivered E&S workshops to current and potential overseas borrowers in Türkiye, Benin and Saudi Arabia, where deeper understanding and additional capacity are expected to facilitate the potential provision of UKEF support in the future.

For details of the ESHR risk and impact categorisation of all cases which required a review under our ESHR policy, and for which we issued support during the year 2022-23, see our website.[3]

For examples of our work in action, see Our impact on page 32.

3. UKEF Environmental, social and human rights risk and impact categorisations, 2022 to 2023. [https://www.gov.uk/government/publications/eshr-risk-and-impact-categorisations-2022-to-2023]

Monitoring



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

Our monitoring commonly includes:

- reviewing self-monitoring reports produced by project developers
- following up on reported ESHR incidents
- commissioning independent environmental and social consultants to monitor projects on our behalf
- carrying out site visits, directly and with independent consultants

The level and frequency of our monitoring vary relative to the ESHR risks involved.

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

- promote positive health and safety behaviour, minimising accidents, injury and loss of life
- re-establish the livelihoods of people adversely affected by the project
- provide appropriate worker conditions, mental health awareness and adequate accommodation
- maximise energy efficiency and minimise CO_2 and related air emissions
- promote positive project and community impacts

The travel restrictions resulting from the Covid-19 pandemic limited physical site visits in some locations during some of 2022-23. We continued to use remote ESHR monitoring methods and applied good practice, including the Equator Principles guidance on the topic.[4] This guidance also includes suggested good practice for project sponsors and other lenders for this or future pandemics.

For a summary of cases where we are carrying out ongoing ESHR post-issue monitoring , see our website.

International cooperation

In support of UKEF's objective to establish a level playing field for all OECD exporters, we work alongside other ECAs at the Environmental and Social Practitioners' Group of the OECD Export Credit Group.

We are actively involved in setting the agenda, sharing experiences, leading and participating in working groups. We want to achieve consistency in ECAs' approach to ESHR risk management practices under the OECD Common Approaches.

In October 2021, the Equator Principles Financial Institutions (EPFIs) re-elected UKEF to a management support role on the Equator Principles Steering Committee. This is our 3rd term on the committee, after sitting twice between 2018 and 2020. This current role is anticipated to last for two 2-year terms (that is, until 2025), depending on EPFI voting.

In 2022-23, the E&S Division has been actively engaged in supporting initiatives to develop public guidance for EPFIs and other interested parties on conducting environmental and social due diligence and environment and social impact assessments. The aim of the guidance is to promote good international industry practice and a robust and consistent approach across EPFIs, related financial institutions, their advisers and borrowers. During 2022-23, 4 additional EP guidance documents were published.[5]

ESHR Policy review

UKEF continually reviews its policies and procedures to account for the rapid evolution of best practices, including the application of ESHR due diligence and monitoring.

Our review of our ESHR Policy continued in 2022-23. Over the year, the policy has been updated to better clarify our ESHR process and practice relating to humanitarian crises - for example, that related to reconstruction following the Russian invasion of Ukraine in February 2022.

4. Equator Principles. Guidance Note on Implementation of the Equator Principles During the Covid-19 Pandemic. June 2020 [equator-principles.com/app/uploads/Implement_EPs_during_Covid-19.pdf]

5. Equator Principles. Resources [equator-principles.com/resources/]

Task Force on Climate-related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board. It was tasked with developing recommendations for how organisations should disclose on their climate-related risks and opportunities through their existing reporting processes.

Introduction

In 2017, the Task Force published 11 recommendations for how organisations should disclose on their approach to climate change. The recommendations are structured around four thematic areas that represent core elements of how organisations operate:

- **Governance:** The organisation's governance around climate-related risks and opportunities
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning
- **Risk management:** The processes the organisation uses to identify, assess, and manage climate-related risks
- **Metrics and targets:** The metrics and targets the organisation uses to assess and manage relevant climate-related risks and opportunities

In 2021, UKEF became the first UK government department to make climate-related financial disclosures using the TCFD approach. We aim to build our alignment with the TCFD recommendations year-on-year and will continue to develop this in future years.

We report on a voluntary basis and will continue to exercise discretion in interpreting the TCFD Recommendations in the context of our disclosure. This reflects the fact that the TCFD Recommendations and in particular the Supplemental Guidance for the Financial Sector focusses on lending, insurance underwriting, asset management and investing activities, but not the issuance of guarantees, which represents the majority of our business. As both an export credit agency and a government department, UKEF's application of the TCFD recommendations requires UKEF to interpret and adapt the framework appropriate to its role and operating context.

Key disclosure milestones

2022-23

- Improved the data quality of our financed emissions estimate
- Set an interim decarbonisation target for our aviation sector exposure
- Improved our understanding of risk through climate-driven scenario analysis, for both sovereign and corporate exposure
- Further integrated climate change into our governance structure by introducing climate data dashboards that provide ongoing assurance and oversight

2021-22

- Integrated sustainability into our mission statement
- Published our Climate Change Strategy 2021-24
- Estimated our financed emissions for the first time and set interim decarbonisation targets for our exposure to the oil and gas, and power sectors
- Started to quantify risk through climate-driven scenario analysis, starting with sovereign exposures
- Implemented the government policy to end support for the fossil fuel energy sector overseas, and align support for the clean energy transition

2020-21

- Appointed new members with climate change expertise to our governance committees
- Established a Strategy, Policy and Climate Change (SPoCC) directorate

Governance

Our governance around climate-related risks and opportunities

Chief Executive Officer & Accounting Officer (CEO)

Responsible for the management of UKEF, including embedding consideration of climate change into our business

Executive Committee

The Chief Strategy and Impact Officer is responsible for the department's overall approach to climate change and sustainability, among other matters

Change Board

Authorised a TCFD Project to support further development of UKEF's infrastructure, systems and processes related to climate change

TCFD Project Board

Supports the Senior Responsible Owner in delivery of the TCFD Project

Enterprise Risk and Credit Committee (ERiCC)

Advises the CEO on the effective management of UKEF's enterprise and credit risk, including the potential financial impact of climate-related risks

Board

Supports the Accounting Officer in the management of UKEF, including through advice on its approach to climate change

Risk Committee

Advises on the adequacy of the strategic processes and framework for risk management, and on the design and operating effectiveness of the risk management framework, including on climate change

Audit Committee

Provides oversight regarding financial accounting and reporting, including on the approach to TCFD reporting

Export Guarantees Advisory Council (EGAC)

Advises the Secretary of State for Business and Trade and UKEF's CEO on the environmental and social impact of UKEF's operations, including the effectiveness of its policies on climate change and sustainability among other matters

UKEF embeds consideration of climate change across our business, and climate is integrated as a management issue within our governance. This facilitates the effective development and oversight of our annual TCFD disclosures.

The Executive Committee supports UKEF's CEO and Accounting Officer in the management of UKEF. The Executive Committee oversees UKEF's progress against its Climate Change Strategy through review of climate change management information, which it uses to inform related decision-making. In 2022-23, the Executive Committee considered 18 submissions on climate-related issues, ranging from decisions on our Sustainability Policy Statement to our engagement at COP27.

The Chief Strategy and Impact Officer is the Executive Committee member responsible for the department's approach to climate change. As climate change is a material issue across the department, other Executive Committee members are also responsible for integrating climate change into their areas of accountability. The Chief Risk Officer reports to the CEO and is responsible for integrating climate change into the department's risk management (see the Chief Risk Officer's report on page 58).

The Enterprise Risk and Credit Committee (ERiCC), chaired by the Chief Risk Officer, considers the financial and non-financial impact of environmental, social and governance (ESG) risks, including climate-related risks. Portfolio level monitoring, which includes climate-related stress testing and scenario analysis, is presented biannually to ERiCC and the UKEF Board's Risk Committee. Enterprise risk reports, which include climate change as a primary risk, are presented to ERiCC quarterly; these reports include an enterprise risk dashboard, a risk governance report, an operational risk report and a summary of assurance testing performed. ERiCC's ongoing oversight of UKEF's ESG risks, at both a portfolio and facility level, has also benefited from the introduction of the climate data dashboard, which includes a dedicated ESG risk view.

Other committees also support the management of climate change within their areas of responsibility. The Change Board-authorised TCFD Project, through which we delivered many of the enhancements to how we approach climate change, will conclude in financial year 2023-2024. The TCFD Project's Senior Responsible Owner has been the Deputy Director of Climate Change and Sustainability, who reported to the Change Board on the project's progress biannually. The Chair of the Audit Committee has been the Board's nominated non-executive director on the TCFD Project Board. We will continue to deliver our TCFD reporting annually, with the Deputy Director of Climate Change and Sustainability responsible for this on an ongoing basis.

The UKEF Board supports the CEO and Accounting Officer in the management of UKEF, including through advice on our approach to climate change. The UKEF Board and its committees considered 8 submissions on climate-related issues this year, including UKEF's Strategic Risk Register, which includes climate as a primary risk. In this case, the Board provided feedback on the mitigations, controls and contingency plans held by UKEF against each strategic risk. This year, the Board also received presentations on climate change and sustainability, which supported its ability to provide effective oversight of UKEF's climate-related risks and opportunities. The Audit Committee supports the UKEF Board in its supervision of the TCFD Project, specifically on elements relating to reporting. The Risk Committee advises on the implementation of TCFD from a risk management perspective.

The Export Guarantees Advisory Council (EGAC) advises the Secretary of State for Business and Trade and UKEF's CEO and Accounting Officer on the department's policy approach to climate change, alongside other environmental, social and ethical issues. The EGAC contributed to the development of our Sustainability Policy Statement and approach to COP27 as well as other areas (see the Export Guarantees Advisory Council report on page 102). EGAC's Chair also sits on the UKEF Board.

Strategy

The actual and potential impacts of climate related risks and opportunities on our business, strategy and financial planning

UKEF's Climate Change Strategy[1] lays out our ambition to support UK exporters and suppliers through the global transition to net zero and embed consideration of climate change into our business.

Net zero by 2050[2]

Strategic pillar	By increasing our support to clean growth and climate adaptation	By reducing our portfolio greenhouse gas emissions	By understanding and mitigating our climate-related financial risks	Through transparency and disclosure	By providing international leadership on climate change amongst ECAs and relevant financial institutions
Where to see our progress	Spotlight on clean growth (page 39)	Metrics and targets (page 91)	Chief Risk Officer's report (page 58) Environmental and social risk management report (page 77)	Task Force on Climate-related Financial Disclosures (page 82)	Doing Business Sustainably (page 38)

Our Climate Change Strategy provides a framework for identifying and assessing the climate-related opportunities and risks that UKEF faces over the short term (up to 2 years), medium term (2 to 10 years) and long term (beyond 10 years).

1. UKEF. Climate Change Strategy 2021-24. September 2021 [www.gov.uk/government/publications/uk-export-finance-climate-change-strategy-2021-to-2024]

2. Through implementing the pillars of our Climate Change Strategy, we will reduce our operational and portfolio greenhouse gas emissions to zero on a net basis.

	Short term +	Medium term +	Long term +
Climate-related opportunities	Help UK exporters and suppliers to win opportunities by increasing our support to clean growth and climate adaptation	Support the government's climate change objectives by reducing the contribution of UKEF-financed activities to climate change – domestically and internationally	Support the long-term transformation of the UK industrial base to prosper in a net zero global economy
Climate-related risks	UKEF fails to deliver its shift towards clean growth and climate adaptation	Physical and transition-related climate risks to the transactions UKEF supports increase unexpected losses in UKEF's portfolio	UKEF's operating environment does not enable transformation, of UKEF or the UK supply chain
Impact and management	The global market opportunity for UK businesses from the transition to net zero could be worth more than £1 trillion in the period 2021-30[3]. To seize this opportunity, we are strategically positioning UKEF to increase our support for clean growth and climate adaptation, through our focus on people and products We have begun to develop our capability by appointing Export Finance Managers and International Export Finance Executives in high-potential regions domestically and overseas We have set a target for 50% of our filtered origination pipeline to be in clean growth and climate adaptation on an ongoing basis We have created a dedicated Renewables and Transition underwriting team We are building capability for all staff by offering climate-related learning and development opportunities We have developed our product suite to better support clean growth and climate adaptation We can offer enhanced terms to transactions directly supporting clean growth Failure to realise this shift would impact our ability to deliver the goals set out in our Climate Change Strategy and our ability to attract and retain talent in the department	UKEF is committed to decreasing our portfolio greenhouse gas emissions over the medium to long term We have set a target of net zero greenhouse gas emissions from our operations and portfolio by 2050, as well as sectoral interim decarbonisation targets in the oil and gas, power and now the aviation sector We engage with our customers to reduce emissions in the projects we support, including requiring that the best available technology is used where appropriate and that lower carbon alternatives are considered To mitigate the risk of unexpected portfolio losses in the medium term, we have started to integrate consideration of climate change into our credit risk management processes Failure to fully understand and manage physical and climate-related risk in transactions we support could impact portfolio-level losses in the medium term	The long term success of UKEF's transformation is affected by factors beyond UKEF's control, including the policy and investment decisions of others, which will create the conditions in which the UK's low carbon economy can thrive. UKEF engages across government to support wider policy development to help UK exporters participate in the global race to net zero UKEF's own transformation is affected by our operating environment: for example, our ability to take on potentially elevated levels of technology risk in support of low-carbon innovation, as well as the appetite of banking partners for clean growth and transition-related transactions UKEF's international leadership on climate change supports our efforts to level the playing field among ECAs and relevant financial institutions at a high standard: for example, UKEF played a leading role in brokering agreement to the updated OECD Climate Change Sector Understanding Failure to realise this shift in the domestic and international operating environment would put UKEF and UK exporters at a competitive disadvantage in the global race to net zero

3. Department for Energy Security and Net Zero. Review of Net Zero. January 2023. [www.gov.uk/government/publications/review-of-net-zero]

Next year we will develop a new Sustainability Strategy as the successor to the Climate Change Strategy, which ends in 2024. As part of that process, we will consider what additional measures we can take to maximise climate-related opportunities and mitigate risks, to support delivery of UKEF's mission.

Scenario analysis

Climate-related scenario analysis helps us to assess the resilience of our strategy. Our exposure to climate-related financial risk is determined by the composition of our portfolio, which includes material volumes of legacy business that predate our Climate Change Strategy, and by external factors, including the speed and orderliness with which the net zero transition is realised globally and in geographies and sectors to which we are exposed. Our portfolio's evolution will be influenced by factors including government policy, the industries and sectors we support, the locations of the end buyers and projects, the product types used and the time horizons of exposure.

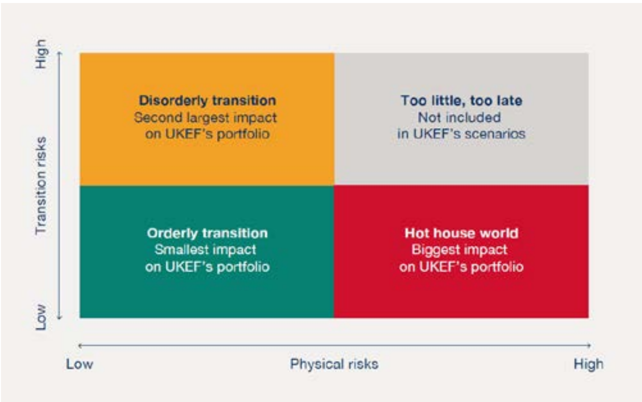
We currently run climate-driven stress tests on our portfolio twice a year, using three climate-related scenarios with a time horizon to 2050. These scenarios are consistent with those of the Network for Greening the Financial System[4] (NGFS) and the approach is consistent with that used in stress testing exercises by the Bank of England. This year, we developed bespoke models for climate change stress testing. These models generate climate adjusted risk ratings for our sovereign and sectoral exposures, which are then inputted into our portfolio risk estimation model to estimate the potential financial impact on our portfolio.

The broad result of our climate-related portfolio stress testing suggest stress on our portfolio under each scenario, with the Hot House World scenario generally having the highest impact across time-horizons. Stress to our portfolio arises from both physical and transition climate change risks. Transition risk primarily drives changes in risk ratings in the Orderly and Disorderly Transition scenarios; physical risk drives changes in risk ratings in all scenarios, especially the Hot House World scenario.

Sources of climate-related credit risk

- **Physical:** impacts on buyers and projects directly resulting from the acute shocks (extreme weather events) and chronic stressors (changes in average weather) that climate change causes
- **Transition:** impacts on buyers and projects resulting from policy, legal, market and technological shifts associated with a transition to a low carbon economy

Factors driving downgrades in climate-related scenarios include dependence on fossil fuels, lack of transition planning towards a low carbon economy and exposure to physical climate hazards. These results are reported to ERiCC, UKEF's Risk Committee and to HM Treasury as part of our risk management process.



Results of UKEF's climate-related portfolio stress testing, based on NGFS scenarios

4. NGFS. Scenarios. [www.ngfs.net/ngfs-scenarios-portal/]

Scenario analysis can help us to understand how implementing our strategy may lead to changes in our portfolio risk, which we can respond to by implementing appropriate mitigations. For example, it can help us to better tailor our strategies for different global regions depending on the different climate-related risks and opportunities they present.

Scenario analysis can also inform transactional decision-making by providing a high-level view of the climate-related risks and opportunities across sectors and regions. This supports informed engagement with customers on individual transactions.

Like many of our peers, we continue to develop our scenario analysis and integrate it into our strategy.

Risk management

The processes we use to identify, assess, and manage climate-related risks

Over recent years, we have started to broaden and deepen our approach to risk management to understand and respond to the financial and non-financial risk that climate change poses to the global economy, UKEF, our portfolio and ultimately the UK taxpayer.

Both physical and transition-related risks are important risk drivers for UKEF – at a transactional level and in aggregate at portfolio level. Approaches to quantifying these risk drivers are still being developed across the financial sector. We are engaging closely with peers and external partners on developing approaches to climate-related risk quantification; and building our understanding of climate-related risks over time.

Financial risk

Climate change can have a direct financial impact on UKEF and its customers through its effect on insurance underwriting, credit, financial, market and operational risks.

UKEF's purpose and portfolio is different to many of our banking partners'. Demand for UKEF support is generally counter-cyclical, our exposure is heavily weighted towards guarantees and insurance; and our counterparties include a large proportion of sovereign emerging market customers. Methodologies for assessing climate-related financial risk for these customers and product types are still largely in initial development across the financial industry. We are working towards better quantifying our climate-related financial risk exposure as developing methodologies and data allow, and we will continue engaging with financial sector peers to support this. Our Climate Change Strategy sets out the ways we are building our understanding and approach to managing these climate-related financial risks, including:

- integrating climate change and other ESG risks into our credit risk assessments for all our products
- looking at new data sources and research as they become available and more standardised, with the aim of making our analysis of climate change risk more quantitative
- using climate-related scenarios to undertake stress-testing and scenario analysis of financial exposures and incorporating these into portfolio risk management processes and reporting
- updating our approach to assessing the financial implications of climate change, keeping up to date with industry best practice

Our approach to identifying and assessing transaction-level climate-related financial risk is based around the relevant counterparty. This year, we standardised the ESG and Climate Change section in our sovereign review template to ensure a more consistent and structured approach. ESG and climate change risks will be given explicit scores for different sovereigns, which in time (and alongside industry developments related to data and rating methodologies) will allow the consistent reflection of climate change risk in sovereign ratings.

For corporates and financial institutions, we continue to refine and embed the approach to integrating climate-related considerations into credit risk analysis, for all medium and long-term transactions.

For more detail on our integration of climate-related financial risks in credit risk assessments, see the Chief Risk Officer's report on page 58.

Identifying, assessing and managing ESG and climate change credit risk

1. All medium and long-term transactions are reviewed individually in line with UKEF's policies and procedures. Short-term and delegated transactions are managed through our risk management frameworks

2. Transactions which require an additional ESG and climate change credit risk assessment are identified based on established criteria, including whether there are net zero, adaptation, transition or other plans

3. Information is collected, including through customer engagement where appropriate

4. An ESG and climate change credit risk assessment is made and integrated into the credit risk assessment, with additional internal assurance and sign-off where needed. This ensures that climate-related financial risks are considered in capital structure, tenor and collateral

5. The assessment is submitted to ERiCC where appropriate and considered by the decision-maker alongside all other relevant factors

Non-financial risk

Non-financial risks can also result in credit risks and possible financial losses. Climate change is also a source of non-financial risk and impact, both on UKEF directly and the transactions it supports. At a transaction level, we mitigate these risks and impacts primarily through our environmental, social and human rights (ESHR) policy and practices, which have evolved over recent years to strengthen our approach to climate change, proportionate to risk and impact, and to our exposure.

Identifying, assessing and managing non-financial climate-related risks and impacts

1. All transactions are screened for climate change risk and impact either at product level, through delegated financial institutions or directly by the E&S team
2. Where relevant, the E&S team determines whether further assessment is required and to what extent
3. If more assessment is required, the E&S team assesses the relevant aspects of a project, supply or company which may add to global emissions and/or may be affected by physical or transition risk
4. Recommendations may be provided to reduce climate-related risks and impacts
5. The assessment is internally assured and signed off, with additional external assurance or input where appropriate
6. The assessment is submitted to ERiCC where appropriate, and considered by the decision maker alongside all other relevant factors
7. After approval, transactions are monitored for performance against action plans, including emissions reporting commitments

For more detail on our consideration of climate change risks and impacts in transactions, see the Environmental and social risk management report on page 77.

We recognise that other environmental and social issues can have strong interdependencies with climate change. For example, there is a critical social dimension to the global economic transition. When considering support, we view these factors primarily through the lens of international good practice on social and human rights practices. We work actively with partners in country to improve understanding and performance on these issues.

Similarly, biodiversity and other environmental issues are managed primarily through our transaction-level ESHR framework. We noted with interest the outcomes from the United Nations Convention on Biological Diversity 15th Conference of the Parties (COP15) and will continue to monitor the development of the Taskforce on Nature-related Financial Disclosures framework, the International Sustainability Standards Board sustainability disclosure framework and the UK's Transition Plan Taskforce Disclosure Framework. We will continue to engage with peers and stakeholders to integrate emerging good practice into our processes as appropriate.

Metrics and targets

The metrics and targets we use to assess and manage relevant climate-related risks and opportunities

Understanding the emissions associated with our portfolio is key to UKEF's strategic commitment to reaching net zero operational and portfolio greenhouse gas emissions by 2050. Tracking our progress towards this goal is an important way for us to understand our management of climate-related risks and opportunities.

UKEF's operational emissions stem largely from our office footprint and emissions associated with business travel (information on this is reported in Sustainability of our estate on page 212).

As a financial institution, the emissions associated with the transactions we support (collectively referred to as our portfolio or financed emissions) are by far the more material.

Financed emissions

Our estimates of financed emissions are based on climate data, models and methodologies which are still evolving and not yet at the same standard as more traditional financial metrics. Publishing estimates in this environment carries the risk that metrics will need to be updated to reflect subsequent advancements in climate-related data, modelling and methodologies

Last year we were the first ECA to publish a portfolio-wide estimate of our financed emissions. We produced our first estimate using an innovative approach which was model-based and applied broadly from the Partnership for Carbon Accounting Financials (PCAF) Global Greenhouse Gas Accounting and Reporting Standard for the Financial Industry. We continue to use the same approach this year, disclosing financed emissions based on both amount at risk and on expected loss.

This year we became a PCAF signatory and have continued to focus on improving the data quality of our financed emissions estimates (for more information on PCAF see note 1 on page 101. On the basis of this work, which has included a significant reduction in our reliance on conservative, modelled information we have rebased our January 2022 financed emissions estimate. We explain this further on page 94.

Our performance against sectoral decarbonisation targets this year is within our expectations for UKEF's decarbonisation pathway although we have seen year-on-year growth in UKEF's portfolio-wide financed emissions (as rebased).

This trend reflects our role supporting UK sectors hard hit by the Covid-19 pandemic such as aviation, the time it will take for fossil fuel transactions entered into prior to the government's policy on aligning UK international support for the clean energy transition to mature, and variations in deal flow.

Methodology

PCAF provides accounting standards for financed emissions by 'asset class'. It is based on the principle that financed emissions are a function of the supported entity or project's emissions and an attribution factor based on the relationship between the outstanding amount loaned and the entity or project's total value. Each transaction-level estimate therefore represents the proportion of the entity to which UKEF is a lender, guarantor or insurance provider at a point in time.

However, as previously stated, methodologies for export credit insurance and guarantees are currently undeveloped in the PCAF Standard. As an ECA with a portfolio materially weighted towards guarantees, we do not consider it appropriate to only attribute emissions from our guarantees when the guarantee is called, as set out in the PCAF Standard.

In view of this, we have estimated our financed emissions using two methodologies: expected loss and amount at risk (the PCAF approach for loans). For our expected loss estimate, emissions are attributed based on the product: for direct lending using the amount at risk and for guarantees and insurance using their expected loss. For our amount at risk estimate, emissions are attributed to each transaction based on the full amount at risk.

The expected loss estimate is an attempt to better represent the economic role that export credit insurance and guarantees play in transactions. This approach is more consistent with our approach to understanding and managing the risk associated with our guarantee and insurance portfolio. Because it is a risk-based approach, the resulting estimates are affected by changes in the risk profile and financial performance of a given transaction, so year on year changes in the estimate will be due to factors additional to changes in emissions. This approach supports the reduction of double counting of emissions between financiers, which in aggregate should support a more accurate global picture of financed emissions.

Our financed emissions are calculated by taking a snapshot of our portfolio in January 2023. (Note that we estimate our financed emissions on a calendar year basis and therefore estimates do not mirror the financial year statements referenced elsewhere in the Annual Report and Accounts.)

We continue to work with our peers to support the development of a global financed emissions disclosure standard applicable to common ECA product types such as guarantees.

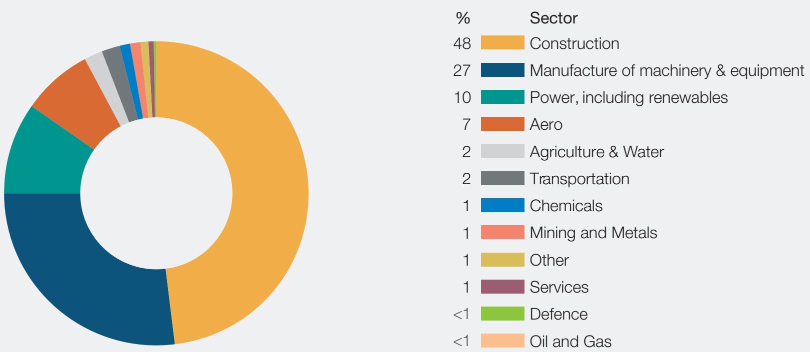
Rebasing and year-on-year emissions performance

Last year we estimated our emissions as at January 2022 to be 3.8 $MtCO_2e$ on an expected loss basis. In making significant data quality improvements this year by replacing previously modelled estimates with higher quality estimates or reported emissions from customers and by using a new data provider, we have seen a significant reduction in estimated emissions. (Data quality is discussed further on page 96.)

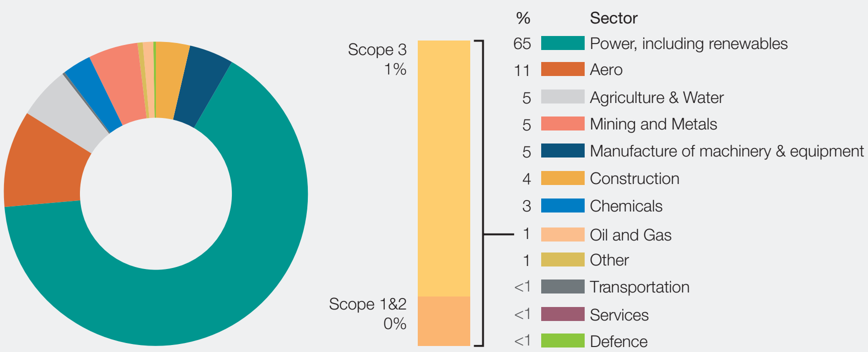
In line with good practice we have revised that baseline estimate to 1.05 $MtCO_2e$ which represents a 71% decrease.

This year, however, absolute financed emissions increased to 1.07 $MtCO_2e$ on an expected loss basis (see chart below). The factors driving this change are explained below.

Sectoral distribution of expected loss at January 2023



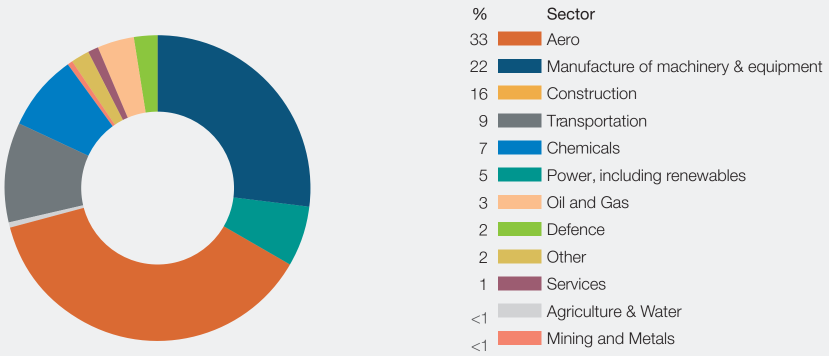
Sectoral distribution of UKEF's financed emissions at January 2023
- attribution by expected loss (1.07$MtCO_2e$)



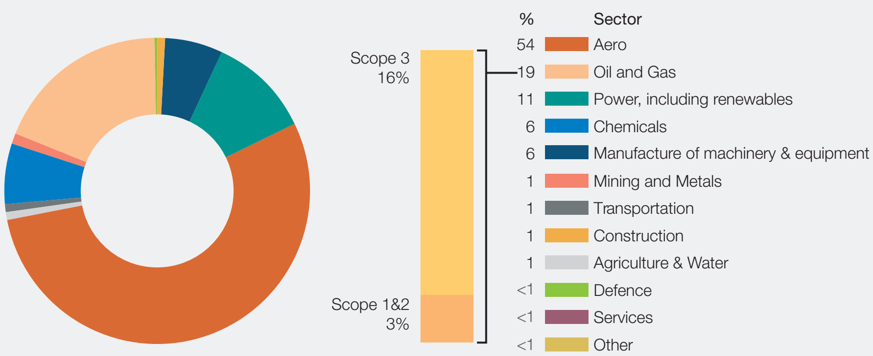
Sectoral distribution of UKEF expected loss and financed emissions at January 2023

Last year we estimated our emissions as at January 2022 to be 15.7 $MtCO_2e$ on an amount at risk basis. We have revised that baseline estimate to 6.92 $MtCO_2e$ which represents a 56% decrease. This year, absolute financed emissions increased to 10.83 $MtCO_2e$ on an amount at risk basis (see chart below).

Sectoral distribution of amount at risk at January 2023



Sectoral distribution of UKEF's financed emissions at January 2023
- attribution by amount at risk (10.83$MtCO_2e$)



Sectoral distribution of UKEF amount at risk and financed emissions at January 2023

The majority of year-on-year growth in absolute financed emissions is due primarily to our existing aviation customers returning to pre-pandemic levels of activity. The section on Portfolio Decarbonisation within Metrics and targets sets out more detail on our approach to aviation sector decarbonisation.

The remainder of the year-on-year changes in absolute financed emissions were driven by:

- new transactions, with additional absolute emissions
- existing business on our books moving into operational from construction phase, with an associated increase in emissions
- financial changes, including changes to interest rates affecting attribution factors

These factors were not offset by amortisation of existing business, leading to an absolute increase in financed emissions.

The expected loss and amount at risk estimates have increased to different extents because the expected loss approach is risk-weighted and therefore affected by the risk profile of the portfolio, in addition to the other financial changes which affect the amount at risk estimate.

Data quality

Carbon accounting is still at a relatively early stage of maturity in the financial industry and a number of institutions have recalculated baselines estimates. This year UKEF has made significant progress in improving the data quality of our emissions estimates, as we committed to doing in our 2021-2022 disclosure. The key factors driving changes were:

- Replacing previously modelled estimates with higher quality estimates or reported emissions from customers wherever possible. This has reduced our weighted PCAF data quality score from approximately 4.5 to 3.3 (see box below)
- Using a new data provider - the PCAF Database - to model sector-based emissions estimates, where we do not have reported data

Environmentally-extended input-output modelling

- Because emissions reporting is not yet required routinely across all economic activities in all geographies there are historic data gaps for UKEF's and many of our peers' portfolios
- To fill these gaps, financial institutions can use environmentally-extended input-output models such as that provided by the PCAF Database, to derive sectoral emissions-factor based estimates
- This approach allows an institution to estimate, in broad terms, the financed emissions that arise from support provided to a given economic activity within a given geography
- This approach is limited in its accuracy because it is based on abstractions which may not hold true for any given transaction
- The PCAF Standard sets out a data quality framework, ranging from 1 to 5, with 1 being the highest data quality and 5 being the lowest. For example, input-output modelled estimates have a data quality score of 5, while reported and verified emissions have a score of 1
- For more information on data quality see Partnership for Carbon Accounting Financials (PCAF) Global Greenhouse Gas Accounting and Reporting Standard for the Financial Industry, 2022, available at <https://carbonaccountingfinancials.com/>

In line with good practice, we have recalculated our baseline financed emissions estimates in response to these changes in the underlying data. This has had a significant impact on our estimated financed emissions, as described above.

In producing these estimates, we continue to face data quality issues common across the market:

- We use a combination of reported and modelled data to estimate our financed emissions. Our financed emissions estimates have a weighted PCAF data quality score of approximately 3.3 out of 5 on an amount of risk basis, which means they are still highly reliant on assumptions and extrapolations at sectoral level. However, our score last year was 4.5 reflecting our greater reliance on sectoral models. (See box for more information on limitations of the environmentally-extended input-output modelling approach)
- We rely on external sources for climate-related data. The quality and accuracy of data varies widely between sources and between that available for individual transactions. Common issues include: low resolution, consistency and transparency of company reported data, poor sectoral coverage and material time lags between emissions and financial data. Due to these issues, our financed emissions estimates are a high-level estimate of our customers' activities for a given time period, using the data available at that point in time
- Any inaccuracies in our internal data also feed through into estimates. Data limitations mean it is necessary to use judgement in estimating financed emissions. The available emissions factors in many cases do not align directly with the specific economic activity supported. There is also known inconsistency between sector assignation, which impacts estimates
- Estimates comprise our customers' **Scope 1 and 2** emissions for all sectors, as well as modelled estimates for customers' **Scope 3** emissions for the oil and gas sector, and mining and metals, in line with the PCAF Standard. Customers' modelled Scope 3 emissions are upstream only, reflecting data availability and restrictions of the environmentally-extended input-output modelling approach
- The resulting estimates are highly susceptible to variation year-on-year as customers' own practices in emissions estimation and reporting develop over time
- Few ECAs as yet are reporting under TCFD and there is limited experience in the market of how to assess ECA financed emissions and the characteristics of ECA portfolios given their roles in the provision of financial products

Scope 1	Direct emissions from our own or controlled sources
Scope 2	Indirect emissions from the generation of energy we purchase
Scope 3	Indirect emissions (excluding Scope 2) from our value chain, including upstream and downstream

In line with good practice, we may recalculate our baseline estimate again in future, as data quality and availability improves. Where estimates are rebased, this will be explained as we have done this year, to allow comparison between reporting periods.

Going forward we expect to decrease reliance on environmentally-extended input-output modelling as we collect more accurate transaction-specific emissions data from customers.

This is an area where methodologies and data are evolving quickly, and we are reliant on the further development in greenhouse gas emissions reporting practice to continue improving the data quality of UKEF's estimates. As a PCAF signatory we will continue to work with industry peers and partners to enable further improvements in data quality and consistency of methodologies.

Portfolio decarbonisation and sector pathways

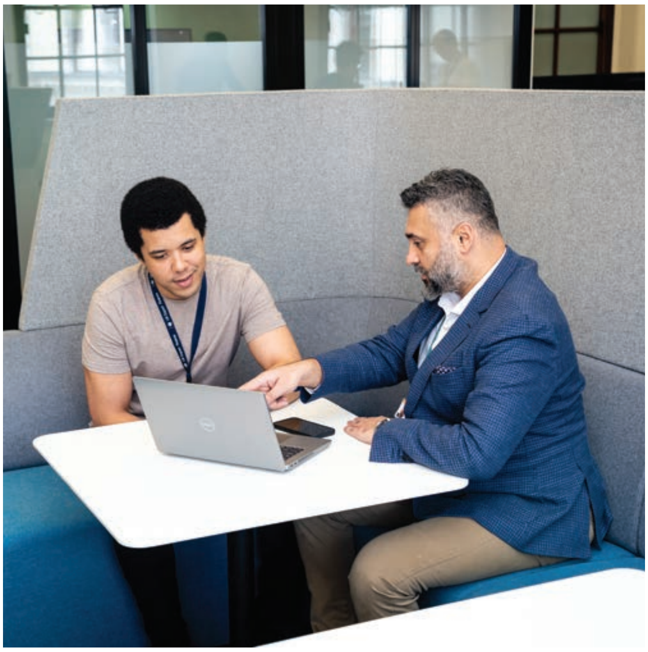
UKEF's purpose is to support UK exporters and suppliers. UKEF steps in to enable UK exports where the private sector alone cannot provide support. The business that we do is determined by our demand-led mandate and dependent on the economic context in which we operate.

UKEF is also committed to reducing our financed emissions to net zero by 2050, in line with the government's broader commitment to decarbonisation at home and abroad. As set out last year, we do not expect our progress towards our decarbonisation targets to be linear in the short to medium term, in view of our Covid-19 related activity and as existing projects on our books that are currently in construction come into operation, transactions are restructured, and our progress tracks the non-linear decarbonisation of the global economy. This is likely to result in a more volatile year on year emissions profile than for private actors who do not have the same role and purpose.

Our 2022 disclosure identified three sectors as the most material in terms of our overall emissions exposure: power, oil and gas and aviation. Last year, we set interim sectoral decarbonisation targets for our exposure in the power and oil and gas sectors. While our January 2022 starting point for these targets has been rebased through data quality improvements, the target levels themselves remain the same, in line with the trajectory of emissions reductions set out under the International Energy Agency's (IEA) net zero scenario.

Our progress so far against our oil and gas and power sector exposure targets is within the expected range of UKEF's decarbonisation pathway. We have done no new oil and gas sector business this year. We expect that emissions from our oil and gas exposure will continue to increase in the short term before they decrease in the medium to long term, as legacy transactions move into operations before amortising.

Financed emissions reduction target: oil and gas sector exposure	Financed emissions reduction target: power sector exposure
-75% tCO_2e by 2030	-58% tCO_2e/£AAR by 2030
Change against baseline in 2023	
+7% tCO_2e	-31% tCO_2e/£AAR



The increase in absolute financed emissions from our oil and gas exposure this year is a result of financial changes within existing transactions in our portfolio, including currency fluctuations and changes to interest rates affecting attribution factors. Conversely, the large decrease in the financed emissions intensity of our power sector exposure is due to additional renewables business in the power sector. However, we also expect financed emissions intensity of power sector exposure to increase and decrease year-to-year as deal-flow fluctuates, trending downwards in the medium to long term.

Year-on-year changes to our financed emissions can be influenced heavily by factors other than emissions in the transactions we support. Medium to longer term performance trends will be a more useful measure of our progress towards decarbonisation. Our transition away from the fossil fuel energy sector overseas will continue to be driven by our implementation of the government's policy on aligning UK international support for the clean energy transition.

We are also now setting an emissions intensity-based decarbonisation target for our aviation exposure, based on the IEA Net Zero Scenario. Our ambition is to reduce the economic emissions-intensity (tCO_2e/£AAR) of our aviation exposure by 35% by 2035, based on our emissions estimate as at January 2023.

Financed emissions reduction target: aviation sector exposure

-35% tCO_2e/£AAR by 2035

Aviation is a highly material sector for a number of ECAs including UKEF – both in terms of our financial exposure and the associated financed emissions. The aerospace sector is also important to the UK economy. It provides over 120,000 highly skilled jobs, most of them outside London and the southeast. It has an annual turnover of £35 billion, the majority of which comes from exports to the rest of the world.

Aviation is widely recognised as one of the most difficult sectors to decarbonise, primarily due to its reliance on energy dense liquid hydrocarbon fuels, long aircraft lifetimes, and the anticipated lead times for economically viable zero emissions aviation solutions to be available at scale. Because of these challenges relative to other sectors, aviation is expected to become one of the highest emitting sectors globally by 2050 as easier to abate sectors reduce their emissions and as clean technologies grow.

This means that decarbonising UKEF's support for the aviation sector will be challenging. Given UKEF's purpose, it will also depend to a significant extent on progress towards decarbonising aviation activity in the real world. Our target reflects the rates of aviation activity and decarbonisation expected under the IEA Net Zero Scenario, consistent with the basis of our oil and gas and power sector targets. In this scenario, a significant proportion of aviation decarbonisation is delivered through the use of sustainable aviation fuel;

efficiency improvements and zero emission flight technologies also play a key role.

UKEF provided critical support for the aerospace sector in response to the Covid-19 pandemic, increasing materially our exposure in the sector. We anticipate continued demand for our support as the aviation sector continues its recovery from the economic impact of Covid-19. However, we are committed to maximising the impact our support for the sector has in achieving decarbonisation objectives. We aim to deliver this by engaging with customers and partners, by supporting enabling technologies, and through development of our products to respond to and incentivise our and our customers' transition strategies.

Engaging with customers and partners

Our ambition to achieve a reduction in the economic emissions-intensity of our aviation exposure by 2035 will allow us to make a substantive contribution to real-world aviation decarbonisation in this time period, by working closely with industry partners and other government departments to spur progress.

Given its position as one of the most difficult to abate sectors in terms of emissions, it will be critical for the industry and for actors across the aviation transport system to invest significantly in a range of methods to lessen its impact on climate change. We remain committed to working with aerospace customers and their supply chain and infrastructure providers to help decarbonise the sector and support delivery of customers' own emissions reduction commitments.

The government's Jet Zero Strategy[5] sets out how it will spearhead international action on aviation decarbonisation. Working closely with partners to implement Jet Zero will facilitate the achievement of our target, as well as creating new domestic jobs, industries and technologies which UKEF can help export around the world.

Aviation is a truly global sector and international collaboration will be critical to realising decarbonisation at pace and at scale. We will continue to work closely with international partners to catalyse this.

This year UKEF helped to broker international agreement on modernising the OECD Arrangement and reviewing the Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects Sector Understanding (CCSU). Modernising the terms that OECD Arrangement Participants can offer customers in these sectors will help to deliver the enabling infrastructure needed to accelerate decarbonisation globally across sectors, including aviation. We are also continuing to engage with partners on the OECD Aircraft Sector Understanding (ASU), including whether modernisation could enable the ASU to better encourage aviation sector decarbonisation.

Our support for enabling technologies

The area where we can make the most difference to accelerating real world decarbonisation may be in our support for enabling technologies, the scaling of sustainable aviation fuel supply and our support for increasingly efficient aircraft.

As indicated by the IEA Net Zero Scenario, the scaling of sustainable aviation fuel supply in particular is a key challenge that will be critical to decarbonising aviation activity globally. The government has set out its vision to establish the UK as a global leader in the development, production and use of sustainable aviation fuel. UKEF is working in partnership with other government departments to deliver its vision for aviation decarbonisation. Our support for

5. Department for Transport. Jet Zero Strategy. August 2022. [www.gov.uk/government/publications/jet-zero-strategy-delivering-net-zero-aviation-by-2050]

enabling technologies will be a key lever to delivering real-world decarbonisation.

These will all be areas of continued focus for UKEF, consistent with our commitment to increasing UKEF support for clean growth. We are developing a Sustainability Strategy to help guide our approach to this and other strategic sustainability issues, alongside UKEF's next Business Plan.

Our products

We keep our product suite under review, and continue to develop our product offering to respond to exporters and suppliers sustainability strategies and targets so we stay globally competitive and consistent with our strategy and mission. This will include looking at the products available to customers in the aviation sector and how they can best incentivise our and customers' and our own decarbonisation ambitions.

Recognising the dynamic nature of technological progress and the wider economic context, we will keep this target under review. For example, we have not set a physical-activity emissions intensity target because sufficiently granular data is not yet reported consistently enough to allow monitoring across all segments of our portfolio, which includes guarantees for the purchase of individual aircraft – including where the lessor is not the operator – as well as support directly to airlines. However, we will consider moving to a physical activity emissions intensity target as data quality and availability evolves.

Increasing standardisation of emissions reporting metrics by industry will be fundamental, and we will continue to engage with industry and relevant initiatives to encourage progress on this.

Other metrics and targets

Portfolio emissions are just one way to understand the department's impact on climate change and its exposure to climate-related risks.

Climate change risk is integrated into our risk management framework. For more information on the metrics and targets governing UKEF's overall risk exposure and appetite see the Chief Risk Officer's report on page 58.

Our support for clean growth business is another important way we monitor our implementation of our Climate Change Strategy. UKEF has a target for 50% of our filtered origination pipeline to be in clean growth and climate adaptation sectors on an ongoing basis, which we align to the International Capital Market Association's Green Bond Principles. We continue to perform against our target, with outturn generally plus or minus 5% from the target on a continuous basis. Because the size of our origination pipeline fluctuates day-to-day as opportunities enter and exit, performance against this target also fluctuates over time and cannot be captured in a single point.

We continue to evolve our climate change management information framework as relevant initiatives develop and we improve the quality and standardisation of all our data.

Notes

1. PCAF makes no representation or warranties of any kind on the Database whether express, implied, statutory or other. This includes without limitation warranties of title, merchantability, fitness for a particular purpose, non-infringement, absence of latent or other defects, accuracy, or the presence or absence of errors, whether or not known or discoverable. PCAF disclaims any liability for any loss or damage resulting from use of information in this Database or reliance or decisions based upon the Outputs or Contents of the Database. Each Authorized User and/or third parties are advised that they are responsible for reliance on the database, data, information, findings and opinions provided by PCAF. Any reference to a specific data source, data provider or service by trade name, trademark, manufacturer, or otherwise, does not constitute or imply an endorsement, recommendation, or favouring by PCAF.

Export Guarantees Advisory Council annual report

The Export Guarantees Advisory Council (EGAC) is a statutory body that provides advice to UKEF and its ministers on the climate, sustainability, anti-bribery and corruption and disclosure policies that UKEF applies when doing business.

Ms Vanessa Havard-Williams
Interim Chair (as of January 2023)

Linklaters Partner (until April 2023), specialist in sustainability law and policy, sustainable finance and governance

Dr Alistair Clark
Chair (until October 2022)

Independent Environmental, Social and Governance Advisor. Formerly Managing Director, Environment and Sustainability Department, European Bank for Reconstruction and Development (until November 2021)

Members

Dr Roseline Wanjiru
Associate Professor (Reader) of International Business and Economic Development at Newcastle Business School

Dr Ben Caldecott
Fellow and Associate Professor of Sustainable Finance, Smith School of Enterprise and the Environment, University of Oxford

Mr John Morrison
Chief Executive Officer, Institute for Human Rights and Business

Mr Stephen Prior
Partner, Prinia Consulting LLP and an experienced sales director in emerging markets with expertise in approaches to anti-bribery and corruption

Mr Harold Freeman
Independent economist, public sector board member, international economic and development expert

Ms Sarah Steele
Senior Legal Advisor, North Sea Transition Authority

The Council met formally 4 times during 2022-23. EGAC has considered, advised on and contributed to UKEF's strategic and policy thinking on a range of issues within our terms of reference during this reporting period.

This reporting period has seen a change in the Chair and the Council welcomed 2 new members in summer 2022: Mr Harold Freeman and Ms Sarah Steele. Mr Freeman brings expertise in international economics and development, including sustainable lending, the sustainable development goals, human rights issues and the climate agenda. His experience spans work with the European Bank for Reconstruction & Development and HM Treasury. Ms Sarah Steele, Senior Legal Advisor for the North Sea Transition Authority, advises on net zero and energy transition matters involving law, strategy and policy development. In late 2022 Mr Alistair Clark stepped down from the Council, which he joined in 2009 and had chaired since 2020; on behalf of UKEF and Council colleagues I would like to thank him for his contribution.

As Interim Chair of the Council since January, I have attended Board meetings as an ex-officio member and met with all Board and Council members. EGAC members are now invited to join the Board for the monthly CEO Update brief provided at each Board meeting. This increased and regular connection with the business and the Board is adding value by strengthening our understanding of UKEF's mission, work and stakeholders. On behalf of the Council I wish to express my appreciation to the many UKEF officials who have provided us with information and briefings throughout the year, attended formal and informal meetings with us and engaged with us as we have performed our role.

The rest of this report describes some of the areas considered by EGAC over this reporting period.

General matters

ECAG considered UKEF's updated mission statement, with a particular focus on its incorporation of sustainability.

UKEF is working to better understand and drive the impacts of its support on public policy outcomes, including prosperity, sustainability and wider policy goals. In that context, EGAC provided steers on initial development work for an impact measurement framework. Members offered advice on articulating a theory of change, and on determining useful metrics and best practice for measuring and evaluating outcomes, based on wider best practice.

The Council also discussed the increasing variety of potential customers resulting from the introduction of new UKEF products, focussing on support for smaller businesses. Members discussed UKEF's approach to targeting small and medium enterprises (SMEs), especially in regions outside London and at the smaller end of the SME segment.

Members reviewed how UKEF manages reputational risk, including how it is considered as a factor in decision-making across the department.

Climate change and sustainability

UKEF engaged the Council's significant and broad expertise on a range of climate and sustainability issues.

The reporting period saw UKEF set an interim decarbonisation target for aviation sector exposure. Substantial work on this was reviewed and discussed at length, including the approach to setting the target and the range of levers UKEF has at its disposal to support the sector's decarbonisation. For more information on UKEF's aviation see the Task Force for Climate-related Financial Disclosures (TCFD) report on page 82.

UKEF officials also sought guidance from the Council in preparing the 3rd TCFD report. Members gave general and specific challenge and advice. They supported UKEF joining the Partnership for Carbon Accounting Financials (PCAF) and continued involvement in the Glasgow Financial Alliance for Net Zero (GFANZ).

The Council engaged with officials on considering climate change as a strategic risk within UKEF's enterprise risk management system. They discussed the probability and impact of climate change-related risks crystallising, the mitigations UKEF has in place, and the governance of climate-related strategy and decision-making.

They also provided comments on a proposal to bring together UKEF's non-financial ethical practices and commitments, as well as its international policies and principles, into an overarching public-facing sustainability policy statement, with significant input on the wording of the statement.

Members heard about and advised on work

to expand UKEF's clean growth product offering. They noted progress in transacting and progressing new business, and shared thoughts on overcoming the key challenges in the industry.

The Council supported UKEF in its efforts to agree an expanded scope for the OECD sector understanding on climate change. They agreed that further fossil fuel reform should be encouraged, despite the difficulties in achieving progress in this area. We discussed the wider OECD Arrangement modernisation package, particularly proposed rules for transactions in clean and green sectors. Members gave advice on engaging with NGOs and working on updating the OECD Common Approaches to strengthen practice among export credit agencies on environmental and social issues relating to transactions.

UKEF officials briefed the Council on outcomes of COP27 related to export credit agencies and sought input from members on its plans and ambitions for COP28.

Towards the end of the reporting period members reviewed a comprehensive overview of proposed priorities around climate change and sustainability for the next financial year. The Council discussed the breadth of issues and suggested a variety of approaches to prioritising activity, as well as suggesting issues for further consideration.

Environmental, social and human rights (ESHR)

The Council considered a more streamlined approach to ESHR due diligence for projects in Ukraine given the current situation. The Council gave views on the approach to help ensure that ESHR assurance requirements could be met and not compromised while meeting the need for a practical and efficient process in the particular context.

Members built on the advice they had given in the development of UKEF's 2020-21 Modern Slavery statement. They discussed the merits of international standards, described other countries' approaches to mandatory disclosure, and offered thoughts on which normative standards UKEF could benchmark against.

Members welcomed and encouraged UKEF's extending of modern slavery considerations into core business, expanding the remit beyond UKEF's supply chain. They reviewed the introduction of modern slavery wording across UKEF's legal documentation and welcomed UKEF raising modern slavery issues in OECD Common Approaches discussions. The Council will continue to offer support as and when needed.

The Council also reflected that increased geopolitical pressures are bringing the issue of sustainable lending to the fore. UKEF officials have provided a briefing on the UK Government's approach and the Council will continue to engage with this issue in the coming year.

Transparency and anti-bribery & corruption

Members considered bribery and corruption policies and processes in relation to support for Ukraine. They agreed with UKEF's approach and recommended high level principles for procuring services in conflict situations.

The Council were kept informed of governance and information management issues. They discussed the International Trade Committee's enquiry into trade and the environment, UKEF's and the Department for Business and Trade's submissions to the Committee, and the Environmental Audit Committee's inquiry into the financial sector and the UK's net zero transition.

UKEF's Legal and Compliance Division hosted OECD practitioners for an Anti-Corruption and Bribery Workshop in London in December 2022. One EGAC member attended and reported back to the Council.

Detail of EGAC's responsibilities, priorities, and membership together with our contact details, terms of reference, register of members' interests and minutes of meetings, can be found on the government's website: www.gov.uk/government/organisations/export-guarantees-advisory-council/about

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

Accountability report

UKEF Ministers and board members

UKEF ministers

Rt Hon Kemi Badenoch MP
Secretary of State for Business and Trade, President of the Board of Trade, and Minister for Women and Equalities (from February 2023)

Secretary of State for International Trade and President of the Board of Trade (from October 2022 to February 2023)

Andrew Griffith MP
Minister for Exports
(July 2022-September 2022)

Marcus Fysh
Minister for Exports
(September 2022-October 2022)

The Rt Hon Anne-Marie Trevelyan MP
Secretary of State for International Trade and President of the Board of Trade (to September 2022)

Andrew Bowie
Minister for Exports
(October 2022-February 2023)

Mike Freer MP
Minister for Exports (to July 2022)

Lord Offord
Minister for Exports
(from May 2023)

Register of interests

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

Members of the UKEF Board and its sub-committees

Noël Harwerth
Chair of the UKEF Board and Remuneration Committee

Tim Reid
Chief Executive Officer (from 1 January 2023)

Cameron Fox
Chief Finance and Operating Officer

Samir Parkash
Chief Risk Officer

Jackie Keogh
Member of UKEF Board, member of Audit, Risk and Remuneration Committees

Tim Frost (From 1 May 2022)
Member of UKEF Board, Chair of Risk Committee, member of Audit and Remuneration committees

Lawrence M. Weiss
Member of UKEF Board, member of Risk and Remuneration committees, Chair of Audit Committee (to 31 March 2023)

Charlotte Morgan
Member of UKEF Board, member of Risk and Remuneration committees, Chair of Audit Committee (from 1 April 2023)

Kimberley Wiehl
Member of UKEF Board, member of Audit, Risk and Remuneration committees

Alistair Clark
Ex-officio member of UKEF Board, Chair of Export Guarantees Advisory Council (to 31 October 2023)

Vanessa Havard-Williams
Ex-officio member of UKEF Board, Interim Chair of Export Guarantees Advisory Council (from 1 January 2023)

Candida Morley
Ex-officio member of UKEF Board and UK Government Investments, member of Audit, Risk and Remuneration committees

Andrew Mitchell
Ex-officio member of UKEF Board, Director General for Exports and UK Trade at the Department for International Trade

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

A register of non-executive directors, directorships and shareholdings is available at:

www.gov.uk/government/organisations/uk-export-finance/about/our-governance

Hitesh Patel, the Export Finance Manager for Central and West London

Governance statement

As Accounting Officer for UKEF, I am responsible to ministers and Parliament for its management, including the stewardship of financial resources and assets. This Governance Statement sets out how Louis Taylor (Accounting Officer to 30 September 2022), Samir Parkash (interim Accounting Officer from 1 October to 31 December 2022) and I have discharged this responsibility for the period 1 April 2022 to 31 March 2023.

Tim Reid
Chief Executive and Accounting Officer

The areas covered below are:

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

Background

UKEF's mission is to advance prosperity by ensuring no viable UK export fails for lack of finance, doing that sustainably and at no net cost to the taxpayer over time.

In providing support, we seek to:

- achieve impact in the UK and overseas while delivering value for money to the taxpayer
- engage with exporters, buyers and delivery partners such as banks
- provide a quality of service that is responsive to new business, with a focus on solutions within the bounds of acceptable risk and in accordance with our statutory purpose
- maintain the confidence of ministers, Parliament and customers
- effectively communicate what we do to interested parties

Our strategy remains one of ambitious evolution, building on over a century's experience and success to support businesses to invest, grow and export. As we look to the next Business Plan from 2024 onwards, we will continue to innovate and expand our reach to support as many businesses as possible, maximising the impact of our support on individuals and communities in the UK and around the world. We will provide this service whilst continuing to rigorously manage risk in the context of increasing economic volatility and uncertainty.

Corporate governance framework

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

UKEF is strategically aligned with the Department for Business and Trade but is a separate ministerial government department in its own right. Both departments report to the Secretary of State for Business and Trade, the Rt Hon Kemi Badenoch MP. I am the Chief Executive and Principal Accounting Officer of UKEF. The Secretary of State, or delegated Minister, writes to me every year to outline the government's priorities for UKEF for the coming year.

Statutory powers

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

Department for Business and Trade

The new Department for Business and Trade (DBT) provides a single, coherent voice for business inside government, focussed on growing the economy with better regulation, new trade deals abroad, and a renewed culture of enterprise at home. I am a member of DBT's Executive Committee and attend Board meetings as required.

Ministers

Through the year, ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning UKEF's operations, including:

- sustainability and critical minerals policies
- briefings for meetings with external stakeholders and domestic and international ministerial visits
- UKEF's position and support for Ukraine
- information on UKEF's performance, portfolio and governance

HM Treasury

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

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

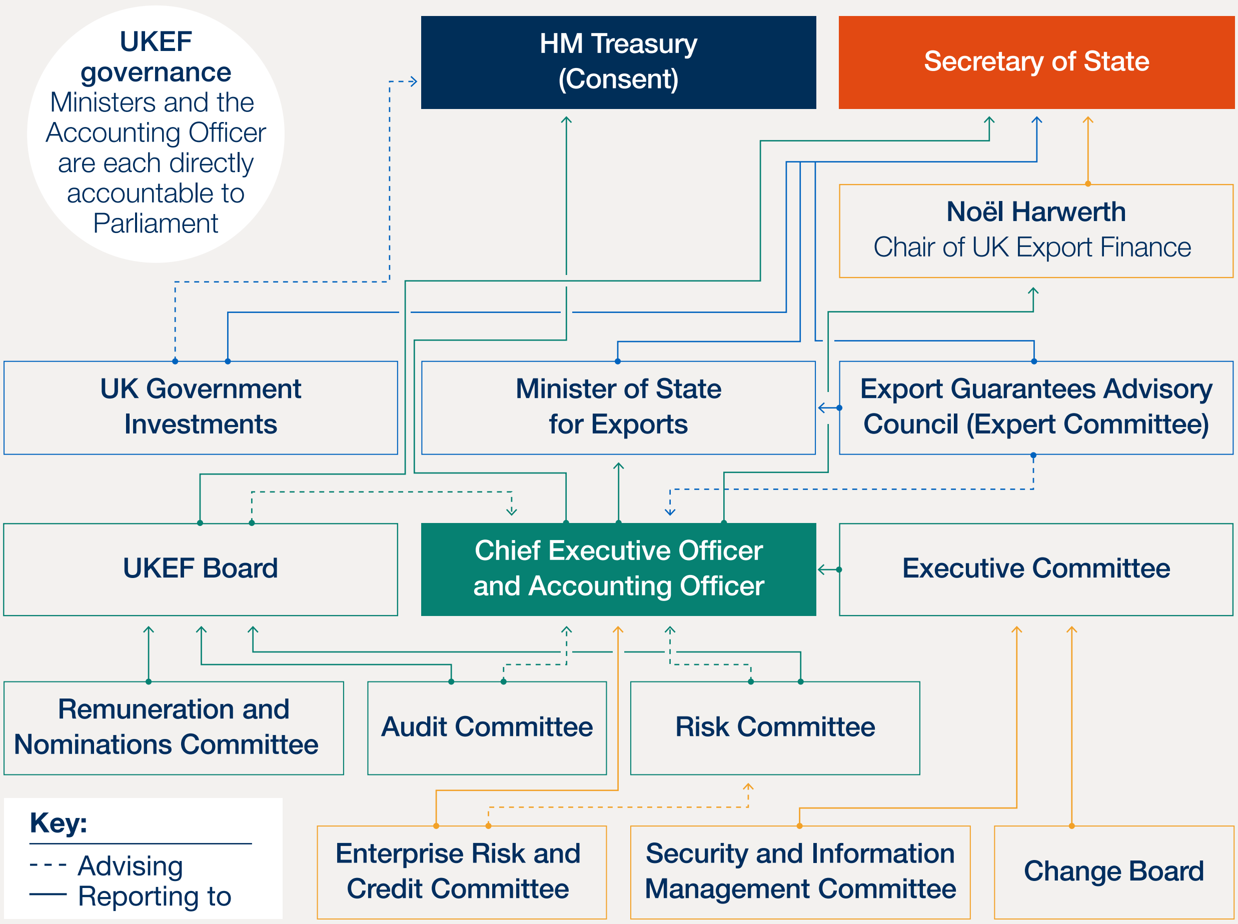
UK Government Investments (UKGI)

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

In accordance with the concordat, particular areas of focus are to:

- advise and support on corporate governance (including the appointment and remuneration of UKEF's Chair, non-executive directors and Chief Executive)
- review UKEF's financial and operating performance and key performance indicators
- review UKEF's risk management function and processes
- input into business planning and strategic direction
- provide support in certain instances to HM Treasury on the government's exposure to risk

UKEF's governance structure



Export Guarantees Advisory Council (EGAC)

EGAC is a statutory body under the EIGA. It was designated an Expert Committee in 2016 and its role is to advise ministers and senior officials on the environmental and social impact of UKEF's operations, including the effectiveness of its policies on:

- climate change and sustainability
- social impact and human rights
- anti-bribery and corruption
- sustainable lending
- transparency and disclosure

The Council independently publishes a report of its business in the year, which is available on page 102 and also from its website.

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

UKEF Board

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

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

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

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

UKEF is committed to ensuring that the Board and its committees operate effectively and are continually improving. Following the external Board effectiveness review of 2021-22, the Board refreshed its Terms of Reference to clarify its role and that of its sub-committees. Another internal Board effectiveness review, undertaken in spring 2023, concluded that the Board and its committees operated effectively. It noted that the executive was sufficiently challenged. It also suggested that the Board agenda could be more strategically focussed and that it could focus more on development of products and on operational risk, particularly with regard to organisational growth. A report detailing findings and suggested improvements was accepted by the Board and an action plan established for implementing key recommendations during 2023-24 and beyond. The minutes of Board meetings are published on UKEF's website.

Quality of information used by the Board

The UKEF Board meetings covered a variety of topics to support the running of the department and meet our objectives, including UKEF's reaction to the conflict in Ukraine, support for SME exporters, climate change strategy, strategic risks, and the portfolio of products that UKEF offers. The Information Management and Governance Team provided a comprehensive secretariat service to the Board and its committees to ensure the effective and efficient administration of the Board and its activities. The Board was provided with high-quality Board papers prior to each meeting to aid informed discussion and decision making.

Audit and Risk committees

The annual reports of the Audit and Risk Committees can be found on page 127. Their respective chairs formally report on their activities to the Board.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises at least 3 non-executive directors and is chaired by the Chair of the UKEF Board. This committee considers and agrees on proposals from the Chief Executive on individual pay decisions in accordance with the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service (SCS) members. See page 134 for more.

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

Executive Committee

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

- Esi Eshun, Interim Director of Business Group: responsible for our support for exporters. This role includes the old role of Director of Business Development, Marketing & Communications. Esi took over this role in January when I became Chief Executive Officer. Prior to January 2023, Esi was Director of Legal and Compliance
- Cameron Fox, Chief Finance & Operating Officer: responsible for finance and accounting, middle office operations
- Julia Beck, Chief Strategy & Impact Officer: responsible for the department's overall approach to climate change, cross-Whitehall and civil society organisation stakeholder management, international relations, strategic and operational planning, governance, information management and product development. Julia started this role in July 2022, taking over from Davinder Mann
- Jayne Whymark, Interim Director of Legal and Compliance: responsible for legal and financial crime compliance matters and supporting the department in managing legal and compliance risks. Jayne took over the role on an interim basis from Esi Eshun in January 2023
- Samir Parkash, Chief Risk Officer (CRO): responsible for leading the organisation's overall approach to risk management

by managing enterprise, financial and credit risk, country risk, operational risk, and related management systems and practices. While Samir acted as interim CEO from October 2022 to January 2023, Richard Smith-Morgan acted as Interim CRO

- Shane Lynch, Director of Resources: responsible for all people-related issues, staff administrative functions, strategic workforce planning, commercial functions, facilities and security
- UKEF was without a Director for Digital, Data and Technology (DDaT) with Shane Lynch, filling in for most of the year in addition to his responsibilities as Director of Resources. Dan Bowden was appointed as the new Director of DDaT and took up the position in June 2023. This role is responsible for technology, change, data and digital aspects, covering areas as wide as the customer facing elements of business and the projects needed to transform UKEF, such as the underpinning technology that allows a modern department to function

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

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

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

A register of interests is kept up to date to identify and address any potential conflicts of interest involving senior executives. No conflicts of interest were raised this year.

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

Governance in 2022–23

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

- all instructions given to me by ministers were in accordance with the EIGA, the Consent and applicable international agreements

- when I was appointed Accounting Officer in January 2023, I was provided with assurances for the respective tenures of Louis Taylor and Samir Parkash this financial year
- UKEF met all its financial objectives
- UKEF suffered no material operational losses
- UKEF had no major security breaches, data thefts or losses
- I met ministers regularly to brief them on issues related to UKEF, and also briefed as necessary UKGI, HM Treasury and Department for International Trade/ DBT officials so that they could provide informed advice to ministers if and when required
- the appropriate balance of non-executive directors and ex-officio members on the UKEF Board was maintained
- the Executive Committee met at least twice a month throughout the year
- the UKEF Board met 10 times in the year, the Audit Committee met 5 times, the Risk Committee met 4 times and the Remuneration Committee met 3 times, all consistent with their terms of reference

Ministerial directions

On 11 March 2022, the then Secretary of State for International Trade issued a direction to maintain UKEF's cover for Ukraine at £3.5 billion in the aftermath of Russia's invasion of Ukraine in the national interest on diplomatic and security grounds.

The direction was provided after UKEF had to withdraw all cover for Ukraine after it fell below normal underwriting standards and risk frameworks. The ministerial direction was approved subject to UKEF requiring Treasury approval for all projects.

In 2022-23, UKEF only provided payment risk insurance to cover exports to Ukraine and agreed commitments worth over £50 million to support the Government of Ukraine after receiving specific ministerial consent before providing support. All Ukraine business underwritten under the National Interest Account will be reported as such in future annual reports.

UKEF has written to the Public Accounts Committee and the International Trade Committee. At the date of drafting, UKEF has received no requests for further information from either committee about UKEF's Ukraine country limit.

Our Board Composition

Board Members

Members of the UKEF Board and its sub-committees (with attendance figures)					
Director	**Role**	**UKEF Board**	**Audit Committee**	**Risk Committee**	**Remuneration Commitee**
Average attendance (members only)		99%	96%	89%	88%
Individual attendance					
Alistair Clark	Ex-officio Board member, Export Guarantees Advisory Council (resigned October 2022)	6/6	-	-	-
Cameron Fox	Executive Board member	10/10	5/5*	4/4*	-
Tim Frost	Non-executive Board Member	8/8	3/3	3/3	2/2
Vanessa Havard-Williams	Interim ex-officio Board member, Export Guarantees Advisory Council (from January 2023)	3/3	-	-	-
Noël Harwerth	Non-executive Chair	10/10	5/5*	4/4*	3/3
Jackie Keogh	Non-executive Board member	9/10	4/5	4/4	2/3
Andrew Mitchell	Ex-officio Board member, Department for Business and Trade	10/10	-	-	-

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

Director	Role	UKEF Board	Audit Committee	Risk Committee	Remuneration Commitee
Candida Morley	Ex-officio Board member, Department for Business and Trade	10/10	5/5	3/4	3/3
Samir Parkash	Executive Board member	10/10	5/5*	4/4*	-
Tim Reid	Executive Board member from January 2023	2/2 as member, 5/5 as attendee	2/5* 1/1 as CEO of UKEF	3/4*	1/1*
Richard Smith-Morgan	Interim Executive Board member, October-December 2022	3/3	2/2*	3/3*	-
Louis Taylor	Executive Board member (resigned September 2022)	5/5	3/3*	1/1*	1/1*
Lawrence Weiss	Non-executive Board member and Chair of Audit Committee	10/10	5/5	3/4	2/3
Kim Wiehl	Non-executive Board member	10/10	5/5	4/4	3/3

*Not a member of the committee but attends its meetings (except in relation to matters presenting a conflict of interest)

Memorandum of Understanding between UKEF and DIT/DBT

Since its implementation in March 2021, the Memorandum of Understanding (MoU) has created a framework for stronger and closer collaboration between UKEF and the former Department for International Trade (DIT), now DBT. This has enabled the departments to provide more joined-up support for UK exporters and businesses with export potential, and deliver on the objectives set out in the government's Export Strategy.

In 2022-23, UKEF and DIT partnered to deliver joint events for businesses, including the Green Trade and Investment Expo in November. UKEF also supported a number of DIT/DBT regional roadshows, including for Latin America and the Caribbean. Throughout the year, the departments continued to align on delivering government priorities through strategic alignment and cooperation on the UK's Critical Minerals Strategy, Integrated Review Refresh, and approach to sustainable international development, including through British Investment Partnerships.

UKEF's collaboration with the newly formed DBT has gone from strength to strength, ensuring stability and ongoing delivery through ministerial and machinery of government changes. The re-signing of the MoU and establishment of a new partnership agreement in April 2023 ensures that the departments maintain and build on the close working relationship established since the signing of the agreement, with updates made to the framework to reflect DBT's expanded remit. This will provide new opportunities for enhanced engagement with DBT, including with the former Department for Business, Energy and Industrial Strategy teams and arm's-length bodies, now part of DBT, to jointly deliver shared objectives to support business growth and expand the UK's exporting capability.

Third-party delivery partners

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

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

Risk management and assurance

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

UKEF's enterprise risk framework provides senior management with a consistent structure and documented approach to identifying, assessing, evaluating and reporting known and emerging risks across UKEF. The framework fosters continuous monitoring, promotes good risk awareness across the organisation and encourages sound operational and strategic decision-making.

Risk culture

A strong risk culture is central to good risk management, starting with the tone from the top. Senior leaders within UKEF are key influencers in inculcating the high standards of behaviour and conduct expected in all our teams. To ensure that the Board is kept apprised of UKEF's primary risks and the effectiveness of UKEF's risk management, it receives a monthly report from the Chief Risk Officer covering credit, enterprise and operational risks.

Our risk culture is reinforced by the Civil Service Code and its core values of integrity, honesty, objectivity and impartiality. It forms part of our decision-making process for strategy setting, business planning, product governance, change management, customer service, resourcing and third-party suppliers and partners.

3 lines of defence

All employees are responsible for identifying and managing risk within the scope of their role. UKEF continues to refine its **3 lines of defence** framework across the organisation to define clear responsibilities and accountabilities for decision-making and independent oversight and assurance.

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

Strategic risk

UKEF maintains a strategic risk register that identifies risks and issues with the potential to materially impact the realisation of our Business Plan objectives. The register captures risks that may arise across any of our 6 primary enterprise risk categories (as detailed on page 61 of the Chief Risk Officer's report) and sets out controls, mitigations and contingency plans for these risks, with clear ownership and accountability. The register highlights the specific risks UKEF faces as a government department as well as a commercial entity, and outlines clear controls and ownership of strategic risks within the department. The strategic risk register is reviewed at a minimum bi-annually by the Executive Committee and annually by the Board.

Operational risk

Operational risk management is an integral part of the enterprise risk framework. Effective management of operational risk is central to achieving our strategic aim of ensuring no viable UK export fails for lack of finance or insurance. UKEF's Operational Risk Policy details the minimum requirements for managing the department's operational risk. This in turn enables staff to make informed decisions based on a sound understanding of our operational risks.

UKEF's approach to operational risk management is designed to:

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

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

- credit decisions being made on the basis of incorrect data
- a breach of our reporting requirements to HM Treasury
- a data breach as a reult of a successful cyber-attack
- a failure to obtain requisite authority to enter into a commitment
- a failure to recognise a fraudulent application or request for payment

The Enterprise Risk Division actively works with the other second and third line assurance functions and all heads of division across UKEF to reinforce ownership and accountability for risk management, and to ensure the appropriate design, implementation and monitoring of controls. Risk is considered in significant strategic decisions by the Executive Committee and Board, in major new projects by the Change Board and Executive Committee, and in other prioritisation and resource allocation commitments throughout the business.

A programme of assurance testing is undertaken by the Enterprise Risk Division to provide senior management with assurance that key controls are in place and operating in accordance with defined procedures.

Governance assurance processes

Each Group in UKEF identifies and manages their key operational risks using the risk and control assessment (RACA) process which is reviewed and updated quarterly as a minimum. Furthermore, each Group RACA is subject to annual scrutiny by ERiCC. A bi-annual control environment attestation is also completed by all Executive Committee members and submitted to me. This has given us a more robust understanding of our risk and control environment, and greater confidence in its assurance.

In addition, at year-end, supported by a non-executive member of the Board, I chaired a panel which challenged directors on their control and assurance responsibilities, informed by the risk and control assessments, the bi-annual control environment attestation and any reported incidents.

Functional standards

Since the end of September 2021, the Cabinet Office has required all government departments to implement mandatory elements of each functional standard. During the year, the Executive Committee received an update on progress in the implementation and maintenance of the functional standards regime within UKEF. A plan for each function is maintained, incorporated into the relevant Divisional Plan, monitored and reported against and updated at least annually. Ongoing, proportionate and co-ordinated assurance activity is performed to ensure the Functional Standards are being embedded and comply, or will comply, with all the defined requirements (as appropriate) in 2023-24.

Financial crime compliance

In spite of the fact that UKEF is itself subject to a very limited set of laws and regulations related to financial crime, it recognises the risks that financial crime poses to communities, individuals and business integrity. It also recognises that UKEF faces risks of financial loss and damage to its integrity and reputation from becoming the victim of financial crime, or from providing support for transactions involving financial crime, including but not limited to sanctions breaches, fraud, bribery and corruption.

Although, given its role and remit, UKEF cannot guarantee that it will never support such a transaction (UKEF is not an investigatory authority with the powers necessary to detect crime), it is committed to having in place and operating reasonable and proportionate processes, systems and controls to mitigate the risk of supporting such transactions. It aims to implement identified elements of financial crime compliance best practice from the regulated financial services sector.

UKEF is also committed to complying with the cross-government functional standard GovS 013 (counter-fraud, bribery and corruption) and the mandate of the Public Sector Fraud Authority. UKEF regularly discusses risks and mitigations with other government departments, overseas ECA counterparts and UK law enforcement agencies.

In 2022-23, UKEF's Compliance Division was split into two distinct divisions, both within UKEF's Legal and Compliance Group. Together the two divisions (Compliance Division and Financial Crime Due Diligence) comprise UKEF's Compliance Function. The overall purpose of the Compliance Function is to assist UKEF in identifying, assessing, monitoring, managing and reporting on financial crime compliance risk. This includes the provision of policies, procedures, guidance and training across UKEF to assist in managing these risks.

During 2022-23, UKEF has strengthened and deepened its relationships with UK law enforcement agencies. It continues to refer transactions to law enforcement where there are sufficient grounds to do so.

UKEF's Business Group, along with the Compliance Function has continued to undertake due diligence screening of parties in UKEF transactions. In 2022-23, this included screening around 500 transactions, which have together involved over 1,500 corporate and sovereign entities and almost 8,000 individuals. In all, over 300 transactions were escalated for enhanced due diligence by Financial Crime Due Diligence. This level of escalation reflects not just the inherently high risk of UKEF's operations (given its remit), but the ever-increasing complexity within the transactions it is asked to support.

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

Further, UKEF has declined any attempt to negotiate its financial crime-related documentation. This has resulted in certain customers withdrawing their application for support.

UKEF has taken the lead in the OECD Working Group on Export Credits, regularly presenting its approach and challenges, and discussing ways in which cross-OECD approaches to financial crime might be improved. In December 2022, UKEF hosted a hybrid workshop of OECD ECA bribery experts, to facilitate information sharing.

Cyber security and information risks

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

UKEF's security framework provides an overview of our approach to ensuring the information assurance of our people, processes and technology aligns with security objectives and requirements within our strategic aims and delivery objectives. These include background checks on recruitment, resilience training and empowerment of line managers to raise concerns about threats posed by staff. The framework includes a description of the pan-government security environment, overarching principles, and a commentary on UKEF's approach to the mandatory security outcomes set out by the Cabinet Secretary. UKEF focusses on outcomes required to achieve a proportionate and risk-managed approach to security that enables UKEF's business to operate effectively, safely and securely. To enhance the department's cyber security capability, UKEF has a dedicated protective monitoring function to identify vulnerabilities and threats to our people and IT infrastructure.

The government has implemented a cluster model for security, aligning several departments to share appropriate best practice across their cluster. UKEF is an active member of Cluster 4, which is led by the Foreign, Commonwealth and Development Office, and both the Director of Resources and the Head of Security are part of the cluster's formal governance arrangements. The cluster is supporting UKEF in upskilling staff in security essentials, including mandated modules on cyber security and information risks.

The department has also benefited from developing closer working relationships with key government stakeholders including the Centre for Protection of National Infrastructure, Cyber Security Information Sharing Partnership, Government Security Centres (GSeC), police, National Authority for Counter-Eavesdropping and the National Cyber Security Centre's (NCSC) Active Cyber Defence programme.

The department has worked with external partners (GSeC cyber) to test our cyber security defence capabilities through a purple team exercise and will deliver further enhancements in response to those results. UKEF is working with NCSC and GSeC to develop a proportionate, risk-based policy in respect of supply chain cyber security policy.

UKEF has in place appropriate staff training, awareness-raising and disciplinary processes with regard to cyber resilience for staff at all organisational levels.

In January 2023, UKEF was assessed by the Government Security Group as having exceeded the standards in all 4 technical areas (cyber, personnel, physical and incident management). This has been independently assessed and verified by an external NCSC cyber security professional organisation.

UKEF's Knowledge and Information Management (KIM) function promotes good information governance and compliance with statutory obligations. The KIM team has produced an Information Management Strategy, which sets out how the department will manage its information more effectively to improve efficiency and comply with relevant legislation. The KIM team has also implemented an Assurance Framework to ensure that all staff who process personal data do so in accordance with the UK General Data Protection Regulation.

The KIM team maintains UKEF's Information Asset Register, which is available on the staff intranet. All staff with responsibilities for information management are required to undertake relevant training. Procedures are in place to respond to requests for information from the public under information legislation that gives the public rights of access.

Information and records management

Section 3(4) of the Public Records Act 1958 requires departments to transfer records which have been selected for permanent preservation to the National Archives by the time the records are 20 years old. UKEF has transferred physical records to the National Archives in adherence to the 20-year rule and is implementing solutions to enable the transfer of selected digital records.

UKEF has a dedicated team to ensure it complies with the Freedom of Information (FOI) Act 2000 and other information-related legislation. In 2022-23, one FOI response was referred to the Information Commissioner's Office.

Business continuity plan

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

Temporary Covid-19 Risk Framework

During the Covid-19 crisis, the government established the UKEF Temporary Covid-19 Risk Framework (TCRF), a temporary £10 billion risk framework, to allow UKEF to continue to provide financial support to UK exporters whose credit ratings were affected by Covid-19. This framework closed to new business from 31 July 2022. More details about the TCRF can be found on page 33.

Data modelling and quality assurance

We perform appropriate quality assurance on our analytical and modelling work, in accordance with the Aqua book. Senior Responsible Officers are accountable for reviewing business-critical models annually to ensure the best modelling and quality assurance practices are followed. We completed a review of our modelling guidance in 2022-23, and additional training and support is currently being developed for new and current colleagues to embed best practice. A list of UKEF's business-critical models is published on gov.uk.

Internal audit

The Internal Audit and Assurance Division (IAAD) undertakes audit assignments in accordance with the Government Functional Standard GovS 009: Internal, which details five principles:

- audit objectives are aligned to government policy, and organisational objectives and risks
- there is appropriate access for internal auditors to discharge their duties, including the ability to communicate findings without hindrance
- work is assigned to people with the required capability, capacity, proficiency and due professional care
- internal Audit findings are captured, shared and used to promote improvement in the efficiency and effectiveness of the organisation and value for money
- public service codes of conduct and ethics and those of associated professions are upheld

The overall opinion for 2022-23 is one of moderate assurance. This is the same opinion as 2021-22. Overall, Groups have been conscientious and improved their control frameworks, raising self-identified issues, documenting controls and preparing process maps and having open risk and control discussions as part of their daily work. Governance issues highlighted in several divisional audits during the year have been fully remediated to timescale.

IAAD has identified a good control framework with regard to payroll and pensions, although control gaps have been raised with some HR processes. Management have been proactive in defining action plans and taking measures to embed preventative controls.

Significant risks and mitigating measures

Data quality and accuracy remains an area of weakness. The department fully acknowledges the areas of improvement and the need to ensure our data and information is complete, accurate and valid. A project has been established, with Executive Committee sponsorship and defined timelines, both to remediate new data quality issues that arise and to investigate and remediate legacy issues.

The processes and controls in operation with regard to our transactions are central to ensuring that our exporters receive the advice and support that they need. IAAD has undertaken a cradle to grave audit this year, reviewing the key end to end controls across the Department which support the processing of transactions. The audit has confirmed some self-identified issues and areas where we can enhance our control environment to be more effective and streamline existing processes. Separately, a deep dive audit of our Trade Finance Business was performed, highlighting a strong control framework in operation.

Retention and turnover of workforce has been identified as an ongoing strategic risk the department is currently facing. The department is currently transforming the Business Group and Risk Management Group to address the grade mix, create a new learning curriculum, and launch entry-level development and training programmes to create clearer opportunities for career advancement.

I am committed to ensuring progress across all these areas during the coming year.

Judicial Review

The decision to provide UKEF support to the Mozambique LNG project in 2020 has been subject to judicial review by Friends of the Earth. In January 2023, the Court of Appeal found in favour of the UK government, affirming the first instance decision of the High Court. Permission to appeal to the Supreme Court has recently been refused.

Whistleblowing policy

UKEF has a whistleblowing and raising-a-concern policy in place. The policy is based on guidance provided by Civil Service HR and was last updated in April 2020. Two disclosures were made under the policy in 2022-23.

Complaints

UKEF aims to provide all our customers with the highest standards of service. If things go wrong, we aim to put them right as soon as we can. Our complaints policy is designed to provide a swift and effective remedy when something has gone wrong and to help us identify the steps to take so that the problem does not occur again. We aim to investigate and provide a full explanation within 20 working days of receiving a complaint.
In 2022-23, UKEF logged 14 complaints. None of the complaints were subsequently escalated to the Parliamentary Ombudsman.

Corporate governance code for central government departments

In preparing this statement, I have taken into account the corporate governance in central government departments code of practice 2017. I am satisfied that UKEF is able to demonstrate compliance with this code where it applies to UKEF for the relevant period.

Tim Reid
Chief Executive and Accounting Officer
22 June 2023

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed UKEF to prepare for each financial year accounts detailing the resources acquired, held or disposed of during the year and the use of resources by UKEF during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of UKEF and of its net resource outturn, changes in taxpayers' equity and cash flows for the financial year. In preparing the accounts, the Accounting Officer must comply with the requirements of the Government Financial Reporting Manual and in particular:

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

HM Treasury has appointed the Chief Executive as Principal Accounting Officer of UKEF. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKEF's assets, are set out in Managing Public Money, published by HM Treasury. As the Principal Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that UKEF's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

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

Tim Reid
Chief Executive and Accounting Officer
22 June 2023

Audit and Risk Committees

The Audit and Risk Committee reports should be read in conjunction with the Governance Statement, which can be found on page 109.

On behalf of the committees, we are pleased to present the Audit and Risk Committee reports, providing details of the key topics we considered in the year.

We would like to thank the committee members and management for their continued support, in particular the Chief Risk Officer, Samir Parkash, and the Interim Chief Risk Officer, Richard Smith-Morgan, who filled in for Samir while Samir was Interim Chief Executive Officer.

UKEF's Audit and Risk Committee Terms of Reference require the committees to consist of at 3 three non-executive Board members or other independent representatives agreed by the UKEF Board. For 2022-23, Lawrence Weiss (Chair of the Audit Committee), Jackie Keogh, Tim Frost (Chair of the Risk Committee) and Kim Wiehl, all of whom meet the relevant requirements for independence, serve on these committees. Candida Morley is also a member of both committees, representing UK Government Investments (UKGI). It is a requirement in both committees' Terms of Reference that at least one member sits on the other committee to help facilitate coordination between the two bodies.

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

The Audit Committee Terms of Reference also provide that at least one member of the committee should have significant, recent and relevant financial experience.

Audit Committee

The attendees discuss auditors' reports, review and assess the auditing concept and examination process and assess the activities of both external and internal auditors.

Key tasks and responsibilities

In general, the Audit Committee:

- serves as a focal point for communication and oversight regarding financial accounting and reporting, internal control, actuarial practice, and financial and regulatory compliance
- reviews the Internal Audit and Assurance Department (IAAD) Charter
- considers the adequacy of policies for the preventing and detecting fraud, and for ensuring compliance with relevant regulatory and legal requirements on whistleblowing
- reviews the draft Annual Report and Accounts

Activities 2022-23

The Audit Committee focussed on a range of key topics in 2022-23, including the following:

Annual Report and Accounts process

The committee recommended that the Chief Executive sign the final drafts of the 2021-2022 Annual Report and Accounts in June 2022.

The committee was informed of Annual Report and Accounts changes for 2022-23 and agreed the timetable for the 2022-23 Annual Report and Accounts.

Financial Reporting Changes Project (FRCP)

The committee discussed the impact of the FRCP's technical decisions on UKEF's existing risk modelling infrastructure with regard to the implementation of two new accounting standards, IFRS 9 and 17.

IAAD progress

The committee noted the moderate annual audit opinion for 2021-22 and discussed changes required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. The committee approved the draft audit plan for 2022-23. Throughout the year, the Head of Internal Audit routinely updated members on the progress with resourcing and the Internal Audit work plan.

In addition, a range of other topics were considered, including:

- post-balance sheet events 2021-22
- corporate data quality overview
- Taskforce for Climate Related Financial Disclosures (TCFD) project (2 updates)
- UKEF's Information Management Strategy
- the work of the external auditors, the terms of their engagement and the external auditor's findings on key judgements and estimates in financial statements
- digital, cyber and information assurance challenges
- compliance reorganisation consultation
- deep dives into several projects, including Libor replacement and data and analytics transformation

The Audit Committee meets at least 4 times in each year. In 2022-23 it met 5 times.

Risk Committee

The committee notes that the organisation has expanded rapidly as UKEF played its part in stepping up to a series of unprecedented challenges and opportunities. UKEF's risk framework has demonstrated admirable resilience and will need to continue to develop to manage the ever-changing kaleidoscope of risks ahead.

Activities 2022-23

The Risk Committee built on the comprehensive list of key topics assessed last year and focussed on a range of other initiatives in 2022-23 that include the following:

Active portfolio management

The committee discussed UKEF's portfolio, geographical and sector concentrations. Members encouraged UKEF management to explore the suitability of alternative risk transfer tools, such as treaty insurance, loan sales and synthetic securitisations.

Task Force for Climate-related Financial Disclosures (TCFD)

The committee noted that UKEF continued to work towards its capabilities and readiness for climate risk management through building up capability within the Risk Management Group.

The committee encouraged continued development of the stress-testing model with the external consultant commissioned to ensure that a model was approved for the use of year-end stress testing in March 2023.

Enterprise risk management

During 2022-23, the committee was kept up to date on the progress in building the Enterprise Risk Division. This included the approach to developing and embedding UKEF's risk appetite.

In addition, reports were provided to the committee on UKEF's enterprise and operational risk management, while the committee also considered reputational risk in the round.

To enhance our commitment to effective risk management, we have established an escalation process for matters of material reputational risk.

Control Environment Certificate

Twice a year, the Enterprise Risk Division commissions a Control Environment Certificate for completion by Executive Committee members to support the Principal Accounting Officer in providing a governance statement as part of the UKEF Annual Report and Accounts. The committee discussed the outputs and compared the results with previous years.

Scenario analysis and stress testing

A paper on UKEF's biannual stress testing and scenario analysis exercise was presented to the committee. This exercise tested UKEF's baseline portfolio against its 2 financial objectives by applying a range of scenarios and stress tests.

In addition, a range of other topics were considered, including:

- evolving debt vulnerabilities in emerging markets and developing economies for UKEF's large exposure markets
- the Temporary Covid-19 Risk Framework (TCRF) exposure breakdown
- TCFD preparedness within the Risk Management Group
- Risk Management Group delegated authorities
- sovereign risk updates
- claims scenario analysis
- portfolio updates
- the assurance testing framework & 2022-23 testing plan
- pricing and credit methodology statements

The Risk Committee meets at least 4 times in each year. In 2022-23 it met 5 times.

Our People: Remuneration and Staff report

Everything we achieved over the past 12 months has been thanks to the commitment, professional excellence and dedication of our people. At every level of the organisation and across every team, we have a relentless focus on our mission and purpose.

Our UK based headcount now stands at 523 and we have expanded our overseas network of International Export Finance Executives to 20 countries, giving us unprecedented global coverage. We have put learning and continuous development at the centre of everything we do to enable our staff to achieve their potential. The department has never been so diverse and we are committed to creating a culture where everyone is given the opportunity to flourish in a work environment where they feel supported, valued and included.

Workforce snapshot

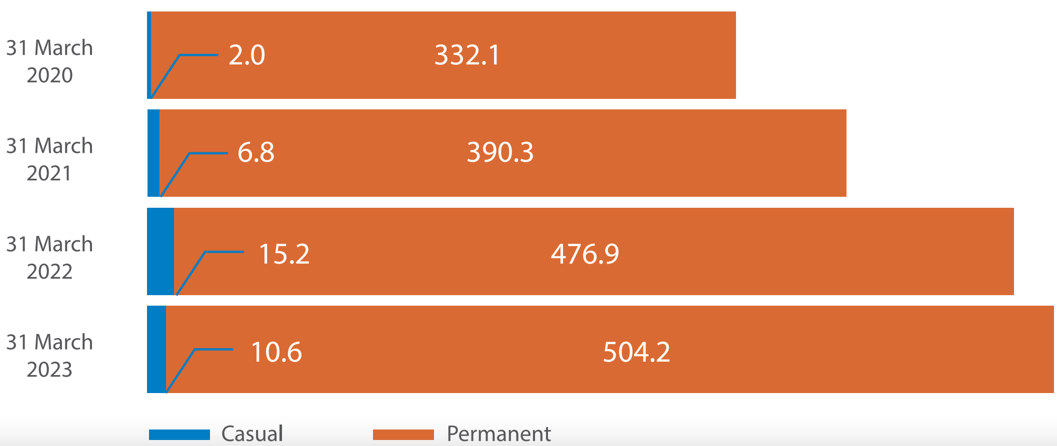
This section is subject to audit.

Throughout 2022-23, UKEF's staff turnover continued to increase, with March's figure being 18.1%. The average for the year was 16.2%, compared with 13.2% for the previous year.

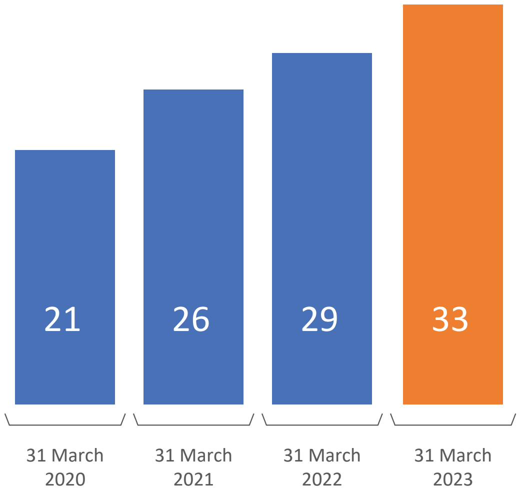
Most leavers are leaving the Civil Service entirely and are attracted to the financial services sector and its increased levels of remuneration.

UKEF's total staff costs for 2022-23 were £39.7 million (2021-22 £34.8 million) as detailed in the Chief Finance and Operating Officer's report – Summary of Profit & Loss; of which £38.9 million relates to staff with a permanent contract and £0.8 million relates to staff on other contracts.

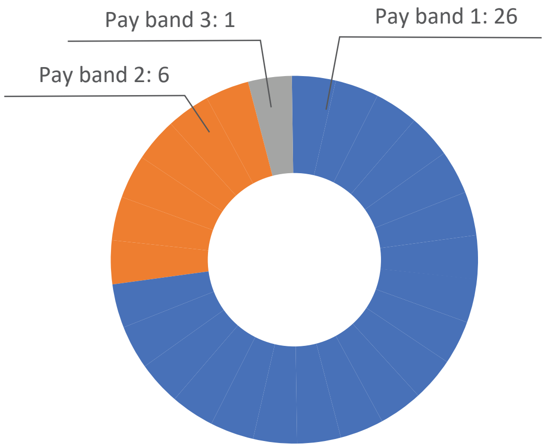
Number of full-time equivalent UKEF staff



Senior Civil Service (SCS) headcount



SCS headcount by payband as of 2022-23



Staff engagement

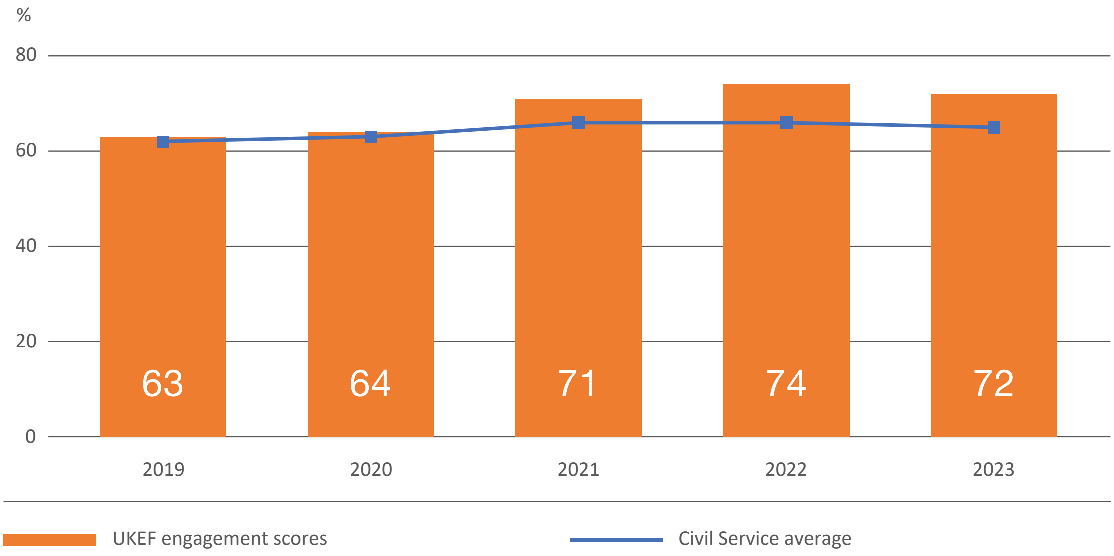
2023

UKEF

72%

Wider Civil Service

65%



Diversity and inclusion

Women in UKEF's workforce

2023	2022	Wider Civil Service 2023
45.3%	44.2%	54.5%

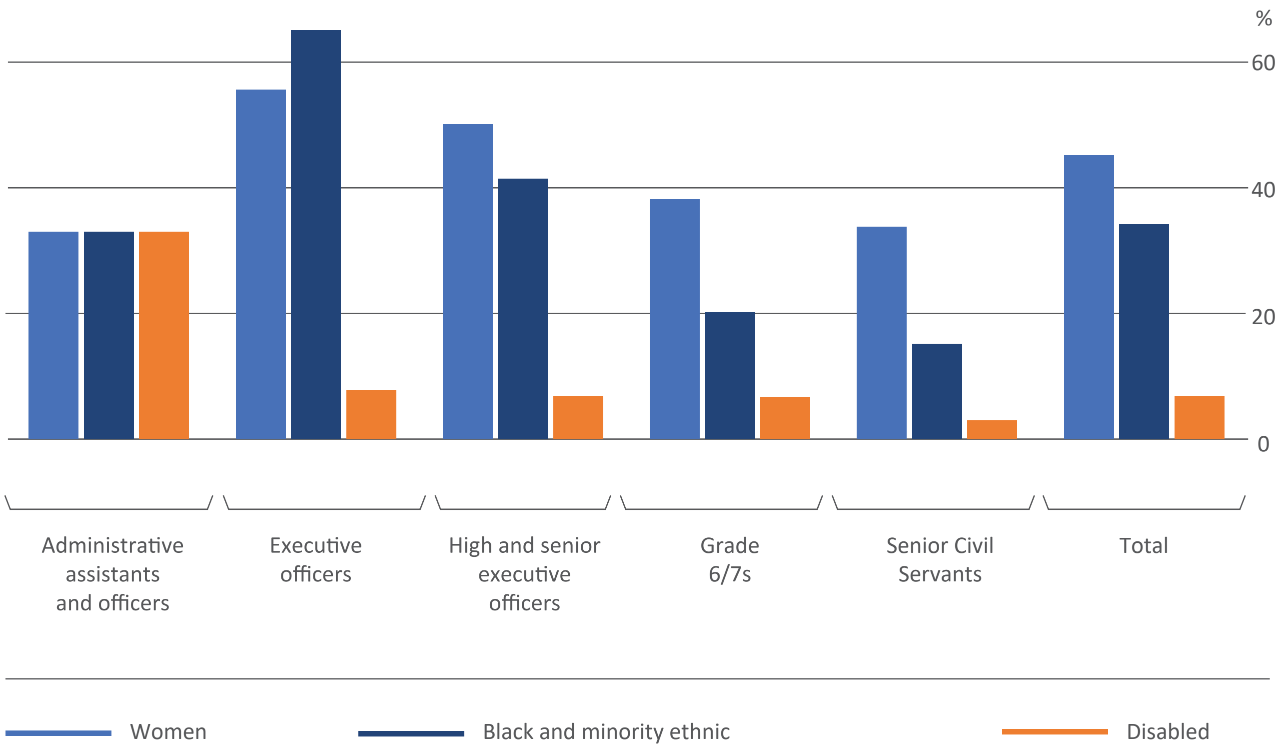
Staff belonging to ethnic minority groups

2023	2022	Wider Civil Service
34.4%	33.1%	15.0%

UKEF staff declaring a disability

2023	2022	Wider Civil Service
6.9%	5.6%	14.0%

UKEF staff diversity



UKEF is resolute in attracting a diverse workforce and is committed to tackling our current gender pay gap. Since our last annual report highlighted that the gender pay gap had increased, UKEF has put in place planned initiatives. The increase in the gender pay gap is largely due to disparity in bonus pay in 2021-22, combined with the proportion of females in the more senior grades where there is a greater difference in the mean pay gap. We have set ourselves a target of reducing the 2020-21 mean gender pay gap by 2% by 2024.

Our People Strategy outlines our continued ambition to improve the diversity of our workforce. UKEF is one of the leading government departments within the Civil Service in regard to the ethnic diversity of our workforce.

We are resolute in our commitment to improve this further, ensuring that equal opportunities are available at all levels across the department.

Health, safety and wellbeing

UKEF has a range of support in place to proactively manage the health, safety and wellbeing of staff. These include our employee assistance programme, a trained network of mental health first aiders, training programmes to support resilience, a health and safety induction for all staff and organised activities targeting physical wellbeing.

UKEF also remains committed to recruiting, supporting and retaining staff with disabilities or long-term health conditions. To help disabled staff, we ask all staff to complete a reasonable adjustment form and have an adjustment passport to ensure they have the tools they need to do their job. We also have a Disability and Carers Network to further support staff.

Our sickness absence levels have remained low, albeit with a very slight increase year on year, in the past couple of years; the level is still well below the average for the public sector.

Average working days lost

UKEF

4.0

Public sector average

6.4

Staff with no sickness absence

2023

62%

Trade union relationships and trade union facility time

Relationships with UKEF trade unions are productive and span a range of areas including pay and reward, HR policy development, diversity and inclusion, wellbeing and formal cases.

Our recognised trade unions are the Public and Commercial Services Union and the Association of First Division Civil Servants. There are 8 union representatives among UKEF's workforce, including one Health and Safety Representative. A number of nominated representatives attend monthly meetings with HR colleagues and bi-annual meetings with senior management. This year, these meetings equated to an estimated 153 hours of facility time between the 8 representatives, for an estimated cost of £4,061 during the year. Both collectively and individually, trade union representatives spent less than 1% of their working hours on facility time.

We estimate the time spent on paid trade union activities as a percentage of total paid facility time hours to be 100%.

Number of employees who were relevant union officials during the relevant period	8
Number of employees who were relevant union officials by percentage of working hours spent on facility time	
0%	0
1-50%	8
51-99%	0
100%	0
Percentage of the total pay bill spent on facility time	0.01%
Time spent on paid trade union activities	153 hours

Pay multiples/fair pay disclosures

This section is subject to external audit.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in UKEF in the financial year 2022-23 was £305,000-£310,000 (2021-22: £305,000-£310,000: no increase from last year to this). The highest-paid director's remuneration was 5.96 times (2021-22: 6.60) the median remuneration of the workforce, which was £52,000 (2021-22: £46,586, an increase of 11.6% compared with last year).

The average percentage change from 2021-22 to 2022-23, in respect of employees of UKEF (excluding the highest-paid director) is +4.55% for salaries and allowances and +10.01% for performance pay/bonuses.

In 2022-23, no employees (2021-22: 0) received remuneration in excess of the highest-paid director. Remuneration ranged from £24,500 to £310,000 (2021-22: £23,876 to £310,000).

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

	2022-23	2021-22
Band of highest paid director's total remuneration (£'000)	305-310	305-310
Range of staff total remuneration (£)	24,500-310,000	23,876-310,000
Median staff total remuneration (£)	52,000	46,586
Remuneration ratio	5.96	6.60

In 2022-23, as one Chief Executive Officer left, he was replaced by one interim and one permanent CEO in this year. For reference, the highest-paid director quoted here is the outgoing CEO.

The ratio increased because staff salaries increased on average, while the highest-paid director's salary did not change.

For performance management, UKEF set aside 3.2% of its pay bill to fund a non-consolidated performance pot for staff below the Senior Civil Service (SCS) salary band. A small element of this pot is used for in-year recognition awards, while the majority of the pot funds year-end performance awards, based on employees' performance during 2021-22. Awards were paid to individuals in July 2022.

The criteria for performance awards were based on how individuals performed against their objectives (what they delivered) and the extent to which they demonstrated the department's values (how they delivered).

All employees have a year-end appraisal and any performance awards are subject to a validation process which includes final approval by UKEF's Executive Committee.

For all SCS staff, 3.3% of the pay bill was set aside to fund performance awards; again, a small part of this was set aside for in-year awards, with the majority being used for year-end awards. Following year-end assessments, one of 3 performance ratings is assigned; only those receiving a **Top** rating are eligible for an award. Any performance awards are subject to final ratification by UKEF's Remuneration Committee (UKEF's non-executive directors). Year-end performance awards for SCS staff were paid in August 2022.

The Chief Executive's contract allows for a year-end award based on performance. Following a year-end assessment conducted by the Department for Business and Trade's Permanent Secretary, feedback is presented to UKEF's Remuneration Committee. The Remuneration Committee and the Chair of UKEF's Board discuss any potential award and a formal submission is then sent to the Secretary of State for endorsement. The Chief Executive's award was paid in September 2022.

For the second year, we examined pay multiples in the lower quartile, mid-point and higher quartile.

The mid-point of the band for the highest-paid director for 2022-23 is:

- £310,000 (total remuneration)
- £257,500 (salary component only)

25th percentile: total salary/allowances for all staff except the highest-paid director:

- 2022-23:
  £39,070 (a ratio of: 7.93:1)
  (2021-22: 8.55:1)

  Salary component only:

- 2022-23:
  £37,145 (a ratio of 6.93:1)
  (2021-22): 7.36:1)

50th percentile: total salary/allowances:

- 2022-23:
  £52,000 (a ratio of 5.96:1)
  (2021-22: 6.60:1)

  Salary component:

- 2022-23:
  £48,899 (a ratio of 5.27:1)
  (2021-22: 5.85:1)

75th percentile: total salary/allowances:

- 2022-23:
  £66,013 (a ratio of 4.70:1)
  (2021-22: 4.82:1)

  Salary component:

- 2022-23:
  £60,690 (a ratio of: 4.24:1)
  (2021-22: 4.44:1)

Directors' salaries and pension entitlements

This section is subject to external audit.

UKEF directors have salary, bonus and pension growth figures in their pay calculations and do not benefit from any allowances, overtime or reserved rights to London.

This report is based on accrued payments made by the department and so is recorded in these accounts.

Bonuses are based on attained performance levels and are made as part of the appraisal process. The Cabinet Office sets the parameters for Senior Civil Servants' performance awards. Owing to the nature of the performance appraisal cycle, end-of-year bonuses are paid in the year following that for which the performance has been assessed, so the bonuses reported in 2022-23 relate to performance in 2021-22.

None of the directors received any benefits in kind during the year.

The employment costs, remuneration and declarations of interest relating to UKEF's ministers and special advisers are disclosed in the Department for Business and Trade's Annual Report and Accounts.

Director	Salary £'000		Bonus payments £'000		Pension benefits £'000		Total £'000	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
Louis Taylor Chief Executive Officer (to 30 Sept 2022)	125-130 (255-260 FTE)	255-260	50-55	50-55	N/A	N/A	180-185 (305-310 FTE)	305-310
Cameron Fox Chief Finance & Operating Officer	140-145	135-140	5-10	5-10	52	53	200 - 205	200-205
Samir Parkash Chief Risk Officer (Interim CEO, Oct-Dec 2022)	220 - 225	200-205	5-10	5-10	N/A	N/A	230-235	205-210
Tim Reid Chief Executive Officer (from Jan 2023)	55-60 (230-235 FTE)	N/A	N/A	N/A	N/A	N/A	55-60 (230-235 FTE)	N/A

Civil Service pensions

This section is subject to external audit.

Official	Accrued pension as at 31 March 2023 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2023 £'000	CETV at 31 March 2022 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account Nearest £100
Loius Taylor Chief Executive Officer	0	0	0	0	0	19,000
Cameron Fox Chief Finance & Operating Officer	25-30	2.5-5	315	263	25	0
Samir Parkash Chief Risk Officer	0	0	0	0	0	31,000
Tim Reid Chief Executive Officer	0	0	0	0	0	29,400

Notes

Accrued pension: the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Cash equivalent transfer value (CETV): the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV payment is made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued due to their total membership of the pension scheme, not just their service in the senior capacity to which the disclosure requirement applies.

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

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

Fees paid to non-executive directors and council members

This section is subject to external audit.

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

The total payments to non-executive directors and EGAC members for the year were in the following ranges. These disclosures are subject to external audit.

Vanessa Havard-Williams is also a member of EGAC but has elected not to accept a fee. Civil servants and public servants employed by other departments and government companies do not receive fees for their attending UKEF Board meetings.

Non-executive member	Fees for 2022-23 £000	Fees for 2021-22 £000
Noël Harwerth Chair of UKEF Board, member of Remuneration and Nominations Committee	45-50	45-50
Lawrence M. Weiss Member of UKEF Board, member of Risk and Remuneration and Nominations Committees, Chair of Audit Committee	15-20	15-20
Kimberley Wiehl Member of UKEF Board, member of Audit, Risk and Remuneration and Nominations Committees	10-15	10-15
Tim Frost Member of UKEF Board, Chair of Risk Committee	15-20	n/a
Jackie Keogh Member of UKEF Board, member of Audit, Risk and Remuneration and Nominations Committees	10-15	n/a
Alistair Clark Chair of EGAC, member of UKEF Board, left 31 Oct 2022	5-10	0-5
Ben Caldecott Member of EGAC	0-5	0-5
Harold Freeman Member of EGAC	0-5	n/a
Sarah Steele Member of EGAC	0-5	n/a
John Morrison Member of EGAC	0-5	0-5
Stephen Prior Member of EGAC	0-5	0-5
Roseline Wanjiru Member of EGAC	0-5	0-5

Off-payroll engagements

Departments publish annual information on their highly paid and/or senior off-payroll engagements. The following tables provide information on those off-payroll engagements paid more than £245 per day in 2022-23.

Highly paid off-payroll worker engagements as at 31 March 2023

No. of existing engagements at 31 March 2023	23
of which, had existed for	
less than 1 year	17
between 1 and 2 years	3
between 2 and 3 years	2
between 3 and 4 years	0
4 years or more at the time of reporting	1
Total	23

All highly paid off-payroll workers engaged at any point in 2022-23, earning £245 per day or greater

Tax assurance for new off-payroll engagements

No. of temporary off-payroll workers engaged in 2022-23	50
of which	
not subject to off-payroll legislation	1
subject to off-payroll legislation and determined as in-scope of IR35	32
subject to off-payroll legislation and determined as out-of-scope of IR35	17
reassessed for compliance or assurance purposes during the year	0
of which: saw a change to IR35 status following review	0
Total	50

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

No. of off-payroll engagements of Board members, and/or senior officials with significant financial responsibility during the year	2
No. of individuals that have been deemed “Board members and or senior officials with significant financial responsibility” during the year	17

Cost of off-payroll engagements

The total cost for the year 2022-23, including engagements of individuals whose daily cost was less than £245 per day, was £4,585,911 (2021-22: £2,520,661).

Expenditure on consultancy

Total expenditure on consultancy in 2022-23 amounted to £6,072,206 (2021-22: £4,556,023). The increase this year continues to result from increased activity on the Financial Reporting Changes Programme.

Business appointment rules

UKEF adheres to the guidelines in respect of the business appointment rules for civil servants who leave the Crown Service. As a ministerial department, UKEF does not have any special advisers.

HR processes are in place to ensure civil servants who leave the department meet their obligations. When Senior Civil Servants leave the department (where relevant), their information is disclosed in the department’s quarterly transparency data returns.

Compensation for loss of office

This section is subject to external audit.

UKEF made one exit payment under Civil Service Compensation Scheme terms during 2022-23 (£74,362) and one Special Severance Payment (£29,958) as agreed with HM Treasury.

Severance packages and departures at March 2023

	2022-23			2021-22		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£25,000 - £50,000	-	1	1	-	1	1
£50,000 - £100,000	-	1	1	-	1	1
Total no. of exit packages	-	2	2	-	2	2
Total cost £'000	**-**	**-**	**104**	**-**	**-**	**114**

Parliamentary accountability and audit

All information in this chapter is subject to external audit

Tim Reid
Chief Executive Officer

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires UKEF to prepare a Statement of Outturn against Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by its Supply Estimate, called control limits, its accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contains a summary table, detailing performance against the control limits that Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: outturn by estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the Statement of Comprehensive Net Income (SoCNI) to tie the SoPS to the financial statements (note 2); and a reconciliation of outturn to net cash requirement (note 3).

The SoPS and estimates are compiled against the budgeting framework, which is similar, but different to IFRS. An understanding of the budgeting framework and an explanation of key terms is provided in the Chief Finance and Operating Officer's report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

Summary tables 2022-23

		2022-23								2021-22
		Outturn			Estimate			Outturn vs Estimates saving/ (excess)		Outturn
Type of spend	SoPS note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted	Total	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Departmental Expenditure Limit										
Resource	SoPS1.1	-	-	-	2	-	2	2	2	-
Capital	SoPS1.2	1,002	-	1,002	2,216	-	2,216	1,214	1,214	1,413
Total DEL		1,002	-	1,002	2,218	-	2,218	1,216	1,216	1,413
Annually Managed Expenditure										
Resource	SoPS1.1	(302,951)	-	(302,951)	1,109,391	-	1,109,391	1,412,342	1,412,342	(323,965)
Capital	SoPS1.2	129,317	-	129,317	798,953	-	798,953	669,636	669,636	457,131
Total AME		(173,634)	-	(173,634)	1,908,344	-	1,908,344	2,081,978	2,081,978	133,166
Total budget										
Resource	SoPS1.1	(302,951)	-	(302,951)	1,109,393	-	1,109,393	1,412,344	1,412,344	(323,965)
Capital	SoPS1.2	130,319	-	130,319	801,169	-	801,169	670,850	670,850	458,544
Total		(172,632)	-	(172,632)	1,910,562	-	1,910,562	2,083,194	2,083,194	134,579

Figures in the areas outlined in thick lines cover the control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2022-23

		2022-23			2021-22
	Note	Outturn	Estimate	Outturn vs Estimate, savings/(excess)	Outturn
		£'000	£'000	£'000	£'000
Net cash requirement	SoPS3	(181,217)	1,135,374	1,316,591	(117,027)

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, 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.

Administration costs 2022-23

		2022-23			2021-22
	Note	Outturn	Estimate	Outturn vs Estimate, savings/(excess)	Outturn
		£'000	£'000	£'000	£'000
Administration costs	SoPS1.1	-	2	2	-

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanations of variances between the estimate and the outturn are given in the management commentary within the Chief Finance and Operating Officer's report and in note 1 below.

The notes on pages 144 to 146 form part of the Statement of Outturn against Parliamentary Supply.

Notes to the SoPS, 2022-23

SoPS1. Outturn detail by estimate line

SoPS1.1 Analysis of resource outturn by estimate line

	2022-23											2021-22
	Resource outturn							Estimate			Outturn vs estimates saving/ (excess)	Outturn
	Administration			Programme								
Type of spend (resource)	Gross £'000	Income £'000	Net £'000	Gross £'000	Income £'000	Net £'000	Total £'000	Total £'000	Virements £'000	Total inc. virements £'000	£'000	Total £'000
Voted spending in DEL												
A Export credit guarantees and investment	76,904	(76,904)	-	-	-	-	-	2	-	2	2	-
Total	76,904	(76,904)	-	-	-	-	-	2	-	2	2	-
Voted spending in AME												
B Export credits	-	-	-	107,003	(296,602)	(189,599)	(189,599)	588,160	-	588,160	777,759	(237,240)
C Fixed Rate Export Finance assistance	-	-	-	56	(63)	(7)	(7)	173	-	173	180	(39)
D Loan and interest equalisation	-	-	-	-	(28)	(28)	(28)	(28)	-	(28)	-	(107)
E Direct lending	-	-	-	58,790	(172,107)	(113,317)	(113,317)	521,086	-	521,086	634,403	(86,579)
Total	-	-		165,849	(468,800)	(302,951)	(302,951)	1,109,391	-	1,109,391	1,412,342	(323,965)
Total resource	76,904	(76,904)	-	165,849	(468,000)	(302,951)	(302,951)	1,109,393	-	1,109,393	1,412,344	(323,965)

Virements are the reallocation of provision in the estimates that do not require Parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury).

Explanation of variances between resource outturn by estimate:

A. Voted spending in RDEL – UKEF operates (with HM Treasury approval) a zero net RDEL regime for administration costs, whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2020 and 2021, UKEF has a maximum amount of income which can be used to fully offset expenditure. Annually, as part of the Supply Estimates process, HM Treasury approves the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover risk and administration costs.

B. Export credits £778 million – the budget includes underlying scenarios for volatile factors such as foreign exchange movements and credit risk, including expected losses on the portfolio and for provisions that might be required against our claims assets. In part due to the strengthening dollar and improved outlook in the aerospace sector, overall outturn came in below estimate.

E. Direct lending £634 million – the variance largely relates to foreign exchange movements on expected lending activity for which a significant exchange loss was budgeted for in the estimate. The full year outturn was a foreign exchange gain. UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk. See note 18 to the financial statements for further information on UKEF's foreign currency risk.

SoPS1.2 Analysis of capital outturn by estimate line

	2022-23							2021-22
	Outturn			Estimate			Outturn vs estimates saving/ (excess)	Outturn
Type of spend (capital)	Gross £'000	Income £'000	Net £'000	Total £'000	Virements £'000	Total inc. virements £'000	£'000	Total £'000
Voted spending in DEL								
A Export credit guarantees and investments	1,002	-	1,002	2,216	-	2,216	1,214	1,413
Total	1,002	-	1,002	2,216	-	2,216	1,214	1,413
Voted spending in AME								
B Export credits	-	-	-	-	-	-	-	-
C Fixed Rate Export Finance assistance	-	-	-	-	-	-	-	-
D Loans and interest equalisation	-	(1,019)	(1,019)	(504)	-	(504)	515	(1,099)
E Direct lending	321,911	(191,575)	130,336	799,457	-	799,457	669,121	458,230
Total	321,911	(192,594)	129,317	798,953	-	798,953	669,636	457,131
Total capital	322,913	(192,594)	130,319	801,169	-	801,169	670,850	458,544

Explanation of variances between capital outturn and estimate:

E. Direct lending £669 million – the budget included assumptions for foreign exchange movements as most loans are denominated in currencies other than sterling. Also, an estimate for the value of direct lending deals likely to be done in-year was included to meet possible customer demand forecast by the business. There were overall lower drawings as some of those deals did not materialise or were not finalised by 31 March 2023. More details of UKEF's risks can be found in note 18 of the financial statements.

SoPS2 Reconciliation of outturn to net operating expenditure

The total resource outturn in the SoPS is the same as net operating expenditure in the SoCNI; therefore, this reconciliation is not relevant for UKEF.

SoPS3 Reconciliation of net resource outturn to net cash requirement

	SoPS note	Outturn	Estimate	Outturn vs estimates saving/(excess)
		£'000	£'000	£'000
Resource outturn	SoPS1.1	(302,951)	1,109,393	1,412,344
Capital outturn	SoPS1.2	130,319	801,169	670,850
Accruals to cash adjustments				
Adjustments to remove non-cash items:				
Depreciation & amortisation of equipment and intangible assets		(1,506)	(1,560)	(54)
Net foreign exchange differences & other non-cash items		187,029	(638,201)	(825,230)
New provisions and adjustments to previous provisions		(149,948)	(835,126)	(685,178)
Adjustments to reflect movements in working balances:				
Other adjustments		962	-	(962)
Increase/(Decrease) in receivables		(194,994)	507,325	702,319
Increase/(Decrease) in payables		149,872	192,374	42,502
Net cash requirement		(181,217)	1,135,374	1,316,591

Regularity

I can confirm that, for the financial year ended 31 March 2023, neither I, nor my staff, authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money and UKEF's Treasury Consent, and that Treasury approval was obtained for all novel, contentious or repercussive transactions relating to 2022-23.

Other Parliamentary accountability disclosures

In 2022-23 UKEF has not made any special payments or gifts and does not have any remote contingent liabilities requiring disclosure per Managing Public Money. There are also no losses, individually or in aggregate, in excess of £300,000 which would require separate disclosure during the year or that have been recognised since that date.

Tim Reid
Chief Executive and Accounting Officer
22 June 2023

Richard Hill, the Export Finance Manager for Essex, Norfolk and Suffolk

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the Export Credits Guarantee Department for the year ended 31 March 2023 under the Government Resources and Accounts Act 2000.

The financial statements comprise the Department's:

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Net Income, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the Department's affairs as at 31 March 2023 and its net operating income for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1(D) to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities.

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

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the Department in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Department's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Department's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Department is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with

HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Department and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

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

- Adequate accounting records have not been kept by the Department or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the Department from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;

- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- assessing the Department's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Department will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud.

In identifying and assessing risks of material misstatement in respect of non compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Department's accounting policies and key performance indicators.
- inquired of management, the Department's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department's controls relating to the Department's compliance with the Government Resources and Accounts Act 2000, Managing Public Money, the Export and Investment Guarantees Act 1991 and the HM Treasury consents made thereunder, and the UK government sanctions regime.
- inquired of management, the

Department's head of internal audit and those charged with governance whether:

- they were aware of any instances of non-compliance with laws and regulations;
- they had knowledge of any actual, suspected, or alleged fraud.

- discussed with the engagement team and the relevant internal and external specialists, including Modelling and Credit Risk experts, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Department for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Department's framework of authority and other legal and regulatory frameworks in which the Department operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Department. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2022, employment law, tax legislation, the Export and Investment Guarantees Act 1991 and the HM Treasury consents made thereunder, and the UK government sanctions regime.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board; and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

27 June 2023

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

Financial statements

Marie Hall, the Export Finance Manager team's Regional Head for Midlands, Wales and South West

Financial statements

UK Export Finance 2022-23
at 31 March 2023

Statement of Comprehensive Net Income

For the year ended 31 March 2023	Note	2022-23 £'000	2021-22 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		384,930	566,736
Less ceded to reinsurers		(72,061)	(125,493)
Net premium income	**3**	**312,869**	**441,243**
Net investment return	4	21,834	14,462
Net foreign exchange gain	7	11,986	9,159
Total Income		**346,689**	**464,864**
Expenses			
Net claims charge for the year	6	(16,080)	(10,078)
Changes in insurance liabilities (net of reinsurance)	16	(64,195)	(151,284)
Staff costs	8	(30,977)	(27,142)
Other administration and operating costs	9	(28,948)	(24,603)
Total expenses		**(140,200)**	**(213,107)**
Net income/(loss) arising from Export Credit Guarantees and Insurance Activities		**206,489**	**251,757**
Export Finance Assistance			
Income			
Net Investment Return	4	34,926	50,760
Net foreign exchange gain	7	78,426	35,965
Total Income		**113,352**	**86,725**
Expenses			
Staff costs	8	(8,731)	(7,614)
Other administration and operating costs	9	(8,159)	(6,903)
Total expenses		**(16,890)**	**(14,517)**
Net income/(loss) arising from Export Finance Assistance Activities		**96,462**	**72,208**
Net Operating Income/(loss) for the year		**302,951**	**323,965**

All income and expenditure are derived from continuing operations.

The Notes on pages 161 to 202 form part of these accounts.

Statement of Financial Position

As at 31 March 2023

	Note	2022-23 £'000	2021-22 £'000
Non-current assets			
Right of Use, Equipment and intangible assets		5,160	1,808
Loans and receivables	10	2,305,585	2,227,715
Insurance assets	11	243,911	229,305
Reinsurers' share of insurance liabilities	12	606,168	631,729
Insurance and other receivables	13	211,126	305,854
Total non-current assets		**3,371,950**	**3,396,411**
Current assets			
Financial assets at fair value through profit and loss		-	52
Loans and receivables	10	256,597	183,110
Insurance assets	11	49,156	41,618
Insurance and other receivables	13	115,079	146,166
Cash and cash equivalents	14	681,217	329,685
Total current assets		**1,102,049**	**700,631**
Total assets		**4,473,999**	**4,097,042**
Current liabilities			
Financial liabilities at fair value through profit and loss		-	(2)
Consolidated Fund Payable	14	(681,217)	(329,685)
Insurance and other payables	15	(158,610)	(183,446)
Total current liabilities		**(839,827)**	**(513,133)**
Non-current assets plus net current assets		**3,634,172**	**3,583,909**
Non-current liabilities			
Insurance Liabilities	16	(2,104,234)	(2,065,600)
Insurance and other payables	15	(187,447)	(297,822)
Total non-current liabilities		**(2,291,681)**	**(2,363,422)**
Assets less liabilities		**1,342,491**	**1,220,487**
Taxpayers' equity			
Exchequer Financing		(2,149,892)	(2,134,315)
Cumulative Trading Surplus		4,142,702	3,936,213
General Fund		(650,319)	(581,411)
Total taxpayers' equity		**1,342,491**	**1,220,487**

The Notes on pages 161 to 202 form part of these accounts.

Tim Reid
Chief Executive and Accounting Officer
22 June 2023

Statement of Cash Flows

For the year ended 31 March 2023

	Note	2022-23 £'000	2021-22 £'000
Cash flows from operating activities			
Net operating income/(loss)		302,951	323,965
Adjustments for non-cash transactions:			
Depreciation of equipment	9	1,506	498
Other:			
Audit fees	9	270	240
Amortised loans & receivables income	10	(93,700)	(83,784)
Net unrealised foreign exchange (gain)/loss on net assets other than cash	7	(93,599)	(43,362)
Provisions:			
Insurance liabilities net of reinsurance movement	16	64,195	151,284
Financial guarantees provision movement	15	12,389	(904)
Claims provision movement	6	3,691	10,982
Interest on claims provision movement	11(b)	10,863	13,740
Dilapidation provision	15	20	-
Impairment of uninsured Capital Loans	10	58,790	38,376
Movements in Working Capital other than cash:			
Claims assets before provisions	11(a)	(27,988)	(11,006)
Interest on claims assets before provisions	11(b)	5,529	(935)
Loans & receivables	10	90,652	105,186
Insurance & other receivables		126,749	(77,708)
Insurance & other payables		(149,870)	148,795
Financial assets held at fair value		52	260
Financial liabilities held at fair value		(2)	(56)
Net cash inflow/(outflow) from operating activities		**312,498**	**575,571**
Cash flows from investing activities			
Purchase of equipment and intangibles		(1,002)	(1,413)
Export Finance Assistance loans:			
Advances	10	(321,911)	(655,187)
Recoveries	10	192,594	198,056
Net cash inflow/(outflow) from operating activities		**(130,319)**	**(458,544)**
Net cash inflow/(outflow) from operating and investing activities		**182,179**	**117,027**
Cash flows from financing activities			
Payment of lease liabilities		(962)	-
Receipts from the Consolidated Fund (Supply):			
relating to the prior year		500,000	100,000
Net cash inflow/(outflow) from financing activities		**499,038**	**100,000**
Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund		**681,217**	**217,027**
Payments to the Consolidated Fund:			
relating to the prior year		(329,685)	-
Net increase/(decrease) in cash and cash equivalents in the year		**351,532**	**217,027**
Cash and cash equivalents at the beginning of the year		**329,685**	**112,658**
Cash and cash equivalents at the end of the year		**681,217**	**329,685**

The Notes on pages 161 to 202 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2023

	Note	Exchequer financing £'000	Culmulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2021		**(2,155,673)**	**3,684,456**	**(515,474)**	**1,013,309**
Changes in taxpayers' equity for 2021-2022					
Non-Cash Adjustments:					
Auditors' remuneration	9	240	-	-	240
Movements in Reserves:					
Transfers between reserves		138,145	-	(138,145)	-
Recognised in Statement of Comprehensive Net Income		-	251,757	72,208	323,965
Total recognised income and expense for 2021-22		**138,385**	**251,757**	**(65,937)**	**324,205**
Amounts arising in year payable to the consolidated fund		(117,027)	-	-	(117,027)
Balance at 31 March 2022		**(2,134,315)**	**3,936,213**	**(581,411)**	**1,220,487**
Changes in taxpayers' equity for 2022-23					
Non-cash adjustments:					
Auditors' remuneration	9	270	-	-	270
Movements in Reserves:					
Transfers between reserves		165,370	-	(165,370)	-
Recognised in Statement of Comprehensive Net Income		-	206,489	96,462	302,951
Total recognised income and expense for 2022-23		**165,640**	**206,489**	**(68,908)**	**303,221**
Amounts arising in year payable to the consolidated fund		(181,217)	-	-	(181,217)
Balance at 31 March 2023		**(2,149,892)**	**4,142,702**	**(650,319)**	**1,342,491**

The Notes on pages 161 to 202 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 2022-23 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.

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

(B) Initial application of IFRS 16: Leases

The 2022-23 FReM applies financial reporting standards that are effective for the financial year. UKEF has, per the FReM requirement, applied IFRS 16: Leases for the first time in 2022-23. IFRS 16 replaces IAS 17: Leases. The impact of the new standard on the UKEF financial statements is not significant.

UKEF adopted the practical expedients in the FReM and applied a ‘cumulative catch-up’ approach, which involved making an adjustment to the opening balance of equity, rather than retrospectively applying IFRS 16 to the prior period.

The adoption of this new standard has resulted in the recognition of a £3.8m right-of-use asset and related lease liability on 1st April 2022 in connection with former operating leases captured by this change.

(C) Future accounting developments

Several accounting 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 (IFRS 9 and 17) 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 financial 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 at the same time as IFRS 17 becomes effective. 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 (however, see below for the implementation date in the public sector).

In September 2016, the IASB issued Applying IFRS 9: Financial instruments with IFRS 4: Insurance contracts (amendments to IFRS 4), 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 it has not previously applied any version of IFRS 9 and 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 been delayed by two years until 2025-26. There is therefore still some uncertainty about how it may affect UKEF. The effective date of IFRS 17 for central government departments including UKEF is for the annual period beginning on 1 April 2025.

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 one of them. As a result, UKEF started a multi-year Financial Reporting Changes Programme, involving cross departmental functions, to implement the two standards.

Management continues to assess the impact of these new standards as part of the ongoing Programme to implement the changes. Management has considered several of the IFRS 9 and IFRS 17 technical decisions, options and accounting judgements that will shape the department's future accounting policies and their impact, including key design decisions. These decisions, options and judgements will form the basis of the working assumptions to be used in the implementation of the two standards.

(D) Significant judgement and estimates

The preparation of these financial statements includes the use of significant judgements 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(E) for details);
- the deferral of the application of IFRS 9 (refer to note 1(C) for details); and
- the estimation of the future cash flows in the calculation of impairment of financial assets (see note 1(K) 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 (All accounts apart from the Direct Lending and FREF account)

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.

(E) Insurance contracts

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.

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, profit arising from policies allocated to each underwriting year is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year).

Liability adequacy test

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

Comprehensive Net Income to reduce the Fund value to the level of the maximum exposure.

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

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

Premium income

Premium income for the underwriting year is recognised on all guarantees and insurance contracts that become effective during the year (including income for which deferred payment terms have been agreed).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.

Insurance assets

Claims: are recognised as payables when authorised. Recoveries: where a realistic prospect of full or partial recovery of an authorised claim exists, the estimated recovery proceeds (value of the claim less a provision), net of estimated expenses in achieving the recovery, are included as assets in the Statement of Financial Position, as "insurance assets". When UKEF considers that it is no longer practicable or cost effective to pursue recovery, recoveries are formally abandoned and 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.

UKEF determines that, based on its experience over recent years, interest accruing on recoverable 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 recoverable claim to which it applies.

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.

(F) 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. Where the liabilities are measured using the latter value they are disclosed as "Provisions for likely claims on financial guarantees".

(G) 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.

(H) Consolidated Fund payable

The amount payable to the Consolidated Fund is equivalent to UKEF's bank balances at the Statement of Financial Position date.

(I) 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, as agreed with HM Treasury, 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.

(J) 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: Remuneration and Staff report section of the Annual Report.

(K) Financial assets

Recognition and measurement

Financial assets are recognised and derecognised on the relevant trade date.

'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

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

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

If the carrying value of a financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the Statement of Comprehensive Net Income in the period of impairment. For 'loans and receivables', the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows (selected as the most likely from a number of scenarios), 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.

2 Segmental information

UKEF applies IFRS 8 – Operating Segments considering UKEF's legal and regulatory reporting requirements. These form the basis of the operating results that are regularly reviewed by the chief operating decision maker. The chief operating decision maker is the Accounting Officer who is responsible for allocating resources and assessing performance of the operating segments.

UKEF's operations are categorised into one of the following Accounts:

Active accounts:

- **Account 2 – Guarantees & Insurance Account:** relates to the credit risk arising from guarantees and insurance issued for business since April 1991
- **Account 3 – National Interest Account:** 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 5 – Direct Lending Account:** relates to the provision of direct lending (in the normal course of business) since 2014

Closed accounts as at 31st March 2023:

- **Account 1 – Pre 1991 Guarantees & Insurance Account:** 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 4 – Fixed Rate Export Finance Account:** relates to the provision of Fixed Rate Export Finance (FREF) to banks, together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements
- **Account 6 – Temporary Covid-19 Support Account:** relates to all business underwritten and booked under the Temporary Covid-19 Risk Framework (TCRF) – approved by HM Treasury since 2 April 2020 but closed to new business since 31 July 2022

i. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2023

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Income							
Gross premium income	-	272,474	25	-	-	112,431	384,930
Less ceded to reinsurers	-	(44,833)	-	-	-	(27,228)	(72,061)
Net premium income	-	227,641	25	-	-	85,203	312,869
Net investment return income	13,162	4,762	16,217	35	18,674	3,910	56,760
Claims credit	11,397	-	-	-	-	-	11,397
Net foreign exchange gain	6,161	6,050	-	-	78,426	-	90,637
Total Income	**30,720**	**238,453**	**16,242**	**35**	**97,100**	**89,113**	**471,663**
Expenses							
Claims charge & provision for likely claims	-	(27,477)	-	-	-	-	(27,477)
Changes in insurance liabilities net of reinsurance	-	(52,669)	(387)	-	-	(11,139)	(64,195)
Staff costs	(278)	(24,976)	(2,700)	(59)	(8,240)	(3,455)	(39,708)
Other administration and operating cosst	(260)	(23,340)	(2,523)	(54)	(7,701)	(3,229)	(37,107)
Net foreign exchange loss	-	-	-	-	-	(225)	(225)
Total expenses	**(538)**	**(128,462)**	**(5,610)**	**(113)**	**(15,941)**	**(18,048)**	**(168,712)**
Net income/(loss)	**30,182**	**109,991**	**10,632**	**(78)**	**81,159**	**71,065**	**302,951**

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2022

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Income							
Gross premium income	-	465,192	-	-	-	101,544	566,736
Less ceded to reinsurers	-	(122,582)	-	-	-	(2,911)	(125,493)
Net premium income	-	342,610	-	-	-	98,633	441,243
Net investment return income	11,039	1,294	13,684	146	36,930	2,129	65,222
Claims credit	4,163	-	-	-	-	-	4,163
Net foreign exchange gain	3,775	5,412	-	-	35,965	-	45,152
Total Income	**18,977**	**349,316**	**13,684**	**146**	**72,895**	**100,762**	**555,780**
Expenses							
Net claims charge for the year	-	(14,241)	-	-	-	-	(14,241)
Changes in insurance liabilities net of reinsurance	-	(135,933)	-	-	-	(15,351)	(151,284)
Staff costs	(243)	(22,348)	(973)	(139)	(7,125)	(3,928)	(34,756)
Other administration and operating cost	(221)	(20,258)	(882)	(126)	(6,459)	(3,560)	(31,506)
Net foreign exchange loss	-	-	-	-	-	(28)	(28)
Total expenses	**(464)**	**(192,780)**	**(1,855)**	**(265)**	**(13,584)**	**(22,867)**	**(231,815)**
Net income/(loss)	**18,513**	**156,536**	**11,829**	**(119)**	**59,311**	**77,895**	**323,965**

iii. Additional segmental information

For the year ended 31 March 2023, there were three customers (the parties paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. These customers accounted for net premium income of £177 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 2023

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Non-current assets							
Right of use, equipment and intangible assets	-	5,160	-	-	-	-	5,160
Loans & receivables	-	-	969,568	-	1,336,017	-	2,305,585
Insurance assets	93,517	150,394	-	-	-	-	243,911
Reinsurers' share of insurance liabilities	-	520,828	23,232	-	-	62,108	606,168
Insurance and other receivables	22	117,669	-	-	-	93,435	211,126
Total non-current assets	**93,539**	**794,051**	**992,800**	**-**	**1,336,017**	**155,543**	**3,371,950**
Current assets							
Loans & receivables	-	-	39	-	256,558	-	256,597
Insurance assets	48,541	615	-	-	-	-	49,156
Insurance and other receivables	19	58,739	-	-	2	56,319	115,079
Cash and cash equivalents	61,948	123,372	8,844	1,019	431,071	54,963	681,217
Total current assets	**110,508**	**182,726**	**8,883**	**1,019**	**687,631**	**111,282**	**1,102,049**
Total assets	**204,047**	**976,777**	**1,001,683**	**1,019**	**2,023,648**	**266,825**	**4,473,999**
Current liabilities							
Consolidated Fund (Payable)/Receivable	(61,948)	(123,372)	(8,844)	(1,019)	(431,071)	(54,963)	(681,217)
Insurance and other payables	(460)	(134,821)	29	-	(200)	(23,158)	(158,610)
Total current liabilities	**(62,408)**	**(258,193)**	**(8,815)**	**(1,019)**	**(431,271)**	**(78,121)**	**(839,827)**
Non-current assets plus net current assets	**141,639**	**718,584**	**992,868**	**-**	**1,592,377**	**188,704**	**3,634,172**
Non-current liabilities							
Insurance liabilities	-	(1,891,174)	(108,802)	-	-	(104,258)	(2,104,234)
Insurance and other payables	-	(101,082)	-	-	-	(86,365)	(187,447)
Total non-current liabilities	**-**	**(1,992,256)**	**(108,802)**	**-**	**-**	**(190,623)**	**(2,291,681)**
Assets less liabilities	**141,639**	**(1,273,672)**	**884,066**	**-**	**1,592,377**	**(1,919)**	**1,342,491**
Taxpayers' equity							
Exchequer Financing	(1,610,633)	(3,419,657)	1,000,000	-	2,032,351	(151,953)	(2,149,892)
Cumulative Trading Surplus	1,752,272	2,145,985	94,324	-	-	150,121	4,142,702
General Fund	-	-	(210,258)	-	(439,974)	(87)	(650,319)
Total taxpayers' equity	**141,639**	**(1,273,672)**	**884,066**	**-**	**1,592,377**	**(1,919)**	**1,342,491**

v. Segmental Statement of Financial Position at 31 March 2022

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Non-current assets							
Right of use, equipment and intangible assets	-	1,808	-	-	-	-	1,808
Loans & receivables	-	-	967,422	-	1,260,293	-	2,227,715
Insurance assets	132,672	96,633	-	-	-	-	229,305
Reinsurers' share of insurance liabilities	-	573,617	23,232	-	-	34,880	631,729
Insurance and other receivables	-	67,077	-	-	-	238,777	305,854
Total non-current assets	**132,672**	**739,135**	**990,654**	**-**	**1,260,293**	**273,657**	**3,396,411**
Current assets							
Financial assets held at fair value	-	-	-	52	-	-	52
Loans & receivables	-	-	39	1,047	182,024	-	183,110
Insurance assets	41,127	491	-	-	-	-	41,618
Insurance and other receivables	10	56,146	-	3	1	90,006	146,166
Cash and cash equivalents	102,516	495,064	(371,774)	4,092	2,800	96,987	329,685
Total current assets	**143,653**	**551,701**	**(371,735)**	**5,194**	**184,825**	**186,993**	**700,631**
Total assets	**276,325**	**1,290,836**	**618,919**	**5,194**	**1,445,118**	**460,650**	**4,097,042**
Current liabilities							
Financial liabilities held at fair value	-	-	-	(2)	-	-	(2)
Consolidated Fund (Payable)/ Receivable	(102,516)	(495,064)	371,774	(4,092)	(2,800)	(96,987)	(329,685)
Insurance and other payables	(403)	(106,520)	(1)	(3)	(30)	(76,489)	(183,446)
Total current liabilities	**(102,919)**	**(601,584)**	**371,773**	**(4,097)**	**(2,830)**	**(173,476)**	**(513,133)**
Non-current assets plus net current assets	**173,406**	**689,252**	**990,692**	**1,097**	**1,442,288**	**287,174**	**3,583,909**
Non-current liabilities							
Insurance liabilities	-	(1,891,294)	(108,415)	-	-	(65,891)	(2,065,600)
Insurance and other payables	-	(58,520)	-	-	-	(239,302)	(297,822)
Total non-current liabilitie	**-**	**(1,949,814)**	**(108,415)**	**-**	**-**	**(305,193)**	**(2,363,422)**
Assets less liabilities	**173,406**	**(1,260,562)**	**882,277**	**1,097**	**1,442,288**	**(18,019)**	**1,220,487**
Taxpayers' equity							
Exchequer Financing	(1,548,686)	(3,296,557)	1,000,000	1,019	1,806,896	(96,987)	(2,134,315)
Cumulative Trading Surplus	1,722,092	2,035,995	99,073	-	-	79,053	3,936,213
General Fund	-	-	(216,796)	78	(364,608)	(85)	(581,411)
Total taxpayers' equity	**173,406**	**(1,260,562)**	**882,277**	**1,097**	**1,442,288**	**(18,019)**	**1,220,487**

3 Premium Income

Underwriting Premium Income	2022-23 £000	2021-22 £000
Insurance contracts premium receivable (IFRS4)		
Current underwriting year		
Gross Premium	272,949	463,720
Less ceded to insurers	(65,963)	(121,824)
Net Premium income	**206,986**	**341,896**
Previous Underwriting Years		
Gross Premium	1,450	1,753
Less ceded to reinsurers	(6,098)	(3,669)
Net Premium income	**(4,648)**	**(1,916)**
Total		
Gross Premium	274,399	465,473
Less ceded to reinsurers	(72,061)	(125,493)
Net Premium income	**202,338**	**339,980**
Financial guarantees premium amortised (IAS 39)		
Gross Premium	110,531	101,263
Less ceded to reinsurers	-	-
Net Premium income	**110,531**	**101,263**
Total Net Premium income	**312,869**	**441,243**

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(E) for more detail).

4 Net Investment Return

	Note	Account 1 £'000	Account 2 £'000	Account 6 £'000	2022-23 Total £'000	2021-22 Total £'000
Export Credit Guarantees and Insurance						
Interest income	5	13,162	3,515	-	16,677	12,145
Other income		-	1,247	3,910	5,157	2,317
Total income		**13,162**	**4,762**	**3,910**	**21,834**	**14,462**
Net income		**13,162**	**4,762**	**3,910**	**21,834**	**14,462**

	Note	Account 3 £'000	Account 4 £'000	Account 5 £'000	2022-23 Total £'000	2021-22 Total £'000
Export Finance assistance						
Amortised loans & receivables income	10	16,217	28	77,455	93,700	83,784
Gain in fair value of derivatives		-	63	-	63	298
Other income			-	9	9	5,313
Total income		**16,217**	**91**	**77,464**	**93,772**	**89,395**
Impairment of loans & receivables	10	-	-	(58,790)	(58,790)	(38,376)
Loss in fair value of derivatives		-	(56)	-	(56)	(259)
Total costs		**-**	**(56)**	**(58,790)**	**(58,846)**	**(38,635)**
Net income		**16,217**	**35**	**18,674**	**34,926**	**50,760**

5 Interest income

	Note	Account 1 £'000	Account 2 £'000	2022-23 Total £'000	2021-22 Total £'000
Interest arising from claims					
- interest charged in the year	11(b)	13,121	12,795	25,916	25,832
- net (increase) / decrease in provisions for unrecovered interest	11(b)	(1,577)	(9,286)	(10,863)	(13,740)
Interest arising from claims net of provisions		11,544	3,509	15,053	12,092
Other interest		1,618	6	1,624	53
Interest credit for the year		**13,162**	**3,515**	**16,677**	**12,145**

Other Interest includes bank interest on balances with commercial banks

6 Net claims credit and provision for likely claims

	Note	Account 1 £'000	Account 2 £'000	2022-23 Total £'000	2021-22 Total £'000
Amounts authorised and paid in the year	11(a)	-	(122,009)	(122,009)	(103,139)
Expected recoveries on claims authorised and paid in the year		-	70,789	70,789	65,752
Provision on claims authorised and paid in the year		-	(51,220)	(51,220)	(37,387)
Net change in provisions for claims authorised and paid in previous years		11,397	36,132	47,529	26,405
Claims credit charge for the year	**11(a)**	**11,397**	**(15,088)**	**(3,691)**	**(10,982)**
Change in provisions for claims on financial guarantees	15	-	(12,389)	(12,389)	904
Net claims credit & provision for likely claims		**11,397**	**(27,477)**	**(16,080)**	**(10,078)**

There is no reinsurance element included within the figures above.

7 Net foreign exchange gain / (loss)

					2022-23	2021-22
	Note	Account 1 £'000	Account 2 £'000	Account 6 £'000	Total £'000	Total £'000
Export Credit Guarantees and Insurance						
Net foreign exchange gain/(loss) arising on:						
recoverable claims after provisions	11(a)	3,855	7,844	-	11,699	5,218
recoverable interest on claims after provisions	11(b)	2,520	20	-	2,540	1,418
insurance premium receivables		-	918	18	936	(1,000)
financial guarantees provisions		-	15	-	15	(65)
insurance payables		(86)	(466)	(98)	(650)	2,176
cash		(128)	(2,281)	(145)	(2,554)	1,412
Net foreign exchange gain/(loss) for year		**6,161**	**6,050**	**(225)**	**11,986**	**9,159**
	Note		Account 5 £'000	Account 6 £'000	Total £'000	Total £'000
Export Finance Assistance						
Net foreign exchange gain/(loss) arising on:						
loans & receivables	10		77,782	-	77,782	35,930
payables			1,277	-	1,277	(315)
cash			(633)	-	(633)	350
Net foreign exchange gain/(loss) for the year			**78,426**	**-**	**78,426**	**35,965**
					Total £'000	Total £'000
Summary:						
Net foreign exchange gain/(loss) for year on cash assets					(3,187)	1,762
Net foreign exchange gain/(loss) on net assets other than cash					93,599	43,362
Net foreign exchange gain/(loss) for year					**90,412**	**45,124**

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 2023**	**31 March 2022**
Euro	1.14	1.18
Japanese Yen	164.47	159.78
US Dollars	1.24	1.32

8 Staff costs

	2022-23 £'000	2021-22 £'000
Salaries and Wages	28,898	25,683
Social Security Costs	3,610	2,949
Other Pension Costs	7,200	6,124
Total Staff Costs	**39,708**	**34,756**
Of which:		
Export Credit Guarantees and Insurance	30,977	27,142
Export Finance Assistance	8,731	7,614

Details of staff numbers, exit packages and UKEF's remuneration policy can be found in the Our People: Remuneration and Staff report section of the Annual Report.

9 Other administration and operating costs

	2022-23 £'000	2021-22 £'000
Agency Staff	2,412	2,522
Training	668	591
Recruitment	286	242
Travel & Subsistence	1,212	301
Accommodation	2,684	2,620
Other IT	6,143	5,465
Project Costs	7,035	7,141
Legal	423	714
Marketing & Business Promotion	4,164	4,509
Depreciation	1,506	498
Irrecoverable VAT	5,611	4,019
Other Administration	4,963	2,884
Total Other Administrative Costs	**37,107**	**31,506**
Of which:		
Export Credit Guarantees and Insurance	28,948	24,603
Export Finance Assistance	8,159	6,903
Included in the above figures:		
Audit Fees	270	240

The 2022-23 audit fee includes £45k (2021-22, £30k) for the auditor's engagement with the Financial Reporting Changes programme. See Accounting Policy note 1(C) for further details.

10 Loans & receivables

	31 March 2023	31 March 2022
	£'000	£'000
Loans & receivables	2,562,182	2,410,825
Total	**2,562,182**	**2,410,825**
Falling due:		
- within one year	256,597	183,110
- after more than one year	2,305,585	2,227,715

	Note	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Movements:					
Balance at 1 April 2021		**668,489**	**2,175**	**1,306,878**	**1,977,542**
Loans advanced	19	297,438	-	357,749	655,187
Loans recovered		-	(1,099)	(196,957)	(198,056)
Net foreign exchange gain/(loss)		-	-	35,930	35,930
Amortised income		15,665	107	58,798	74,570
Other movement in working capital		(12,150)	(136)	(92,900)	(105,186)
Revision to cash flows		(1,981)	-	11,195	9,214
Impairment provision		-	-	(38,376)	(38,376)
Balance at 31 March 2022		**967,461**	**1,047**	**1,442,317**	**2,410,825**
Loans advanced	19	-	-	321,911	321,911
Loans recovered		-	(1,019)	(191,575)	(192,594)
Net foreign exchange gain/(loss)		-	-	77,782	77,782
Amortised income		17,749	28	64,137	81,914
Other movement in working capital		(14,071)	(56)	(76,525)	(90,652)
Revision to cash flows		(1,532)	-	13,318	11,786
Impairment provision		-	-	(58,790)	(58,790)
Balance at 31 March 2023		**969,607**	**-**	**1,592,575**	**2,562,182**
Of which:					
Capital loans recoverable		1,000,000	-	2,032,351	3,032,351
Net interest receivable		39	-	7,086	7,125
Unamortised income		(22,767)	-	(311,309)	(334,076)
Re-estimation of cash flows		(7,665)	-	9,008	1,343
Impairment provisions		-	-	(144,561)	(144,561)
Falling Due					
- within one year		39	-	256,558	256,597
- after more than one year		969,568	-	1,336,017	2,305,585

Loans are calculated on the amortised cost basis (refer to accounting policy Note 1(K).

The fair value of Export Finance Loans for Account 3 was £872,960,000 (2021-22: 978,500,000), Account 4 ended in November 2022 and therefore was £0 (2021-22: £1,075,000) and Account 5 £1,819,189,000 (2021-22: £1,678,705,000).

11 Insurance assets

	31 March 2023	31 March 2022
	£'000	£'000
Recoverable claims	219,918	183,922
Interest on unrecovered claims	73,149	87,001
Total	**293,067**	**270,923**
Falling due:		
- within one year	49,156	41,618
- after more than one year	243,911	229,305

Insurance assets are shown at their expected recoverable amount. The majority of the balances are subject to market rates of interest

11(a) Recoverable claims

	Account 1	Account 2	Total
	£'000	£'000	£'000
Recoverable claims - gross			
Balance at 1 April 2021	**350,227**	**249,534**	**599,761**
Reclassifications & transfers from interest on unrecovered claims	-	(27)	(27)
Claims & recoverable expenditure approved in the year	-	103,139	103,139
Recoveries made in the year	(29,738)	(62,368)	(92,106)
Recoveries abandoned in the year	(83,462)	5	(83,457)
Net foreign exchange movements	3,124	4,037	7,161
Balance at 31 March 2022	**240,151**	**294,320**	**534,471**
Reclassifications & transfers from interest on unrecovered claims	-	-	-
Claims & recoverable expenditure approved in the year	-	122,009	122,009
Recoveries made in the year	(33,097)	(60,924)	(94,021)
Recoveries abandoned in the year	(14,487)	(2,444)	(16,931)
Net foreign exchange movements	4,981	9,732	14,713
Balance at 31 March 2023	**197,548**	**362,693**	**560,241**
Recoverable claims - provisions			
Balance at 1 April 2021	**239,728**	**181,353**	**421,081**
(Release)/increase of provisions in the year	(4,163)	15,145	10,982
Recoveries abandoned in the year	(83,462)	5	(83,457)
Net foreign exchange movements	938	1,005	1,943
Balance at 31 March 2022	**153,041**	**197,508**	**350,549**
(Release)/increase of provisions in the year	(11,397)	15,088	3,691
Recoveries abandoned in the year	(14,487)	(2,444)	(16,931)
Net foreign exchange movements	1,126	1,888	3,014
Balance at 31 March 2023	**128,283**	**212,040**	**340,323**
Net recoverable claims as at:			
- 31 March 2023	69,265	150,653	219,918
- 31 March 2022	87,110	96,812	183,922
- 31 March 2021	110,499	68,181	178,680

For further details about claims and recoveries, refer to the Chief Risk Officer's report in the Performance report.

There are no recoverable claims on Accounts 3,4 and 6.

11(b) Interest on unrecovered claims

	Account 1 £'000	Account 2 £'000	Total £'000
Interest on unrecovered claims - gross			
Balance at 1 April 2021	**964,336**	**165,336**	**1,129,672**
Interest charged in the year	15,315	10,517	25,832
Interest received in the year	(23,694)	(1,203)	(24,897)
Recoveries abandoned in the year	(476,202)	-	(476,202)
Net foreign exchange movements	5,282	222	5,504
Balance at 31 March 2022	**485,037**	**174,872**	**659,909**
Interest charged in the year	13,121	12,795	25,916
Interest received in the year	(27,960)	(3,485)	(31,445)
Net foreign exchange movements	6,852	326	7,178
Balance at 31 March 2023	**477,050**	**184,508**	**661,558**
Interest on unrecovered claims - provisions			
Balance at 1 April 2021	**866,348**	**164,936**	**1,031,284**
Increase in provisions in the year	4,329	9,411	13,740
Recoveries abandoned in the year	(476,202)	-	(476,202)
Net foreign exchange movements	3,873	213	4,086
Balance at 31 March 2022	**398,348**	**174,560**	**572,908**
Increase in provisions in the year	1,577	9,286	10,863
Net foreign exchange movements	4,332	306	4,638
Balance at 31 March 2023	**404,257**	**184,152**	**588,409**
Net interest on unrecovered claims as at:			
- 31 March 2023	72,793	356	73,149
- 31 March 2022	86,689	312	87,001
- 31 March 2021	97,988	400	98,388

12 Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2021	**577,923**
Movements summary:	
Addition to the underwriting funds in the year	121,823
Net decrease in open cash funds	(1,273)
Net decrease in open credit funds	(9,718)
Other fund movements	(5,942)
Net decrease in insurance liabilities on closed funds	(51,084)
Total Movements	**53,806**
Balance at 31 March 2022	**631,729**
Movements summary:	
Addition to the underwriting funds in the year	65,964
Net decrease in open cash funds	-
Net decrease in open credit funds	(57,247)
Other fund movements	(8,014)
Net decrease in insurance liabilities on closed funds	(26,264)
Total Movements	**(25,561)**
Balance at 31 March 2023	**606,168**

Movements are summarised within Note 16.

13 Insurance and other receivables

	31 March 2023 £'000	31 March 2022 £'000
Insurance premium receivables	310,412	433,870
Insurance prepayments and accrued income	13,371	16,152
Other receivables	2,422	1,998
Total	**326,205**	**452,020**
Falling due:		
- within one year	115,079	146,166
- after more than one year	211,126	305,854

The insurance premium receivables include the premium amounts receivable for financial guarantees accounted for under IAS 39.

14 Cash and cash equivalents

Cash and cash equivalents comprise:	31 March 2023 £'000	31 March 2022 £'000
Government Banking Service	502,846	232,533
Commercial banks and cash in hand	178,371	97,152
Total	**681,217**	**329,685**

The closing cash balance is payable to HM Treasury's Consolidated Fund.

15 Insurance and other payables

	31 March 2023 £'000	31 March 2022 £'000
Financial guarantee liabilities	269,164	403,051
Deferred income and other payables	49,066	65,712
Provisions for likely claims on financial guarantees	23,948	11,574
Finance lease liabilities	2,892	-
Income tax and National Insurance	870	816
Insurance payables - amounts due to policyholders	97	115
Dilapidations provision	20	-
Total	**346,057**	**481,268**
Falling due:		
- within one year	158,610	183,446
- after more than one year	187,447	297,822

The movement in the provision for financial guarantees includes £12,389,000 (2021-22: £904,000) (see Note 6) and (£15,000) (2021-22: (£65,000)) movement on foreign currencies.

The presentation of this note has been amended this year, resulting in the 31 March 2022 comparative for deferred income and other payables now presented as one figure. In last years' accounts, it was presented as £65,679k for Export Credit Guarantees and Insurance and £33k for Export Finance Assistance.

16 Insurance liabilities

Each underwriting fund for an underwriting year is set at the higher of (i) the current Expected Loss, as defined below, on amounts at risk on unexpired insurance contracts, or (ii) accumulated premiums plus interest earned, less administration costs and provisions made for the unrecoverable proportion of paid claims. Premium income credited to a provision is net of any reinsurance premium ceded to re-insurers where UKEF, as lead insurer, has reinsured a proportion of the total contract risk.

The Expected Loss is management's best estimate of the mean of possible future losses on UKEF's insurance contracts.

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). After this period, any excess of the net Underwriting Fund over the current 'expected loss' on amounts at risk on unexpired guarantees or policies written in the relevant year is released to income. Underwriting funds for those and prior years will be equal to the 'expected loss' on unexpired guarantees or insurance policies for the relevant underwriting year.

The following movements in underwriting funds have occurred in the year:

	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Insurance liabilities - Gross of reinsurance				
Balance at 1 April 2021	**1,704,465**	**108,415**	**47,630**	**1,860,510**
Movements:				
Addition to the underwriting funds in the year	406,481	-	18,261	424,742
Release of excess funds - cash	(14,675)	-	-	(14,675)
Release of excess funds - credit	(36,739)	-	-	(36,739)
Other fund movements	(84,162)	-	-	(84,162)
Change in insurance liabilities on closed funds	(84,076)	-	-	(84,076)
Total Movements	**186,829**	**-**	**18,261**	**205,090**
Balance at 31 March 2022	**1,891,294**	**108,415**	**65,891**	**2,065,600**
Movements:				
Addition to the underwriting funds in the year	197,384	-	37,700	235,084
Release of excess funds - cash	(264)	-	-	(264)
Release of excess funds - credit	(103,958)	-	-	(103,958)
Other fund movements	(60,622)	387	667	(59,568)
Change in insurance liabilities on closed funds	(32,660)	-	-	(32,660)
Total Movements	**(120)**	**387**	**38,367**	**38,634**
Balance at 31 March 2023	**1,891,174**	**108,802**	**104,258**	**2,104,234**

	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Insurance liabilities - Net of reinsurance				
Balance at 1 April 2021	**1,181,744**	**85,183**	**15,660**	**1,282,587**
Movements:				
Addition to the underwriting funds in the year	287,464	-	15,455	302,919
Release of excess funds - cash	(13,402)	-	-	(13,402)
Release of excess funds - credit	(27,021)	-	-	(27,021)
Other fund movements	(78,116)	-	(104)	(78,220)
Change in insurance liabilities on closed funds	(32,992)	-	-	(32,992)
Total Movements	**135,933**	**-**	**15,351**	**151,284**
Balance at 31 March 2022	**1,317,677**	**85,183**	**31,011**	**1,433,871**
Movements:				
Addition to the underwriting funds in the year	158,648	-	10,472	169,120
Release of excess funds - cash	(264)	-	-	(264)
Release of excess funds - credit	(46,711)	-	-	(46,711)
Other fund movements	(52,608)	387	667	(51,554)
Change in insurance liabilities on closed funds	(6,396)	-	-	(6,396)
Total Movements	**52,669**	**387**	**11,139**	**64,195**
Balance at 31 March 2023	**1,370,346**	**85,570**	**42,150**	**1,498,066**
Summary of movements:				
2021-22				
Gross changes in insurance liabilities	186,829	-	18,261	205,090
Reinsurers' share of changes in insurance liabilities	(50,896)	-	(2,910)	(53,806)
Changes in insurance liabilities (net of reinsurance)	**135,933**	**-**	**15,351**	**151,284**
2022-23				
Gross changes in insurance liabilities	(120)	387	38,367	38,634
Reinsurers' share of changes in insurance liabilities	52,789	-	(27,228)	25,561
Changes in insurance liabilities (net of reinsurance)	**52,669**	**387**	**11,139**	**64,195**

Movements in reinsurance are analysed within Note 12.

17 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 2013-14 and cash fund years up to and including 2019-20 are closed years.

The table shows the development of the expected losses for the fund years 2013-14 onwards. For individual fund years shown, the figure shown "at end of year" shows the expected loss at the end of the year it was created. Each subsequent row shows the expected loss position at the end of the next following year. The final row for each fund year shows the current expected loss at the date of the Statement of Financial Position

	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	2021-22 fund year £'000	2022-23 fund year £'000
Accounts 2, 3 & 6										
Credit funds										
At the end of year	34,208	46,367	28,315	32,214	43,848	127,410	72,685	77,729	103,526	59,404
One year later	34,184	44,703	29,114	26,001	49,578	110,027	76,790	69,060	142,729	-
Two years later	35,429	48,413	21,070	24,134	42,298	183,377	147,227	72,502	-	-
Three years later	35,278	36,502	17,589	26,603	166,991	142,601	135,977	-	-	-
Four years later	20,860	44,479	17,535	35,966	101,218	125,417	-	-	-	-
Five years later	17,559	30,047	16,516	32,696	55,239	-	-	-	-	-
Six years later	21,376	65,202	13,008	24,833	-	-	-	-	-	-
Seven years later	56,497	54,012	9,202	-	-	-	-	-	-	-
Eight years later	32,230	84,192	-	-	-	-	-	-	-	-
Nine years later	51,818	-	-	-	-	-	-	-	-	-
Cash funds										
At end of year	69	261	480	689	383	6,365	91	668	461	775
One year later	14	291	-	16	100	2,575	20	118	135	-
Two years later	171	78	-	-	62	1,833	14	75	-	-
Three years later	27	40	-	-	43	1,140	2	-	-	-
Four years later	-	18	-	-	4	666	-	-	-	-
Five years later	-	20	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
Credit fund total	**51,818**	**84,192**	**9,202**	**24,833**	**55,239**	**125,417**	**135,977**	**72,502**	**142,729**	**59,404**
Cash fund total	**-**	**-**	**-**	**-**	**-**	**666**	**2**	**75**	**135**	**775**
Expected loss total	**51,818**	**84,192**	**9,202**	**24,833**	**55,239**	**126,083**	**135,979**	**72,577**	**142,864**	**60,179**
Grand Total										**762,966**

	funds 2013-14 to 2022-23 open £'000	funds 2013-14 to 2022-23 closed £'000	funds 2013-14 to 2022-23 total £'000	funds years to 2012-13 closed £'000	funds grand total £'000
Expected loss summary					
Accounts 2, 3 & 6:					
Credit fund total	709,495	51,818	**761,313**	35,341	**796,654**
Cash fund total	985	668	**1,653**	2,060	**3,713**
Expected loss total	710,480	52,486	**762,966**	37,401	**800,367**

18 Risk management: financial instruments and insurance contracts

This Note describes the nature and extent of the risks for UKEF arising from financial instruments and insurance contracts and how UKEF manages them. UKEF has established a risk management framework that seeks to identify, consider and manage the risks it faces in line with its risk appetite, minimising its exposure to unexpected financial loss and facilitating the achievement of its business objectives.

Full details of UKEF's approach to managing financial risk can be found in the Chief Risk Officer's Report in the Performance section of the Annual Report.

Operational risk is described in the Governance Statement which can be found in the Accountability section of the Annual Report.

For the purpose of this Note, risks are considered under the following headings:

a) **Market risk** (including interest rate risk and foreign currency risk);

b) **Credit risk**;

c) **Insurance risk** (including related foreign currency risk);

d) **Liquidity risk**; and

e) **Risk measurement.**

18(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 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 does not have significant exposure to interest rate risk. UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer Note 18(a)(i) and 18(c)(iii)). Foreign exchange market risk is explained in Note 18(a)(i).

UKEF has established principles and policies to be followed in respect of management of the key market risks to which it is exposed.

18(a)(i) Foreign currency risk

Foreign currency risk arises from two main areas: transaction risk and translation risk. Transaction risk is the risk of movements in the sterling value of foreign currency receipts on conversion into sterling. Translation risk is the risk that UKEF's Statement of Financial Position and net operating income will be adversely impacted by changes in the sterling value of foreign currency denominated assets and liabilities from movements in foreign currency exchange rates. UKEF is heavily exposed to translation risk due to the value of non-sterling assets and liabilities held. The most significant exposure relates to insurance assets (refer Note 18(c)(iii) below).

UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk.

The currency profile of UKEF's financial instruments and its capital loan commitments is set out below.

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
As at 31 March 2023				
Financial assets:				
Account 3 loans at amortised cost	969,607	-	-	969,607
Account 5 loans at amortised cost	19,090	939,654	633,831	1,592,575
Insurance and other receivables	234,909	58,034	33,262	326,205
Financial liabilities:				
Insurance and other payables	(277,137)	(71,944)	3,024	(346,057)
Financial commitments:				
Account 5 amounts available	3,715	438,288	576,934	1,018,937
Total	**950,184**	**1,364,032**	**1,247,051**	**3,561,267**
As at 31 March 2022				
Financial assets:				
Fair value through profit or loss	-	52	-	52
Account 3 loans at amortised cost	967,461	-	-	967,461
Account 4 loans at amortised cost	1,047	-	-	1,047
Account 5 loans at amortised cost	24,660	901,453	516,204	1,442,317
Insurance and other receivables	376,457	59,277	16,286	452,020
Financial liabilities:				
Fair value through profit or loss	(2)	-	-	(2)
Insurance and other payables	(365,924)	(95,478)	(8,292)	(469,694)
Financial commitments:				
Account 5 amounts available	4,036	551,944	447,203	1,003,183
Total	**1,007,735**	**1,417,248**	**971,401**	**3,396,384**

The sensitivity to changes in foreign exchange of US dollar denominated loans held at amortised cost at 31 March 2023 is as follows:

- 10% increase would increase the carrying value by £85,423,000 (31 March 2022 by £81,950,000).

18(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 18(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.

18(b)(i) Credit risk

The following table summarises the credit exposure of loans at amortised cost & loan commitments (Investment grade is defined as a credit rating of BBB minus or above):

	Investment grade £'000	Non- investment grade £'000	Total £'000
As at 31 March 2023			
Account 3 : Direct Lending			
Loans at amortised cost	969,607	-	969,607
Account 5 : Direct Lending			
Loans at amortised cost	-	1,592,575	1,592,575
Commitments	-	1,018,937	1,018,937
Total	**969,607**	**2,611,512**	**3,581,119**
As at 31 March 2022			
Account 3 : Direct Lending			
Loans at cost	967,461	-	967,461
Account 4 : Direct Lending			
Loans at cost	1,047	-	1,047
Account 5 : Direct Lending			
Loans at amortised cost	-	1,442,317	1,442,317
Commitments	-	1,003,183	1,003,183
Total	**968,508**	**2,445,500**	**3,414,008**

18(b)(ii) Credit concentration risk

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

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
As at 31 March 2023					
Account 3 : Direct Lending					
Loans at cost	-	-	969,607	-	969,607
Account 5 : Direct Lending					
Loans at cost	783	33,916	1,557,876	-	1,592,575
Commitments	-	-	1,018,937	-	1,018,937
Total	**783**	**33,916**	**3,546,420**	**-**	**3,581,119**
As at 31 March 2022					
Account 3 : Direct Lending					
Loans at cost	-	-	967,461	-	967,461
Account 4 : Direct Lending					
Loans at cost	-	-	-	1,047	1,047
Account 5 : Direct Lending					
Loans at cost	4,945	27,785	1,409,587	-	1,442,317
Commitments	-	-	1,003,183	-	1,003,183
Total	**4,945**	**27,785**	**3,380,231**	**1,047**	**3,414,008**

18(c) Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The main insurance risk facing UKEF is credit risk accepted by it through the underwriting process. It is defined as the risk of financial loss resulting from the default of an obligor under a contingent liability or a legitimate claim under a policy of insurance or indemnity.

Underwriting funds

Under the Fund Basis of Accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until three years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until nine years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). Any excess of the net underwriting fund over the current Expected Loss on amounts at risk on unexpired guarantees or policies written in the relevant year is released to profit or loss. Underwriting funds for those and prior years will be equal to the Expected Loss on unexpired guarantees or policies for the relevant underwriting year.

The Expected Loss on UKEF's portfolio is calculated as the statistical mean of possible future losses, calculated based on the assessment of Probability of Default (PoD) and assumptions of the Loss Given Default (LGD). The PoD is the statistical likelihood of default by an obligor over a given time horizon and is dependent upon the credit standing of the obligor. The LGD is the value of claims not expected to be recoverable in the event of default. The percentage derived is applied to the amount at risk in order to determine the Expected Loss on an insurance contract.

18(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 Guarantees & Insurance Account, the National Interest Account and the Temporary Covid-19 Support Account portfolio as at 31 March 2023:

	Investment grade	Non-investment grade	Total
	£'000	£'000	£'000
Amounts at Risk, gross of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	1,848,544	2,736,285	4,584,829
Other	2,058,335	15,830,383	17,888,718
Total	**3,906,879**	**18,566,668**	**22,473,547**
Account 3 : Insurance Contracts			
Other	3,102,146	-	3,102,146
Total	**3,102,146**	**-**	**3,102,146**
Account 6 : Insurance Contracts			
Asset-backed	438,550	1,212,903	1,651,453
Other	-	16,890	16,890
Total	**438,550**	**1,229,793**	**1,668,343**
Account 2: Financial Guarantees	**1,365,768**	**4,347,528**	**5,713,296**
Account 6: Financial Guarantees	**1,174,250**	**5,092,122**	**6,266,372**
Total	**2,540,018**	**9,439,650**	**11,979,668**
Grand Total	**9,987,593**	**29,236,111**	**39,223,704**

	Investment grade	Non-investment grade	Total
	£'000	£'000	£'000
Amounts at Risk, net of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	1,086,507	1,851,020	2,937,527
Other	2,036,416	12,641,392	14,677,808
Total	**3,122,923**	**14,492,412**	**17,615,335**
Account 3 : Insurance Contracts			
Other	1,996,681	-	1,996,681
Total	**1,996,681**	**-**	**1,996,681**
Account 6 : Insurance Contracts			
Asset-backed	438,550	429,559	868,109
Other	-	16,890	16,890
Total	**438,550**	**446,449**	**884,999**
Account 2: Financial Guarantees	**1,365,768**	**4,347,528**	**5,713,296**
Account 6: Financial Guarantees	**1,174,250**	**5,092,122**	**6,266,372**
Total	**2,540,018**	**9,439,650**	**11,979,668**
Grand Total	**8,098,172**	**24,378,511**	**32,476,683**

	Investment grade	Non-investment grade	Total
	£'000	£'000	£'000
	£'000	£'000	£'000
Expected Loss, gross of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	7,265	215,146	222,411
Other	5,533	793,595	799,128
Total	**12,798**	**1,008,741**	**1,021,539**
Account 3 : Insurance Contracts			
Other	4,180	-	4,180
Total	**4,180**	**-**	**4,180**
Account 6 : Insurance Contracts			
Asset-backed	4,620	26,757	31,377
Other	-	1,000	1,000
Total	**4,620**	**27,757**	**32,377**
Account 2: Financial Guarantees	**4,884**	**124,132**	**129,016**
Account 6: Financial Guarantees	**3,270**	**145,400**	**148,670**
Total	**8,154**	**269,532**	**277,686**
Grand Total	**29,752**	**1,306,030**	**1,335,782**

Expected Loss, net of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	4,664	114,772	119,436
Other	5,457	657,588	663,045
Total	**10,121**	**772,360**	**782,481**
Account 3 : Insurance Contracts			
Other	2,937	-	2,937
Total	**2,937**	**-**	**2,937**
Account 6 : Insurance Contracts			
Asset-backed	4,620	9,329	13,949
Other	-	1,000	1,000
Total	**4,620**	**10,329**	**14,949**
Account 2: Financial Guarantees	**4,884**	**124,132**	**129,016**
Account 6: Financial Guarantees	**3,270**	**145,400**	**148,670**
Total	**8,154**	**269,532**	**277,686**
Grand Total	**25,832**	**1,052,221**	**1,078,053**

The following table provides information regarding the credit exposure of Amounts at Risk and Expected Loss within the UKEF Guarantees & Insurance Account, the National Interest Account and the Temporary Covid-19 Support Account portfolio as at 31 March 2022:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at Risk, gross of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	2,073,625	2,948,464	5,022,089
Other	1,674,447	12,768,904	14,443,351
Total	**3,748,072**	**15,717,368**	**19,465,440**
Account 3 : Insurance Contracts			
Other	3,076,096	-	3,076,096
Total	**3,076,096**	**-**	**3,076,096**
Account 6 : Insurance Contracts			
Asset-backed	362,566	618,553	981,119
Other	-	33,155	33,155
Total	**362,566**	**651,708**	**1,014,274**
Account 2: Financial Guarantees	**862,734**	**2,509,127**	**3,371,861**
Account 6: Financial Guarantees	**-**	**7,465,730**	**7,465,730**
Total	**862,734**	**9,974,857**	**10,837,591**
Grand Total	**8,049,468**	**26,343,933**	**34,393,401**

Accounts at Risk, net of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	1,212,321	1,887,372	3,099,693
Other	1,652,897	9,828,357	11,481,254
Total	**2,865,218**	**11,715,729**	**14,580,947**
Account 3 : Insurance Contracts			
Other	1,987,266	-	1,987,266
Total	**1,987,266**	**-**	**1,987,266**
Account 6 : Insurance Contracts			
Asset-backed	362,566	202,488	565,054
Other	-	33,155	33,155
Total	**362,566**	**235,643**	**598,209**
Account 2: Financial Guarantees	**862,734**	**2,509,127**	**3,371,861**
Account 6: Financial Guarantees	**-**	**7,465,730**	**7,465,730**
Total	**862,734**	**9,974,857**	**10,837,591**
Grand Total	**6,077,784**	**21,926,229**	**28,004,013**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Expected Loss, gross of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	9,971	372,250	382,221
Other	4,602	626,516	631,118
Total	**14,573**	**998,766**	**1,013,339**
Account 3 : Insurance Contracts			
Other	5,017	-	5,017
Total	**5,017**	**-**	**5,017**
Account 6 : Insurance Contracts			
Asset-backed	4,921	16,238	21,159
Other	-	1,916	1,916
Total	**4,921**	**18,154**	**23,075**
Account 2: Financial Guarantees	**5,299**	**72,826**	**78,125**
Account 6: Financial Guarantees	**-**	**209,284**	**209,284**
Total	**5,299**	**282,110**	**287,409**
Grand Total	**29,810**	**1,299,030**	**1,328,840**
Expected Loss, net of reinsurance			
Account 2 : Insurance Contracts			
Asset-backed	6,330	210,744	217,074
Other	4,486	504,253	508,739
Total	**10,816**	**714,997**	**725,813**
Account 3 : Insurance Contracts			
Other	3,355	-	3,355
Total	**3,355**	**-**	**3,355**
Account 6 : Insurance Contracts			
Asset-backed	4,921	4,629	9,550
Other	-	1,916	1,916
Total	**4,921**	**6,545**	**11,466**
Account 2: Financial Guarantees	**5,299**	**72,826**	**78,125**
Account 6: Financial Guarantees	**-**	**209,284**	**209,284**
Total	**5,299**	**282,110**	**287,409**
Grand Total	**24,391**	**1,003,652**	**1,028,043**

Information is presented based upon the grade of the ultimate obligor.

There are no Amounts at Risk and Expected Loss on the Pre 1991 Guarantees & Insurance Account.

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 2023:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	-	197,548	197,548
Account 2	-	362,693	362,693
Total	**-**	**560,241**	**560,241**
Recoverable claims - net of provisions			
Account 1	-	69,265	69,265
Account 2	-	150,653	150,653
Total	**-**	**219,918**	**219,918**
Interest on unrecovered claims - gross			
Account 1	-	477,050	477,050
Account 2	-	184,508	184,508
Total	**-**	**661,558**	**661,558**
Interest on unrecovered claims - net of provisions			
Account 1	-	72,793	72,793
Account 2	-	356	356
Total	**-**	**73,149**	**73,149**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2022:

	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims - gross			
Account 1	-	240,151	240,151
Account 2	-	294,320	294,320
Total	**-**	**534,471**	**534,471**
Recoverable claims - net of provisions			
Account 1	-	87,110	87,110
Account 2	-	96,812	96,812
Total	**-**	**183,922**	**183,922**
Interest on unrecovered claims - gross			
Account 1	-	485,037	485,037
Account 2	-	174,872	174,872
Total	**-**	**659,909**	**659,909**
Interest on unrecovered claims - net of provisions			
Account 1	-	86,689	86,689
Account 2	-	312	312
Total	**-**	**87,001**	**87,001**

18(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 Guarantees & Insurance Account, the National Interest Account and the Temporary Covid-19 Support Account portfolios as at 31 March 2023:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	2,744,752	293,538	901,292	645,247	4,584,829
Other	6,588,356	481,852	9,556,541	1,261,969	17,888,718
Total	**9,333,108**	**775,390**	**10,457,833**	**1,907,216**	**22,473,547**
Account 3 : Insurance Contracts					
Other	590	-	3,101,556	-	3,102,146
Total	**590**	**-**	**3,101,556**	**-**	**3,102,146**
Account 6 : Insurance Contracts					
Asset-backed	867,333	-	636,940	147,180	1,651,453
Other	16,890	-	-	-	16,890
Total	**884,223**	**-**	**636,940**	**147,180**	**1,668,343**
Account 2: Financial Guarantees	**3,715,210**	**1,332,878**	**-**	**665,208**	**5,713,296**
Account 6: Financial Guarantees	**6,266,372**	**-**	**-**	**-**	**6,266,372**
Total	**9,981,582**	**1,332,878**	**-**	**665,208**	**11,979,668**
Grand Total	**20,199,503**	**2,108,268**	**14,196,329**	**2,719,604**	**39,223,704**
Amounts at Risk, net of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	1,332,653	251,234	901,292	452,348	2,937,527
Other	3,548,249	481,852	9,385,737	1,261,970	14,677,808
Total	**4,880,902**	**733,086**	**10,287,029**	**1,714,318**	**17,615,335**
Account 3 : Insurance Contracts					
Other	590	-	1,996,091	-	1,996,681
Total	**590**	**-**	**1,996,091**	**-**	**1,996,681**
Account 6 : Insurance Contracts					
Asset-backed	222,870	-	498,060	147,179	868,109
Other	16,890	-	-	-	16,890
Total	**239,760**	**-**	**498,060**	**147,179**	**884,999**
Account 2: Financial Guarantees	**3,715,210**	**1,332,878**	**-**	**665,208**	**5,713,296**
Account 6: Financial Guarantees	**6,266,372**	**-**	**-**	**-**	**6,266,372**
Total	**9,981,582**	**1,332,878**	**-**	**665,208**	**11,979,668**
Grand Total	**15,102,834**	**2,065,964**	**12,781,180**	**2,526,705**	**32,476,683**

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Expected Loss, gross of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	136,410	20,506	10,515	54,980	222,411
Other	260,145	5,232	343,502	190,249	799,128
Total	**396,555**	**25,738**	**354,017**	**245,229**	**1,021,539**
Account 3 : Insurance Contracts					
Other	390	-	3,790	-	4,180
Total	**390**	**-**	**3,790**	**-**	**4,180**
Account 6 : Insurance Contracts					
Asset-backed	21,270	-	7,600	2,507	31,377
Other	1,000	-	-	-	1,000
Total	**22,270**	**-**	**7,600**	**2,507**	**32,377**
Account 2: Financial Guarantees	**106,187**	**17,295**	**-**	**5,534**	**129,016**
Account 6: Financial Guarantees	**148,670**	**-**	**-**	**-**	**148,670**
Total	**254,857**	**17,295**	**-**	**5,534**	**277,686**
Grand Total	**674,072**	**43,033**	**365,407**	**253,270**	**1,335,782**
Expected Loss, net of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	51,917	20,048	10,515	36,956	119,436
Other	132,023	5,232	335,541	190,249	663,045
Total	**183,940**	**25,280**	**346,056**	**227,205**	**782,481**
Account 3 : Insurance Contracts					
Other	390	-	2,547	-	2,937
Total	**390**	**-**	**2,547**	**-**	**2,937**
Account 6 : Insurance Contracts					
Asset-backed	5,930	-	5,512	2,507	13,949
Other	1,000	-	-	-	1,000
Total	**6,930**	**-**	**5,512**	**2,507**	**14,949**
Account 2: Financial Guarantees	**106,187**	**17,295**	**-**	**5,534**	**129,016**
Account 6: Financial Guarantees	**148,670**	**-**	**-**	**-**	**148,670**
Total	**254,857**	**17,295**	**-**	**5,534**	**277,686**
Grand Total	**446,117**	**42,575**	**354,115**	**235,246**	**1,078,053**

The following table provides an indication of the concentration of credit risk within the UKEF Guarantees & Insurance Account, the National Interest Account and the Temporary Covid-19 Support Account portfolio as at 31 March 2022:

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at Risk, gross of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	3,008,075	196,795	900,239	916,980	5,022,089
Other	4,742,760	550,330	7,914,321	1,235,940	14,443,351
Total	**7,750,835**	**747,125**	**8,814,560**	**2,152,920**	**19,465,440**
Account 3 : Insurance Contracts					
Other	1,088,831	-	1,987,265	-	3,076,096
Total	**1,088,831**	**-**	**1,987,265**	**-**	**3,076,096**
Account 6 : Insurance Contracts					
Asset-backed	484,206	-	424,203	72,710	981,119
Other	33,155	-	-	-	33,155
Total	**517,361**	**-**	**424,203**	**72,710**	**1,014,274**
Account 2: Financial Guarantees	**2,272,738**	**553,303**	**-**	**545,820**	**3,371,861**
Account 6: Financial Guarantees	**7,465,730**	**-**	**-**	**-**	**7,465,730**
Total	**9,738,468**	**553,303**	**-**	**545,820**	**10,837,591**
Grand Total	**19,095,495**	**1,300,428**	**11,226,028**	**2,771,450**	**34,393,401**
Amounts at Risk, net of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	1,330,984	160,872	900,239	707,598	3,099,693
Other	1,996,313	498,609	7,750,393	1,235,939	11,481,254
Total	**3,327,297**	**659,481**	**8,650,632**	**1,943,537**	**14,580,947**
Account 3 : Insurance Contracts					
Other	-	-	1,987,266	-	1,987,266
Total	**-**	**-**	**1,987,266**	**-**	**1,987,266**
Account 6 : Insurance Contracts					
Asset-backed	68,141	-	424,203	72,710	565,054
Other	33,155	-	-	-	33,155
Total	**101,296**	**-**	**424,203**	**72,710**	**598,209**
Account 2: Financial Guarantees	**2,272,738**	**553,303**	**-**	**545,820**	**3,371,861**
Account 6: Financial Guarantees	**7,465,730**	**-**	**-**	**-**	**7,465,730**
Total	**9,738,468**	**553,303**	**-**	**545,820**	**10,837,591**
Grand Total	**13,167,061**	**1,212,784**	**11,062,101**	**2,562,067**	**28,004,013**

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Expected Loss, gross of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	222,934	31,182	32,028	96,077	382,221
Other	204,266	6,533	306,712	113,607	631,118
Total	**427,200**	**37,715**	**338,740**	**209,684**	**1,013,339**
Account 3 : Insurance Contracts					
Other	1,662	-	3,355	-	5,017
Total	**1,662**	**-**	**3,355**	**-**	**5,017**
Account 6 : Insurance Contracts					
Asset-backed	13,441	-	6,755	962	21,158
Other	1,917	-	-	-	1,917
Total	**15,358**	**-**	**6,755**	**962**	**23,075**
Account 2: Financial Guarantees	**66,747**	**7,520**	**-**	**3,858**	**78,125**
Account 6: Financial Guarantees	**209,284**	**-**	**-**	**-**	**209,284**
Total	**276,031**	**7,520**	**-**	**3,858**	**287,409**
Grand Total	**720,251**	**45,235**	**348,850**	**214,504**	**1,328,840**
Expected Loss, net of reinsurance					
Account 2 : Insurance Contracts					
Asset-backed	99,137	26,278	32,028	59,631	217,074
Other	98,935	5,717	290,482	113,605	508,739
Total	**198,072**	**31,995**	**322,510**	**173,236**	**725,813**
Account 3 : Insurance Contracts					
Other	-	-	3,355	-	3,355
Total	**-**	**-**	**3,355**	**-**	**3,355**
Account 6 : Insurance Contracts					
Asset-backed	1,833	-	6,755	962	9,550
Other	1,916	-	-	-	1,916
Total	**3,749**	**-**	**6,755**	**962**	**11,466**
Account 2: Financial Guarantees	**66,747**	**7,520**	**-**	**3,858**	**78,125**
Account 6: Financial Guarantees	**209,284**	**-**	**-**	**-**	**209,284**
Total	**276,031**	**7,520**	**-**	**3,858**	**287,409**
Grand Total	**477,852**	**39,515**	**332,620**	**178,056**	**1,028,043**

18(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 2023:

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
Recoverable claims:				
- Gross	271,820	143,539	144,882	560,241
- Provisions	(224,269)	(63,366)	(52,688)	(340,323)
Interest on unrecovered claims:				
- Gross	565,978	89,483	6,097	661,558
- Provisions	(508,507)	(73,805)	(6,097)	(588,409)
Net insurance assets at 31 March 2023	**105,022**	**95,851**	**92,194**	**293,067**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2023 is as follows:

- 10% increase would increase the carrying value by £8,714,000 (31 March 2022 by £10,150,000).
- 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 2022:

	Pound Sterling £'000	US dollar £'000	Other £'000	Total £'000
Recoverable claims:				
- Gross	305,972	137,724	90,775	534,471
- Provisions	(255,114)	(51,759)	(43,676)	(350,549)
Interest on unrecovered claims:				
- Gross	560,308	93,894	5,707	659,909
- Provisions	(498,994)	(68,204)	(5,710)	(572,908)
Net insurance assets at 31 March 2022	**112,172**	**111,655**	**47,096**	**270,923**

18(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 as required.

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

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Between 15 years and more £'000	Total £'000
As at 31 March 2023:						
Account 2: Insurance Contracts						
Gross Amounts at Risk	4,000,303	8,879,112	6,409,286	2,788,119	396,727	22,473,547
Less: Amounts at Risk ceded to reinsurers	(690,016)	(2,053,136)	(1,349,013)	(668,886)	(97,161)	(4,858,212)
Net amounts at risk	**3,310,287**	**6,825,976**	**5,060,273**	**2,119,233**	**299,566**	**17,615,335**
Account 3: Insurance Contracts						
Gross Amounts at Risk	341,828	2,373,320	386,998	-	-	3,102,146
Less: Amounts at Risk ceded to reinsurers	(130,119)	(867,940)	(107,406)	-	-	(1,105,465)
Net amounts at risk	**211,709**	**1,505,380**	**279,592**	**-**	**-**	**1,996,681**
Account 6: Insurance Contracts						
Gross Amounts at Risk	176,271	671,144	740,815	80,113	-	1,668,343
Less: Amounts at Risk ceded to reinsurers	(81,094)	(310,769)	(350,193)	(41,288)	-	(783,344)
Net amounts at risk	**95,177**	**360,375**	**390,622**	**38,825**	**-**	**884,999**
Account 2: Financial Guarantees						
Gross Amounts at Risk	1,672,943	4,018,037	22,316	-	-	5,713,296
Less: Amounts at Risk ceded to reinsurers	-	-	-	-	-	-
Net amounts at risk	**1,672,943**	**4,018,037**	**22,316**	**-**	**-**	**5,713,296**
Account 6: Financial Guarantees						
Gross Amounts at Risk	3,733,569	2,532,803	-	-	-	6,266,372
Less: Amounts at Risk ceded to reinsurers	-	-	-	-	-	-
Net amounts at risk	**3,733,569**	**2,532,803**	**-**	**-**	**-**	**6,266,372**
Grand Total - Net amounts at risk	**9,023,685**	**15,242,571**	**5,752,803**	**2,158,058**	**299,566**	**32,476,683**

	One year or less £'000	Between one and five years £'000	Between five and ten years £'000	Between ten and fifteen years £'000	Between 15 years and more £'000	Total £'000
As at 31 March 2022:						
Account 2: Insurance Contracts						
Gross Amounts at Risk	2,805,552	8,366,016	5,319,503	2,418,364	556,005	19,465,440
Less: Amounts at Risk ceded to reinsurers	(125,831)	(2,715,246)	(1,271,927)	(629,794)	(141,695)	(4,884,493)
Net amounts at risk	**2,679,721**	**5,650,770**	**4,047,576**	**1,788,570**	**414,310**	**14,580,947**
Account 3: Insurance Contracts						
Gross Amounts at Risk	93,394	2,065,965	916,737	-	-	3,076,096
Less: Amounts at Risk ceded to reinsurers	(35,133)	(755,861)	(297,836)	-	-	(1,088,830)
Net amounts at risk	**58,261**	**1,310,104**	**618,901**	**-**	**-**	**1,987,266**
Account 6: Insurance Contracts						
Gross Amounts at Risk	76,215	379,140	463,744	95,175	-	1,014,274
Less: Amounts at Risk ceded to reinsurers	(38,506)	(154,082)	(190,220)	(33,257)	-	(416,065)
Net amounts at risk	**37,709**	**225,058**	**273,524**	**61,918**	**-**	**598,209**
Account 2: Financial Guarantees						
Gross Amounts at Risk	686,176	2,617,452	68,233	-	-	3,371,861
Less: Amounts at Risk ceded to reinsurers	-	-	-	-	-	-
Net amounts at risk	**686,176**	**2,617,452**	**68,233**	**-**	**-**	**3,371,861**
Account 6: Financial Guarantees						
Gross Amounts at Risk	3,393,161	4,072,569	-	-	-	7,465,730
Less: Amounts at Risk ceded to reinsurers	-	-	-	-	-	-
Net amounts at risk	**3,393,161**	**4,072,569**	**-**	**-**	**-**	**7,465,730**
Grand Total - Net amounts at risk	**6,855,028**	**13,875,953**	**5,008,234**	**1,850,488**	**414,310**	**28,004,013**

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.

18(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 Guarantees & Insurance Account, National Interest Account and Temporary Covid-19 Support Account insurance business. See Chief Risk Officer's report, portfolio modelling section.

Scenario analysis and Stress testing

We use PRISM to conduct regular scenario analysis and stress testing of the Guarantees & Insurance Account, the National Interest Account and the Temporary Covid-19 Support Account 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 considerations and related scenarios are being considered as part of the 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	Reduced recovery rates
	1 notch	2 notches	+2 years	-20%
	£'000	£'000	£'000	£'000
As at 31 March 2023:				
Account 2: Insurance Contracts				
Increase in Expected Loss	165,089	407,986	61,266	234,539
Decrease in Net Income for the year	(21,714)	(95,110)	-	(41,524)
Account 3: Insurance Contracts				
Increase in Expected Loss	1,226	5,507	1,324	1,276
Decrease in Net Income for the year	-	(192)	-	-
Account 6: Insurance Contracts				
Increase in Expected Loss	6,542	18,080	-	65
Decrease in Net Income for the year	-	-	-	-
Account 2: Financial Gurantees				
Decrease in Net Income for the year	(40)	(27,845)	-	-
As at 31 March 2022:				
Account 2: Insurance Contracts				
Increase in Expected Loss	151,732	421,299	42,414	240,735
Decrease in Net Income for the year	(22,367)	(123,690)	(538)	(48,892)
Account 3: Insurance Contracts				
Increase in Expected Loss	1,551	6,500	1,889	1,679
Decrease in Net Income for the year	-	-	-	-
Account 6: Insurance Contracts				
Increase in Expected Loss	5,075	14,802	-	639
Decrease in Net Income for the year	-	-	-	-
Account 2: Financial Gurantees				
Decrease in Net Income for the year	(509)	(1,848)	-	-

There is no remaining exposure on the Pre-1991 Guarantees & Insurance Account.

Sensitivity analysis for Temporary Covid-19 Support Account Financial Guarantee Contracts is not considered to have any significant impact on net income for the year.

19 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	Total £'000
Movements:			
Balance at 1 April 2021	**297,438**	**778,608**	**1,076,046**
Loans issued & effective	-	562,334	562,334
Amounts drawn	(297,438)	(357,749)	(655,187)
Net foreign exchange adjustments	-	19,425	19,425
Change in Cover	-	565	565
Balance at 31 March 2022	**-**	**1,003,183**	**1,003,183**
Loans issued & effective	-	320,863	320,863
Amounts drawn	-	(321,911)	(321,911)
Net foreign exchange adjustments	-	57,656	57,656
Change in Cover	-	(40,854)	(40,854)
Balance at 31 March 2023	**-**	**1,018,937**	**1,018,937**

21 Entities within the departmental boundary

The Export Guarantees Advisory Council (the Council) is an advisory Expert Committee, which falls within the departmental boundary. For details, refer to the Council's annual report included within the performance report of this Annual Report and Accounts.

22 Related party transactions

UKEF was a Department of the Secretary of State for International Trade but due to a machinery of government change, the organisation is now part of the Department for Business and Trade. As such, it has had various 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.

23 Events after the reporting period

In accordance with the requirements of IAS 10 Events After the Reporting Period, events are considered up to the date on which the accounts are authorised for issue. The date the accounts are authorised for issue is interpreted as the same date the accounts are certified by the Comptroller and Auditor General.

There are no reportable non-adjusting events after the reporting period.

Annexes

Robin Priestley, the Export Finance Manager team's Regional Head for Northern England, Scotland and Northern Ireland

Business supported tables

Export credits

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Angola				
ASGC UK LIMITED	ANGOLA, MINISTRY OF FINANCE	Construction of specialist burns hospital	BUYER CREDIT GUARANTEE	61,115,871
ASGC UK LIMITED	ANGOLA, MINISTRY OF FINANCE	Construction of specialist burns hospital	DL LOAN (ENHANCED)	66,858,968
Belgium				
WOOD GROUP UK LIMITED	INEOS OLEFINS BELGIUM NV	Construction of a new global scale olefin complex	PROJECT FINANCING GUARANTEE	818,171,352
Benin				
ACC UK GROUP LIMITED	BENIN, MINISTRY OF FINANCE	Design and construction of the government complex, Ministerial City, in Cotonou Equipment, fixtures and finishes and construction services	BUYER CREDIT GUARANTEE	59,885,159
ACC UK GROUP LIMITED	BENIN, MINISTRY OF FINANCE	Design and construction of the government complex, Ministerial City, in Cotonou Equipment, fixtures and finishes and construction services	DL LOAN (ENHANCED)	52,778,489

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Brazil				
6 exporters under 3 facilities as below:	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	92,106,883
APPH Limited	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	-
Eaton Limited	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	-
Martin-Baker Aircraft Company Limited	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	-
Mission Systems Wimborne Limited	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	-
Aeromet International Limited	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	-
Senior UK Limited	EMBRAER SA	Aircraft related goods	BUYER CREDIT GUARANTEE	-
Canada				
Airbus Group	AIR CANADA	Airbus aircraft	ASSET BASED GUARANTEE	96,192,953
Ethiopia				
C2S MEDIA LTD	ED STELAR TRADING PLC	Supply of equipment and related services for a new purpose-built TV and radio studio, including updating Ed Stelar's existing core infrastructure and building of a studio floor, gallery and newsroom together with teleprompts and audio production equipment	STANDARD BUYER LOAN GUARANTEE	2,063,753
Airbus Group	ETHIOPIAN AIRLINES GROUP	Airbus aircraft	ASSET BASED GUARANTEE	45,178,858
France				
Airbus Group	AIR FRANCE	Airbus aircraft	ASSET BASED GUARANTEE	53,054,516
Not disclosed	Not disclosed	Not discolosed	EXPORT INSURANCE (EXIP)	11,495,000
Ghana				
TESAB ENGINEERING LIMITED	PERRISEUO GHANA LTD	Crushing and screening equipment for a quarry project	STANDARD BUYER LOAN GUARANTEE	1,126,013

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Guinea				
DINTS INTERNATIONAL LIMITED	GUINENNE DE PRESTATION ET DE CONSTRUCTION S.A. (GPC)	Supply of heavy machinery for mining purposes	STANDARD BUYER LOAN GUARANTEE	9,194,427
Guyana				
VAMED ENGINEERING GMBH	GUYANA MINISTRY OF FINANCE	Electrical and medical equipment, structural steel, and other building materials	DL LOAN (ENHANCED)	148,538,204
Not disclosed	Not disclosed	Not disclosed	EXPORT INSURANCE (EXIP)	8,786,574
Hong Kong				
AIRBUS GROUP	CATHAY PACIFIC AIRWAYS LIMITED	Airbus aircraft	ASSET BASED GUARANTEE	54,864,184
W.W. (1990) LIMITED	EDG - None	Football and related activities	EXPORT DEVELOPMENT GUARANTEE	98,680,876
India				
THE MEDICAL WAREHOUSE LIMITED	AAQUARIES GLOBAL INDUSTRIES LTD	Supply of heat exchangers and pharmaceuticals	SUPPLIER CREDIT FINANCE GUARANTEE	6,045,136.38
BOBST MANCHESTER LTD	JINDAL WORLDWIDE LTD	Supply of vacuum metalliser equipment	STANDARD BUYER LOAN GUARANTEE	2,923,766.78
Jordan				
ASGC UK LIMITED	CLASSIC FASHION HOLDING LTD	Construction of integrated garment manufacturing complex in Aqaba Project cover Architectural costs, building materials, water systems, electrical goods and machinery	BUYER CREDIT GUARANTEE	47,589,094
ASGC UK LIMITED	CLASSIC FASHION HOLDING LTD	Construction of integrated garment manufacturing complex in Aqaba Project cover Architectural costs, building materials, water systems, electrical goods and machinery	DL LOAN (ENHANCED)	27,717,158

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Kenya				
VESPER TECHNOLOGIES LIMITED	ATLANCIS TECHNOLOGIES LIMITED	Supply of private cloud data centre devices (server and networking information technology hardware)	STANDARD BUYER LOAN GUARANTEE	893,949
Lithuania				
L3 COMMERCIAL TRAINING SOLUTIONS LIMITED	AVIA SOLUTIONS GROUP	Flight simulators	ASSET BASED GUARANTEE	5,728,440
Oman				
Not disclosed	Not disclosed	Not disclosed	EXPORT INSURANCE (EXIP)	43,969,800
Qatar				
Not disclosed	Not disclosed	Not disclosed	EXPORT INSURANCE (EXIP)	8,003,750
Saudi Arabia				
Not disclosed	Not disclosed	Not disclosed	EXPORT INSURANCE (EXIP)	4,750,000
Not disclosed	Not disclosed	Not disolosed	EXPORT INSURANCE (EXIP)	40,686,962
Togo				
HITECH CONSTRUCTION AFRICA LIMITED	TOGO, MINISTRY OF ECONOMY AND FINANCE	Refurbishment of road	BUYER CREDIT GUARANTEE	37,569,149
HITECH CONSTRUCTION AFRICA LIMITED	TOGO, MINISTRY OF ECONOMY AND FINANCE	Refurbishment of road	DL LOAN (ENHANCED)	54,723,500
Turkey				
AIRBUS GROUP	PEGASUS HAVA TASIMACILIGI ANON PEGASUS AIRLINES	Airbus aircraft	ASSET BASED GUARANTEE	98,203,109
AIRBUS GROUP	TURK HAVA YOLLARI A O (THY) (TURKISH AIRLINES)	Airbus aircraft	ASSET BASED GUARANTEE	41,746,659
AIRBUS GROUP	TURK HAVA YOLLARI A O (THY) (TURKISH AIRLINES)	Airbus aircraft	ASSET BASED GUARANTEE	50,118,763
ROLLS-ROYCE PLC	TURK HAVA YOLLARI A O (THY) (TURKISH AIRLINES)	Rolls-Royce engines	BUYER CREDIT GUARANTEE	26,738,150

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
REC ULUSLARARASI INSAAT YATIRIM SAN YI VE	TURKEY, MINISTRY OF FINANCE	High speed rail project	BUYER CREDIT GUARANTEE	502,055,005
TECNIMONT S.P.A	YILDIRIM HOLDINGS A.S	Goods, project services and equipment for urea manufacturing complex	BUYER CREDIT GUARANTEE	80,151,339
United Arab Emirates				
AIRBUS GROUP	AL YAH SATELLITE COMMS COMPANY	Satellite	BUYER CREDIT GUARANTEE	85,003,807
United Kingdom				
BAMFORD BUS COMPANY LIMITED	EDG - None	Manufacture and sale of hydrogen buses	EXPORT DEVELOPMENT GUARANTEE	49,162,144
FUTURE PLC	EDG - None	Online platforms for specialist media	EXPORT DEVELOPMENT GUARANTEE	393,443,600
JDR CABLE SYSTEMS LIMITED	EDG - None	Manufacture of subsea cables	EXPORT DEVELOPMENT GUARANTEE	99,406,898
JOHNSON MATTHEY PLC	EDG - None	Chemicals and sustainable technologies	EXPORT DEVELOPMENT GUARANTEE	363,275,009
LOTUS GROUP INTERNATIONAL LIMITED	EDG - None	Manufacture and sale of motor vehicles	EXPORT DEVELOPMENT GUARANTEE	48,068,101
ROLLS-ROYCE PLC	EDG - None	Power and propulsion technologies	EXPORT DEVELOPMENT GUARANTEE	937,887,456
SYNTHOMER PLC	EDG - None	Speciality chemicals	EXPORT DEVELOPMENT GUARANTEE	426,339,306
THG OPERATIONS HOLDINGS LTD	EDG - None	Online retailing and online development services	EXPORT DEVELOPMENT GUARANTEE	147,717,736
United States				
AIRBUS GROUP	DELTA AIRLINES	Airbus aircraft	ASSET BASED GUARANTEE	23,169,716
FORD MOTOR COMPANY LIMITED	EDG - None	Manufacture and sale of motor vehicles	EXPORT DEVELOPMENT GUARANTEE	734,586,967

Trade finance and insurance: businesses supported by sector

Product type	No. exporters	SMEs	No. destination countries	Maximum liability (£)
Accommodation and food service activities				
Bond Support	0	0	0	-
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
General Export Facility	1	0	N/A	2,000,000
Administrative and support service activities				
Bond Support	2	1	1	6,676,819
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	1	0	1	14,400,000
General Export Facility	5	5	N/A	5,550,049
Construction				
Bond Support	5	5	3	2,604,609
Export Insurance (EXIP)	4	3	4	17,189,858
Export Working Capital Scheme	0	0	0	-
General Export Facility	3	3	N/A	2,221,930
Education				
Bond Support	1	0	1	820,103
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
General Export Facility	0	0	N/A	-
Financial and insurance activities				
Bond Support	2	2	1	2,653,210
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
General Export Facility	3	3	N/A	20,343,511
Information and communication				
Bond Support	1	1	2	1,398,442
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
General Export Facility	10	10	N/A	7,890,400
Manufacturing				
Bond Support	14	14	16	7,506,380
Export Insurance (EXIP)	7	4	7	2,556,929
Export Working Capital Scheme	4	4	7	3,165,880
General Export Facility	84	78	N/A	134,331,158

Product type	No. exporters	SMEs	No. destination countries	Maximum liability (£)
Mining and quarrying				
Bond Support	0	0	0	-
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
General Export Facility	2	2	N/A	5,206,954
Other service activities				
Bond Support	0	0	0	-
Export Insurance (EXIP)	1	1	1	5,763
Export Working Capital Scheme	0	0	0	-
General Export Facility	2	2	N/A	3,320,000
Professional, scientific and technical activities				
Bond Support	1	1	1	906,774
Export Insurance (EXIP)	1	1	1	98,790
Export Working Capital Scheme	1	1	1	632,633
General Export Facility	14	11	N/A	22,456,374
Transportation and storage				
Bond Support	0	0	0	-
Export Insurance (EXIP)	1	1	1	103,308
Export Working Capital Scheme	0	0	0	-
General Export Facility	4	4	N/A	8,000,000
Water supply: sewerage, waste management and remediation activities				
Bond Support	0	0	0	-
Export Insurance (EXIP)	0	0	0	-
Export Working Capital Scheme	0	0	0	-
General Export Facility	3	2	N/A	14,700,000
Wholesale and retail trade: repair of motor vehicles and motorcycles				
Bond Support	0	0	0	-
Export Insurance (EXIP)	6	6	8	1,116,039.33
Export Working Capital Scheme	0	0	0	-
General Export Facility	45	43	N/A	98,838,413.31

Notes

1. Details not disclosed due to reasons of commercial confidentiality.
2. SMEs counted in the Trade finance and insurance annex may use a product more than once or use multiple products. Therefore, the sum may not directly align with the total number of SMEs supported with a product quoted in the performance report, which is solely a count of customers supported.

Sponsorship

UK Trade and Export Finance Forum	
HSBC	£30,000
Standard Chartered Bank	£30,000
Barclays	£25,000
Lloyds	£15,000
NatWest	£15,000
Bank ABC	£10,000
Newable Lending	£8,000
Citi	£5,000
Supplier fairs	
Arabian Construction Company (ACC)	£12,000
Bechtel	£12,000
ECC Environmental	£12,000

Sustainability of our estate

UKEF has reported annually on the sustainability of its estate since 2006, to operate the estate efficiently and reduce the environmental impact of operations and their associated costs.

UKEF's estate

UKEF's estate is based at 1 Horse Guards Road (1HGR), London, SW1A 2HQ. UKEF is a minor occupier of 1HGR, accounting for 8.53% of the total internal area. As landlord, the Government Property Agency (GPA) is responsible for the provision of all energy and utility services. GPA follows government procurement best practice in procuring those contracts.

Greening Government Commitments

The Greening Government Commitments are the government's commitments to delivering sustainable operations and procurement. They aim to reduce significantly the government's environmental impact by reducing emissions of greenhouse gases, reducing waste, reducing water usage and making procurement more sustainable.

Following the pandemic, UKEF has adopted a hybrid approach to work and a significant percentage of UKEF staff continue to operate from home. However, UKEF has seen a large proportion of staff return to the office for part of the working week. Consequently, this has impacted on the use of building services.

Full details of the 1 Horse Guards Road approach to waste disposal can be found in the Government Property Agency's Annual Report and Accounts.

Summary of performance

Area	2022-23	2021-22	2020-21	2019-20	2018-19
Estate waste (tonnes) - recycled	4.86	3.70	1.45	11.81	12.56
% of waste recycled	53.62	64.38	59.77	59.33	28.89
Estate water (m^3)	1,007	2,437	626	2,010	2,149

Energy from the estate	2022-23	2021-22	2020-21	2019-20	2018-19
Electric (kilowatt hours)	525,763	468,570	363,785	454,852	451,366
Gas (m^3)	129	64	29	404	396
Whitehall district heating system (megawatt hours)	259	315	126	107	114

Travel	2022-23	2021-22	2020-21	2019-20	2018-19
Domestic travel (kilograms of CO_2)	8,339	1,104	1,530	1,552	17,890
International travel (kilograms of CO_2)	941,688	325,304	790	1,062,262	460,500

2022-23 CO_2 figures include radiative forcing (RF)

In 2021-22, UKEF was still feeling the impact of the pandemic and air travel (both domestic and international) had reduced significantly compared to 2019-20. Whilst UKEF continues to facilitate meetings via Microsoft Teams, there has been a requirement in 2022-23 for staff to resume air travel in order to meet clients both domestically and internationally.

As a tenant of the building UKEF pays for services via a consolidated quarterly charge based upon its share of occupancy.

The estimated cost for utilities was around £99,000. However, this figure is subject to re-balancing charges which finalised until Q1 2023-24.

The cost of travel in 2022-23 was £1.2 million (note 9 of the financial statements), which includes expenses on hotels, allowances, meals, flights, trains, taxis and mileage.

Distance traveled (km)		Economy	Premium economy	Business	First	Total
Domestic		33,949				33,949
International	Short haul	214,603		168,611		383,214
	Long haul	113,093	68,869	1,978,257	23,604	2,183,823
Total		361,645	68,869	2,146,868	23,604	2,600,986

2022-23 travel data includes radiative forcing (RF)

Waste

UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste, to continue to reduce the amount of waste generated, and to increase the proportion of waste which is recycled.

UKEF is working with the building landlord and is committed to reducing the amount of waste generated and increasing the proportion which is recycled. UKEF has recycling points located strategically around the office. Furthermore, single-use plastics have been removed from all refreshment areas.

All information technology waste is either recycled or reused through UKEF's contract with the Disposal Services Agency. UKEF continues to improve processes and systems, reducing the amount of paper consumed.

Records of paper usage is not tracked. However, in 2022-23 UKEF reduced the number of photocopiers operated within the department. This combined with hybrid working policies has seen a reduction in overall paper usage.

	2022-23	2021-22	2020-21	2019-20	2018-19
Confidential waste (kilograms)	1,524.48	1,429.49	504.81	3,711.59	4,357.63
Toner waste (kilograms)	-	-	-	7.15	24.48
Mixed recycling (kilograms)	974.77	808.58	465.17	4,162.11	3,692.10
Composite waste (kilograms)	198.79	38.06	13.44	290.76	-
General non-recycled waste (incinerated)(kilograms)	4,203.88	2,047.79	974.18	8,094.00	8,771.26
Recycled waste (kilograms)	4,859.43	3,700.87	1,447.20	11,810.02	12,563.23

Energy from the estate	2022-23	2021-22	2020-21	2019-20	2018-19
Electricity (kilowatt hours)	525,763	468,570	363,785	454,852	451,366
Gas (m^3)	129	64	29	404	396
Whitehall district heating system (megawatt hours)	259	315	126	107	114
Water (m^3)	1,007	1,437	626	2,010	2,149

Water

As part of water saving efficiencies the building landlord (GPA) have previously installed water saving taps.

Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through Crown Commercial Services. Additionally, UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place, committing them to sustainable provision.

As a building tenant, UKEF has no control over greenhouse gas (GHG) emissions –Scope 1 (Direct) and Scope 2 (Energy indirect).

Biodiversity and natural environment

UKEF's London office has no access to or control over external land. Therefore, UKEF does not have a biodiversity plan.

Notes:

- All 1HGR utility payments (including water, waste and energy) are included in the set annual lease payments. The figures used above have been apportioned to departmental costs based on floor occupancy of 8.53%
- Business travel gross emissions do not include journeys made by bus or taxi
- UKEF does not operate any fleet car schemes

UKEF core tables

Total resource and capital spending for UKEF

The tables on the following pages provide a summary of the department's expenditure outturn for 2018-19 through to 2022-23, along with the planned expenditure for 2023-24 and 2024-25. The outturn and planned expenditure are recorded on the same basis as in the Statement of Outturn against Parliamentary Supply beginning on page 141. They represent the spending incurred by UKEF in meeting its objectives detailed in the Performance section beginning on page 13.

Resource

£'000	Plans		Outturn				
	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19
Resource DEL (Admin & Prog)							
A. Export credits guaranteed and investments	91,242	98,431	76,815	66,262	48,745	41,320	37,565
Resource AME							
B. Export credits	-	1,216,561	(189,599)	(237,240)	118,815	(135,012)	(74,420)
C. Fixed Rate Export Finance assistance	-	-	(7)	(39)	(27)	(267)	(290)
D. Loans & interest equalisation	-	-	(28)	(107)	(240)	(493)	(799)
E. Direct lending	-	416,783	(113,317)	(86,579)	99,171	(81,972)	(53,484)
Total		**1,633,344**	**(302,951)**	**(323,965)**	**217,719**	**(217,744)**	**(128,993)**

Capital

£'000	Plans		Outturn				
	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19
Capital DEL							
A. Export credits guaranteed and investments	1,310	3,540	1,002	1,413	784	135	79
Capital AME							
E. Direct lending	-	2,035,967	129,317	457,131	1,109,370	307,710	426,448

Resource DEL (RDEL)

For UKEF, RDEL represents the administrative cost associated with running the department (known as Administration and Programme DEL). Resource DEL expenditure has increased over the 5 years to 2022-23 largely due to staffing costs, IT and project costs, overseas export managers' cost and marketing costs and it is expected to continue to rise into 2023-24. Additionally, the increase in 2023-24 is reflective of a budget adjustment, agreed with HM Treasury, where 2022-23 underspend was transferred to 2023-24 to fund the delivery of the Financial Reporting Changes Programme.

The increase in RDEL from 2021 to 2022 was agreed at Spending Review 2021 to allow business growth, to ensure UKEF can meet higher levels of consumer and economic demand. Recruitment continues for the overseas export managers network (established in 2020-21) to expand UKEF's reach outside of the UK and to further allow presence in current and new markets.

Resource DEL outturn and plans are shown on a gross basis to allow better transparency and visibility of how the spend evolved over the period. Supply Estimates, however, show Resource DEL on the net basis. Resource DEL Admin is fully offset with AME income generated by the department.

Capital DEL (CDEL)

For UKEF, CDEL typically represents the purchase of IT hardware, but can also include project related software purchases and office furniture costs. In 2022-23 CDEL spend has increased due to the capitalisation of software development costs being incurred by projects.

CDEL budget uplift in 2023-24 is reflective of the budget adjustment, agreed with HM Treasury, where 2022-23 underspend has been transferred to 2023-24 to help with the planned delivery of the Financial Reporting Changes Programme.

Resource AME (RAME)

For UKEF, RAME represents the expenditure on underwriting and export finance activities, including income received while supporting the exporters. Both are expected to fluctuate significantly owing to the nature of the business activity, as well as the impact of foreign exchange movements. RAME is shown on a net basis. As per the arrangement with HM Treasury, RAME income is used to offset UKEF operating costs (RDEL).

For each of the last 5 years apart from one, RAME outturn has been negative, representing net income. The expenditure in 2020-21 arose from the impacts of Covid-19 which increased unrecoverable claims, impairments and foreign exchange losses.

In 2023-24, RAME budget has been provided for expenditure on impairments and unrecoverable claims in worst case economic scenarios, on unfavourable foreign exchange fluctuations and on loss-making support that UKEF may provide to the government of Ukraine per the ministerial direction.

www.gov.uk/government/publications/maintenance-of-uk-export-finance-cover-limit-for-ukraine

Capital AME (CAME)

For UKEF, CAME represents lending activity net of loan repayments. CAME outturn has fallen in 2022-23 as compared to 2021-22. Loan repayments remained at a similar level, as did the number of new loans originated, but drawn amounts were lower.

2020-21 CAME outturn was signficantly higher than previous years largely because of a £700 million BAE Systems Qatar deal drawing.

Glossary

Term	Description
Active portfolio management (APM)	Work to reduce concentrations of risk in the portfolio to decrease the chance of losses, and/or free up headroom to support more business. APM is currently focussed on buying case-by-case reinsurance from the private market where value for money is achieved.
Amount at risk (AAR)	AAR is equivalent to the accounting term "contingent liability". This represents the unexpired portion of the total risks supported by UKEF, essentially amounts still owed to banks or exporters where UKEF could face a claim. AAR would normally be less than maximum liability by the amount of expired risk. It is the measurement of exposure for issued business.
Below minimum risk standard limit	The total exposure limit agreed with HM Treasury that sets the total amount UKEF can commit to for corporate risk obligors below a minimum rating. The limit is set at £5 billion.
Bills & Notes Guarantee (BNG)	A finance facility in which a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services where payment obligations are documented as bills of exchange or promissory notes issued by the buyer. This product is typically used for deals below £30 million.
Bond insurance policy (BIP)	Insurance cover for the unfair calling of bonds or for the fair calling of bonds caused by certain political events.
Bond support scheme (BSS)	A scheme under which UKEF provides guarantees to lenders in respect of bonds related to UK exports. Where a lender issues a contract bond (or procures its issue by an overseas lender) in respect of a UK export contract, we can typically guarantee 80% of the value of the bond.
Buyer credit (BC)	A finance facility in which, normally, a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/ services.
Claims	Amounts paid out by UKEF under guarantees or insurance where there has been a default and UKEF is required to honour its obligations to the bank/insured party.
Commercial Interest Reference Rate (CIRR)	The minimum interest rate UKEF charges for direct loans, in accordance with the OECD Arrangement on Officially Supported Export Credits.
Commitment	A case not yet the subject of an issued guarantee, but for which UKEF has agreed the terms of its support and provided its commitment to the bank/exporter. Cases at this stage are included in UKEF's portfolio as the department has agreed to accept the risk.
Common Approaches	The rules agreed at the OECD for ECA due diligence in regard to environmental, social and human rights aspects of projects supported.

Term	Description
Concentration	This typically refers to either sector or regional concentration in the risk portfolio, indicating where UKEF has a greater proportion of its exposure.
Corporate (risk)	These are risks on commercial trading and financial institutions which are capable of being put into liquidation or receivership.
Counterparty	UKEF refers to other entities who have a relationship with the department, but are not the key source of risk on transactions, as a counterparty. Examples include ECAs who provide reinsurance, or agent banks providing loans which UKEF supports.
Country limit	The maximum amount of cover available for a particular country as agreed under the exposure management framework.
Credit period	The period over which a loan is repaid by the borrower, or for insurance products, the period for contractual payment by the buyer.
Credit quality	This typically refers to the level of default risk of an entity or the portfolio. For example, it can be measured by the proportion of investment grade rated (low risk) obligors versus non-investment grade rated (high risk) obligors.
Direct lending (DL)	Under the Direct Lending Facility, UKEF provides loans within an overall limit of £8 billion to overseas buyers, allowing them to finance the purchase of capital goods and/or services from UK exporters. Of that limit, £2 billion has been allocated to support clean growth projects and £1 billion for defence transactions.
Effective business	Business where UKEF has provided a guarantee or insurance, received premium and all other conditions have been satisfied.
Expected loss (EL)	The anticipated average loss over the relevant time horizon. For cases, the statistical estimate of the most likely financial outcome on a case, based on the likelihood of default and estimates of recoveries; and for the whole portfolio, the sum of the individual transaction expected losses, representing the mean of the loss distribution.
Export credit agency (ECA)	Most developed and emerging economies have an ECA. Although structure and organisation differs, they all exist to promote exports by providing insurance, lending, reinsurance and guarantees to exporters and banks on behalf of the state. Many ECAs have reinsurance arrangements with each other (see reinsurance).
Export Development Guarantee (EDG)	A guarantee of up to 80% to support working capital or capital expenditure facilities, which are not tied to specific export contracts but instead support a company's general export business activities or investment requirements in support of exports. Minimum loan size of £25 million.
Export insurance policy (EXIP)	An insurance facility provided by UKEF to exporters that covers them against the risk of not being paid under their export contract. Cover can be provided for both cash and credit payment terms.
Export working capital scheme (EWCS)	A scheme provided by UKEF to help UK exporters gain access to working capital finance (both pre- and post-shipment) in respect of specific export contracts. Under the scheme, UKEF provides guarantees to lenders to cover the credit risks associated with export working capital facilities. We can guarantee up to 80% of the loan.
Exposure	A generic term referring to the value of the risks UKEF is holding. For pre-issue business this is measured by maximum liability and for issued business this is measured by amount at risk. Exposure can be net of reinsurance and some measures of exposure also include claims.

Term	Description
Exposure management framework (EMF)	A framework for setting prudent restrictions on the concentrations in the portfolio. For country limits, this is based on a matrix and limits are determined by the size of the economy and the country's expected loss. For sectors, regions and obligors, this is based on the percentage of the portfolio attributed to that slice of risk.
Facility	The name given to each individual provision of support by UKEF.
General Export Facility (GEF)	A scheme under which UKEF provides guarantees to lenders where finance is not tied to specific export contracts, covering a range of facility types to support a company's general export business activities. Facility types can include trade loans and bonds. Designed with SMEs in mind, the guarantee covers up to 80% of the value of the facility and is made available via UKEF's streamlined digital application process.
Horizon of risk	The total period of time where UKEF is on cover. For credit transactions, this includes both the pre-credit (or drawdown) period and the repayment period.
Loss distribution	A curve showing the probability of different levels of loss on UKEF's portfolio over a specific time period, generated by a risk modelling methodology agreed between UKEF and HM Treasury.
Loss given default (LGD)	An estimate of the loss to UKEF at the time of default (also known as loss coefficient). The recovery rate is the inverse of this statistical estimate. The LGD is used with the probability of default to determine the expected loss.
Market risk appetite (MRA)	The level of potential new business that UKEF can underwrite in a specific country calculated by subtracting existing business (on a weighted basis) from the total agreed country limit.
Maximum commitment	The maximum amount of exposure that the UKEF portfolio can reach under the HM Treasury Consent, currently £60 billion. This does not include TCRF exposure.
Maximum liability (ML)	The measurement of exposure for pre-issue business. Maximum liability is the maximum value of the amount of claims payable under a particular UKEF product, including any interest.
OECD	The organisation of nation states known as the Organization for Economic Co-operation and Development.
OECD Arrangement	The OECD Arrangement on Guidelines for Officially Supported Export Credits, sometimes referred to as "the Consensus" or "the Arrangement". This limits competition on export credits among members of the OECD when providing official support for export credits of 2 years or more. The Arrangement covers all officially supported export credits except those for agricultural produce and military equipment. Aircraft, ships, nuclear power plants, water and renewable energy projects are subject to separate sector understandings.
Overseas investment insurance (OII)	Insurance cover provided to a UK investor for up to 15 years against political risks in respect of a new investment overseas. It may also be available to UK banks in respect of overseas lending, whether or not it is in connection with a UK investment or export. The risk covered by this product is that certain events (war, expropriation, restriction on remittances) mean the investor suffers a loss on their investment. It does not cover the commercial risk of the investment being unprofitable.

Term	Description
Paris Club (PC)	An informal group of official creditors whose role is to find coordinated and sustainable solutions to payment difficulties experienced by debtor countries. Debts from sovereigns are handled by the Paris Club.
Persistence of default	A factor considered in UKEF's country risk assessments. This is an estimate of the number of years during which a country is expected to remain in default, before being able to resume some form of debt service. Used in conjunction with sovereign risk rating and loss coefficient to determine expected loss rate.
Premium income issued, or premium issued	The total amount of premium that UKEF will theoretically receive over the lifetime of the insurance or guarantee policy. Like maximum liability, this is fixed in time in its original currency, when the policy is issued, but its sterling value can then vary with foreign exchange movements. This includes premium for all products, and is the value we use in the financial objectives we set for our premium policy, pricing adequacy index and premium-to-risk ratio.
Premium earned	Based on Accounting Standards (as note 1 to the financial statements). This does not include premium from direct lending, which is amortised as interest income, and uses an exchange rate fixed at the point when premium is received (rather than month-end rates, as for premium income issued).
Premium-to-risk ratio (PRR)	Assesses the extent to which UKEF premium income on new cases is sufficient to cover the risks associated with those cases. The risks are measured as both the expected loss and a charge on unexpected loss. PRRs can be calculated for individual cases, and the PRR for new business in each year is a financial objective. PRR is an in-year measure, with a target ratio of 1.35.
Pricing adequacy index (PAI)	Assesses the extent to which UKEF premium income is sufficient to cover both risks and costs. PAI is measured over a 3-year rolling period, and has a target that the ratio of net earned premium to risks and costs should always be greater than 1. Risks are defined as in the premium-to-risk ratio as expected loss and a charge on unexpected loss, and costs are UKEF's admin costs.
Private market assist	When UKEF engagement has had a material contribution to an export receiving support from the private sector.
Probability of default	A statistical measure of the likelihood of an entity or transaction defaulting on debt obligations. Letter ratings correspond to a specific estimate of probability of default based on historical data of the outcomes for each letter rating.
Project finance (PF)	Transactions which are dependent on generating sufficient revenue from a project to service debt, once commissioned.
Provisions or provisioning	Amounts which are set aside within UKEF's trading accounts to allow for non-recovery of claims already paid and of claims to be paid in the future.
Public (risk)	Risk that is assessed to be with an entity linked to the government, but which does not benefit from full state support or a guarantee (for example a local municipality or a state utility).
Recoveries	Amounts that UKEF has been able to get back after paying a claim (through restructuring or selling assets, for example).

Term	Description
Reinsurance	UKEF shares risk by reinsuring it with other partners in 2 main ways: sharing a proportion of a transaction with other ECAs based on the amount of content produced in that country (ECA reinsurance); or purchasing reinsurance directly from the private sector to reduce risk concentrations (see active portfolio management).
Risk appetite limit (RAL)	A risk weighted cap on the maximum amount of risk that UKEF can take on. Calculated as the 99.1 percentile of the portfolio loss distribution (see loss distribution). On 31 March 2023 the maximum was increased from £5 billion to £6 billion.
Run-off	UKEF's risk decreases as loan repayments are made or insurance risks expire. The way in which the amounts at risk decrease is called the run-off.
Short-term	UKEF's short-term products are: bond support guarantees, export working capital scheme guarantees, the General Export Facility and export insurance policies under 2 years.
Sovereign (risk)	Risks considered as being effectively upon the state itself.
Standard Buyer Loan Guarantee (SBLG)	A finance facility in which a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services. This product is typically used for deals below £30 million.
Stress testing	A form of scenario analysis where one considers the potential adverse impact of theoretical changes in the state of the world. UKEF carries out portfolio stress testing semi-annually, based on a number of defined stresses and scenarios.
Supplier Credit Finance Facility (SCF)	A finance facility in which a guarantee was given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services. This product is typically used for deals below £30 million. The SCF was replaced by the SBLG and BNG.
Supply Chain Discount Guarantee (SCD)	A guarantee of up to 80% provided by UKEF to a lender to support a supply chain finance facility provided by the lender to an exporter. Suppliers can draw on the facility to discount approved invoices; the exporter then makes payment to the lender at the face value of the invoice at maturity. UKEF covers the risk of the exporter failing to repay the lender.
Unexpected loss (UEL)	Takes account of the potential for actual losses to exceed the expected loss. This simply reflects the uncertainty inherent in the estimate of future losses. Calculations of unexpected loss will tend to increase if a portfolio has high risk concentrations and/or the risks in the portfolio are strongly correlated. UKEF defines unexpected loss as the difference between the portfolio expected loss and the 99.1 percentile value of the loss distribution.
Ultimate obligor (UO)	The final source of repayment risk. In some transactions, a number of entities might be responsible for ensuring there is no default, but the ultimate obligor is the key entity for determining the riskiness of the structure.

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