UK Export Finance

Annual Report and Accounts 2021-22

UK Export Finance

Export Credits Guarantee Department (UK Export Finance) Annual Report and Accounts 2021-22

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

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HC 191

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Contents

Jo Archer who is Export Finance Manager for Bedford, Cambridge and Northampton

Ministers' foreword

The UK is a champion of free trade. We're an independent trading nation open to markets on every continent. The government has opened the door to the world – now we need to help businesses walk through it. That's why we provide the finance to make trade happen, and we're doing it better than ever.

Anne-Marie Trevelyan
Secretary of State
for International Trade

Mike Freer
Parliamentary Under
Secretary of State

In the government's Export Strategy, we fired the starting gun on the race to reach a trillion pounds of UK exports by 2030. The UK is now at the centre of a network of modern Free Trade Agreements, worth nearly £800 billion of UK bilateral trade in 2020. Businesses need to have the right finance in place to capitalise on these deals, which is why UKEF is so important.

During the year UKEF underwent radical changes in response to domestic and global challenges, emerging more flexible, more competitive and stronger. It issued more than £7.4 billion worth of finance and insurance for 545 exporters – without a penny for overseas fossil fuel projects.

UKEF has expanded its support with new and upgraded products. Small and medium-sized enterprises (SMEs) are benefiting from the new General Export Facility with nearly £250 million of working capital loans. The new and expanded Export Development Guarantee is also providing financial security to many of the UK's biggest exporters, with billions of pounds now provided, and to the thousands of companies in their supply chains.

It is not just the UK that stands to benefit from our exports. We need a global green industrial revolution that will secure the long-term supply of renewable energy to meet the world's net zero ambitions.

The crisis in Ukraine has shown that green energy self-sufficiency is not only good for the planet, but also in our own national interest. As the UK's export credit agency, UKEF led by example, committing to reaching net zero by 2050 and bringing together 39 of its peers to end support for fossil fuel projects by the end of 2022.

UKEF moved swiftly with the rest of the government to end support for overseas fossil fuel projects and shift its gaze to turning the

International Trade Secretary Anne-Marie Trevelyan delivering a speech on green trade

UK's green potential into a powerful reality. It provided £3.6 billion for sustainable projects in 2021, the most ever recorded. And there is more to come. Prosperity through sustainability is at the heart of UKEF's new mission statement, and it now offers improved terms for green economy exporters through its Export Development Guarantee.

UKEF is uniquely placed to help exporters across the country achieve their full potential. Working closely with the Department for Trade and across Whitehall, it will continue to level up opportunities as it has done for the last 102 years. Behind our goal of £1 trillion of exports are countless companies, communities and livelihoods. A UKEF that is energised and enhanced is vital for supporting all 3, ensuring what is made in the UK is sold to the world.

28 June 2022

Chair's statement

After 2 years of living and working with coronavirus, it's been a pleasure to see UKEF staff in person again. I'm enjoying the office buzzing again with activity.

Noël Harwerth
Chair

UKEF has grown markedly during the pandemic. The department is more flexible and robust than ever before. UKEF issued more than £7.4 billion worth of finance and insurance in the last financial year, with £3.6 billion on sustainable projects in 2021 according to an independent assessment of deals backed by export credit agencies (ECAs).[1] A truly remarkable set of achievements.

UKEF's sustainable initiatives involve more than just numbers. The department is fully aligned with the government's policy on fossil fuels, as shown by our deals, our ambitious Climate Change Strategy and our advocacy for change at COP26. It's a credit to all those involved from UKEF at COP26 that we inspired 39 other ECAs and multilateral development banks to join us in pledging to end support for fossil fuel projects from the end of 2022.

The new products we've developed have enabled UKEF to widen its support for new sectors, as well as for UK companies seeking to make the transition to cleaner ways of working.

I'd like to pay tribute to the UKEF staff. They continued to show incredible flexibility amid challenging conditions and yet their performance never wavered. Their attitude has been first class, and this can be seen in our 2021 People Survey results, which showed our highest ever engagement score of 74%, far above the Civil Service average score of 66%.

UKEF has historically been a diverse department and I'm proud that it remains the most ethnically diverse department in the Civil Service, with 33.1% of staff from ethnic minority backgrounds.

I said last year that I was keen for the department to improve its gender balance. It's a great achievement that the proportion of female staff is higher than ever before, while the percentage of Senior Civil Servants identifying as women has increased to 33%. We must work harder to improve the gender balance further and I welcome the department's target to have at least 45% female employees by 2024.

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


UKEF Board as of March 2022 (without Kimberley Wiehl)

Our Board saw Oliver Peterken step down this year: Oliver joined us in 2017 and also served with distinction as Chair of the Risk Committee. On behalf of the Board, I thank him for the dedication, challenge and wise counsel he has brought to his role. The Board has also seen the additions this year of Jacqueline Keogh, a Senior Advisor at the Financial Conduct Authority, and Tim Frost, co-founder of Cairn Capital and a non-executive director of Cairn Capital Group Limited. Welcome!

It would be remiss of me not to mention another departure this year. After 24 years with UKEF, the Head of Business Group, Gordon Welsh, retired. Gordon will be hugely missed and on behalf of the Board I'd like to thank him for his remarkable service and wish him a very happy retirement. I look forward to working with Tim Reid, who has joined from HSBC as Director of Business Group.

Finally, I would like to thank Louis Taylor and the executive team for their hard work, energy and diligence over the last year – none of the great successes outlined in this report would have been possible without them.

Noël Harwerth
Chair

28 June 2022

Notes

1 Sustainable and green projects are defined by Trade & Export Finance Limited (TXF) in 16 categories, including renewable energy, biodiversity conservation, affordable housing and food security. For more information about the deals, please visit our website [gov.uk/government/news/ukef-provides-36-billion-for-sustainable-projects-in-2021].

Performance

UK Export Finance performance overview

Who we are

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

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

Our mission

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. We help UK companies:

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

How we do it

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

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

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

Performance

This section provides a summary of UK Export Finance, its purpose and structure, its financial performance relating to its objectives, organisational risks and focus for the year ahead. UK Export Finance is a self-funding, income generating department and its work has been guided by its financial objectives, which are outlined on page 33.

2021-22 in figures

£7.4 billion
business supported

£4.7 billion
for overseas projects

Pledged Net Zero by
2050

£3.6 billion
for sustainable projects in 2021

£1.4 billion
COVID-19 support (TCRF)

545
companies directly supported

Annual milestones

2021

April
Ended support for new overseas fossil fuel projects

Trade Finance Global Export Credit Agency of the Year (2021)

May
Issued our first ever General Export Facility to West Midlands technology business Simworx

Won **TXF Renewables Export Finance Deal of the Year** for Changhua 1 & 2a Offshore Wind

June
Signed a green partnership with ORE Catapult to promote the expertise of the UK offshore wind sector

Provided our first Standard Buyer Loan Guarantee to Northern Irish manufacturer CDE Global

Published our first Task Force on Climate-related Financial Disclosures report

July
Provided bond support to First Subsea Ltd, allowing the Scottish energy firm to transition to renewables and secure £12 million of export orders

Won **TXF Healthcare Export Finance Deal of the Year** for NMS Hospital Project Côte d'Ivoire

August
Backed a landmark £430 million green transition loan for Wood Plc to enhance its clean growth exports and develop green jobs

Announced a new partnership with the Central American Bank for Economic Integration (CABEI) to support projects in the region

September
Committed to reaching net zero in our first Climate Change Strategy

Issued our first clean growth loan to support completion of Bee'ah's award-winning green headquarters in Sharjah

October
Aligned OECD export credit agencies behind new climate initiative to end export credit support for unabated coal-fired power plants

November
Launched new and enhanced products in the Export Strategy

At COP26, helped secure a commitment by 39 of our peers to join us in ending support for new fossil fuel projects

Provided £217 million in financing for a 1.3GW solar project in Türkiye, one of the largest in the world

December
At our 4th annual customer conference, signed a new partnership with General Electric and accredited the first non-bank lender, Newable, to our General Export Facility

Increased the cover limit for Ukraine to £3.5 billion to support priority sectors including defence

Received 9/10 for our product offering from the British Exporters Association

2022

January
Announced over £500 million of support in Africa at the Africa Investment Conference

Supported Jaguar Land Rover's electric vehicle plans with a £500 million Export Development Guarantee

Achieved our highest-ever score for employee engagement in the Civil Service People Survey

February
Boosted the Scottish fishing industry with a £15 million General Export Facility to Peterhead-based Denholm Seafoods

March
Won **TXF Rail Transport Export Finance Deal of the Year** for Ankara-Izmir High-Speed Railway

Elizabeth McCrory who is Senior Export Finance Manager for Northern Ireland

Chief Executive's report

In another year of economic uncertainty, UKEF has once again demonstrated its worth – adeptly deploying our expertise to unlock finance, support exporters and promote British businesses while protecting the interests of the taxpayer.

Louis Taylor
Chief Executive Officer

The global trading landscape is changing. Supply chains are still recovering from pandemic restrictions to the movement of goods and people, while Russia's invasion of Ukraine will have lasting economic and geo-political impacts. In spite of this, global trade is rebounding, reaching a record of $28.5 trillion in 2021 – a 25% increase on the previous year.[1]

We have been agile and responsive to the market's needs, issuing £7.4 billion (£8.8 billion pre-reinsurance) in support to exporters of all sizes in 2021-22. This is a historically large number, especially absent any support for overseas fossil fuel projects, exceeded only by 2020-21 because of the emergency support businesses needed throughout the COVID-19 crisis.

The exports we support have been levelling up opportunities across the UK for over 100 years, with our support touching thousands of companies every year, both directly and indirectly. Last year alone, we estimate we supported over 72,000 UK jobs and added a gross value of £4.3 billion to the economy. This means more money in people's pockets and continued job security for British workers, all in support of the UK's international ambitions.

Finance makes trade happen, which is why UKEF's finance offer remains at the heart of the government's new Export Strategy – including enhancements to our products. In 2019, we revolutionised the way we support exports by offering general working capital support through the Export Development Guarantee (EDG). Since then, this immensely successful product has provided £10.6 billion in support to some of the UK's largest employers, including British Airways, Rolls-Royce and Nissan – businesses that each account for tens of thousands of UK jobs across the country.

We have now gone one step further, expanding EDG eligibility to:

- UK companies with credible plans to export
- overseas firms seeking finance to establish themselves in the UK and export from our shores

Inward investment stimulates economic growth and job creation. By backing foreign companies to come to the UK, we can boost the UK supply chain in high-growth sectors. Stimulated to grow, those supply chain businesses may themselves go on to export.

A greener future

2021 was also the year where we led the world of export finance into a greener future. In our new Climate Change Strategy, we committed to reaching net zero carbon emissions by 2050, becoming one of the first export credit agencies (ECAs) to launch a net zero strategy. Not only is this absolutely vital for our planet, but it is also in the UK's interest as we develop supply chains in net zero technologies.

Our mandate is to support viable UK exports, but sustainability is increasingly at the heart of the viability assessment. UKEF's revised mission statement, which I am pleased to announce here, makes explicit the increasing centrality of sustainability to our business.

This is why we used our platform at the 26th Conference of the Parties (COP26) in Glasgow to bring our peers and private sector institutions along with us. Following our lead, the private market has pledged $130 trillion of capital to transition the global economy to net zero by 2050, while 39 other ECAs and multilateral development banks joined us in pledging to end support for fossil fuel projects from the end of 2022.

We are particularly focussed on clean growth and renewable energy exports. In 2021, we increased our support for sustainable and clean growth projects to £3.6 billion, according to TXF's ranking of export credit agency supported deals. A £1.7 billion loan was secured for a high-speed rail line in Türkiye with UKEF backing – our largest ever civil infrastructure deal – which will provide a faster, lower carbon alternative to current air and road routes.

And there is more to come. We have a multi-billion-pound pipeline of deals in countries around the world – with significant opportunities across clean growth sectors.

Our revised mission statement

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.

What do we mean by "prosperity"?

As an export credit agency and a government department, delivering prosperity means supporting growth in exports and investment, bringing jobs and better living standards to communities across all nations and regions of the UK and internationally.

By helping to fill the financing gap in global trade, we open up international opportunities for UK businesses, enable them to scale up and internationalise, and develop supply chains and infrastructure around the world. All this underpins prosperity at home and abroad through the economic cycle.

What do we mean by "sustainably"?

For UKEF, undertaking our business sustainably means taking account of factors beyond the purely financial. This includes relevant laws and regulations, government policies, international agreements which apply to the operations of export credit agencies, good international industry practice and standards relating to – for example – environmental, social and human rights impacts, climate change, debt sustainability and financial crime.

We recognise that our activities can contribute to financial and non-financial sustainability impacts through the support we provide to UK exporters. UKEF is committed to reducing the negative sustainability impacts associated with our financing activities, promoting high standards of environmental and social performance, and maximising opportunities for positive impacts.

UKEF support helped Rochdale-based distributors Forrest Fresh Foods overcome COVID-19 supply chain challenges

Supporting small businesses

We support companies of all sizes, but the majority of the companies that we support with a UKEF product are small businesses. 81% of the companies we supported directly with a UKEF product in 2021-22 were for small and medium-sized enterprises, with our General Export Facility (GEF) providing a welcome boost.

Since we made GEF available in March 2021, we have issued over £180 million of support using the scheme to unlock almost £250 million of working capital loans, boosting smaller businesses across the land: from online retail in South Wales and steel manufacturing on Teesside to offshore wind in Aberdeenshire. We have recently onboarded our first non-bank lender to this product – widening access to GEF even further, levelling up opportunity and driving prosperity across the UK.

Strengthening connections

We are adapting the way we do our business to meet today's realities and tomorrow's challenges. Our new Digital, Data and Technology Division is boosting our digital capability, placing the customer at the centre of everything we do. The recently formed Strategy, Policy and Climate Change Directorate is making sure we fully address the risks and opportunities created by climate change and have the right long-term strategy in place to fulfil our mandate, while strengthening our collaboration across government.

Working with HM Treasury, we extended the use of our Temporary COVID-19 Risk Framework (TCRF) through to July 2022. This boost to our risk appetite limits allows us to support customers whose liquidity and cash flow profiles had been badly affected by the pandemic's economic fallout. Through TCRF, we have provided £8.2 billion since its inception to help exporters keep trading, protecting jobs at those firms and their suppliers.

We have connected more closely with our sister financial institutions, the British Business Bank and UK Infrastructure Bank, to gain a deeper understanding of how our offers align and complement one another. Similarly, we have deepened our collaboration with the Department for International Trade (DIT). As sister departments, we work hand-in-hand to present a truly joined-up service for British exporters – cooperation strengthened by the Memorandum of Understanding (MoU) signed in March 2021 (see page 130).[2]

We are also intensifying our work with the Foreign, Commonwealth and Development Office, collaborating effectively to promote Global Britain and UKEF's finance offer overseas; and working closely with the Department for Business, Energy and Industrial Strategy to support the net zero and decarbonisation agenda.

As a newly independent member of the Organisation of Economic Co-operation and Development, we intensified our cooperation with other ECAs and their guardian authorities to preserve a level playing field globally. We pushed forward the review of the Coal-Fired Power Sector Understanding and worked with the UK government's COP Unit on the Statement on International Public Support for the Clean Energy Transition to help end the global financing of unabated fossil fuels through public funds, including export credits, by the end of 2022.

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.

Our direct support therefore 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.

For companies to be included in our 'directly supported' figure, we require evidence of them securing business on projects we are supporting. This is included as a condition of our support when we agree 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.

The way ahead

We have achieved so much in recent years, but there is much more to come. Our role in government has never been greater. And with the continued expansion of our international network, which now stands at 18, with representatives on every continent, our voice overseas has never been stronger.

Thanks to the 20% increase in our budget in the 2021 Spending Review, we have the confidence, capacity and capability to continue to manage sustained higher business volumes and increasing complexity in our work.

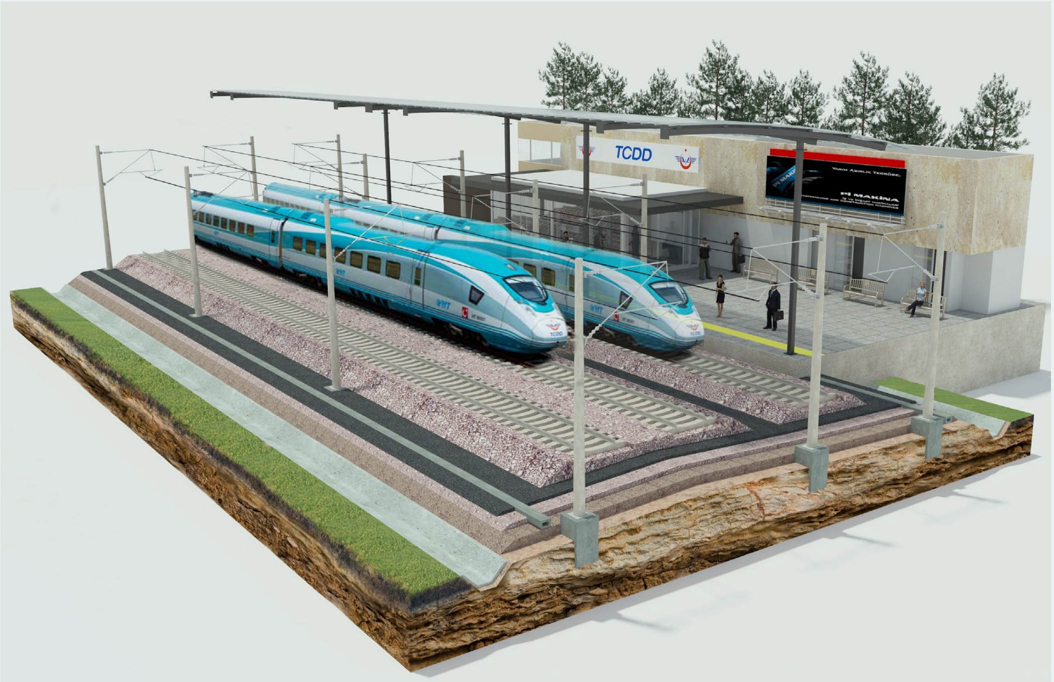
We're also vigilant about the risks ahead but are confident that we have the controls to manage them. Overall, this year, our performance in managing financial risk was extremely strong as we protect the interests of the UK taxpayer.

With access to manufacturers, airlines, remarketers, and industry players we have made huge strides on the 115 aircraft in our portfolio which were in insolvency protection in June 2020. Of those, nearly 100 have been successfully restructured. Paying out claims when they are needed while recovering what we are owed brings value to our guarantee. It proves our model works.

All of this success is underpinned by the hard work, diligence and expertise of UKEF staff. Their commitment to making UKEF the best ECA in the world continues to pay dividends, helping UK companies trade in a volatile landscape, defending our portfolio and adapting our offer to support the technologies of tomorrow.

Case study

Building a high-speed railway in Türkiye



In 1856, the Ottoman Railway Company opened Türkiye's first railway to improve trade routes to its ports. One hundred and sixty years later, a new high-speed rail line aims to enhance these vital trade routes once again, with a £1.7 billion loan backed by UKEF through its Buyer Credit Scheme.

This is a landmark deal with strong green credentials. It is also UKEF's largest ever civil infrastructure loan guarantee.

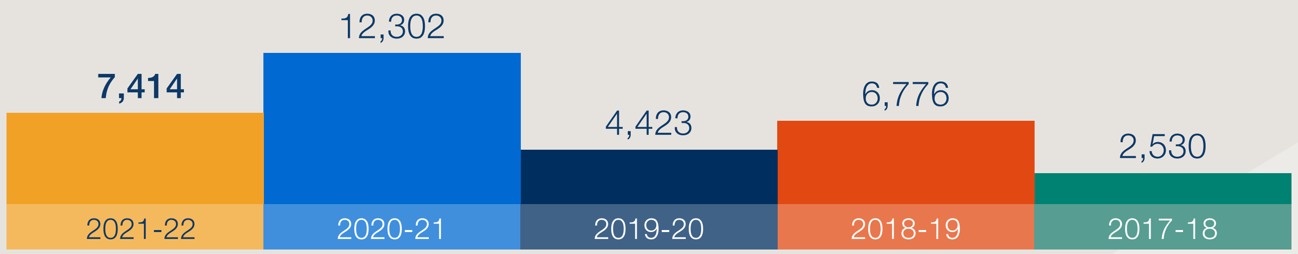
The project is part of Türkiye's plan to transform its high-speed rail network. The new 503-kilometre electric-powered railway line will connect the capital, Ankara, to the port city of Izmir. When complete, the new line will cut journey times, making it the most convenient option for travellers while helping to fulfil the climate change commitments Türkiye made at COP26.

UKEF's involvement has secured half a billion pounds' worth of business for UK suppliers, who will be exporting everything from the rails, points, signalling and communications equipment to vital insurance and freight services.

Reinsurance support was sought from international export credit agencies SACE in Italy, SERV in Switzerland and OeKB in Austria, to reduce the risk to the UK taxpayer, making UKEF's total liability worth close to £1.1 billion.

Financial overview: 5-year summary*

Business supported (£m)



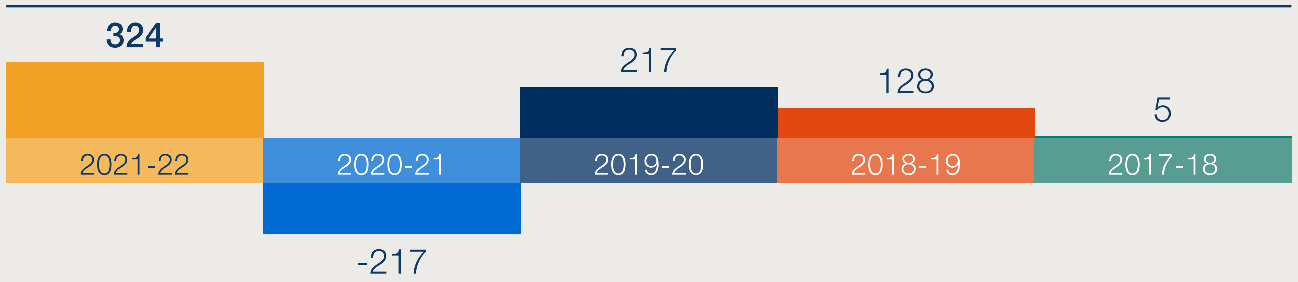
Value of commitments (£m)

Premium income earned (£m)

Premium income issued (£m)

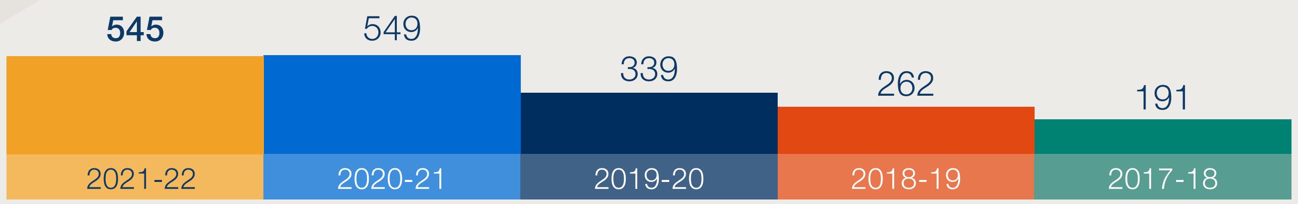
Claims paid (£m)

Net operating outturn (£m)

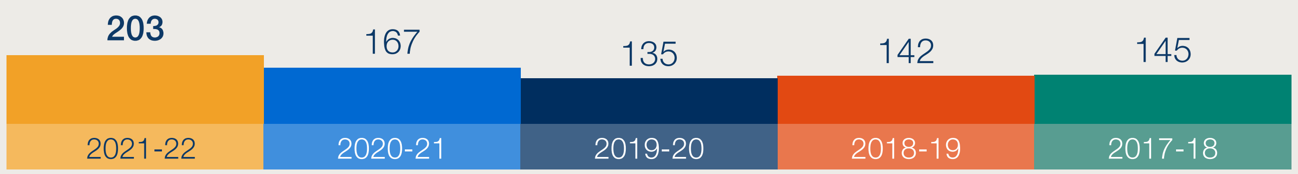


Non-financial indicators: 5-year summary*

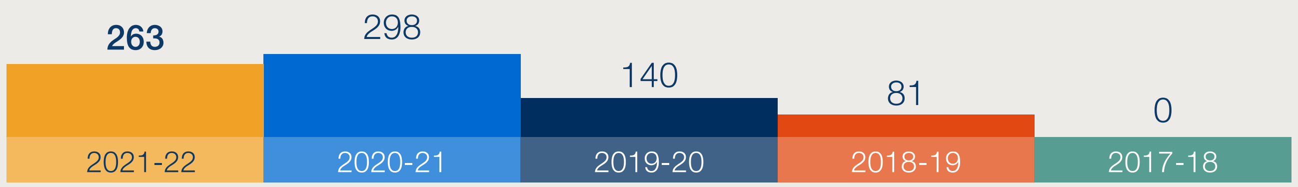
Total exporters supported, of which:



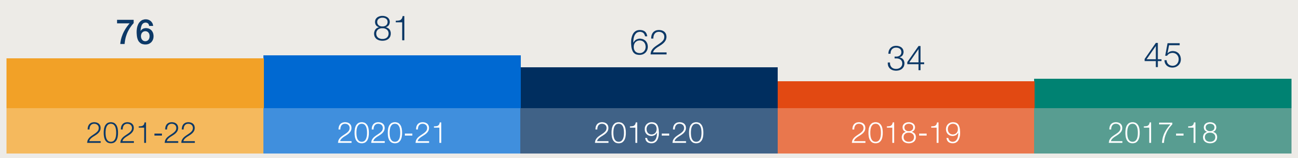
Direct support under a UKEF product



Tier 2 suppliers

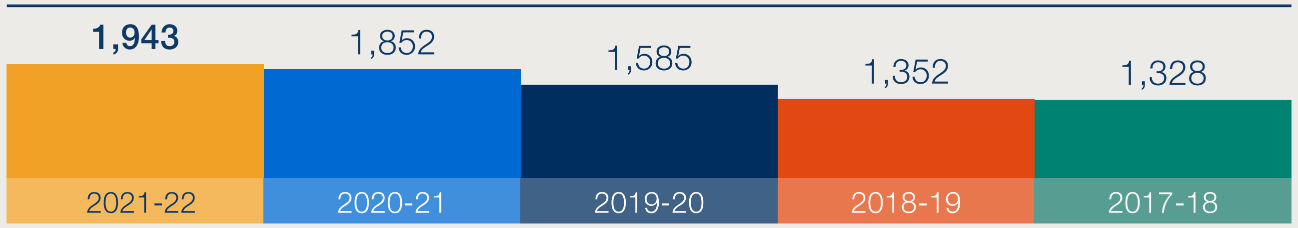


Private market assist

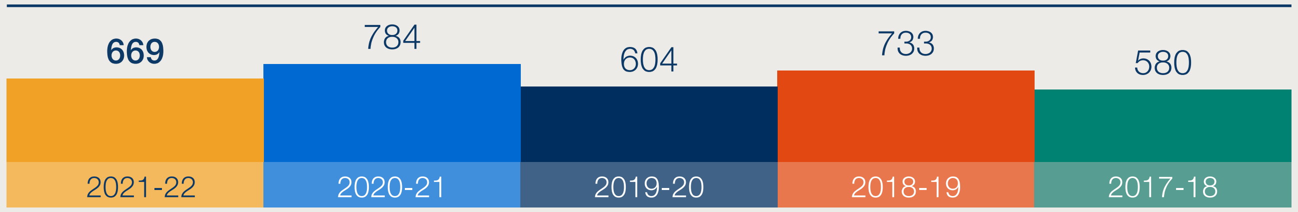


Direct support and private market assist

Introductions to other sources of support



Facilities issued



* definitions for each indicator can be found in the glossary on pages 241 to 245.

2021-22

How we support jobs and the economy

UKEF's contribution to the UK economy is measured through direct and indirect impacts.

Direct impact relates to the jobs and economic activity (production of goods and services) supported with the direct beneficiaries of UKEF's loans, guarantees and insurance.

Indirect impact captures the jobs and economic activity supported in the wider UK supply chain. Suppliers to the direct beneficiaries of UKEF's financial support will employ staff and contribute to gross value added, and will also use suppliers in turn.

Direct impact	Indirect impact (supply chain)	Total impact
UKEF facilitates exports, which supports jobs and economic activity within the beneficiary company.	The beneficiary company purchases inputs from suppliers who employ staff and support economic activity in the UK.	Economic activity Wages Profits Employment

72,000

Full-time equivalent (FTE) jobs

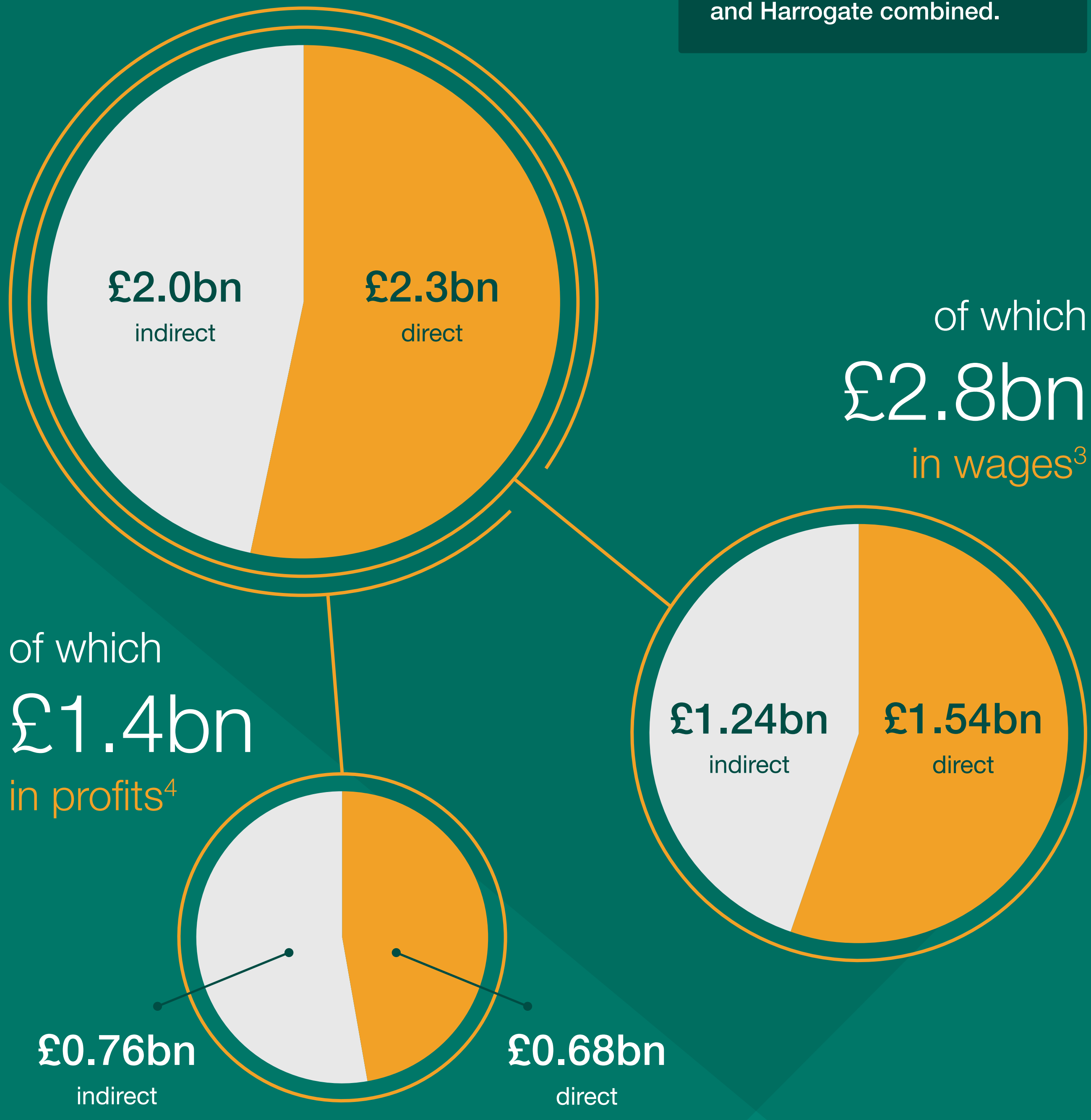
32,000 indirect **40,000** direct

UKEF's economic impact analysis[1] uses a similar methodology as US EXIM. See the analysis for more about the methodology, definitions and a full breakdown of GVA, including net taxes on production.

£4.3 billion

gross value added[2]

UKEF's support contributed up to £4.3bn to the UK economy in 2021-22, economic output of Darlington and Harrogate combined.



1 UKEF. Economic impacts of our support, 2021 to 2022. July 2022. [gov.uk/government/publications/uk-export-finance-economic-impacts-of-our-support-2021-22]

2 Economic activity is measured by "gross value added" (GVA). This is the economic value generated by the production of goods and services by a firm, industry or sector. It is the value of the goods and services 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 resident individuals or firms in the production of goods and services.

3 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.

4 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, i.e. share of value not going to paid employees.

Supporting exports through the trade cycle

Net operating profit:

- 2021-22: net operating profit of £324 million for the year ended 31 March 2022, compared with a net operating loss of £217 million the previous year
  - FX-adjusted net operating profit of £279 million

This change is primarily due to improvements in outlook and performance for UKEF's existing portfolio, which was hit heavily by the coronavirus (COVID-19) pandemic last year, especially in the aerospace sector. It is set against many years of low claims and operating profits which will cover this cost over the business cycle – as shown in the graph on page 26.

Many of the loans we support by providing guarantees will be repaid over more than 10 years. In the event of defaults, we will seek to make recoveries. This means that final business losses, as a result of unrecovered claims paid, can take many years to assess.

For this reason, it can be illuminating to assess our performance 'through the business cycle'. This accounts for the way our business levels and claims rise and fall depending on the impact of market disruptions on UK trade. For example, claims payments and recoveries reported in any single year actually reflect the performance of business exposures written over a longer period of time.

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

Pricing of risk

We support UK exporter competitiveness through charging only the lowest premium rates permissible, subject to meeting our financial objectives and aligning with our international obligations, most notably the minimum rates set out by the OECD. Our pricing methodology is described in more detail on page 61.

Our accounts

UKEF currently operates 6 accounts (business segments), with each defined by the nature of business supported by the department.

Account 1 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.

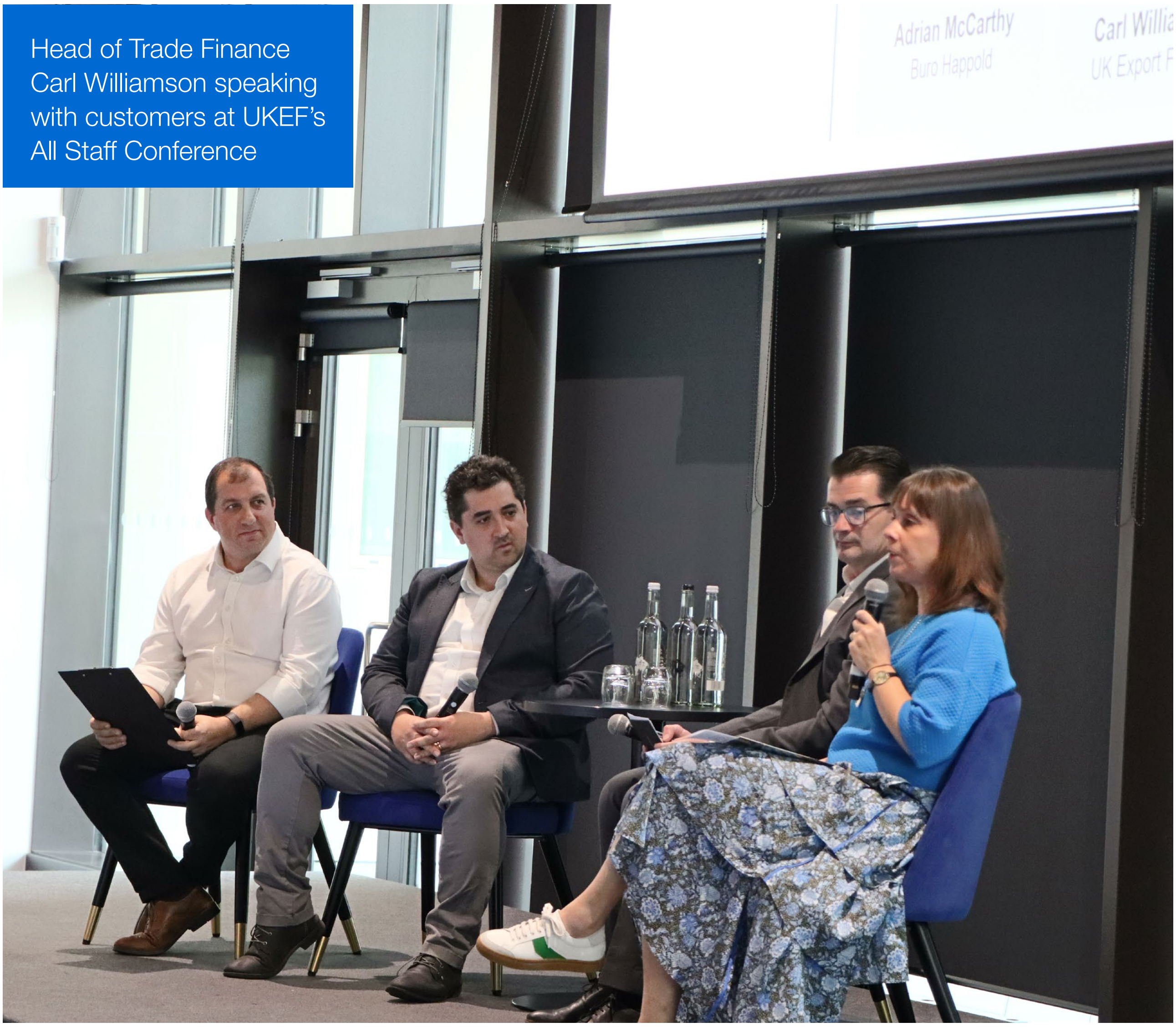
Account 2 relates to the credit risk arising from guarantees and insurance issued for business since April 1991.

Account 3 relates to guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4 relates to the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements.

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

Account 6 relates to all business underwritten and booked under the Temporary COVID-19 Risk Framework (TCRF – approved by HM Treasury since 2 April 2020).



Head of Trade Finance Carl Williamson speaking with customers at UKEF's All Staff Conference

Historical financial performance

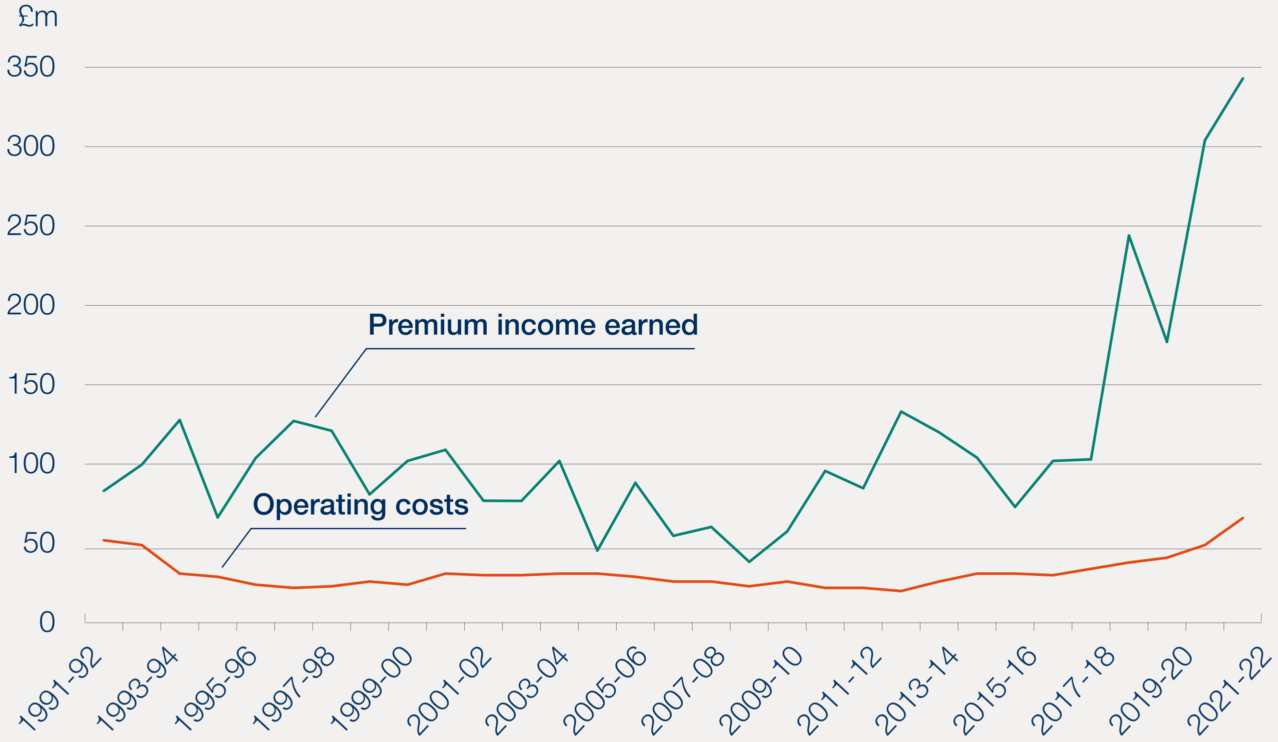
We take on risk to stimulate UK exports. So when a crisis hits, claims are made on some of our guarantees and insurance policies.

We've paid out more claims in the last two years than we did in the previous 12 years combined. But through our experience, preparation by collecting premium income when claims were low, and effectively recovering what we're owed, we still operate at no net cost to the UK taxpayer.

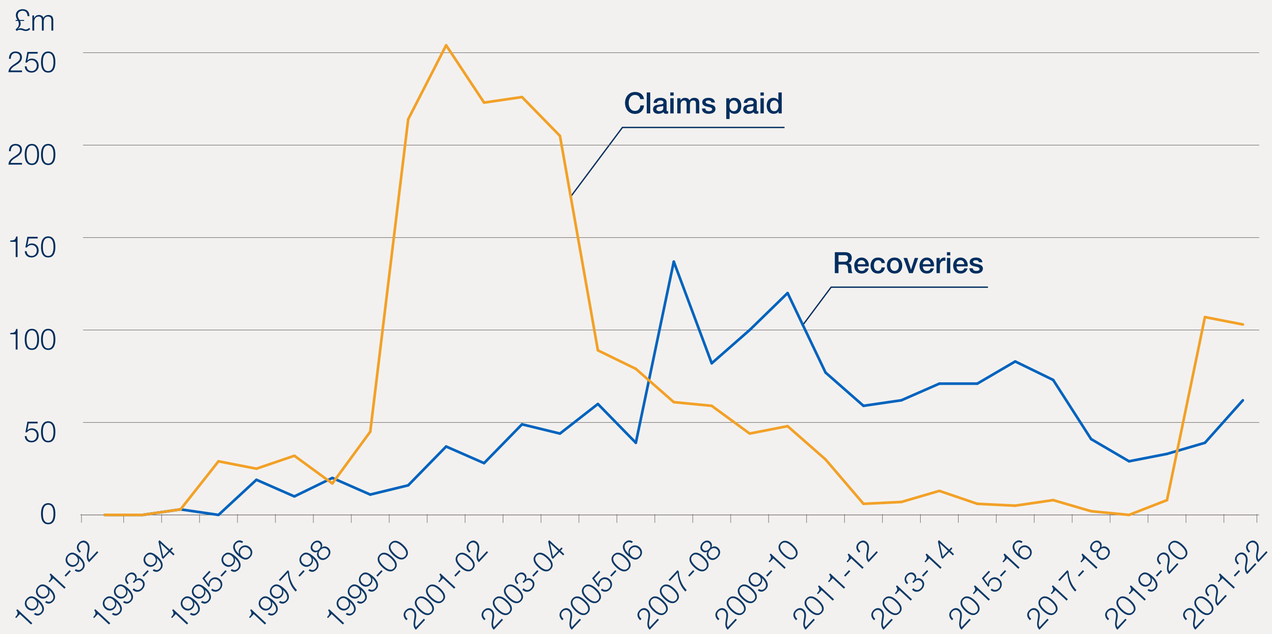
Both our trading performance and cash flow have been strongly positive since 1991, enabling UKEF to make a positive contribution to the Treasury. UKEF has recovered the cost of every claim made against it on a portfolio basis and returned over £2 billion to the Treasury.

Financial performance since 1991

This graph shows the operating costs of the department as compared with the premium earned since 1991 with premium covering running costs over this period.



This graph shows both the mismatch in timing between the payment of a claim and then the eventual recovery but also that UKEF has since 1991 effectively recovered all claims.



Note: To allow for reporting on a consistent basis over this historic period, these graphs refer to principal recoveries from account 2 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.

How we delivered in 2021-22

Supporting a Global Britain

What we said we would do	What we did
Support exports from companies of all sizes, enabling them to take advantage of new and existing Free Trade Agreements	Provided £7.4 billion for UK exporters, 81% of which were SMEs
Build our business pipeline through our marketing and communications activities, and through the appointment of new International Export Finance Executives (IEFEs)	Appointed 5 new IEFEs in the Middle East, Europe and Africa and developed a rich pipeline of deals worth billions of pounds
Recruit and embed our new stakeholder engagement team to grow relationships with the private sector and other ECAs	Set up a new External Affairs team, increasing engagement with Business Representative Organisations, banks and ECAs to better support UK exporters

Recovering from COVID-19

What we said we would do	What we did
Optimise the use of our Temporary COVID-19 Risk Framework (TCRF), which allows us to continue providing finance to customers that we would have supported before the pandemic	Deployed £1.4 billion in 2021-22 (in addition to £6.8 billion last year) of our remaining TCRF capacity to help exporters continue selling to their customers
Collaborate across Whitehall to support the government's trade programme, particularly in priority sectors including food and drink, technology and digital, and renewables and clean growth	Fed into 7 cross-government strategies, including the Export Strategy, Innovation Strategy and National Shipbuilding Strategy, to make sure our offer is well understood Researched priority sectors to make sure our marketing and product development can meet their needs
Recruit staff with the right skills in the right roles to make sure we continue to offer the best possible service to our customers	Strengthened the capability of functions including Underwriting, Strategy, Policy & Climate Change, and Digital, Data & Technology

The Union and levelling up

What we said we would do	What we did
Collaborate with the private sector and across government to improve our small business offering, and fully deploy the new GEF to support a wider range of SMEs	Provided over £180 million of support through GEF since its launch – 92% to SMEs
Embed a new export finance manager (EFM) structure to make UKEF support more easily available across the UK	Organised EFMs into 3 regional groups to provide a better service to our customers
Improve our digital customer journey with a refresh of our online presence and roll out enhancements to the Digital Trade Finance Service	Restructured our approach to digital, creating a user-centred design team to put our customers at the centre of all we do Transformed the Digital Trade Finance Service – this is due to be launched this financial year

Backing clean growth

What we said we would do	What we did
Work closely with the COP26 team to make sure the government's trade finance offer is embedded in their stakeholder engagement	Delivered the government's international fossil fuel policy objectives, culminating in a joint statement by 34 countries and 5 public finance institutions committing to end support for the fossil fuel sector by the end of 2022
Continue to seek out opportunities for UK companies to contribute to low-carbon projects	Provided £3.6 billion for sustainable projects in 2021, unlocking the potential of the UK supply chain (up 50% versus 2020)
Develop and implement a new Climate Change Strategy and support the government's Global Investment Summit	Committed to reach net zero by 2050, and to provide international leadership on climate change, in our Climate Change Strategy, published in September 2021

Climate risk disclosures and supporting renewable energy

What we said we would do	What we did
Make climate-related financial disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD)	Made our first TCFD report in last year's annual report and provided a more detailed disclosure this year (see page 97)
Promote and market the Clean Growth Direct Lending Facility and Transition EDG	Provided our first clean growth direct loan to Bee'ah for their new green headquarters, provided the first Transition EDG to John Wood Group to aid its move towards renewables and announced extended EDG repayment terms for green economy exporters

Great place to work

What we said we would do	What we did
Deliver the wide-scale recruitment outlined in our Spending Review 2020 settlement in line with the resourcing plan	Ran 208 recruitment campaigns, increasing total headcount to 492, plus another 23 campaigns for positions to start in 2022-23
Launch new diversity & inclusion and wellbeing plans and work closely with staff representative networks to reduce inequality in pay and reward	Launched the plans and reported an increased proportion of new hires who identify as female (51%), from an ethnic minority (39.8%) and having a disability (5.6%) Saw staff engagement increase from 71% to a record 74% in the Civil Service People Survey
Continue to make sure our staff have the right tools, skills and resources to do their jobs through the smarter working project and learning and development plan	Invested in new office equipment to provide staff with the resources they need for effective and efficient hybrid working Delivered 15,184 hours of staff training to enhance their skills and experience

The year ahead

Every year, the Secretary of State for International Trade publishes a letter outlining her priorities for UKEF for the year.[3] In line with UKEF's Spending Review commitments, her 5 main expectations for UKEF in 2022-23 are as follows.

1

Implementing the Export Strategy: made in the UK, sold to the world

In 2022-23, we will:

- Work closely with other parts of government to develop an innovation-to-export pathway that supports businesses to commercialise quicker
- Increase awareness of UKEF's product offering
- Ensure a joined-up and coherent cross-government proposition that meets the financing needs of British businesses

2

Maritime, life sciences and clean growth sectors

In 2022-23, we will:

- Increase focus on maritime and life sciences sectors so that the UK can better support those growing industries to export around the globe
- Expand support for clean growth sectors to help build the UK supply chain, accelerating the global green transition
- Develop interim portfolio decarbonisation targets and more robust climate-related financial disclosures

3

Global Britain

In 2022-23, we will:

- Continue to influence our peers to strengthen the Coal-Fired Power Sector Understanding and modernise the OECD Arrangement to help preserve a level playing field for British businesses abroad
- Work across government to actively support and help increase defence sector exports, building relationships with new customers and tailoring our product offering
- 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

4

Levelling up

In 2022-23, we will:

- Continue to widen availability of the General Export Facility with new delivery partners to reach more SMEs across the UK
- Use the Export Finance Manager network and product innovations to reach more SMEs whose turnover is less than £10 million a year
- Continue to focus on digitising the customer journey to increase efficiency and improve UKEF's fintech offering

5

Trade for good

In 2022-23, we will:

- Strengthen collaboration with British International Investment (formerly CDC) to leverage the government's debt and equity financing offers in developing countries
- Work alongside DIT and the FCDO to promote the developmental benefits of trade through the International Development Strategy
- Enhance and report on UKEF's approach to identify, mitigate and prevent modern slavery in its portfolio

UKEF Message House

To be the best export credit agency

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.

Performance
Provide the support UK exporters need to succeed

Effectiveness
Adapt, collaborate and focus activity

Brand
Improve awareness of UKEF amongst customers and stakeholders

Competence
Retain confidence of stakeholders through effective delivery and management of risk

A great place to work
Engage and develop our staff to deliver for our customers

Customer-centric
Deliver a high quality service to those we support

Agile and adaptable
Respond to emerging economic developments and market gaps

Build, nurture and inspire our people to be positive leaders, by working smarter and by valuing all

Integrity | **Honesty** | **Impartiality** | **Objectivity**

Louis Taylor
Chief Executive and Accounting Officer

28 June 2022

Notes

1 UNCTAD. Global trade hits record high of $28.5 trillion in 2021. February 2022 [unctad.org/news/global-trade-hits-record-high-285-trillion-2021-likely-be-subdued-2022]
2 UKEF & DIT. Memorandum of Understanding between the Department for International Trade and UK Export Finance. December 2021 [gov.uk/government/publications/memorandum-of-understanding-between-the-department-for-international-trade-and-uk-export-finance/]
3 DIT. Letter from the Secretary of State for International Trade to UK Export Finance on UKEF's annual priorities. March 2021 [gov.uk/government/publications/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities]

Performance overview

Financial 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 **£36.5 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, sufficient revenue to cover possible losses, to a 77.5% level of confidence.	**Met** The reserve index did not fall below **1.96** in the year, against a target minimum of 1.00.
Pricing adequacy index This index tests whether, over time, UKEF earns sufficient premium income to cover all its risk and operating costs. It is measured over 3 different periods:	
(i) past 2 years and present year.	**Met** This index at 31 March 2022 was **1.69**, against a monthly minimum target of 1.00.
(ii) previous, present and (forecast) next year.	**Met** This index did not fall below **1.57**, against a monthly target minimum of 1.00.
(iii) present year and (forecast) next 2 years.	**Met** This index did not fall below **1.58**, 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 **2.03**, against a target minimum of 1.35.

The Chief Risk Officer's report sets out more detail on these objectives.

These financial objectives apply to business issued since 1991. There are no specific financial objectives in respect of outstanding exposures on business supported before 1991 other than to recover amounts owed to UKEF, while taking account of the government's policy on debt forgiveness. As authorised by HM Treasury, the TCRF is exempt from UKEF's standard portfolio level financial objectives and risk appetite limit. These financial objectives apply to accounts 2 and 5, the only exception is the maximum commitment objective which includes accounts 2, 3 and 5.

Economic snapshot

Richard Smith-Morgan
Deputy Chief Risk Officer

Dark clouds on the horizon

The invasion of Ukraine by Russian forces looms large over the global economy.

The Russian economy is expected to enter a deep recession as far-reaching sanctions take hold, with significant spillovers to Europe and beyond. The International Monetary Fund (IMF) has revised global growth forecasts for 2022 down from 4.4%[1] in January to 3.6%[2] in April, and the OECD expects a one percentage point hit to global growth in 2022.[3]

The shock has added to inflationary pressures, particularly in the energy markets, where the price of Brent oil reached $139 per barrel on 7 March 2022. These effects will worsen the current cost-of-living squeeze, as higher prices feed into transport costs and energy bills, and then onwards into basic purchases such as food. This in turn puts pressure on governments to support businesses and citizens as they deal with falling purchasing power.

Rising energy prices also have ramifications for external balances. While net energy exporters stand to gain from higher prices, net energy importers face worsening terms-of-trade and currency depreciation pressures.

Recovery hits a stumbling block

Elsewhere, prices for wheat, metals and other strategic commodities have seen large increases because of the conflict. Globally, Russia and Ukraine account for almost 30% of wheat, 13% of corn and over 60% of sunflower seed oil exports globally.[4]

The conflict is highly likely to disrupt agricultural activities, which could seriously escalate food insecurity globally – at a time when international food and input prices are already high. This insecurity may be more acute in emerging markets and developing economies (EMDEs), where a larger share of income is spent on food.

Many European and Central Asian countries also rely on Russia for over 50% of their fertiliser.[5] Shortages of fertiliser will hamper food production and further squeeze supplies.

Before the conflict began, the global economy was rebounding strongly from the effects of the coronavirus (COVID-19) pandemic. After a 3.1% contraction in 2020, the economy grew 6.1% in 2021.

The rollout of vaccination programmes helped reduce severe illness, hospitalisations and fatalities from COVID-19. This allowed lockdowns to ease and citizens to resume economic activity.

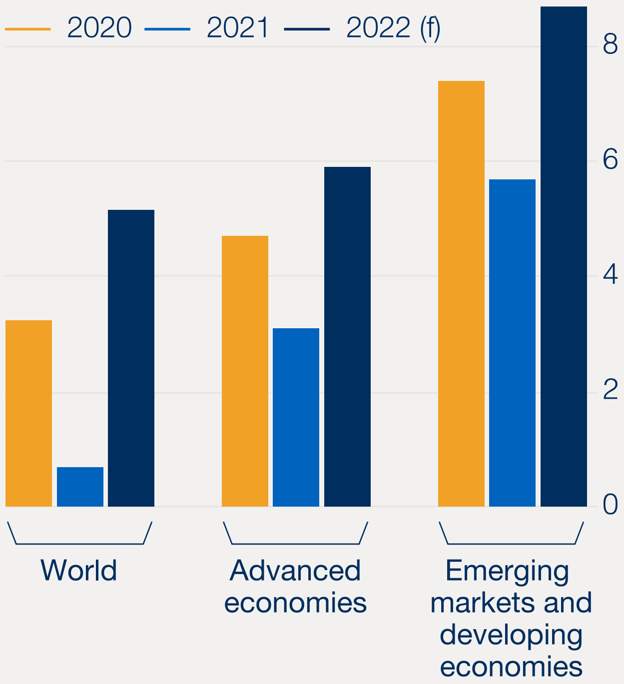
However, the procurement and administration of vaccine doses varied markedly along wealth lines. Higher-income countries could acquire vaccines at a much faster rate, creating divergent paths to economic recovery.

In 2021, advanced economies grew by 5.2% and EMDEs by 6.8% – but within this group, low-income countries grew by a more modest 4.0%, as their recoveries were pushed back into 2022.[6]

The Ukraine war and supply shortages are driving inflation

Annual inflation rate (%)

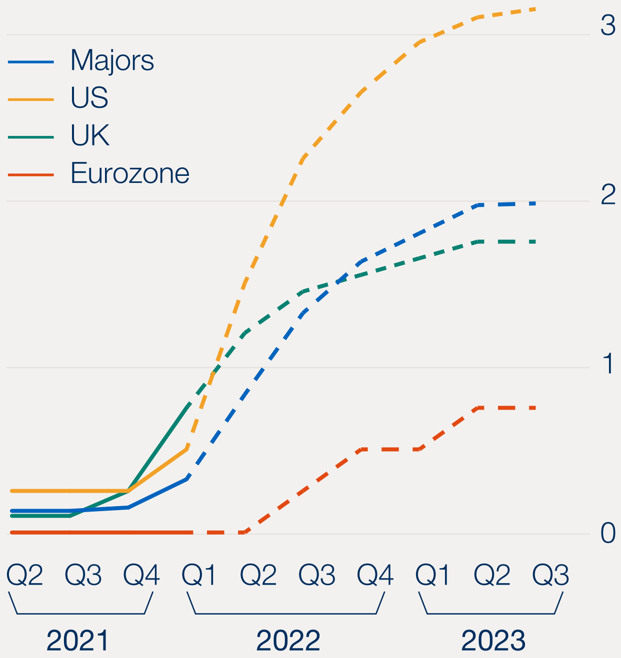
Source: IMF WEO April 2022



Central banks are expected to respond by raising interest rates

Central bank interest rate forecasts (%)

Source: Bloomberg



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

Which will make borrowing more expensive

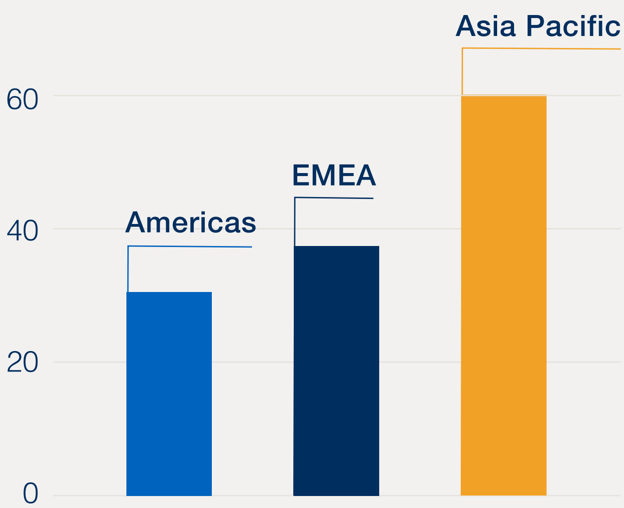
JP Morgan's Emerging Market Bond Index (EMBI) Global Diversified Sovereign Spread (basis points)

Source: Bloomberg

And could increase the risk of sovereign defaults

Average increase in credit default swap (CDS) spreads, YTD (%)

Source: Bloomberg



Notes: EMEA = Europe, the Middle East and Africa; excludes Russia and Ukraine.
YTD = Year-to-date (23 May 2022)

The threat of new COVID-19 variants still poses downside risks, particularly for countries with much lower vaccination rates. We saw this in action with the Omicron variant, which led to many travel and mobility restrictions being reintroduced and generated turbulence in financial markets.

Reverberations around the world

Several significant macroeconomic events accompanied the turn of the year, giving rise to more downside risks.

For example, concerns have mounted over the health of China's real estate sector after Evergrande's default and the potential for its consequential impact on the banking system.

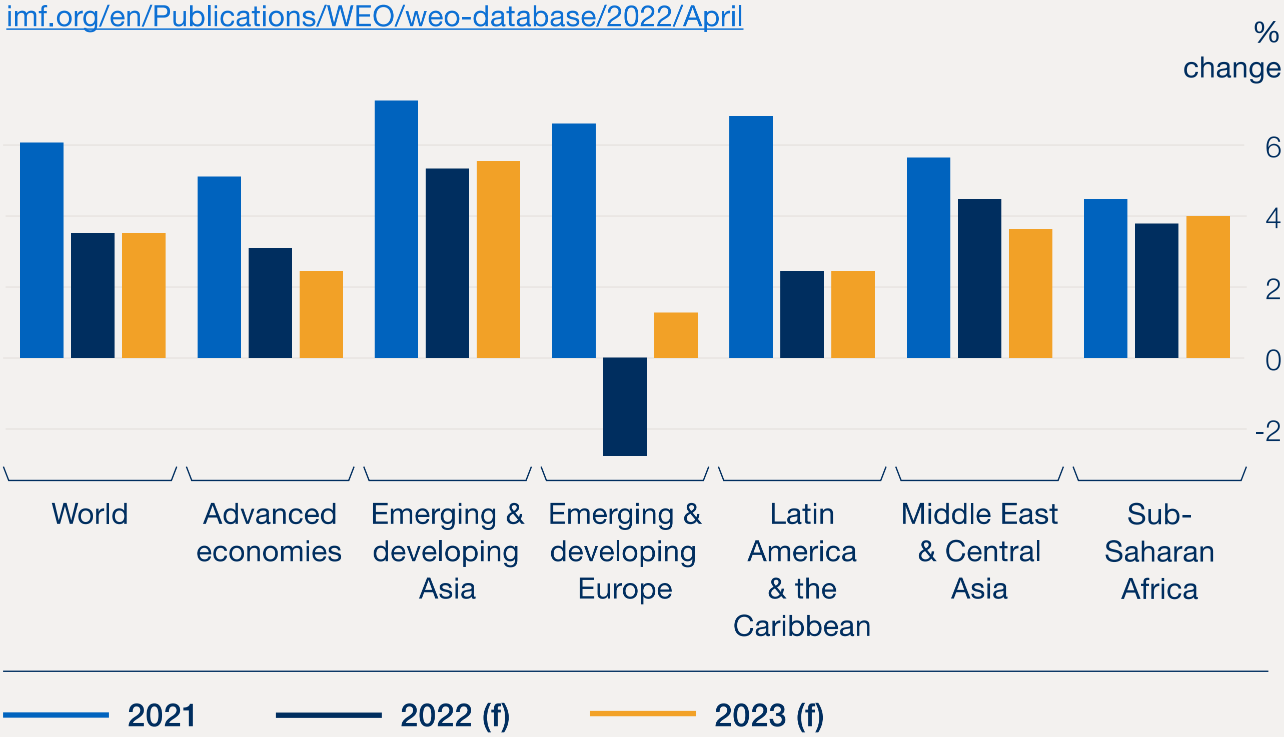
At the same time, central banks in advanced economies are adopting more hawkish stances as inflation persists. Both the Bank of England and the Federal Reserve have already raised rates. This is likely to have an impact on EMDEs as they face the threat of capital outflows and currency depreciations, which would worsen their external debt burdens. This is somewhat concerning given their recent build-up of sovereign debt, as the recent Sri Lankan default illustrates.

As a result, governments – particularly those in lower-income countries – have more limited fiscal space to battle these external macroeconomic pressures. Meanwhile, following strong performance in 2021 and buoyed by ultra-loose monetary policy and substantial fiscal stimulus, the financial markets entered 2022 in correction territory.

Declines were driven by the spread of Omicron, inflation fears and hawkish stances from central banks. The crisis in Ukraine has exacerbated stock market falls and generated significant future uncertainty, driving investors to seek safe-haven assets. The conflict has reverberated across the global financial system as investors try to assess the damage it will cause.

IMF World Economic Outlook growth projections (real GDP, annual percent change)

Source: IMF WEO April 2022
imf.org/en/Publications/WEO/weo-database/2022/April



Performance

The outlook at home

The UK economy grew by 7.5% in 2021.[7] The Office for Budget Responsibility (OBR) expects growth of 3.8% in 2022,[8] considerably lower than the 6.0% previously forecasted in October 2021,[9] before the war in Ukraine.

Annual UK inflation hit 6.2% in February 2022,[10] well above the Bank of England's 2% target. The OBR forecasts inflation to average 7.4% for 2022. The increase in energy prices is the main driver of inflation, but supply problems, high shipping costs and staff shortages are also contributing factors. In response, the Bank of England raised rates again in March 2022, for the third time in 4 months, and noted that further rate hikes might be necessary.

Looking further ahead, climate change poses a serious threat to the global economy. COP26 brought about some encouraging collective commitments; now it is time to deliver on them. The world's increasing focus on climate change, combined with rising wholesale fossil fuel prices, is spurring governments into action. We hope this will catalyse much more investment into adaptation and building resilience, which will help to create more sustainable economies.

At the time of publication, the Ukraine crisis is the main uncertainty affecting the economic outlook. A peace agreement could support the global economy, but the conflict is still likely to leave long-lasting scars and the fallout from the war in Ukraine, the build-up of sovereign debt and the gloomier growth outlook all pose risks to credit quality. This may increase demand for our support, and we remain well placed and ready to support UK exports, but also highlights the importance of our continued, effective risk management of our portfolio.

Notes

1 IMF. World Economic Outlook Update. January 2022 [imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022]
2 IMF. World Economic Outlook. April 2022 [imf.org/-/media/Files/Publications/WEO/2022/April/English/text.ashx]
3 OECD. Economic and social impacts and policy implications of the war in Ukraine. March 2022 [oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2022/issue-2_4181d61b-en;jsessionid=WTP3-rpFvUgN_qE8Efzw0_El.ip-10-240-5-172]
4 Food and Agricultural Organization of the United Nations. The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict. March 2022 [fao.org/3/cb9236en/cb9236en.pdf]
5 Food and Agricultural Organization of the United Nations. New scenarios on global food security based on Russia-Ukraine conflict. March 2022 [fao.org/director-general/news/news-article/en/c/1476480/]
6 IMF. World Economic Outlook. April 2022 [imf.org/-/media/Files/Publications/WEO/2022/April/English/text.ashx]
7 Office for National Statistics. GDP first quarterly estimate time series. May 2022 [ons.gov.uk/economy/grossdomesticproductgdp/datasets/secondestimateofgdp]
8 OBR. Economic and fiscal outlook. March 2022 [obr.uk/docs/dlm_uploads/CCS0222366764-001_OBR-EFO-March-2022_Web-Accessible-2.pdf]
9 OBR. Economic and fiscal outlook. October 2021 [obr.uk/download/economic-and-fiscal-outlook-october-2021/]
10 Office for National Statistics. Consumer price inflation, UK: February 2022 [ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2022]

Our support for exports

Business supported

£33.4 billion
of business supported over 5 years

£7.4 billion
of support provided in 2021-22

545
exporters directly supported

116
General Export Facilities issued (most used product)

61
countries reached by UKEF supported exports

Biggest & smallest deal by value

£1.1 billion
Buyer Credit Facility

£448
Export Insurance Policy

Tim Reid
Business Group Director

Richard Simon-Lewis
Business Development, Marketing and Communications Director

Our financial support

From the industrial heartlands of Wales and the Midlands to the renewable energy hubs of the North East and Scotland, UKEF helps UK companies access the finance they need to take advantage of international trade. Our financial support helps UK companies win orders, fulfil contracts and get paid by providing guarantees, insurance and loans that support export activities.[1]

Many businesses are using UKEF-backed working capital

This year, we delivered 170 working capital facilities to 115 businesses, primarily small and medium-sized enterprises (SMEs).

- 116 facilities from our General Export Facility (GEF)
- 8 facilities from our Export Development Guarantee (EDG)
- 101 facilities from our Bond Support Scheme
- 46 facilities from our contract specific Export Working Capital Scheme

Each of these facilities enables a company to access cash flow solutions that support international trade.

The accessibility, flexibility, and certainty that GEF gives exporters has been a game-changer. The product has become our pre-eminent offering to smaller exporters, with nearly £250 million of funding for UK business issued through the scheme by banks this financial year.

Our EDG offers similar benefits to larger corporates. Since its launch in 2021, we have provided £10.6 billion in backing to some of the UK's largest employers. Our support has provided essential liquidity to businesses seeking recovery, development and growth so they can meet new and continuing global opportunities head-on, and has also supported the large businesses in their supply chains.

Insurance support is returning to pre-pandemic levels

The global pandemic also highlighted the value of our Export Insurance Policy (EXIP), which helps exporters manage the risk of non-payment by customers in challenging markets. As the trade finance market begins its recovery from coronavirus (COVID-19), demand for EXIPs has tapered downwards, with 38 customers being directly supported through the scheme compared to 47 in the year 2020-21.

Demand for buyer finance remains strong

We delivered a significantly increased amount of buyer finance support this year, especially for smaller value export contracts, with 42 transactions issued in the year worth £2.6 billion.

Of these, 11 were provided through our direct lending facility worth £561 million, 18 through our Buyer Credit Facility worth over £2 billion, and 13 through supplier credit facilities, including the newly launched Standard Buyer Loan Guarantee (SBLG), worth £27 million.

CDE Global received UKEF's first Standard Buyer Loan Guarantee

The SBLG provides UK manufacturers and suppliers with support for contracts that involve SME-to-SME trades where the underlying contracts feature high levels of UK content.

Our buyer finance support helps British suppliers win contracts on overseas projects by providing attractive financing terms for their overseas buyers. Of the 545 customers we supported last year, 263 secured business on a UKEF-backed overseas project.

Our impact on the world: sustainable and clean growth deals

Trade is a powerful agent of change, funnelling money and expertise into projects that have a strong clean and sustainable impact. This is why, in September 2021, we announced the formation of a dedicated 20-strong Renewables and Transition underwriting team to focus on securing more deals in these critical sectors.

It has been a busy first year for the new team. We have helped finance Türkiye's largest solar plant. Our EDG is supporting Jaguar Land Rover's next generation of electric vehicles, while facilities provided to British Airways and MACE contained sustainability-related performance clauses, offering improved terms should the companies exceed their emissions reduction targets. We also provided our first Transition EDG to help John Wood Group finance their green ambitions.

This financial year also saw UKEF once again increase the scale of our sustainable financing, including transactions that have a pronounced social or developmental benefit. These transactions have contributed to UKEF rising to first place in TXF's Sustainable Financing league table for 2021.

There is much more to do in these critical areas, of course, and we expect to see ongoing demand for our sustainable financing offer in the next financial year. To accelerate this, we are focussing more of our origination activity on clean growth sectors. In time, we hope to have at least 50% of new business originating from our network of International Export Finance Executives coming from these areas.

Our work around the world, coupled with a proactive focus on clean growth areas, has already helped our department to diversify its portfolio. We have built a pipeline of projects that could benefit from UK financing and exports – not only in renewable energy but also in other low-carbon areas of economic growth.

UKEF CEO Louis Taylor delivering a keynote speech at the UK Trade and Export Finance Forum 2021

Sustainable deals by numbers

£7.1bn
of international sustainable projects supported since 2019*

Backed **1st**
Transition Export Development Guarantee

18
International Export Finance Executives, putting clean growth at the top of their agenda

#1
ranked ECA globally for sustainable deals in 2021*

12
overseas sustainable projects supported in 2021*

20
underwriters dedicated to supporting Renewables and Transition deals

* According to TXF's sustainable finance rankings.

Case study

Upholding environmental standards in our largest ever infrastructure deal

With £1.1 billion of support, we provided our largest ever guarantee for a civil infrastructure project in Türkiye this year. The operational benefits of the project are strongly sustainable. It will ease road traffic congestion and improve the efficiency of the transport system by providing a more sustainable alternative.

But it is equally important that the project is designed, procured and constructed so that it meets good international industry practice. The project must preserve and account for the existing natural and social environment that surrounds the site.

The project involves the design, construction and operation of a high-speed rail line over 500km, connecting Ankara to Izmir in Türkiye.

Previous construction along the rail corridor, changing institutional ownership, historic and future displacement of people, and critical habitats along the route were all challenges that needed to be managed. That's why we made it a condition of our support that enhanced E&S due diligence was carried out before any UKEF financing was issued.

UKEF worked closely with the exporter and the buyer for all relevant parties to discuss roles, responsibilities and scenario planning for appropriate risk management. By engaging everyone in discussions and scenario planning, UKEF identified and helped to assign roles and responsibilities for each party to manage environmental and social risks. This aligned the project stakeholders on how to achieve international standards and reduce the impact of future environmental and social risk incidents.

Our support for high value exports

Supporting the strategically important UK supply chains and exporters that underpin our country's international trade is a critical focus of the department. We are driving investment in UK manufacturing hubs across the country, creating and sustaining highly productive jobs at companies that export goods and services worth billions of pounds.

Another milestone this year was the first sovereign support that UKEF has provided to the government of Serbia. We provided £363 million for Bechtel and Enka's 5G-ready Morava Corridor motorway project. The road, connecting communities and businesses from Pojate in the east to Preljina in the west, is also the first time we have worked with Bechtel as an applicant for our support. It will create many opportunities for UK suppliers.

This year UKEF also concluded its first transactions in Côte d'Ivoire, totalling £338 million before reinsurance. This included £200 million of support for NMS Infrastructure Limited to build and equip 6 new hospitals and provide post-completion training and technical support. The project will provide a local population of more than one million people with access to vital healthcare services.

The aerospace sector remained heavily affected by COVID-19 during the financial year. UKEF provided support for an additional EDG facility to British Airways, guaranteeing 80% of a £1 billion stand-by loan facility.

We supported the delivery of various Airbus aircraft this financial year, including the final 5 A380 aircraft to be delivered to Emirates and A350 aircraft for Cathay Pacific, Turkish Airlines and Ethiopian Airlines. We also provided support to our Canadian counterparts EDC in respect of the UK content in 12 A220 aircraft.

We supported 5 Boeing 737 MAX aircraft delivered to Sun Express of Türkiye, making use of an agreement between UKEF and

Boeing to provide an element of export credit support based on Boeing's supply chain spend in the UK. We also provided BAE Systems with support in respect of availability services in Oman.

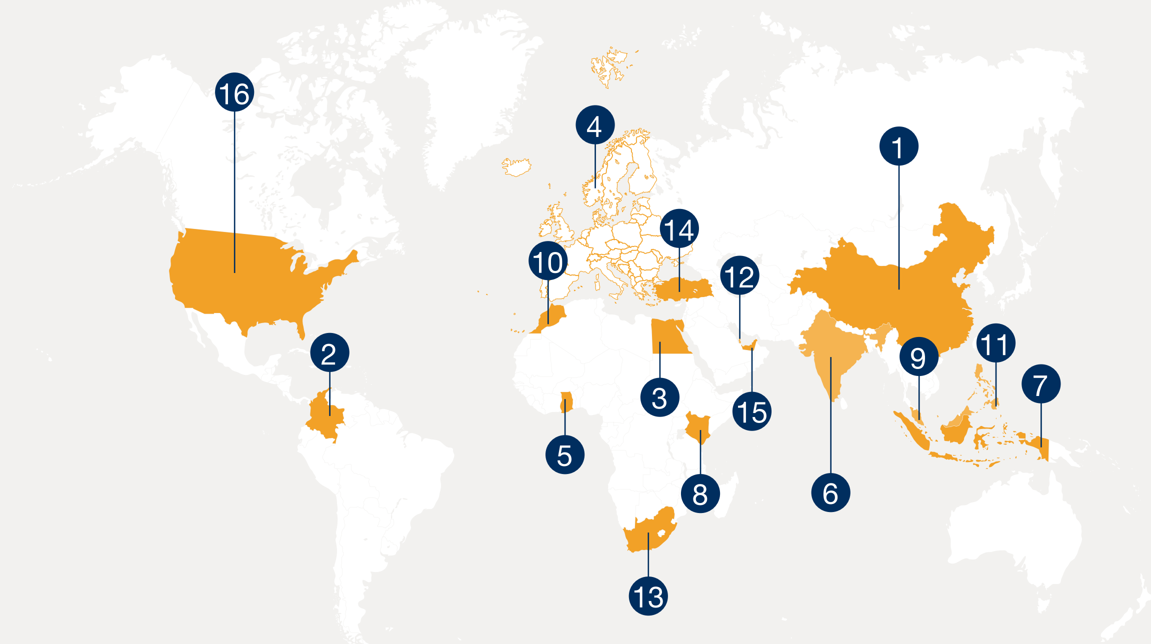
The aerospace sector is critical to the UK. It generates turnover of £60.6 billion and supports 961,000 UK jobs, many of them highly skilled and productive roles. Our support for these firms, as well as for companies who rely on doing business with them, is vital to our mission.

International Export Finance Executive network

During the pandemic, when travel was severely restricted, our International Export Finance Executive (IEFE) network provided crucial on-the-ground coverage to our overseas stakeholders.

Notwithstanding the turbulence of this year, we have successfully expanded this overseas network. Starting with 8 individuals at the beginning of the pandemic in early 2020 and increasing to 12 at the start of the financial year, we now have 18 IEFEs in place and plan to increase this to around 30 over the next year.

UKEF's International Export Finance Executives




1.China
Jiang Wu 吴江


2.Colombia
Camilo Neira


3.Egypt
Mohamed Saad


4.Serbia
Dusko Krsmanovic


5.Ghana
Steven Gray


6.India
Rahul Tabhane


7.Indonesia
Richard Michael


8.Kenya
Isaac Kahara

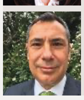

9.Malaysia
Valentino Dass


10.Morocco
Meriem Bennani


11.Philippines
Timothy Meaney


12.Qatar
Daniel Rathwell


13.South Africa
Dirk van den Berg



14.Türkiye
Irem Kayhan
& Ozgur Kutay



15.United Arab Emirates
Graham Scopes
& Michelle Leong


16.United States
Jesse McDougall

The International Export Finance Executive network at UKEF's all-staff conference

How we bring business to the UK

UKEF markets itself in the UK to a target audience of exporters, overseas buyers of UK supplies and intermediaries such as brokers and lenders. We use a combination of public relations activity, online advertising, social media, events, partnerships, direct marketing and remarketing.

In 2021-22, we continued to put our export finance managers at the centre of our 'Exporters' Edge' campaign. The campaign exceeded its annual target of 5,000 responses from UK businesses.

Now in its fifth year, the campaign has increased awareness of UKEF: today 1 in 6 companies with over 50% export turnover spontaneously name UKEF as a source of support. At the start of the campaign, it was 1 in 20.

The campaign has seen UKEF's customer relationship database grow from around 30,000 contacts to over 100,000. Campaign-influenced new business was responsible for about a third of UKEF's customers in 2021-22, contributing to a growing customer base.

UKEF successfully held 2 supplier fairs in 2021-22. The events sought UK suppliers for the Arab Construction Company and for the International Center for Innovation and Transfer of Agricultural and Livestock Technology (CIITTA) and FGV Europe, for various sustainable food production projects in Africa.

In target markets overseas, we held 35 international events to engage high-value buyers with the potential to source significant volumes of new supplies from the UK.

Our growing overseas network and support teams in the UK engage with overseas finance ministries, multilateral agencies and developers to identify projects of mutual interest that could benefit from UKEF financing and the expertise of the UK supply chain – particularly those in the clean growth space.

These activities help us to stay abreast of opportunities around the world and to insert ourselves into procurement conversations, so that our financing can facilitate the UK supply chain's entry into export opportunities.

Notes

1 DIT. Get finance. Accessed February 2022 [great.gov.uk/get-finance/]

Chief Risk Officer’s report

Since last year’s report, through most of the financial year 2021-22, economies, balance sheets and the credit environment have been stabilising as the world recovers from the coronavirus (COVID-19) pandemic and the largest global recession since the Second World War.

Samir Parkash
Chief Risk Officer

However, the war in Ukraine, has had a huge impact on key commodity markets, supply chains, energy prices and food supplies. These risks, alongside the continuing threat of new Covid-19 variants, are triggering another slowdown in global growth and renewing the pressure on markets and businesses we support.

These stresses could adversely affect UKEF’s portfolios in the short to medium term. We remain alert to emerging risks and, in line with our management of the COVID-19 induced crisis, will adapt our approach and policies as events dictate and as our customers and mandate require.

Risk governance

By the nature of its mandate, UKEF is subject to a wide range of underlying risks.

The ultimate responsibility for risk management within UKEF lies with the Chief Executive Officer (CEO). As Accounting Officer, the CEO is answerable to ministers and Parliament for all aspects of the department’s operations. A number of committees, principally the Enterprise Risk and Credit Committee (ERiCC), support the CEO with risk management.

UKEF’s risk management activities are also subject to independent oversight and monitoring to help to ensure compliance with financial objectives.

The Board

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

UK Government Investments

UK Government Investments (UKGI) provides advice to the Secretary of State. It also holds an ex-officio position on the UKEF Board. Through this position, UKGI reviews and engages with the department’s risk management function, to help make sure risk and internal controls are effectively managed.

UKGI also leads business review meetings to monitor UKEF's financial and operating performance and key performance indicators on behalf of UKEF Ministers and alongside HM Treasury.

Enterprise Risk and Credit Committee (ERiCC)

ERiCC advises the CEO on the effective management of our enterprise and credit risk exposures. It is scheduled to meet weekly and often convenes on an ad hoc basis to consider urgent business.

Its responsibilities include:

- agreeing our enterprise and credit risk policies and procedures
- making sure enterprise risk is effectively identified, assessed, managed and reported across UKEF
- agreeing policies, procedures and methodologies for:
  - calculating and charging premium
  - monitoring and modelling portfolio risk
- managing and monitoring credit risk exposures at transaction and portfolio level
- approving credit risk exposures above the level of authority delegated by the CEO to senior risk executives

The standing members of ERiCC are:

- CEO
- Chief Risk Officer (CRO)
- Chief Finance and Operating Officer (CFOO)
- Business Group Director
- Deputy Chief Risk Officer
- Head of Underwriting Policy and Products
- Head of Portfolio Management
- Chief Analyst

UKEF support will help construct Türkiye's largest solar facility, which will power 2 million households

Other relevant personnel, including the Director of Legal and Compliance or a nominee, will also attend as appropriate. In the absence of the CEO, any approvals require a unanimous decision of a quorum of standing members.

Delegated authorities

In addition to ERiCC, the Risk Management Group has a framework of delegated credit authorities.

- The CEO has authorised the CRO to approve various categories of credit risk within pre-determined limits.
- In turn, the CRO has granted authority over certain credit approvals to senior staff within their teams.
- Credit approvals that exceed the delegated authority of the CRO must be approved by ERiCC. Larger transactions must also be approved by the CEO and HM Treasury.

Organisational model

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

The CRO is responsible for the Risk Management Group, which consists of 5 divisions.

Enterprise Risk Division (ERD)

ERD works in partnership with all Groups to ensure that sound risk management practices are embedded in day-to-day activities across the department, promoting a culture of openness, collaboration, and constructive challenge.

Risk Approval Division (RAD)

RAD provides a holistic approach to risk approvals in order to minimise the risk of financial loss, in the event that a counterparty to which UKEF has financial exposure fails to meet its contractual obligations.

The division includes teams assessing country risk, corporate risk, project finance risk and financial institutions risk.

Pricing and Risk Analytics Division (PRAD)

PRAD manages portfolio risk and prices deals to make sure UKEF meets the financial objectives set by HM Treasury and can support the success of both current and future exporters. PRAD analysts also provide technical, modelling and operational consultancy to support robust, evidence-based decision making across UKEF.

Portfolio Management Division (PMD)

PMD monitors customers and exporters after approvals and proactively takes expedient actions to mitigate emerging risks.

It includes teams responsible for post-issue management of medium and long-term cases, active portfolio management, sovereign debt restructuring, distressed assets, and claims and recoveries.

Special Situations Division (SSD)

SSD currently manages all stressed cases within UKEF's aircraft portfolio, but there is scope for expansion into non-aerospace cases when necessary. SSD was created in response to the COVID-19 pandemic, which had a disproportionate effect on the airline industry and the UKEF aircraft portfolio.

Risk management framework

Our risk management framework represents a consistent structure and a documented approach to identifying, assessing, evaluating and reporting known and emerging risks across UKEF. The framework encourages continuous monitoring, good risk awareness and sound operational and strategic decision making.

It encompasses a series of detailed policies, procedure, and methodologies. The Risk Management Group regularly reviews these to make sure they remain fit for purpose in a constantly evolving risk environment. We summarise the key approaches that make up the framework over the following pages.

Industry best practice

Where appropriate, we aim to align our risk management framework with best practice in the financial services industry. At the same time, as the UK's export credit agency (ECA), our role, mandate and risk appetite are different to private sector counterparts, making direct comparisons potentially misleading. An ECA's portfolios will tend to have:

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

Within UKEF the 3 lines of defence model is an integral and critical part of enterprise risk management. Everyone in UKEF has a responsibility to manage risk. Each line of defence has a clear understanding of their responsibility and how they fit into the department's overall risk and control structure.

3 lines of defence model

First Line Every member of staff manages the processes, procedures, risks and controls on a day-to-day basis

Second Line Divisions which are part of the overall management chain but provide independent oversight of management activity

Third Line Delivered by Internal Audit – Independent and objective assurance of UKEF's governance, risk management and control

Risk culture

Sound risk management at UKEF is underpinned by an effective and robust risk culture. Senior leaders are responsible for embedding risk management as part of their teams' everyday business activities. It is a continuous cycle of proactively assessing and responding to new information and developments.

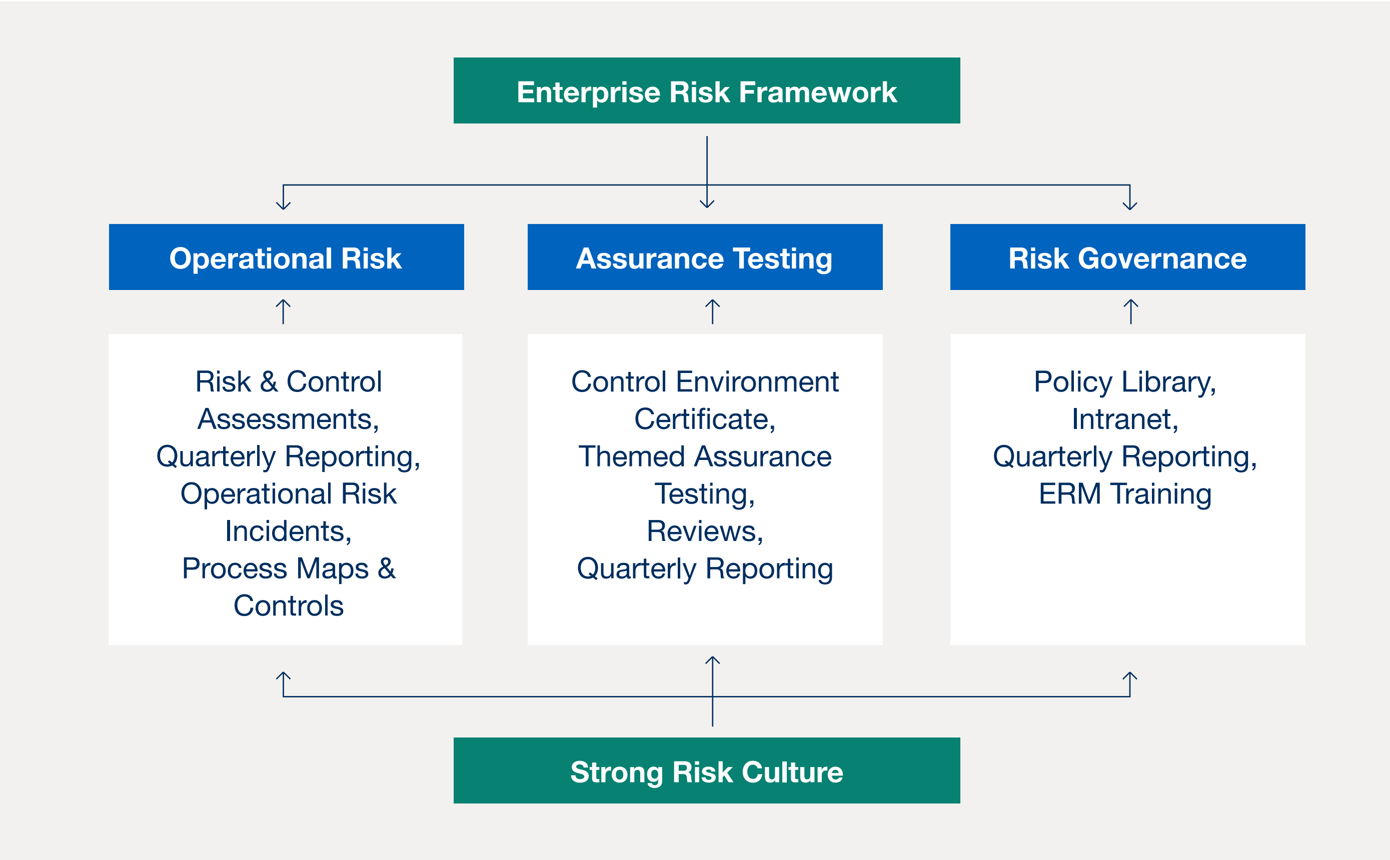
We have recently established a Risk Champion network to promote and embed effective risk management practices across UKEF. Risk Champions enhance our risk culture by being proactive ambassadors and acting as a first point of contact for risk management for each Group.

Enterprise risk management

The CEO has designated responsibility for leading UKEF's approach to enterprise risk management to the CRO. This includes ensuring there are appropriately skilled staff to independently influence and challenge governance and decision-making forums.

The Enterprise Risk Division (ERD) helps everyone embed risk management practices using department-wide communications, knowledge-building events, training and guidance. To support its work, ERD follows an established set of enterprise risk management principles:

- proactive, not reactive
- ownership of risks by the relevant division
- risk management is embedded in day-to-day processes
- robust and responsive to change
- assists in the achievement of UKEF's strategic objectives



Monthly and quarterly enterprise risk reports (which include outcomes and remediating actions from enterprise risk activities) are presented to ERiCC. This enables the committee to monitor and manage the department's enterprise risk profile and to obtain assurance that its decisions have been acted upon.

Enterprise risk reporting is also provided to the Risk Committee, summarising key risks and the effectiveness of risk management in UKEF.

Policy and framework

Our enterprise risk policy and framework ensure that effective risk management is integrated into the way UKEF manages and operates its businesses. They set out our best practice approach to managing enterprise risk and are designed to ensure the department has the right processes, procedures, reporting and control mechanisms to identify, assess, monitor, report and remediate risks.

The policy also sets out the CEO's high-level requirements and defines the roles and responsibilities for enterprise risk management across the department.

Taxonomy

Our enterprise risk taxonomy identifies 9 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, who has executive oversight of that risk and is responsible for managing it within UKEF's risk appetite.

UKEF Risk Taxonomy

Environmental	Climate change	Financial (including credit and market)
Strategic and business	Political	Operational
Programme and project	External	Compliance and legal

We consider conduct and reputational risks on a pan-UKEF basis rather than as a separate risk type. This enables us to consider these risks strategically, as part of the assessment for all risk categories in the course of doing business.

Regional Head Export Finance Manager Robin Priestley who covers Northern England, Scotland and Northern Ireland

Operational risk

Managing operational risk is an integral part of UKEF's overall enterprise risk management activities and must be considered by all staff.

Each group within UKEF maintains a risk and control assessment (RACA), which details the key known and emerging risks it manages. ERD also monitors, analyses and reports actual operational risk incidents to identify key and recurring themes.

For more discussion of operational risk, see the Governance Statement on page 132.

Assurance framework

Assurance testing provides the CEO, Executive Committee, ERiCC and the Risk Committee with independent, reliable evidence that primary enterprise risks are being adequately managed and governed.

Assurance testing is achieved by undertaking 'deep dive' reviews, ad hoc sample control testing, quality control checks and new initiative assurance.

Control environment certificate (CEC)

All group directors use a consistent and comparable rating mechanism to assess and self-certify the management of enterprise risk within their area of responsibility. Twice a year, group directors are required to provide this assessment and self-certification to the CEO.

The outputs of each CEC inform the assurance testing plan, RACA challenge sessions and enterprise risk reporting.

Risk appetite

We have developed our risk appetite statement to facilitate strategic discussions about risk – and to support informed decision-making, by making sure the boundaries of risk-taking have been set and understood.

Formally articulating our risk appetite provides the foundation for further development of the wider risk appetite framework.

Policy management

The policy management framework governs internal department-wide policies. It is designed to ensure that these policies adequately address the material inherent risks UKEF faces in its business activities, and that we are managing these risks in line with our risk appetite and business strategies.

Financial risk management

Credit risk is the most significant source of financial risk for UKEF. It is also a core competency for the department. We have a number of financial objectives and a series of detailed risk policies, procedures and individual risk methodologies which determine how we assess, measure, manage and report the categories of credit risk we are exposed to.

All material credit risks must be approved by the CEO, ERiCC or a designated member of the Risk Management Group with the appropriate delegated authority. Further, UKEF may not give an individual commitment in excess of £200 million without the agreement of HM Treasury. Once approved, credit exposures are regularly monitored and reviewed at both portfolio and individual transaction level.

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

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

Financial objectives 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 £70 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 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

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

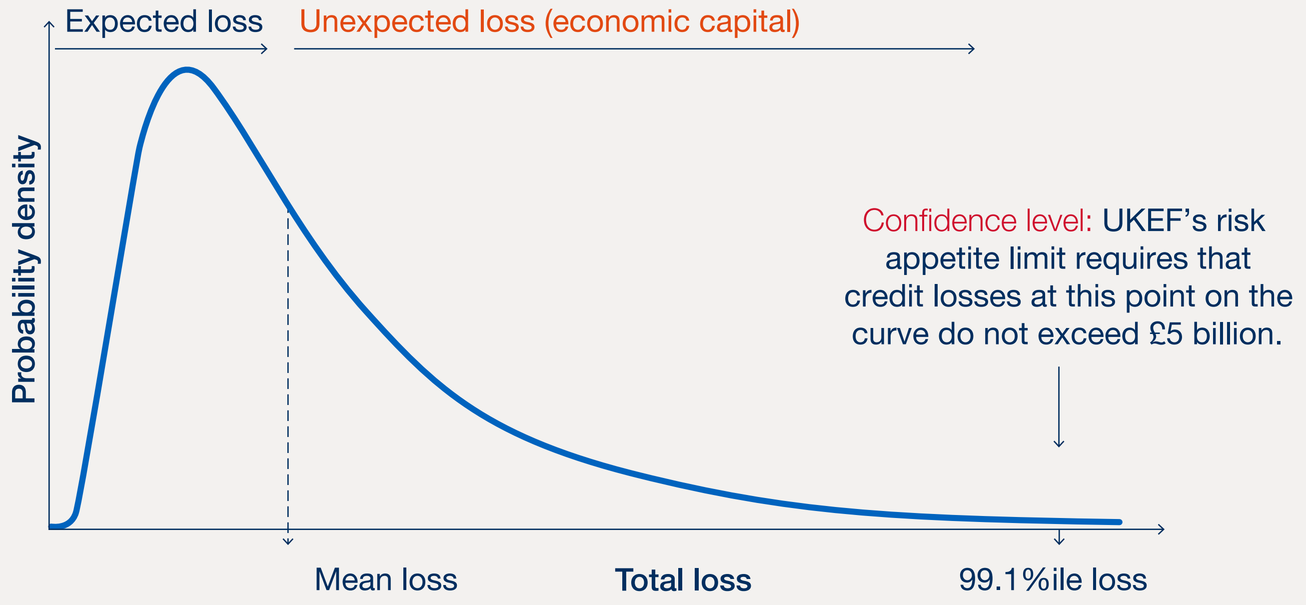
- maximum commitment: the total amount of nominal credit risk exposure that the department may incur; set at £50 billion under the HM Treasury consent
- risk appetite limit: a form of economic capital limit of £5 billion[1]
- exposure management framework: a limit to exposure of £5 billion for any individual market, with capacity set inversely to risk
- 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[2]
- pricing adequacy index
- premium-to-risk ratio

For the outturn against all our financial objectives for the financial year 2021-22, see page 33.

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.

Portfolio loss distribution



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

Unexpected loss accounts for the potential for actual losses to exceed expected losses, reflecting the uncertainty inherent in 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. In other words, at no time should portfolio expected loss, plus provisions against claims already paid, plus portfolio unexpected loss, exceed £5 billion. (This limit excludes business transacted under our Temporary COVID-19 Risk Framework, Account6 or under ministerial direction, Account 3.)

Assessing credit risk

We use the following credit risk assessment process to estimate expected loss.[3]

1. We assign a credit rating (from AAA to D) to all UKEF's credit risks to estimate the 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 counterparty 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.

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

UKEF Supplier Fairs offer opportunities for UK firms to meet directly with the buyers for major international projects

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, from AAA (highest) to D (default, lowest).

Our sovereign risk assessment framework is aligned with the one that Fitch, Moody's and S&P use – but on top of that, ours is informed by a range of external materials, as well as cross-Whitehall forums, local UK diplomatic representatives, triannual OECD country risk expert meetings and country-specific visits, including meetings with a wide range of stakeholders.[4]

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. Those of our economists who focus on sovereign credit also hold in-country meetings with all of our largest sovereign counterparties.

Exposure management framework

Our exposure management framework sets individual country 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

The exposure management framework also prescribes a number of counterparty, sector and regional exposure guidelines to help manage concentration risk.

Engagement with 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 the group and its members are committed to operating 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 response to the COVID-19 crisis, the G20 and the Paris Club agreed in April 2020 a temporary net present value-neutral suspension of principal and interest repayments from eligible and requesting low-income developing countries under the Debt Service Suspension Initiative (DSSI) from 1 May 2020. The DSSI concluded on 31 December 2021. In total, the Paris Club deferred approximately US$4.6 billion from 42 requested low-income countries under the DSSI to support their COVID-19 response and recovery strategies. UKEF fully implemented the terms of the DSSI for requesting countries with eligible UKEF exposure. As a member of the Paris Club, the UK does not report on the details of Paris Club operations unilaterally; further details on the implementation of the DSSI can be found on the Paris Club website.

Following the conclusion of the DSSI, UKEF is working closely with HM Treasury, the Foreign, Commonwealth and Development Office (FCDO) and international partners on the G20/Paris Club Common Framework. The Common Framework provides a new institutional structure for sovereign debt restructurings required by low-income countries, enabling emerging official creditors (such as China, India, and Saudi Arabia) and the traditional official creditors of the Paris Club to cooperate during the negotiation of the terms of sovereign restructuring agreements.

Sovereign defaults that lead to debt restructuring agreements through the Paris Club or Common Framework are managed by the Risk Management Group, working in conjunction with HM Treasury (which leads the government's sovereign debt function). Paris Club developments are monitored by the ERiCC, which must approve any provisions or impairments made against this exposure. During the financial year, UKEF received recoveries totalling £66 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. As part of the UK's commitment to the G20 Operational Guidelines for Sustainable Financing, UKEF has, since March 2021, 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 FCDO), 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. Following our lead, in June 2021, all other G7 members committed to publishing their creditor portfolios on a loan-by-loan basis for future sovereign direct lending.

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.

For small and medium-sized enterprise (SME) credit ratings, we have a separate, bespoke methodology.

For each transaction, we combine rating templates with the relevant analyst's subjective judgement. The analyst's judgement is particularly important when it comes to more 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.

We continue to refine our underlying credit risk methodologies, particularly with respect to the SME sector, in order to reduce turnaround times. More specifically, we have flexed a number of the key credit criteria for our bond support and working capital facilities, which we risk-share with financial institutions. Similarly, we have streamlined the credit assessment process for our export insurance business, which has allowed us to increase new business volumes. We have also developed a bespoke credit assessment process to handle the payment risks that arise under export insurance, and the credit and political risks covered by bond insurance.

The continuing effects of COVID-19 throughout the financial year have manifested as increased pressure on corporate and sovereign cash flows and liquidity profiles and, in particular, as significantly increased leverage. As such, the Risk Management Group has increased its focus on analysing cash flow generation and capital structure profiles and adopted a more forward looking, through-the-cycle approach to its fundamental credit analysis. The creation of a discrete credit rating unit within the Risk Management Group was part of this structural refinement and through-the-cycle ratings have become an intrinsic part of the rating process.

Assessing financial counterparty risk

The Financial Institutions team manages all UKEF's financial counterparties, including banks, insurance companies, funds, leasing companies and other non-bank financial institutions (NBFIs). The unit is embedded firmly into UKEF's credit risk framework, operating under the same underlying principles as our corporate, SME and project finance teams: utilising specific S&P rating templates where appropriate, supplemented with seasoned analytical judgement.

All UKEF transactions require a bank or NBFI, whether as direct borrower, guarantor, lending syndicate participant, security trustee or payment and collection agent. We assess all such counterparties to make sure they meet our minimum credit risk standards. They can only be approved under appropriate delegated authority or, where relevant, by ERiCC.

Our portfolio of insurers has been approved to facilitate our active portfolio management programme. This is where UKEF purchases reinsurance from the private market, subject to strict requirements, to reduce portfolio risk concentrations, decrease the likelihood of idiosyncratic losses, and/or free up headroom in country limits to support more UK exporters. We require all insurers, including general insurers and Lloyd's syndicates, to have a minimum A- equivalent credit rating and to have maintained sound capital and solvency ratios, as well as underwriting disciplines during the COVID-19 pandemic. We remain vigilant to the impact of future events on the industry, particularly climate change.

Aircraft operating lessors are a core component of the global aerospace industry; about 50% of all commercial airline fleets are leased. As airlines seek to repair their balance sheets following the pandemic, this proportion is forecast to grow. The unprecedented impact of COVID-19 necessitated closer analysis of UKEF's aircraft operating lessors, to demonstrate that even in materially reduced revenue scenarios, they had sufficient liquidity sources to meet their financial obligations over the anticipated term of the pandemic.

The majority of UKEF's aircraft operating lessors' risk exposure remained investment-grade, with no rating downgrades and no defaults.

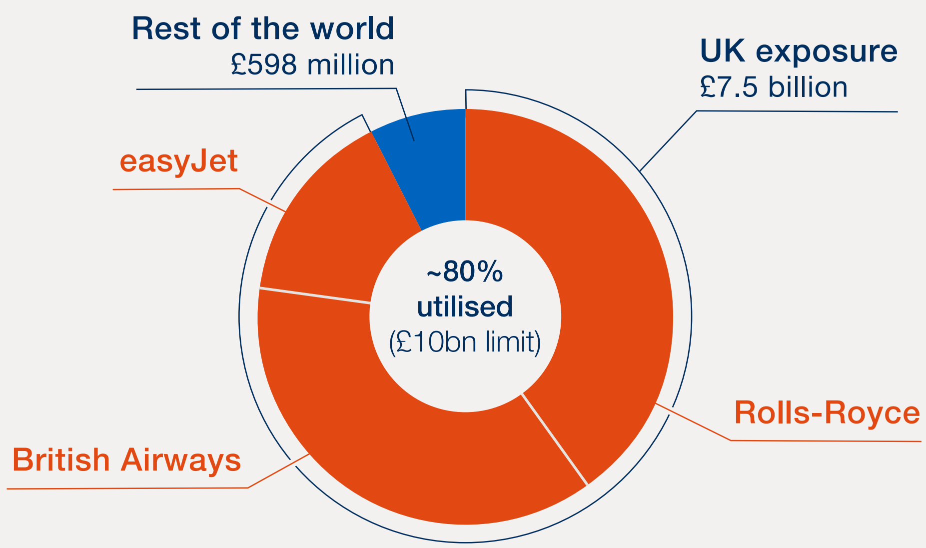
Temporary COVID-19 Risk Framework

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 a specific approval from HM Treasury. This helped support the cash flow and liquidity profiles of both UK exporters and overseas buyers of UK goods.

While exempt from UKEF's normal portfolio-level financial objectives and risk appetite limits (as defined on page 33), approved TCRF transactions remain firmly within UKEF's minimum risk appetite requirements from a through-the-cycle perspective. The programme is underpinned by a comprehensive reporting structure, including day-to-day monitoring for our largest counterparties.

The incremental capacity and flexibility of the programme – which also included doubling the UK country limit to £10 billion and temporarily increasing all other country limits by 50%, to a maximum of £7.5 billion (from the current maximum of £5 billion) – proved to be highly successful throughout the year 2021-22, seeing almost 82% utilisation by the end of the year.

Temporary COVID-19 Risk Framework



Not surprisingly, the hard-hit UK transportation sector was the major beneficiary, with substantial facilities for Rolls-Royce plc, British Airways and easyJet.

The programme has been extended as a result of new COVID-19 variants, with a current expiry date for new exposures of July 2022.

Financial crime compliance

UKEF is committed to deterring fraud, bribery and corruption, and to safeguarding taxpayer funds by taking all precautions that are reasonable and proportionate in the circumstances to avoid loss through becoming involved in export transactions tainted by financial crime.

As such, UKEF undertakes rigorous due diligence, including checks against fraud, bribery and corruption, before providing any support. UKEF has fully implemented, and abides by, the OECD Recommendation on Bribery and Officially Supported Export Credits, applying these standards before providing financial support.

Environmental, social, governance and climate change

UKEF recognises the importance of considering environmental, social, governance (ESG) and climate-related financial risks as part of its risk management processes.

Sovereigns and corporates are increasingly exposed to climate-related risks. UKEF has developed, and continues to develop, its approach to assessing the financial implications of these risks on all new and existing risk entities, as appropriate and in proportion to the risk taken by the department.

To advance and build capacity for managing climate-related financial risks, UKEF follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Across all of our portfolios, we continue to refine and expand our approach to analysing the credit impact of ESG and climate change. We have introduced bespoke ESG and climate change templates to our corporate business from April 2021.

Strengthening UKEF's climate-related risk management capabilities

During the financial year, the Risk Management Group strengthened its capacity for managing climate-related financial risks in a number of key areas.

As well as adding a number of subject matter experts – including policy professionals, climate change financial modellers and climate change economists – we have enhanced the processes and policies governing our risk management activities, engaged with industry peers (including credit rating agencies and financial institutions) and, importantly, gained observer status at the UK's Climate Financial Risk Forum (CFRF). Led by the Bank of England, the CFRF includes some of the UK's most important commercial financial institutions.

Integrating climate-related financial risks in credit risk assessments

Since 1 November 2019, UKEF has been refining its analysis of ESG risks in all new sovereign and non-sovereign credit risk assessments.

From April 2021, we have enhanced this approach by using a new non-sovereign ESG and climate-related assessment framework and integrating climate-related financial risk considerations in our credit risk analysis. This approach augments UKEF's analytical processes by considering risk categories recommended by TCFD, the potential for climate change resilience and adaptation measures to mitigate risk and the resulting potential financial implications.

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

For corporates and financial institutions, unlike project finance, we do not routinely engage external consultants. The range of ESG and climate-related factors are considered as part of the rating and loss given default process. As this is an evolving discipline, we continue to develop our approach to assessing the credit risk consequences of these factors, utilising external industry analysis as appropriate.

All our recent sovereign risk reviews explicitly assess the potential impact of ESG and climate-related risk. We are still developing the methodology for incorporating this assessment, but we have drawn on the analyses by the global credit rating agencies, as well as other sources such as the World Risk Index and World Bank. We consider vulnerabilities to physical climate change impacts such as water shortages, droughts and coastal flooding, as well as transition risks such as reliance on fossil fuels – which could see a sharp fall in demand because of changes in government policies, regulations or consumer preferences.

Integrating climate-related financial risks in portfolio analysis

Climate change considerations already play a key role in our counterparty and portfolio analysis. In addition to analysis at the counterparty level, and in line with the TCFD's recommendations, since 2019 we have analysed our portfolio's exposure to both transition and physical climate change risks, with both qualitative and quantitative scenario analysis, as part of a twice-yearly stress testing exercise.

Analysing transition risk is relevant for our portfolio because historic and current transactions with high greenhouse gas emissions are vulnerable to potential policy, legal, technology and market changes. Assessing physical climate risks is relevant for UKEF because of our geographically dispersed portfolio, which includes countries

A £31 million clean growth loan from UKEF helped finish the new Bee'ah headquarters in UAE with increasingly acute risks from severe weather events and chronic risk caused by longer-term shifts of climate patterns.

The methodology and data sources we use to model these risks are still evolving. We are working with external partners to explore ways to improve the existing process to account for ESG and climate-related risks more holistically.

When assessing the robustness and resilience of our operations, we look at stresses aligned with the following Network for Greening the Financial System scenarios.

- **Orderly scenarios** assume climate policies are introduced early and in a coordinated way and become gradually more stringent. Both physical and transition risks are relatively subdued when compared to the other scenarios.
- **Disorderly scenarios** explore higher transition risk caused by transition policies being delayed or divergent across countries and sectors. Given the delayed implementation, these scenarios also include some more limited physical risks.
- **Hot house world** scenarios assume that some climate policies are implemented in some jurisdictions in line with commitments today, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical impacts, some of which are irreversible.
- **Too little, too late scenarios** explore transition risks similar to the disorderly scenario plus additional higher physical climate risks by assuming that climate policies are introduced too late, thereby failing to sufficiently decarbonise the economy. Greenhouse gas emissions would continue and increasing global temperature would fail to contain physical climate risks.

We have also introduced a new scenario during the semi-annual stress test, **hot house world and insurers' crisis**. This is based on the **hot house world** scenario, but assumes additional stress for the insurance sector as a result of a significant increase in claims – and ultimately potential capital shortfalls – related to more frequent and severe weather events. Given the underlying strength of the sector, this scenario was only marginally more negative. During the year-end stress test we introduced the orderly transition scenario which had only a marginal impact. We explored the **too little, too late** scenario but did not stress test it this year due to its similarity to the disorderly scenario and due to ongoing global decarbonisation efforts and additional commitments.

Some specific challenges for UKEF include the idiosyncratic characteristics of our portfolio, as well as the limited availability of data for the countries and regions where we have our largest exposures. While we have made progress, we remain committed to developing this area as geospatial data and historic climate change-specific financial data become more available.

Outlook

Climate-related financial risk analysis is an evolving field where methodologies are still maturing. Data providers are constructing models and new products which might eventually feed into default probabilities and credit ratings.

UKEF remains committed to improving the quality and robustness of its processes and analytics in this field. Complemented by a combination of tailored training programmes and recruitment of new subject matter experts, we will further strengthen our climate financial risk assessments, which are becoming integral parts of our credit risk analysis.

Together, specific counterparty metrics, new and improved portfolio scenarios and stress testing will strengthen our risk management decision-making.

We will support all these activities by actively engaging with peers, financial institutions and relevant forums to make sure UKEF follows good practice in this developing field.

Wrexham manufacturer Global Attractions won its largest ever contract in South-East Asia with UKEF backing

Portfolio Management Division (PMD)

When UKEF's guarantee, loan or insurance policy is declared effective for every medium or long-term transaction we support and the financial exposure data has been accurately logged on internal management information systems, the transaction is handed over from the Business Group teams to the Risk Management Group's Post Issue Management (PIM) team, housed within PMD. The PIM team is then responsible for all such transactions (including the ongoing review and monitoring processes) until prepayment, repayment or default.

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

In the past year, we have seen our corporate (non-aerospace) exposures emerge relatively successfully from the crisis. While we restructured certain credits in this portfolio, these restructures are being worked through and no 'post-restructuring' defaults have occurred so far. We remain vigilant for these cases in particular as the risk of default is heightened after a restructuring.

During 2021-22, a small number of our non-aerospace cases developed stresses. This is expected in the normal course of taking on credit risk. Payments on these cases are current and we are working proactively to avoid and mitigate potential for loss.

Special Situations Division (SSD)

SSD was formed in 2020 as a response to COVID-19's particular and disproportionate adverse impact on UKEF's aircraft portfolio. The division is responsible for post-issue management and managing the restructured and distressed aerospace credits.

In the previous financial year, SSD focussed on immediate firefighting responses to the crisis. The introduction of the ECA Common Approach[5] prevented large-scale defaults across the aircraft portfolio.

In the current financial year, SSD's role has moved away from firefighting to managing the medium and long-term fallout of the crisis. Given the global nature of the aerospace industry and, by association, our risk, we are still seeing the effects of the crisis, even as markets begin to reopen.

Following the closure of the Common Approach in March 2021, SSD negotiated another 3 deferrals with airline counterparties in the current financial year and is in ongoing negotiations with 2 others.

SSD's distressed fleet has been reduced from 115 aircraft at the start of the financial year to 18. This has returned approximately £76 million to UKEF – though that figure will be understated by some margin, because SSD's success also avoided UKEF's obligation to pay significant future claims over very many years, as well as saving the substantial additional costs to the taxpayer of maintaining, insuring and remarketing the original, much larger distressed fleet. The administrative burden on the claims and recoveries side of the aerospace portfolio was effectively reduced by 85% in 12 months.

Claims and Recoveries

The Claims and Recoveries team resides within PMD. It is responsible for examining claims, assessing their validity and, if valid, paying out claims. It is also responsible for minimising loss for UKEF by recovering amounts due from counterparties and reclaiming compensation monies from ECA reinsurance counterparties.

COVID-19 led to a significant increase in claims paid over 2020-21 and 2021-22, mainly related to the downturn in the aerospace sector. The impact on other sectors has been smaller.

The Claims and Recoveries team regularly updates the Executive Committee, the Board, UKGI and HM Treasury on claims paid and claims under examination. The team also submits regular in-depth reports to ERiCC on all accounts it is responsible for.

Once a claim has been paid, the team makes provisioning recommendations in line with the provisioning policy and the claims and recoveries policy. A full provisioning exercise is conducted at the end of each financial year and updated at mid-year. The year-end exercise is discussed in detail by ERiCC, at which UKEF's external auditors are present, giving them an opportunity to ask questions and informing their final, formal audit opinion.

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 OECD Arrangement (a framework for the orderly use of officially supported export credits), where it applies. This requires all ECAs to charge risk-based premiums sufficient to cover their long-term operating costs and credit losses. This mirrors the WTO Agreement on Subsidies and Countervailing Measures, which classifies export credit guarantee programmes that do not cover their long-term operating costs and losses as "prohibited subsidies".

It is also our objective to support UK exporters' competitiveness, and it is our policy to set the lowest possible premium rates, subject to:

- 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). For more information see OECD entry on page 243
- our international obligations, including subsidy rules
- no individual premium being below the expected loss of the associated transaction
- aggregate premiums satisfying our financial objectives

Financial objectives

HM Treasury has set UKEF 2 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 time scale, applied across 3 accounting periods:
   - the 2 previous and the present financial years
   - the previous, current and next financial years
   - the present and the next 2 financial years

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

These objectives do not apply to our TCRF portfolio or account 3 (business issued under Ministerial Direction – see page 127).

Forecasting approach

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.

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:

- to carry out 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

Modelling assumptions

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

In 2021-22 we conducted major reviews into our modelling assumptions around credit ratings, aerospace recovery values and the basis of discounting.

The ratings review analysed the impact of the different ratings on portfolio results. It concluded that the main assumptions are still valid.

The aerospace recovery review examined the PRISM methodology for calculating potential losses on asset-backed aerospace transactions in the event of an airline default and repossession of the aircraft. We use a bespoke methodology for these loss calculations, originally based on UKEF's experience of repossessing aircraft following the events of 9/11. We recommended changes to several key parameters based on more recent empirical experience with airline defaults related to COVID-19. These reflect a generally improved aerospace recovery environment since 9/11, based on lessons we have learned from previous crises.

The discounting review recommended that UKEF replace LIBOR-based swaps with risk free rate-based swaps for discounting future cash flows. This was a UKEF-wide change, made necessary by the discontinuation of LIBOR. These recommendations were discussed with the LIBOR Project Board and the National Audit Office (NAO). As an additional benefit, they help to futureproof PRISM as we transition to new IFRS 9 and 17 reporting standards in the coming years.

Both reviews were extremely timely, given the impact of COVID-19 on the aerospace industry and the discontinuation of LIBOR. All their recommendations were approved by ERiCC and implemented in late 2021.

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 crisis in the Middle East or a collapse in oil prices, and more generic shocks, such as a 3-notch rating downgrade of sovereigns and corporates across the portfolio.

We continually monitor the risk environment to make sure we are revalidating, updating and expanding our range of scenarios and stresses as necessary. This was particularly necessary in 2020-21, with the onset of COVID-19 and the unprecedented shock it delivered to our portfolio and the global economy. The first months of 2022 have seen new geopolitical risks emerge, with an impact on the global economy and our portfolio. This year's stress testing has endeavoured to take these risks into account.

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 of £5 billion. Although the TCRF portfolio is excluded from the £5 billion risk appetite limit, the impact of TCRF on the portfolio loss distribution is also analysed.

To complement this analysis, we also conduct reverse stress testing. Instead of quantifying the impact of specific scenarios on UKEF's portfolio, reverse stress tests identify the specific combination of portfolio impacts (such as risk rating reductions, loss given default increases, and industry or geographic correlations) required to breach our portfolio limits and cause our business model to become unviable. This helps us design strategies to mitigate the risk of such business failure.

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 counterparty or group of related counterparties.

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 reinsurance and counter-guarantees

A team meeting between members of the UKEF Risk Management Group 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.

Active portfolio management

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

Active portfolio management 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 2021-22, UKEF placed one new transaction in the private reinsurance market. Active portfolio management continued, maintaining focus on managing the current reinsured transactions, and we agreed a number of restructurings and amendments to existing insurance contracts.

Internal analytical and modelling consultancy

Our analysts also deliver high quality consultancy and modelling work for teams across UKEF.

Some significant examples in the current financial year include:

- a model to support the determination of provision rates for our defaulted portfolio, given the latest information on payment schedules and possible recovery outcomes, developed in partnership with the Claims and Recoveries team
- an analysis of the economic impact of the business we issue, in terms of the number of jobs supported, the results of which are published in this report and online
- an analysis of the risk modelling changes required for IFRS 9 and IFRS 17 compliance, as part of UKEF's Financial Reporting Changes programme
- leadership of UKEF's LIBOR transition project, coordinating the efforts of teams across UKEF – including legal, post-issue, underwriting, systems and analysis – to prepare both for new business and transitioning legacy deals to new risk-free rate terms

Finally, we have also begun some ESG and Climate Change portfolio modelling in conjunction with our external partners to ensure our ongoing compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Please see page 97 for further details.

Credit risk performance

The trend that has underpinned credit conditions during the past 12 months is the continued level of liquidity support. This includes formal support mechanisms from governments across the world and support from capital markets' willingness to continue financing even very high-risk transactions, as investors continued their search for yield in an environment of very low interest rates.

This support has allowed corporations to bridge liquidity gaps in sectors heavily affected by the pandemic and its indirect effects. It has also allowed sovereigns to raise finance at minimal cost to support their economies through cycles of lockdown.

This support has been critical as economies adjust to 'living with COVID-19', attempting to move away from the rolling lockdowns that characterised the previous financial year.

In terms of the effect on UKEF's portfolio, the sectors and associated counterparties at risk of the pandemic's direct and indirect consequences had generally been identified in 2020-21, and we took rating actions at that point. We did not envisage the eradication of COVID-19 over the short term, so any further rating actions related to the pandemic have been limited.

As a consequence, up until the Russian invasion of Ukraine, our corporate rating action during the year resulted in fewer downgrades than in 2020-21, with corporations and sovereigns becoming more effective at managing and mitigating the effects of the pandemic. This trend is not unique to UKEF – Moody's notes that between April and June 2020, 73% of its Industry Sector Outlooks were negative; yet by December 2021, 59% were stable and there were twice as many positive outlooks as negative.

Finally, UKEF has taken rating action on its Russian, Ukrainian and Belarussian exposures during February and March 2022, in the context of the direct consequences of the conflict and its wider impacts, such as potential capital controls and sanctions effects. While our direct exposures to Russia and Belarus are relatively modest, we do expect the wider economic implications of the conflict to have an adverse impact on our portfolio of sovereigns, corporates, airlines and insurers.

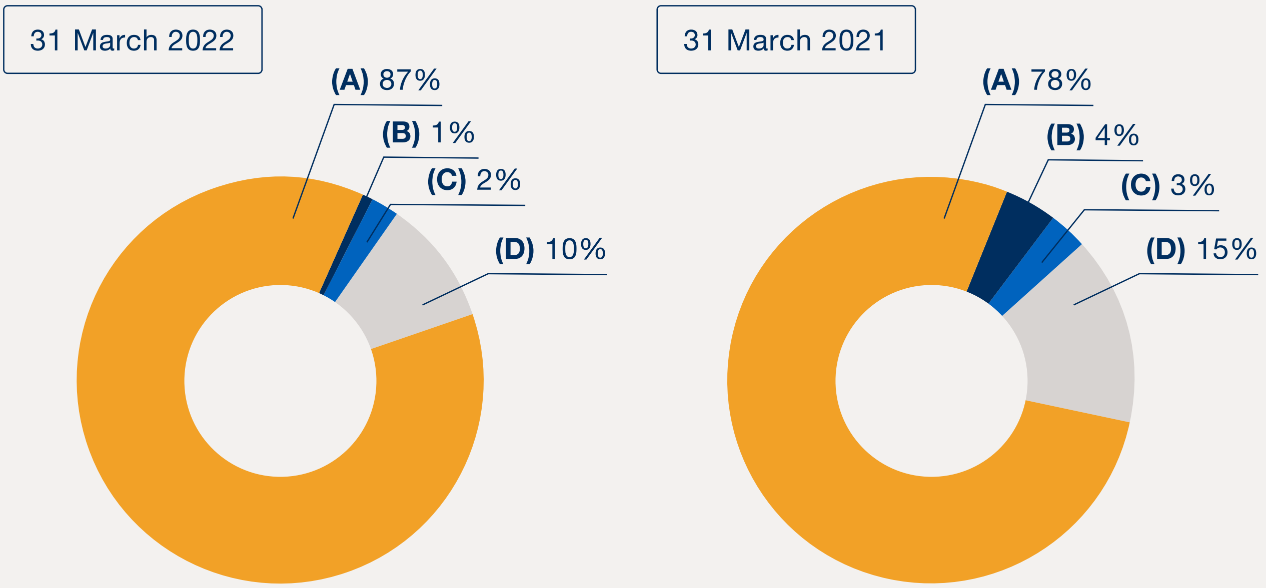
Credit risk exposure

Our total exposure in accounts 1, 2, 5 and 6 increased from £36.7 billion to £39.5 billion over the course of the last year. This includes exposure contributions from amount at risk (AAR), commitments, issued not effective and claims. All references to exposure from this point (unless otherwise stated) concern these 4 accounts; excluding account 3, where we book national interest related transactions, but including account 6, the designated COVID-19 specific account. For details of the business included in each account, see page 84.

While UKEF's AAR (net of reinsurance and not including commitments) showed a slight proportional deterioration in terms of credit quality (see chart on page 69 and commentary on page 70 for details), this was largely offset by new business commitments involving relatively well-rated counterparties. The overall quality of our portfolio, quantified via the weighted average credit rating, remains, as in 2020-21, at B+.

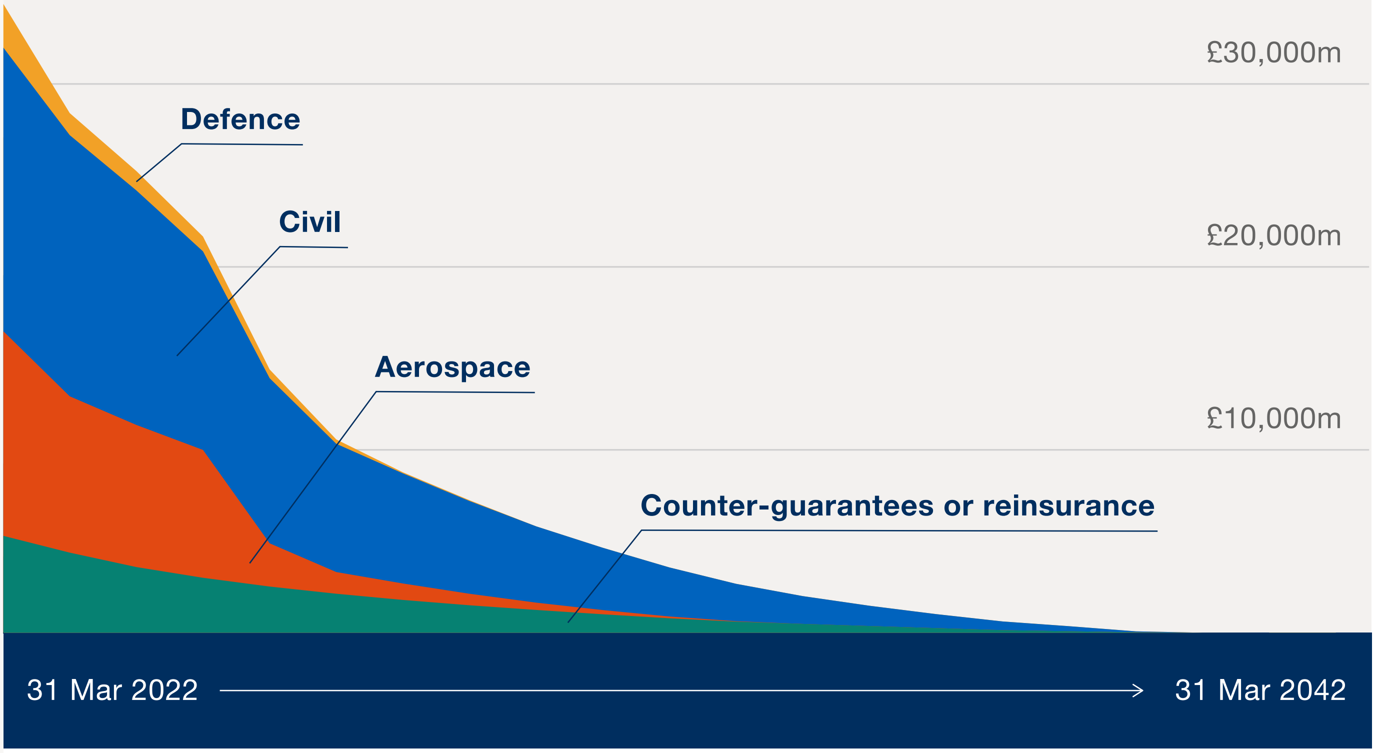
The portfolio remains within all of its major framework limits, including its maximum commitment limit of £60 billion (including TCRF), risk appetite limit of £5 billion, individual counterparty limits and industry sector and geographic concentration limits. We were,

Breakdown of credit risk exposure between amount at risk, claims (principal and interest) and commitments



(A) AAR (gross of reinsurance)
(B) Claims balance principal
(C) Claims balance interest
(D) Commitments and issued not effective

How we expect our current portfolio to run off



once again, also fully compliant with all of our financial objectives relevant to the credit portfolio (see page 33).

Our bi-annual stress testing and scenario analysis modelling and annual reverse stress testing exercise collectively underline the ongoing resilience of the portfolio in all but the most extreme of events – including a prolonged global pandemic.

At 31 March 2022, our total amount at risk amounted to £34.4 billion (£28.4 billion at 31 March 2021) – making up 87% of our credit risk exposure (see chart on page 65). This figure includes £4.5 billion of counter-guarantees provided to UKEF by other ECAs (£3.9 billion in 2021), principally related to Airbus business, and £0.8 billion of private reinsurance used to manage risk concentrations in our portfolio (£0.8 billion in 2021).

The vast majority of our credit exposure is made up of medium to long-term finance. In terms of overall amount at risk, we expect around 17% of our current portfolio to run off over the next 12 months, with around 58% of the current portfolio expiring within 4 years (see chart).

Risk concentrations

The UKEF portfolio continues to be dominated by long-dated, emerging market risk, consistent with our role as the UK's ECA. We have relatively limited control over the geographical or sectoral composition of our portfolio, given our mandate to support UK exports and export destinations.

By geography

The Middle East continues to account for a major part of UKEF's portfolio: 26% as at 31 March 2022.

However, this has been surpassed by exposure to Europe, which stands at 45%. This shift largely resulted from a number of very sizeable Export Development Guarantee facilities issued to some high-profile UK corporations, some of them related to COVID-19.

Exposure to Africa has increased slightly – largely as a result of transactions in Ghana, Côte d'Ivoire, Senegal and Ethiopia – and now stands at £4.6 billion (16%) up from £3.9 billion (16%) last year. We continue to monitor our exposures across the continent very closely, given the significant increase in external debt burdens as a result of COVID-19, the increasing interest rate environment, inflation, supply chain issues and an overall weaker outlook.

Our sovereign portfolio continued to face pressure from the lagged effects of the pandemic. However, rating downgrades have slowed in 2021 compared to 2020 and, given new transactions this year with some of our stronger sovereign customers, our sovereign portfolio credit rating has improved from B- to B.

Our key concern looking ahead is the uncertainty around the global economic recovery caused by the war in Ukraine. Interest rates increasing in advanced economies to combat higher inflation could lead to an outflow of capital from some emerging markets and developing economies (EDMEs). There are also refinancing risks, particularly regarding the significant build-up of debt, where both absolute levels of debt and the related servicing costs remain a cause for concern.

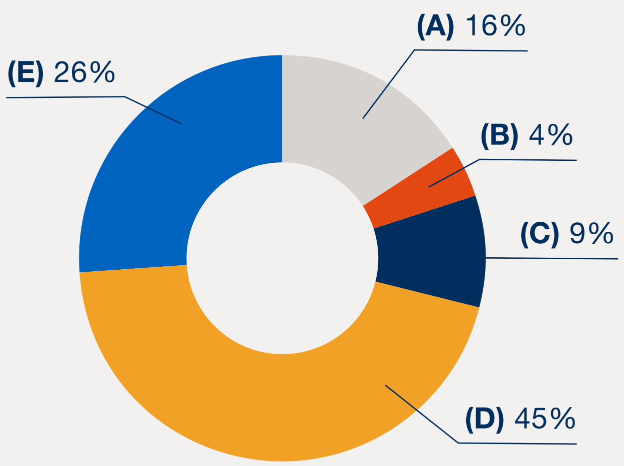
We remain focussed on our exposure to emerging markets. In addition to severe pressures from COVID-19 – vaccination rates remain disturbingly low across these markets – emerging markets are faced with ongoing fallout from the Ukraine crisis. This includes food shortages and an increasingly hostile macroeconomic backdrop in terms of inflation, high energy prices and interest rate expectations driven by policy tightening in developed markets. We are consequently focussing our country visit programme across these fragile economies, with trips to Türkiye, Uganda and Angola already completed and preparations well advanced for meetings in Egypt.

We are continually assessing the second order impacts of the invasion of Ukraine on our corporate and aerospace portfolio, in particular the risks posed by sanctions, capital controls, supply chain disruptions and commodity price inflation. We remain vigilant to exposures that we consider at heightened risk.

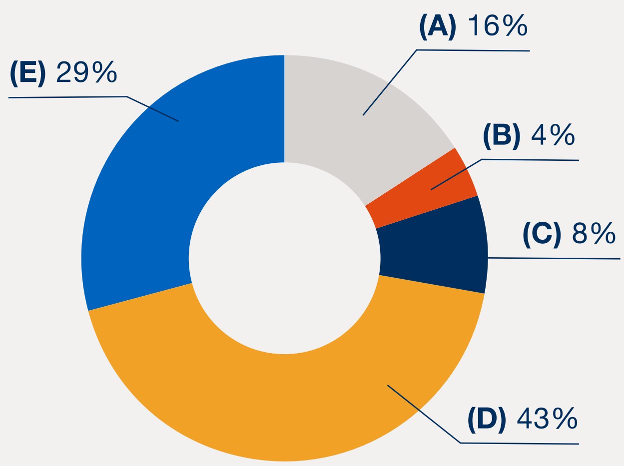
Despite these downside risks, rising oil prices are expected to benefit oil producing economies in the Middle East, where a quarter of UKEF's exposure resides.

Regional breakdown of net amount at risk

31 March 2022

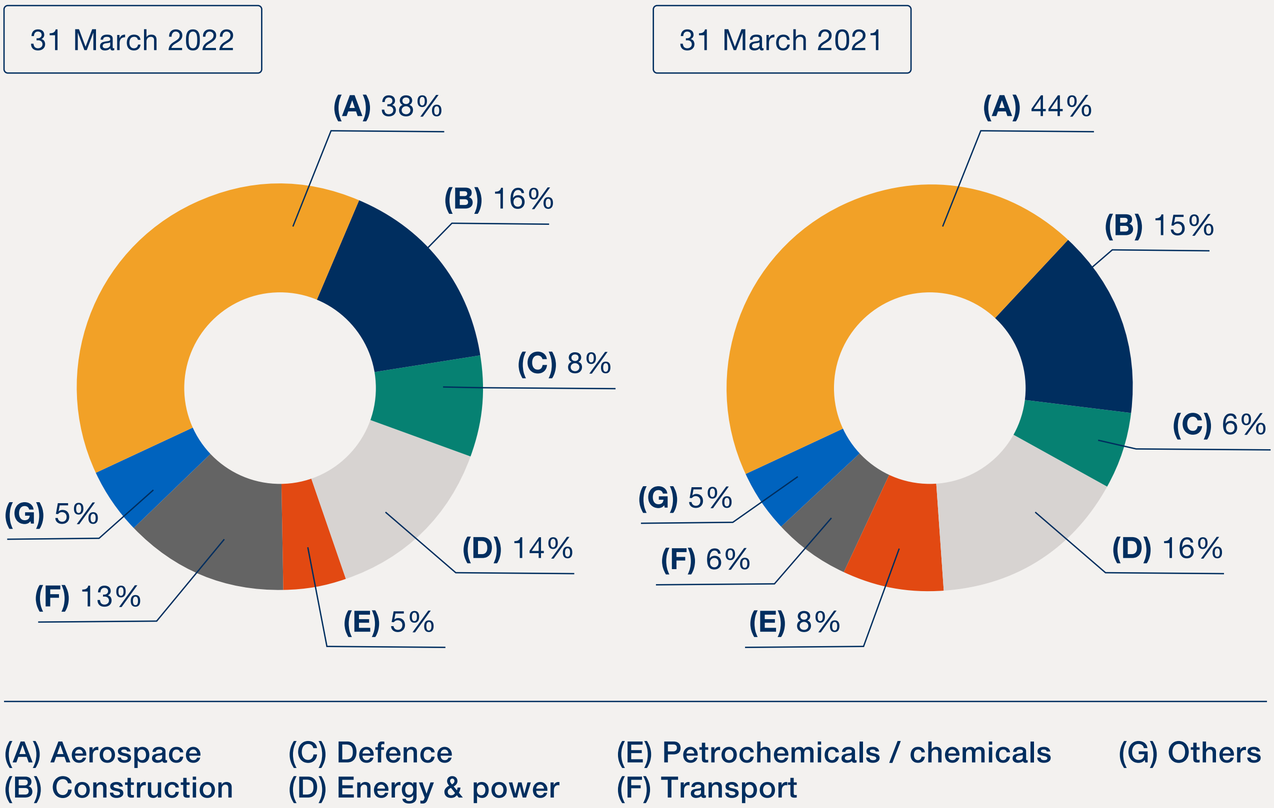


31 March 2021



(A) Africa
(B) Americas
(C) Asia & Pacific
(D) Europe
(E) Middle East

Sector breakdown of net amount at risk



By sector

The UKEF portfolio continues to be dominated by the transportation (aerospace and, increasingly, automotive), construction and defence sectors.

The outlook for the passenger aerospace sector is now mildly positive, as passenger volumes continue to recover. While the speed of recovery differs by geography, and domestic travel is recovering more swiftly than international, by the end of 2021, passenger volumes were estimated at 69% of pre-pandemic levels in the US, 63% in Latin America and 34% in Europe, with all markets expected to fully recover by 2024.

The key downside risks relate to the potential for new COVID-19 variants that are more capable of evading population immunity against severe disease; prevailing (and forecast) high jet fuel prices; and uncertainty on certain travel routes/passenger demand as a result of the war in Ukraine.

The outlook in the automotive manufacturing sector is negative, following moderate 5% unit growth in light vehicle volumes during 2021. Before the Russian invasion of Ukraine, we expected unit sales growth in the mid-single digits for 2022. Now, however, we expect low single-digit volume declines with continued supply-chain disruption and potentially significant cost inflation. During 2021 automotive manufacturers were largely able to offset the volume restriction effects of semiconductor supply shortages with product-mix management and sales price hikes, and whilst ongoing strong customer demand is currently supporting a continuation of this trend it is uncertain whether they will be able to keep this up against the backdrop of ongoing supply chain challenges, high commodity prices (and consequent cost inflation) and pressures on household disposable income.

Construction exposure is largely focussed on the Dubai real estate sector. While we see continued market over-supply in Dubai, we note that in 2021, hotel occupancy had recovered to 66% (compared to 74% pre-pandemic) – the highest level across global city peers – and that average residential sales prices and transaction levels were up 12% and 60% respectively on 2020. This trend is unsurprising, as demand for Dubai's commercial and residential real estate is linked to international travel.

Generally, 2021-22 saw only a few changes in the ratings of banks, insurance counterparties or other NBFIs globally. While banks and NBFIs have been affected by the pandemic, they have coped reasonably well, helped by solid reserve and capital positions and swift policy support from authorities worldwide. However, we do expect to see deterioration in the financials of some banks and other financial institutions in some jurisdictions as support is withdrawn in 2022-23.

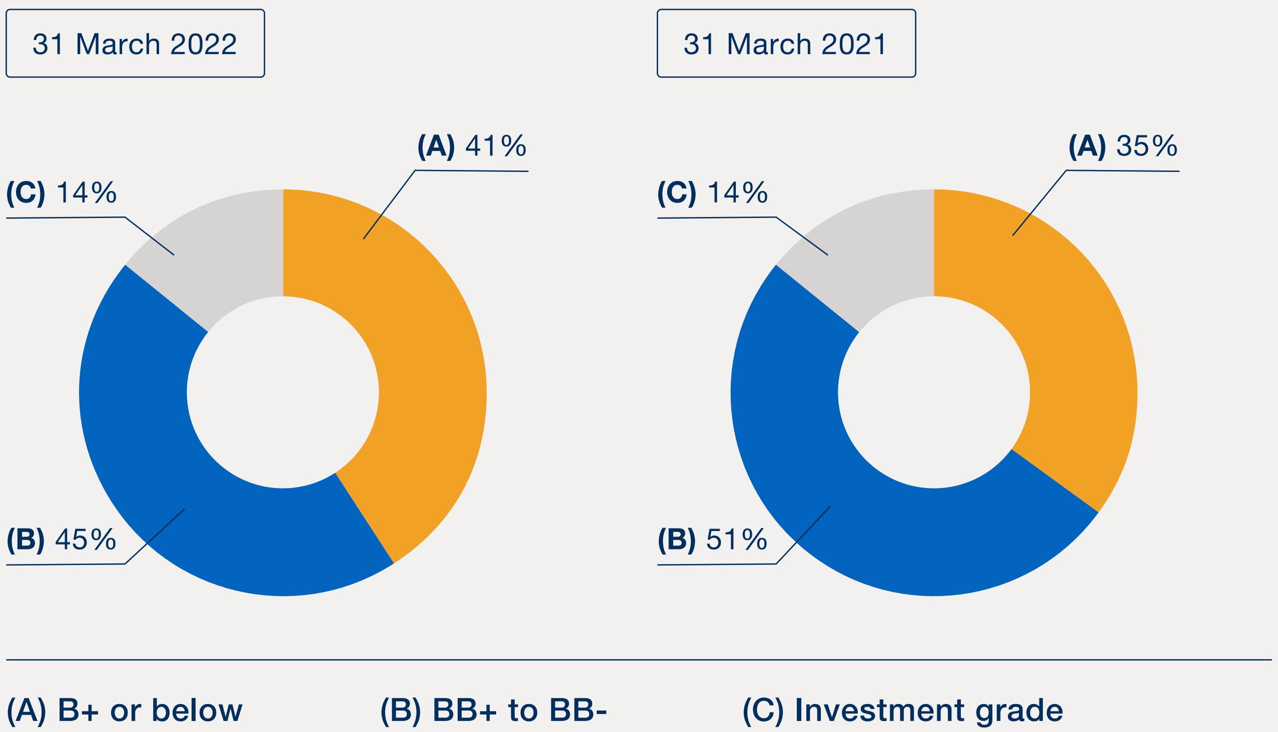
The war in Ukraine will be another challenge for insurers, and early indications are that large claims relating to aircraft are to be expected. However, we expect the impact from Ukraine on insurers, like COVID-19, to be an 'earnings not capital' event: the operating environment has deteriorated, but the insurance sector generally remains highly capitalised and we are not anticipating downgrades at this point.

UKEF has exposure to a relatively narrow, well established and top tier niche of airline operating lessors. The majority of these remain investment-grade, with no rating downgrades and no defaults in 2021-22.

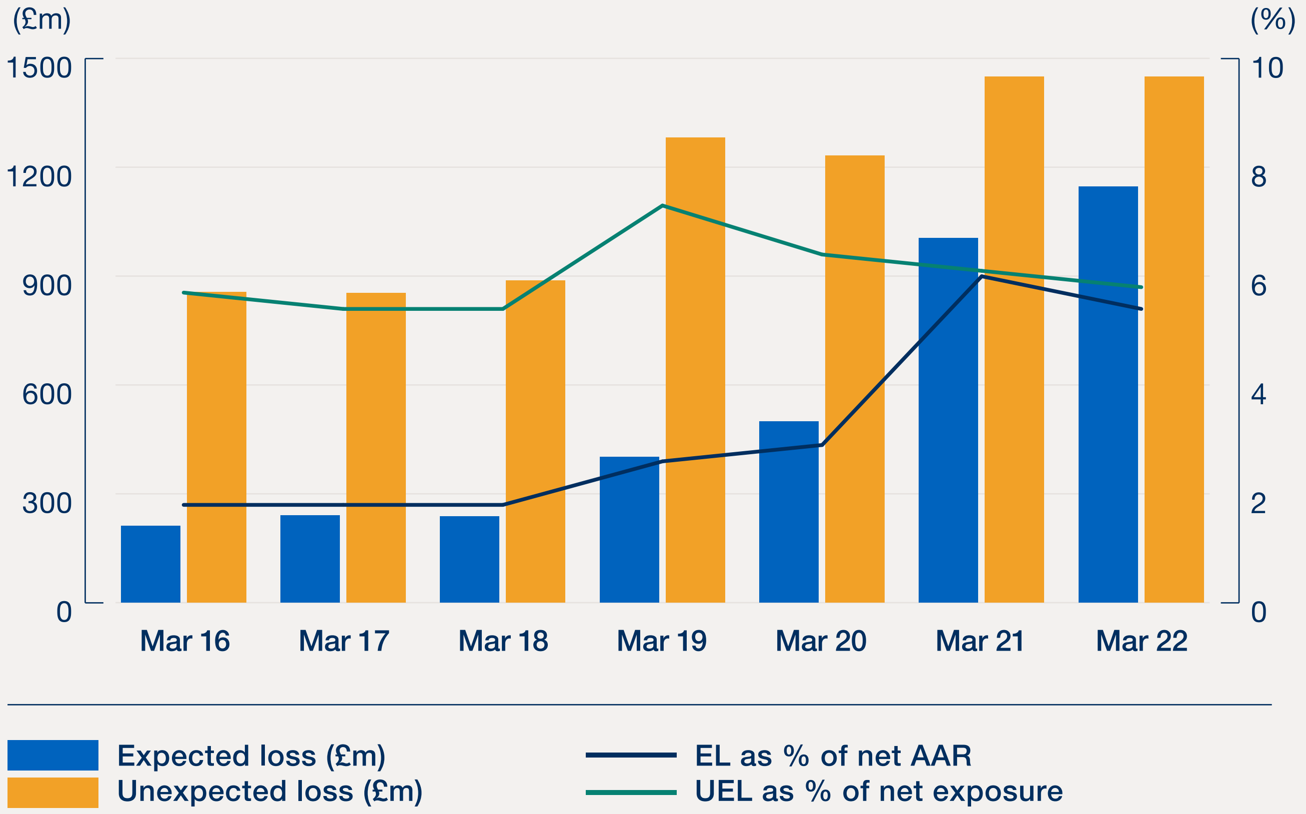
Rating agencies' outlook for this sector is also currently stable, owing to lower than anticipated impairment charges, strong liquidity management and successful vaccination rollouts influencing the recovery of domestic travel, especially in the United States. We remain somewhat more cautious, given the likely fallout on the wider aerospace sector from the impact of international sanctions.

In conclusion, while credit conditions for borrowers were improving until the start of 2022, against a backdrop of continuing central bank liquidity and tight spreads, significant challenges have emerged over the past 3 months on account of the war in Ukraine and the lingering effects of COVID-19 (delayed and uneven vaccine rollout, the potential threat of new COVID-19 variants, lockdowns in China), leading to a much weaker global economic outlook. We expect significant pressures building up in emerging markets, where a large proportion of our exposures reside.

Net amount at risk by credit rating



Expected and unexpected loss trend for accounts 2 and 5



Credit risk quality

Following a rapid deterioration in the portfolio during 2020-21, marked by several airline insolvencies and rating downgrades across sovereigns and corporates, the credit risk quality of our portfolio (excluding commitments) showed a milder deterioration during 2021-22. Sovereign rating downgrades, for example, fell dramatically from 50 in 2020-21 to only 26 in 2021-22, with corporate rating affirmations or upgrades accounting for nearly 60% of all corporate rating movements (versus 43% in 2020-21).

On 31 March 2022, 41% of our amount at risk (net of reinsurance) was rated B+ or below by UKEF (compared to 35% in 2021). This small increase arose in part from new business issued in the year and in part from rating movements related to existing transactions.

This was reflected in our portfolio expected loss (across accounts 2 and 5, excluding commitments), which increased from £1,005 million to £1,146 million, representing approximately 5.4% of the amount at risk (net of reinsurance).

Portfolio unexpected loss is essentially unchanged at £1.4 billion as of 31 March 2022, representing approximately 5.8% of total net exposure.

Risk appetite limit

The relative stability of the UKEF portfolio was further illustrated by the weighted average portfolio credit rating (including commitments) remaining stable at B+. This was largely the result of executing the majority of our new deals in relatively well-rated markets offset, to an extent, by some large deals with credit-challenged sovereign borrowers.

As a result, the projected portfolio loss to the 99.1 percentile (including accounts 2 and 5 only) remained stable at around £3.1 billion, after the significant increase in 2020-21 from £2.0 billion to £3.0 billion on the back of a combination of significant negative rating migration and a substantial increase in the overall portfolio. Risk appetite limit consumption of £3.1 billion, implying headroom of approximately £1.9 billion, continues to be comfortably within UKEF's £5 billion notional capital limit, as prescribed by HM Treasury, providing sufficient capacity for future growth.

Portfolio stress testing

We started the year 2021-22 with our focus fully on COVID-19, which posed some big questions for our portfolio stress testing, including:

- how the pandemic would progress
- how successful the various mitigations – policy support, lockdowns and vaccines, for example – would be

As the year progressed, bringing a surge in new cases in October to December in many countries, it became ever clearer that COVID-19 would be with us for the medium term. It has now become part of our baseline view of the risk in our portfolio, via rating reviews and downgrades.

Our COVID-19 themed stress testing now focusses on the most severe scenario, with new variants, underperformance (or under-adoption) of vaccines and more lockdowns driving renewed pressure and portfolio deterioration. Given the ongoing weakness of many of our counterparties and the global economy, this leads to a clear and substantial breach of our risk appetite limit.

As this financial year came to a close, political risk became an additional imperative for stress testing. The war in Ukraine, although most directly connected to us through our exposures in that country and Russia, has also had a much wider impact on commodity markets and international trade and financial flows. To explore the potential consequences of this situation for our portfolio – but distinct from a judgement about its probability – we have developed a new Cold War scenario, where the geopolitical tensions driving the conflict in Ukraine persist and spread to other regions. This leads to a decoupling of the global economy between developed and developing markets, and adverse impact via lost trade and weakened global economic activity.

This scenario has a very negative impact on our portfolio, albeit not enough to lead to a breach of our risk appetite limit. As with all our stress testing scenarios, we carry out such simulations to better understand their impact on our portfolio were any of them to occur (and not based on the likelihood of occurrence).

A third important area of focus for our stress testing is climate change. We have developed and analysed a number of scenarios, described on page 58.

New claims paid in the year

Since April 2021, UKEF has continued paying claims on the airlines that defaulted in the previous year. In addition, we paid new claims on Air Mauritius, Thai AirAsia and Malaysian Airlines, the latter under an agreed consensual deferral. We also paid a relatively small amount in new non-aerospace claims.

In this financial year, UKEF has paid a total of 188 individual claims, amounting to a net outflow of £103.1 million, using foreign exchange rates applicable at the time each claim was paid.

One hundred and eighty-four were claims in the aerospace sector and 4 in other sectors. The aerospace claims are all secured against aircraft that are the subject of the underlying financings. This materially enhances the possibility of recovery of any claims paid. Evidence of this was the significant recoveries made (post the payment of claims) on Latam, Avianca, Comair, Thai AirAsia and Air Mauritius.

The non-aerospace claims continued to be lower than expected despite the extent of the pandemic, though we are beginning to observe a gradually increasing trend.

Outstanding claims paid, provisions and impairments

Outstanding claims paid on account 2 from business issued after 1991 moderately increased year on year to £470 million at 31 March 2022 (from £415 million in 2020-21), as we continued paying claims on aerospace transactions. As mentioned above, some of these claims paid were partially offset by significant recoveries.

A number of repayments due from low-income sovereigns were rescheduled on a net present value-neutral basis in line with the G20/Paris Club DSSI, which ended on 31 December 2021. Sovereign exposure in Zimbabwe still makes up a considerable part of this total exposure. Recoveries under historical aerospace claims have now been completed in accordance with agreed rescheduling and final wrap-up of the relevant insolvencies.

The overall provision amount for account 2 business as at 31 March 2022 was £542 million (down from £682 million in 2020-21), mainly on account of successful recoveries in the aerospace sector. We used a newly developed model of future recovery prospects to calculate provision rates.

We also still hold a number of outstanding claims, subject to recovery, on business issued and defaulted before 1991. Almost all of the £737 million of outstanding claims paid on this business (down from £1.31 billion in 2020-21) refers to sovereign exposure that is subject to Paris Club rescheduling, the most significant part of which is for Sudan (including a substantial amount owing to accrued interest). A large amount of Sudan debt (around £578 million) was cancelled in 2021-22 further owing to it reaching the heavily indebted poor countries decision point. The debt had already been fully provided for in the year so there was no impact on UKEF's net operating income in 2021-22.

The overall provision amount for this business had decreased significantly on 31 March 2022 to £551 million (down from £1.11 billion in 2020-21).

UKEF has a long history of managing claims and recoveries across its portfolio. Using experience gained through previous downturns, we were able to react quickly, creating new teams and recruiting the experienced staff needed to operate in these circumstances.

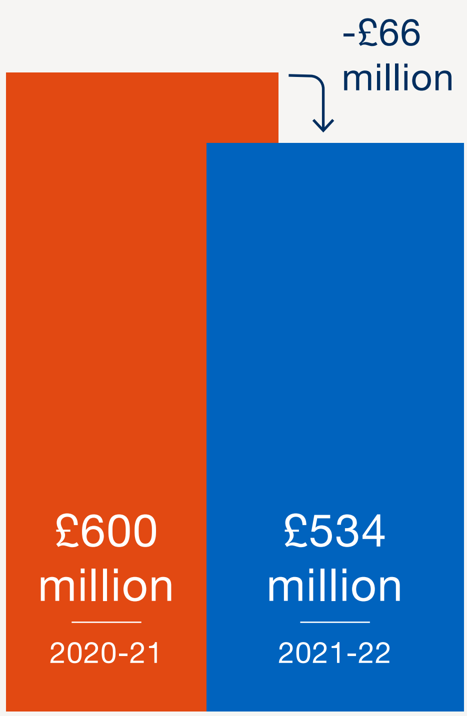
Where objective evidence exists of an impairment loss arising from UKEF's direct lending portfolio, we perform a calculation to determine if an impairment loss should be recognised. Total impairment of the direct lending portfolio increased to £83.9 million in 2021-22 (up from £44.2 million in 2020-21), mainly on account of a new impairment on Ukraine.

Where it is practical and represents value for money, UKEF will restructure debt to enable the counterparties to continue to trade out of the crisis. Using our experience and our analysis of the current and future situations, we are able to review and respond to restructuring proposals in-house.

Recoveries

Overall recoveries (on all business, both principal and interest) amounted to £117 million as at 31 March 2022 (compared to £89 million in 2020-21), reducing total recoverable claims (excluding interest on unrecovered claims) to £534 million (£600 million in 2020-21). The vast majority of recoveries related to aerospace claims, which were completed in accordance with agreed scheduling and final wrap-up of the relevant insolvencies, and Paris Club recoveries. Recoveries relating to sovereign and corporate debt reschedulings made up the balance. See Historical Financial Performance charts on page 26.

Total recoverable claims



We expect recoveries from non-sovereign claims paid (mainly the remaining distressed assets in the aerospace portfolio in 2021-22 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 115 aircraft which were in insolvency protection in June 2020, 97 have been successfully restructured, of which 43 have been repaid or prepaid. The 18 aircraft we have or will repossess are secured in favour of the lenders, who are paid claims under guarantees. When SSD repossesses those assets, it directs the leasing and/or sale of those aircraft to recoup the claims payments made in respect of them.

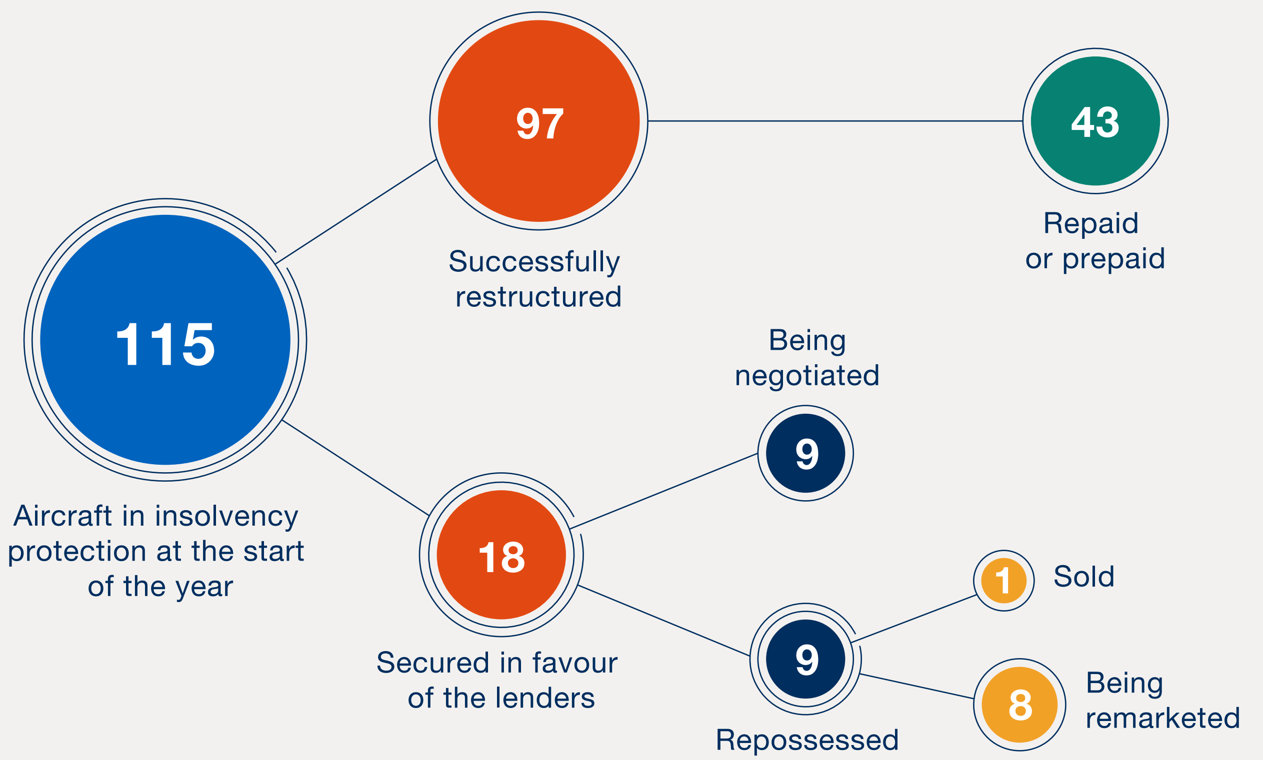
Of those 18 aircraft, we have repossessed 9 and are currently remarketing 8 of those. The ninth aircraft was sold for an amount that covered our exposure (including the recovery of the claims we paid), fulfilling our mandate to operate at no cost to the taxpayer. We cannot be certain that the number will remain static over the coming months, given the potential longer-term impacts of COVID-19 and the war in Ukraine on the aerospace sector.

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

The 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 considerably reduce its exposure to insolvent airlines through negotiated settlements.

UKEF was able to rely on its strengthened legal controls and documentation, which it put in place following the events of 9/11, to position itself favourably in those negotiations. We saw the benefits of those changes in the

Aviation recoveries



COVID-19 crisis. We have unparalleled access to manufacturers, airlines, remarketers and industry players built up through years of experience and we were able to use those to secure the outcomes we did. There is work to be done and the global aerospace market remains unstable.

While COVID-19 has caused a downturn very significantly worse than all these previous crises and although there are major challenges ahead, managing and mitigating credit risk taken on behalf of the taxpayer is a core function of the department, and we have the capability needed to respond to the situation.

Despite these challenges, UKEF has successfully restructured 85% of its defaulted aircraft fleet and returned a total of £76 million in repayments and prepayments, from airlines that have been in insolvency protection and from the sales of repossessed aircraft.

SSD continues to work out the much smaller distressed fleet and this will continue over the next few financial years. In comparison, UKEF sold its last repossessed 9/11 aircraft in 2016, some 15 years after the crisis. We therefore remain confident that our further recovery efforts will yield material mitigation of ultimate loss, and possibly full recovery of claims paid.

A £3 million General Export Facility helped Swansea-based clothing company Character.com grow their business

Notes

1 The maximum commitment and risk appetite limit are no longer subject to adjustments owing to exchange rate movements.
2 The reserve index is the ratio of a) cumulative reserves plus associated provisions to b) the aggregate of the value of the 77.5 percentile point on UKEF's portfolio loss distribution plus provisions. At the end of each month, the index must be at least 1.
3 Expected loss applies both at an individual transaction level and at a portfolio level. At a portfolio level, it is simply the sum of the expected losses of all risks in the portfolio and equates to the mean of the portfolio loss distribution.
4 The OECD Arrangement, sometimes referred to as 'the Consensus', limits self-defeating competition on export credits among members of the OECD. OECD members undertake to operate within these guidelines when providing official support for export credits of 2 years or more.
5 In March 2020 UKEF, Euler Hermes and BPI agreed a common set of terms (the "Common Approach") to respond to and mitigate the profound impact of COVID-19 on the aerospace sector. The terms involved the deferral of principal payments due on pre-agreed terms.

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 2022 and 31 March 2021 and the outstanding commitments against them.

	At 31 Mar 2022				At 31 Mar 2021			
	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) of the EIGA amounts								
Statutory limit		67,700	–	67,700		67,700	–	67,700
Total commitments	10,432	32,574	9,905	42,479	8,218	29,257	7,981	37,238
Section 6(3) of the EIGA amounts								
Statutory limit		26,200	–	26,200		26,200	–	26,200
Total commitments	–	–	–	–	–	0	–	0
Section 6(1) amounts								
Assets	–	0	–	0	–	0	–	0
Section 6(3) amounts								
Assets	1	–	1	1	2	–	2	2

Mace received a £50 million loan guarantee with sustainability targets to bolster its growing export business

Chief Finance and Operating Officer's report

This report describes and comments on UKEF's financial performance for the year ended 31 March 2022. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Chief Risk Officer's report (see page 45).

Cameron Fox
Chief Finance and Operating Officer

Financial results overview

UKEF is reporting a net operating gain of £324 million for the year ended 31 March 2022, compared with a net operating loss of £217 million for the year ended 31 March 2021.

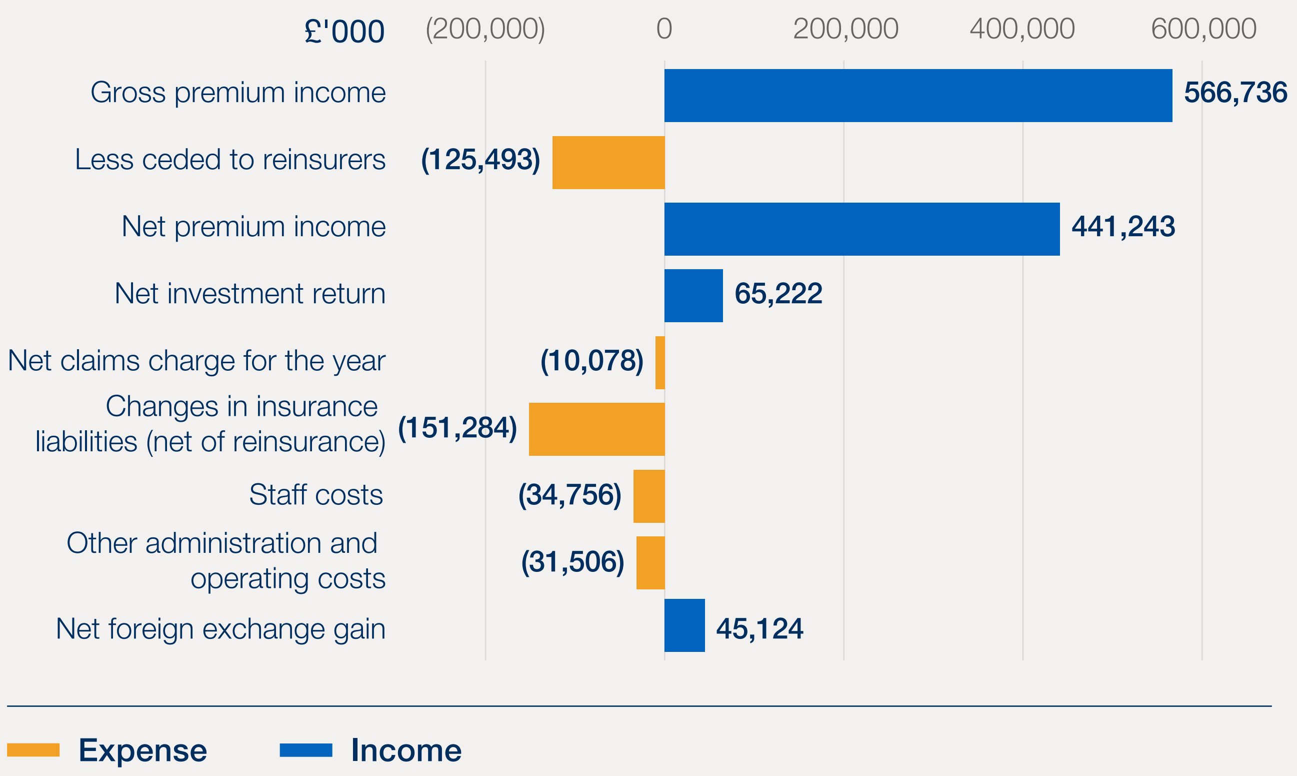
On a foreign exchange-adjusted basis, the net operating gain for the financial year 2021-22 was £279 million, compared with a net operating loss of £79 million for the year to 31 March 2021. This change results primarily from improvements in outlook and performance for UKEF's existing portfolio, which was hit heavily by the coronavirus (COVID-19) pandemic last year, especially in the aerospace sector.

This improvement during the year has resulted in reductions in required reserving (reversal of 'top ups' on the underwriting funds), owing largely to provision releases and expected loss reductions in relation to aerospace exposures (see the Chief Risk Officer's report for more details).

Northern Irish start-up Circular Group secured a major recycling contract with UKEF backing

Summary of profit and loss	2021-22 £'000	2020-21 £'000
Income		
Gross premium income	566,736	490,737
Less ceded to reinsurers	(125,493)	(160,932)
Net premium income	**441,243**	**329,805**
Net investment return	65,222	18,682
Net foreign exchange gain	45,124	–
Total income	**551,589**	**348,487**
Expenses		
Net claims charge for the year	(10,078)	(54,488)
Changes in insurance liabilities (net of reinsurance)	(151,284)	(324,389)
Staff costs	(34,756)	(28,413)
Other administration and operating costs	(31,506)	(20,333)
Net foreign exchange loss	**–**	**(138,084)**
Total expenses	**(227,624)**	**(565,707)**
Net income/(loss)	**323,965**	**(217,220)**
Net income/(loss) (FX-adjusted)	**278,841**	**(79,136)**

Statement of comprehensive net income for 2021-22



Comparison of statement of comprehensive net income

£'000	2020-21	2021-22	Change
Gross premium income	491	567	76
Less ceded to reinsurers	-161	-125	+36
Net premium income	330	441	111
Net investment return	+19	+65	+46
Net claims credit/(charge) & provisions for likely claims	-55	-10	+45
Net foreign exchange gain/(loss)	-138	+45	+183
Changes in insurance liabilities (net of reinsurance)	-324	-151	+173
Staff costs	-29	-35	-6
Other administration & operating costs	-20	-32	-12
Net income	-217	324	541

Key income totals **Expenditures movements** **Income movements**

Insurance and underwriting activity (premium income)

Net premium income revenue earned:

- 2021-22: £441 million
- 2020-21: £330 million

Net insurance premiums written increased by £111 million since the year 2020-21, mainly because of the Export Development Guarantee (EDG) product.

For the breakdown of insurance premiums, see note 3 to the financial statements (page 187). Also see note 1 for details of the relevant accounting policies (page 173).

Net investment return

Net investment return for export credit guarantees and insurance activities:

- 2021-22: £14 million
- 2020-21: £4 million

Net investment return for export finance activities:

- 2021-22: £51 million
- 2020-21: £15 million

Net investment return mainly comprises interest income receivable for the year, impairments and provisions on loans and receivables, and changes in unrealised gains and losses on financial assets classified as 'fair value through profit or loss'.

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 interest income on a larger direct lending loan portfolio is mainly responsible for the change in return for export finance activities.

For the breakdown of net investment return, see note 3b to the financial statements (page 188). Also see note 1 for details of the relevant accounting policy (page 173).

Net claims credit (and provisions for likely claims)

Net claims paid:

- 2021-22: £103 million
- 2020-21: £107 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 since improved. The improved position of the airline sector is largely responsible for the decrease in claims paid this year.

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

Also see notes 1b, 5 and 10 to the financial statements. Note 1b explains the significant uncertainty arising from UKEF's underwriting activities (page 175). Note 5 provides a breakdown of net claims credit (page 189) and note 10 provides details of recoverable claims and unrecovered interest (page 195).

Foreign exchange

During the year, sterling depreciated by approximately 4% against the US dollar.

As a significant proportion of UKEF's guarantees, insurance policies and loans are written in foreign currencies (mainly the US dollar but also the 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.

See notes 6 and 20 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

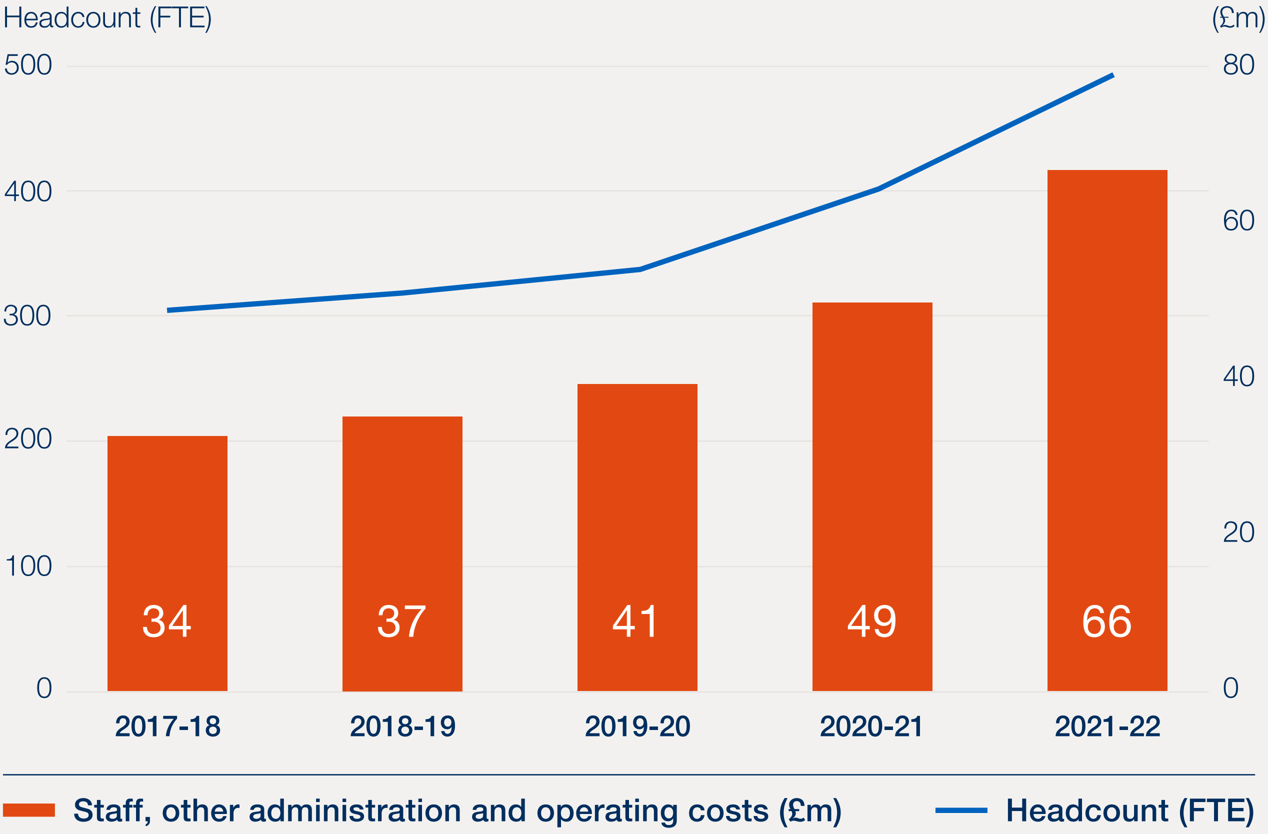
(Net) underwriting funds at year end:

- 2021-22: £1,434 million
- 2020-21: £1,283 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 (being business written in 2012 and 2018) was some £40 million in 2021-22, compared with £52

Operating costs and headcount



million in 2020-21. 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 2012 and 2018.

See note 18 to the financial statements for the detailed movements in the underwriting funds (page 201). Also see note 1d for details of the relevant accounting policy, explaining the fund basis of accounting (page 176).

Operating costs

- 2021-22: £66 million
- 2020-21: £49 million

A planned increase in staff in addition to project costs was largely responsible for the increase in operating costs. For more details, see the Staff and Remuneration report (page 143).

Long-term assets and liabilities

Direct lending loans at year end:

- 2021-22: £2,808 million
- 2020-21: £2,308 million

Gross recoverable claims at year end:

- 2021-22: £534 million
- 2020-21: £600 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 decreased owing to claims paid as a result of COVID-19; however, these were more than offset by recoveries in-year and abandoned recovery action in relation to Sudan.

UKEF's most significant liability relates to insurance reserving.

Financial results by accounts 1 to 6

UKEF currently operates 6 accounts (business segments).

Account 1 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 relates to the credit risk arising from guarantees and insurance issued for business since April 1991.

Account 3 relates to guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4 relates to the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements.

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

Account 6 relates to all business underwritten and booked under the Temporary COVID-19 Risk Framework (TCRF – approved by HM Treasury since 2 April 2020).

UKEF's Executive Committee at the All Staff Conference

Management commentary — 5-year summary

	2021-22 £m	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m
Overall value of guarantees and insurance policies issued and effective:					
New business supported – net of reinsurance – account 2	5,458	3,818	3,499	3,372	1,865
New business supported – net of reinsurance – account 3	–	–	–	2,139	–
New business supported – net of reinsurance – account 6	1,395	6,826	–	–	–
Total new business supported – net of reinsurance	6,853	10,644	3,499	5,511	1,865
Amounts at risk – gross of reinsurance – accounts 2, 3, 6	34,393	28,834	21,838	21,538	16,988
Statement of comprehensive net income:					
Premium income net of reinsurance	441	330	177	332	103
Staff, other administration and operating costs	66	49	41	37	34
Foreign exchange gain/(loss)	45	-138	55	46	-65
Net operating income – total	324	-217	217	128	5
– Account 1	18	-4	57	35	9
– Account 2	157	-104	88	45	22
– Account 3	12	4	-1	0	0
– Account 4	0	0	0	1	2
– Account 5	59	-114	73	47	-28
– Account 6	78	1	0	0	0
Net operating income – foreign exchange – adjusted	279	-79	162	82	70
Statement of cash flows:					
Claims recoveries – total	92	70	71	69	76
– Account 1	30	31	38	39	34
– Account 2	62	39	33	30	42
Interest recoveries in the year – total	25	19	31	31	27
– Account 1	24	19	29	30	26
– Account 2	1	0	2	1	1
Claims paid – total	103	107	8	0	2
– Account 2	103	107	8	0	2
Net cash flow from operating activities – total	576	353	321	484	225
– Account 1	53	49	67	69	60
– Account 2	428	168	181	241	114
– Account 3	10	38	-11	95	–

	2021-22 £m	2020-21 £m	2019-20 £m	2018-19 £m	2017-18 £m
– Account 4	–	–	–	1	2
– Account 5	85	98	84	78	49
– Account 6	74	23	–	–	–
Statement of financial position:					
Recoverable claims before provisioning	534	600	591	647	701
– Account 1	240	350	402	433	463
– Account 2	294	250	189	214	238
Recoverable claims after provisioning	184	179	197	247	292
– Account 1	87	110	145	168	190
– Account 2	97	69	52	79	102
Interest on unrecovered claims after provisioning	87	98	118	106	116
– Account 1	87	98	117	105	115
– Account 2	0	0	1	1	1
Underwriting funds – net of reinsurance	1,434	1,283	958	896	629
– Account 2	1,318	1,182	873	811	629
– Account 3	85	85	85	85	–
– Account 6	31	16	–	–	–
Recoverable capital loans before provisioning	2,808	2,308	1,327	967	505
– Account 3	1,000	703	–	–	–
– Account 4	1	2	5	10	15
– Account 5	1,807	1,603	1,322	957	490

Account 1

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, due to provision reductions and recoveries as well as foreign exchange movements, was responsible for the change in net operating income this year.

The reduction in gross claims this year was due to recoveries, but also to the debt cancellation for Sudan. See the Chief Risk Officer's report for further details.

Net operating income:

- 2021-22: £19 million
- 2020-21: loss of £4 million

Recoveries of claims paid:

- 2021-22: £30 million
- 2020-21: £31 million

Recoveries of interest on claims paid:

- 2021-22: £24 million
- 2020-21: £19 million

Balances for gross claims:

- 2021-22: £240 million
- 2020-21: £350 million

Balances for net claims:

- 2021-22: £87 million
- 2020-21: £110 million

Interest on net unrecovered claims:

- 2021-22: £87 million
- 2020-21: £98 million

(All results rounded to the nearest million)

Account 2

An increase in net premium income related to the EDG product, as well as provision releases and reversal of fund top ups, was largely responsible for the change in the net operating result (from an operating loss last year to an operating gain this year).

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

- 2021-22: £5,458 million
- 2020-21: £3,818 million

Net premium income:

- 2021-22: £343 million
- 2020-21: £304 million

Net operating income:

- 2021-22: £157 million
- 2020-21: loss of £104 million

Release from funds:

- 2021-22: £40 million
- 2020-21: £52 million

Claim recoveries:

- 2021-22: £62 million
- 2020-21: £39 million

Gross claims balances:

- 2021-22: £294 million
- 2020-21: £250 million

Net claims balances:

- 2021-22: £97 million
- 2020-21: £69 million

Account 3

There was no new business written during the year 2021-22.

The extant exposure relates to support provided for BAE Systems and MBDA UK, for the provision of military aircraft and related equipment to the State of Qatar. The direct lending facility loan in relation to this support was fully drawn during the year.

Account 4

The direct funding balance, which represents the funds originally loaned by HM Treasury to reduce the cost of FREF, continued to decrease during the year – to £1 million, from £2 million in 2020-21 – as regular instalments were made.

All remaining exposure on account 4 is expected to run off in 2022-23.

Net operating income:

- 2021-22: loss of £0.1 million
- 2020-21: loss of £0.03 million

Account 5

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 50 signed loans of which 44 are currently effective.

Only one new loan has been assessed as impaired to the year ending 31 March 2022 (3 loans in total are currently impaired). See note 1 to the financial statements (page 173) for details of the relevant accounting policy.

There was a net operating gain of £59 million in 2021-22, compared with a net operating loss of £114 million in 2020-21. Several factors contributed to this change, including a foreign exchange gain of £36 million, compared with a loss of £113 million in 2020-21 (as most of the loans originated were in US dollars). In addition, net investment return increased to £37 million compared with £9 million in 2020-21. This was largely due to an increase in interest income on the loan book.

New loans originated (not including facility increases):

- 2021-22: 6 (signed and effective)
- 2020-21: 9

Loan impairment on the portfolio:

- 2021-22: £38 million
- 2020-21: £31 million

Net operating income:

- 2021-22: £59 million
- 2020-21: loss of £114 million

Account 6

This account relates to UKEF's Temporary COVID-19 Risk Framework (TCRF). See the Chief Risk Officer's report for background on the TCRF.

There was a net operating gain of £78 million in 2021-22, compared with a net operating gain of £1 million in 2020-21. The change was largely the result of increased premium from the EDG product which is released to income over the life of the product.

Net operating gain:

- 2021-22: 78 million
- 2020-21: £1 million

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

- 2021-22: £1,395 million
- 2020-21: £6,826 million

Net premium income:

- 2021-22: £99 million
- 2020-21: £25 million

Financial reporting changes

As outlined in note 1 to the financial statements (page 173), 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 two 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 Parliamentary Supply (page 153) and the financial statements (page 167).

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

The Statement of Parliamentary Supply (SoPS), 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 in the chart below.

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.

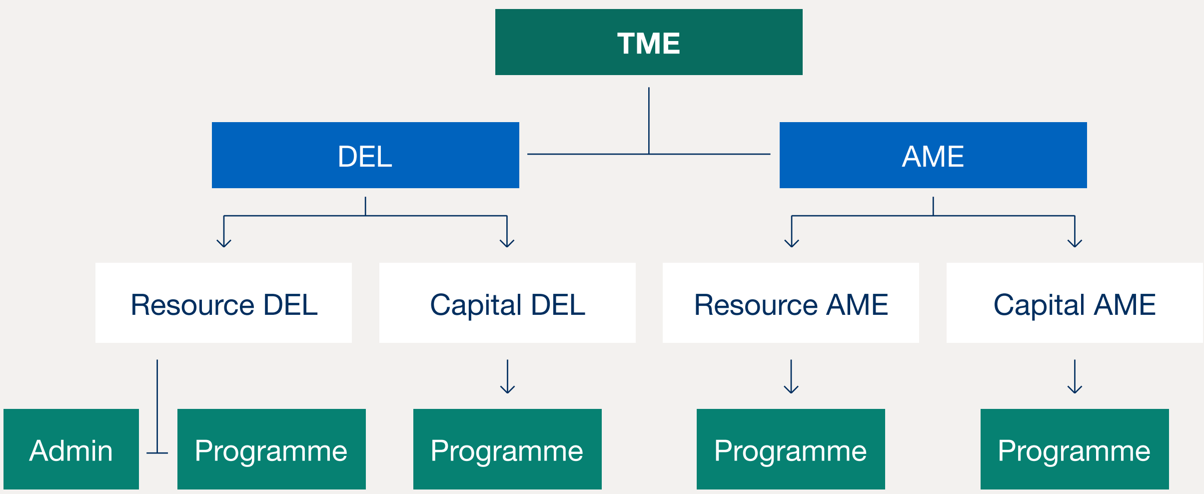
In the absence of any operating income outside the ambit of the supply estimate, UKEF's net resource outturn and net operating cost or income are identical.

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 dollars) 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, it faces challenges in ensuring compliance with Parliamentary voted control totals.

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 153.

How department spend is categorised in the Statement of Parliamentary Supply



For more information about the supply estimate, see our website.[1]

UKEF's supply estimate vs actual outturn for the year 2021-22

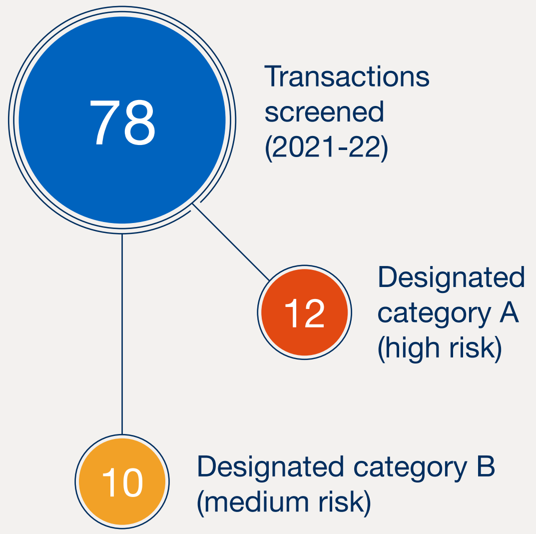
	SoPS note	Outturn £'000	Estimate £'000	Variance £'000
Resource budget spending				
Departmental Expenditure Limit (DEL)	SoPS1.1	–	1	1
Annually Managed Expenditure (AME)	SoPS1.1	(323,965)	648,384	972,349
Resource total & net operating cost/ (income)		**(323,965)**	**648,385**	**972,350**
Non-budget/resource total	SoPS1.1	–	–	–
Net resource outturn & net operating cost/ (income)		**(323,965)**	**648,385**	**972,350**
Capital budget spending				
Departmental Expenditure Limit (DEL)	SOPS1.2	1,413	1,600	187
Annually Managed Expenditure (AME)	SOPS1.2	457,131	1,601,142	1,144,011
Capital total payments/(receipts)		**458,544**	**1,602,742**	**1,144,198**

Notes

1 UKEF [gov.uk/uk-export-finance]

Head of Environmental and Social Risk Management's report

Max Griffin
Head of Environmental and Social Risk Management



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 published ESHR Policy.[1] In addition, we collaborate 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 risks and impacts and to determine their classification under the scope of the 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).

During the 2021-22 reporting year, the E&S Division screened 78 transactions – an increase of 11.4% on the previous year.

Where we identify significant project-related ESHR risks as part of the screening process, we designate the transaction as either category A (high risk) or category B (medium risk). In 2021-22, we designated 12 category A and 10 category B projects.

We then carry out an ESHR review of these category A and B transactions and, where needed, put in place measures to ensure the projects become aligned to international ESHR standards. After providing support, we monitor these transactions to ensure that they remain aligned to the standards.

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 Performance Standards[2]

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

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 projects 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
- information supplied directly by the project or relevant corporate entity
- industry and sector initiatives (for example regarding climate 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 existing ESHR documentation (including screenings and reports for category A and B cases) and, where relevant, dedicated climate change reports.

Over the reporting period, the E&S Division also completed 56 screenings or assessments on cases other than category A or B projects. These included Export Development Guarantees, civil aviation and short-term transactions. Each of these cases involved senior business group and Head of Climate Change review and approval before deciding whether to provide financial support.

As well as reducing 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. Examples of these benefits include:

- generating and supplying electricity via renewable sources

- enhanced health and wellbeing in host communities where we have supported hospitals and health centres
- improved availability of clean water and sanitation from the development of water supply and treatment projects
- provision of jobs, training and project-related economic growth during a project's construction and operation

By ensuring the implementation of our benchmark ESHR standards, these developmental benefits may be enhanced beyond the level 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.

In 2021-22, 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.

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 2021-22, see our website.[3]

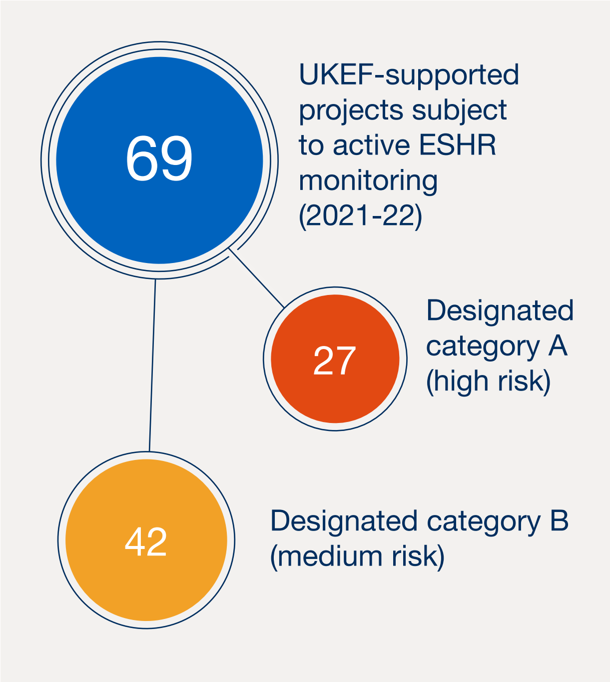
For an example of our work in action, see Our support for exports on page 38.

Modern Slavery

The UK is committed to working with international partners and businesses to tackle modern slavery in global supply chains. UKEF is especially vigilant in its due diligence processes to ensure that the deals it supports include protections for the rights of workers.

We published our first-ever modern slavery statement in November 2021 where we outline our approach to tackling our exposure to modern slavery across the business.[4]

Monitoring



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

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

One of UKEF's largest loans in West Africa will help NMS Infrastructure build 6 new hospitals in Côte d'Ivoire

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

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

The travel restrictions resulting from the COVID-19 pandemic limited physical site visits during the first part of the 2021-22 reporting year. We used remote ESHR monitoring methods and applied good practice, including the Equator Principles guidance on the topic. This guidance also includes suggested good practice actions for implementation by project sponsors and other lenders.[5]

For a summary of cases where we are carrying out ongoing ESHR post-issue monitoring, see our website.[6]

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, participating in working groups and seeking to achieve consistency in ECAs' approaches 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 (EPSC). This is our third term on the EPSC, after sitting twice between 2018 and 2020.

The E&S Division was actively engaged this year in managing an Equator Principles initiative to develop standard terms of reference for consultants to use when conducting Environment and Social Due Diligence (ESDD) and Environment and Social Impact Assessment projects. The aim is to promote best practice and a consistent approach across EPFIs.

ESHR Policy review

UKEF is committed to continuously reviewing its policies and procedures to take account of the rapid evolution of best practices, including the application of ESHR due diligence and monitoring.

Our review of our ESHR Policy continued during 2021-22. The updated policy will be influenced by the government's Fossil Fuel Policy, UKEF's Climate Change Strategy and developments on human rights/supply chain issues within the renewable sector. This follows the Foreign Secretary's announcement of a series of measures to help ensure UK businesses and the public sector are not complicit in human rights violations in regions of concern.

In 2021, various climate-related internal procedures were developed and implemented across all our products. These procedures are proportionate to the risks and impacts associated with the projects and our support.

Megger Group received a UKEF £138 million loan guarantee to help it grow and invest in green technologies

They may be applied both to projects that receive UK exports and to the performance of the UK exporter within its sector.

This year has also highlighted the issue of potential forced labour in the renewable energy sector, specifically in solar-grade polysilicon production within the solar power supply chain. As a result, the E&S Division collaborated with UKEF's policy teams to provide recommendations for strengthening UKEF's screening and ESDD processes on transactions related to the solar power industry. These proposed changes were accepted and implemented on all relevant transactions. The process will be further developed to consider non-solar projects.

Supporting the UN Sustainable Development Goals

This year, UKEF has taken significant steps forward with our strategy of Focussed Alignment with the UN Sustainable Development Goals (SDGs).[7]

Under the Focussed Alignment strategy, UKEF proactively identifies projects and supply chains with positive SDG-related impacts that we could support. Our approach is focussed on:

- changing behaviour
- collecting and measuring data
- communications

As of this year, sustainability is an explicit part of UKEF's mission statement. Even before this, however, much of our support has, by its nature, been aligned with some of the SDGs in some of the contexts where we work.

For example, much of our activity naturally contributes towards SDG 8, Decent work and economic growth, in many of the markets where we operate.

Through our Focussed Alignment strategy, we are taking steps to better understand and, where possible, increase this impact.

Progress this year has included:

- changing behaviour: new products contribute towards SDG 13, Climate action, in many of our markets, as does targeting our origination efforts at clean growth
- collecting and measuring data: origination teams can now identify whether a transaction may have a positive impact on a specific SDG – and whether the transaction could be eligible for UKEF's Clean Growth Direct Lending product
- communications: IEFEs build awareness of UKEF support in their host countries and identify opportunities to contribute positively to the SDGs

In July 2021, we joined a six-month pilot trial to deepen collaboration between the Foreign, Commonwealth and Development Office, the Department for International Trade, British International Investment and UKEF in specific countries. Going forward, we will continue working in partnership with others to support delivery of the government's international development objectives.

We will also continue developing and implementing our Focussed Alignment approach, including by:

- engaging with host countries to better understand their SDG priorities
- building our understanding of, and ability to capture, the potential SDG impact of transactions throughout their lifecycle – for example, by looking at targets and indicators as appropriate
- enhancing how we communicate our impact on the SDGs

Notes

1 UKEF. Policy and practice on Environmental, Social and Human Rights due diligence and monitoring. November 2020 [gov.uk/government/publications/uk-export-finance-environmental-social-and-human-rights-policy/policy-and-practice-on-environmental-social-and-human-rights-due-diligence-and-monitoring]
2 International Finance Corporation. Performance standards. 2012 [ifc.org/performancestandards]
3 UKEF. Environmental, social and human rights risk and impact categorisations, 2021 to 2022. July 2022. [gov.uk/government/publications/eshr-risk-and-impact-categorisations-2021-to-2022]
4 UKEF. Modern slavery statement 2021 to 2021. November 2021 [gov.uk/government/publications/uk-export-finance-modern-slavery-statement-2020-to-2021/uk-export-finance-modern-slavery-statement-2020-to-2021]
5 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]
6 UKEF. Environmental, social and human rights risk and impact categorisations, 2021 to 2022. July 2022. [gov.uk/government/publications/eshr-risk-and-impact-categorisations-2021-to-2022]
7 United Nations. Do you know all 17 SDGs? April 2018 [sdgs.un.org/goals]

David Priestley who is Head of Export Finance Managers and Business Group Operations

Selected SDG impact

£1,095 million

TRANSPORT

Construction of a 503km electric-powered high-speed railway from Ankara to Izmir, Türkiye

A lower-carbon alternative to air and road routes

£125 million

TRANSPORT

Widening of the Douala East Entrance Road from Yaounde to vital ports, Cameroon

Supporting jobs

Boosting trade with neighbouring countries

£130 million

HEALTHCARE

Engineering, procurement and construction of 6 new hospitals, Côte d'Ivoire

Combined catchment of more than 1 million people

£261 million

CLEAN ENERGY

1.35GW Karapinar solar project, Türkiye

Capable of providing up to 20% of the country's energy production

£133 million

BUILT ENVIRONMENT

Construction of Kumasi Market, Ghana

Improving environmental and health and safety measures

Largest market in West Africa

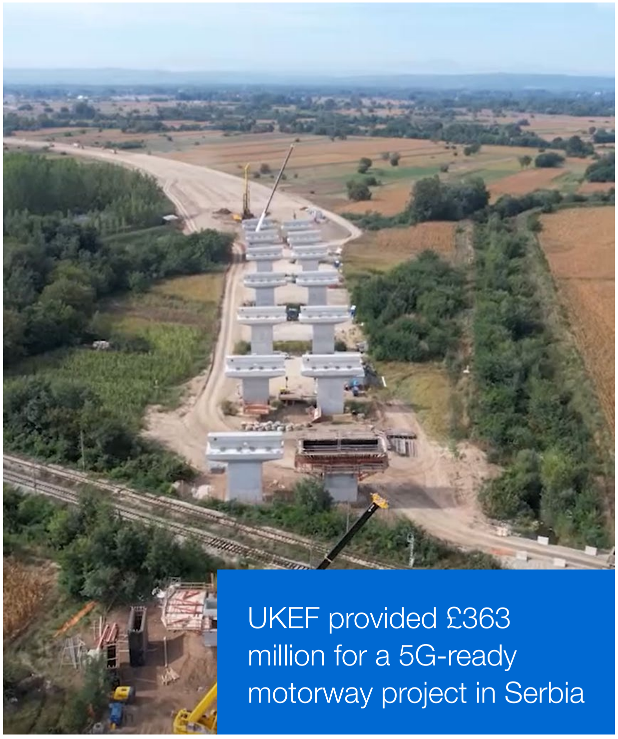
Notes: All figures are net of reinsurance and represent UKEF's maximum liability as of 31 March 2022. As such, some figures may differ from those stated in public announcements.

Task Force on Climate-related Financial Disclosures

In July 2019, UKEF committed to making financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), as soon as practicable following the close of the 2020-21 financial year. In June 2021, UKEF was the first UK government department to make a TCFD-aligned disclosure, and we are among a small number of export credit agencies (ECAs) reporting in line with the framework.

Head of Climate Change and Sustainability

This is our second disclosure, setting out how we embed consideration of climate change into our business. We have made significant progress this year: our report highlights both our key achievements so far and where we are taking action to further develop our approach. This year we have also integrated disclosure of our approach to climate change throughout the Annual Report and Accounts, reflecting our embedding of climate change consideration throughout the business.



UKEF provided £363 million for a 5G-ready motorway project in Serbia

Embedding consideration of climate change in our current business planning cycle, 2020-24

Key progress this reporting year	Next steps this business planning cycle
Governance	
Integrated climate change into UKEF's governance structure Created a new Climate Change & Sustainability function to drive organisational transformation	Continue work on UKEF's TCFD project and move into business-as-usual implementation of climate change objectives
Strategy	
Developed and published UKEF's Climate Change Strategy	Continue to implement the Climate Change Strategy and integrate climate change objectives into business planning
Risk management	
Built our approach to understanding and mitigating climate-related risk through our transaction and portfolio-level policies and processes Started to quantify risk through climate-driven scenario analysis, starting with sovereign exposures	Continue to enhance our policies, processes and data sources and further develop our approach to quantifying risk Further develop our approach to using scenario analysis to identify and manage risk and assess the resilience of our strategy
Metrics and targets	
Made initial estimates of our financed emissions and began developing a cutting-edge approach to attribution of emissions for guarantees Established a set of sectoral interim decarbonisation targets on our pathway to net zero	Improve the data quality of our emissions estimates Begin bringing all emissions in-scope of targets over time, starting with the aviation sector Engage with peers to help the financial industry coalesce around appropriate methodologies for attributing emissions Develop risk metrics and consider additional management information on climate change

Governance

UKEF's governance around climate-related risks and opportunities

Chief Executive Officer & Accounting Officer

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

Executive Committee (EC)

The Director of Strategy, Policy and Climate Change (SPoCC) is the EC member 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

UKEF Board

Supports the Accounting Officer in the management of UKEF, including through advice and challenge 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 International Trade and UKEF's CEO on the ethical policies that UKEF applies when doing business, including those related to climate change

UKEF embeds consideration of climate change across our business, and climate is integrated as a key issue within our governance structure. This reporting year, management has placed significant focus on climate change, as we developed our Climate Change Strategy and moved into implementing it. We have reviewed current governance arrangements to make sure they are fit for purpose for the management of climate change issues and established new structures where needed.

The **Executive Committee (EC)** supports UKEF's CEO and Accounting Officer in the management of UKEF. The EC received and discussed 17 submissions related to climate change during the reporting year. A major area of engagement with the EC has been steering work to develop our first ever portfolio-wide financed emissions estimate and to set 2030 decarbonisation targets. The EC has also overseen the development of policies and processes to enable the department to take climate change into account, as appropriate and proportionate, in our business activities.

The Director of Strategy, Policy and Climate Change (SPoCC) is the EC member responsible for the department's overall approach to climate change. SPoCC was created as a new directorate in the financial year 2020-21 to support a greater focus on UKEF's approach to climate change and to ensure representation of climate change in all matters considered by the EC.

This year, we established a new Climate Change and Sustainability team as part of the Environmental, Social, Climate Change and Sustainability Division (ESCCSD) within SPoCC. The ESCCSD brings together responsibility for the department's strategy, policy and transaction-based work on climate change and other thematic issues related to our impact. The team works with stakeholders across the department to integrate consideration of climate change across the business lifecycle.

Climate change is a material issue across EC members' functions and other EC 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 processes (see the Chief Risk Officer's report on page 45).

Other management committees also support the management of climate change within their areas of responsibility. The **Change Board** has authorised a TCFD Project, through which we are delivering many of the enhancements to how we approach climate change. The TCFD Project's Senior Responsible Owner (SRO) is the Head of Climate Change and Sustainability, who reports to the Change Board on the project's progress biannually. Lawrence Weiss is the Board's nominated non-executive director on the **TCFD Project Board**.

First Subsea Ltd secured major offshore wind contracts with financial backing from UKEF

The **Enterprise Risk and Credit Committee** (ERiCC), which is chaired by UKEF's Chief Risk Officer, also considers the financial impact of environmental, social and governance (ESG) risks, including climate-related risks, in its advice to the CEO on the effective management of UKEF's enterprise and credit risk.

In this reporting year, the **UKEF Board** and its committees considered climate change-related issues 6 times. The Board's feedback and challenge were important in developing UKEF's Climate Change Strategy and its ongoing oversight of our TCFD Project is a key accountability mechanism.

The **Audit Committee** supports the UKEF Board in its supervision of our TCFD Project, specifically on elements relating to reporting. The **Risk Committee** advises on the implementation of TCFD from a risk management perspective. There is currently no mandatory training programme in place for the Board, but Board members are taking up training and upskilling opportunities to further build their knowledge and support effective oversight on climate change.

The **Export Guarantees Advisory Council** (EGAC) advises the Secretary of State for International Trade and UKEF's CEO on the department's approach to climate change, alongside other environmental, social and ethical issues. The EGAC contributed to the development of our Climate Change Strategy and has advised on our implementation of the TCFD Project. Alistair Clark, Chair of the EGAC, is also the UKEF Board's nominated representative for climate change considerations (see page 114).

Risk governance

Climate change is one of UKEF's top strategic risks. This recognises that our response to climate change can result in significant financial, legal and reputational consequences that can affect our social license to operate and the fulfilment of our financial obligations. We are taking actions to identify, understand, mitigate and manage climate change risks in line with our risk appetite and through the strategic risk management framework.

Climate change is also one of our primary enterprise risk categories, articulated within the enterprise risk framework as set out in the Chief Risk Officer's report. 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 monitoring of climate change as a primary risk, are presented to ERiCC quarterly; these reports include an enterprise risk dashboard, a risk governance report, a summary of assurance testing performed and an operational risk report. ERiCC is also the committee responsible for the integration of climate change and wider ESG issues into credit risk assessments.

Next steps

- Consider providing further training on climate change at management and Board level
- Continue integrating climate change into our governance structure to provide ongoing assurance and oversight
- Continue delivery of UKEF's TCFD Project and move into business-as-usual delivery

Strategy

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

UKEF has recently modified its mission statement to include a commitment to undertake our business sustainably (see page 16). Our mission shapes everything we do, including our approach to and understanding of climate-related risks and opportunities.

As the UK's ECA, UKEF is well-positioned to support the government's climate change objectives at home and overseas. UKEF's support realises economic opportunities for the UK and can support our international partners in their own low-carbon transitions. UKEF's Climate Change Strategy,[1] published in September 2021, lays out our ambitious plans to support UK exporters and suppliers through the global transition to net zero and embed consideration of climate change into our business.

Opportunities

Our Climate Change Strategy provides a framework for identifying and assessing the range of climate-related opportunities that UKEF faces over the short term (up to 2 years), medium term (2 to 10 years) and long term (beyond 10 years). We identify climate-related opportunities under 3 of the strategy's 5 strategic pillars.

UKEF Climate Change Strategic pillar	Increasing our support for clean growth and climate adaptation	Reducing our portfolio greenhouse gas emissions	Providing international leadership on climate change among ECAs and relevant financial institutions
Opportunity	Support UK supply chain capability and deliver prosperity by financing sectors which will be key to the global transition	Support the government's climate change objectives by reducing the contribution of UKEF-financed activities to climate change – domestically and internationally	Level the playing field among ECAs and relevant financial institutions at a high standard
Time horizon	Short term +	Medium term +	Medium term +
UKEF response	Develop our product set to boost clean growth and transition-related exports Orient our IEFEs' origination activity towards clean growth, by continuing to implement a target for 50% of filtered[2] origination pipeline in clean growth and climate adaptation Collaborate across government to realise the export potential from current and emerging net zero technologies	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 Build our understanding of our portfolio emissions and set targets to reduce these	Engage with our peers to embed good practice transactional standards on climate change Build alliances to shape the architecture of incentives for ambitious climate action, including leading efforts to reform OECD Sector Understandings on Climate Change
Progress so far	Developed our product suite, including enhancing the Export Development Guarantee (EDG) and launching the Transition EDG	Developed UKEF's first ever portfolio-wide financed emissions estimate Set ambitious 2030 decarbonisation targets on our way to net zero by 2050	Supported delivery of the COP26 Statement on International Public Support for the Clean Energy Transition

Alongside these opportunities, we are also exposed to climate risk. We are committed to understanding and mitigating our climate-related financial risks (the third pillar of our Climate Change Strategy). We also recognise the importance of transparency and robust disclosure against these opportunities and risks (the fourth pillar). Our TCFD report is the foundation of our transparency on our approach.

Risks

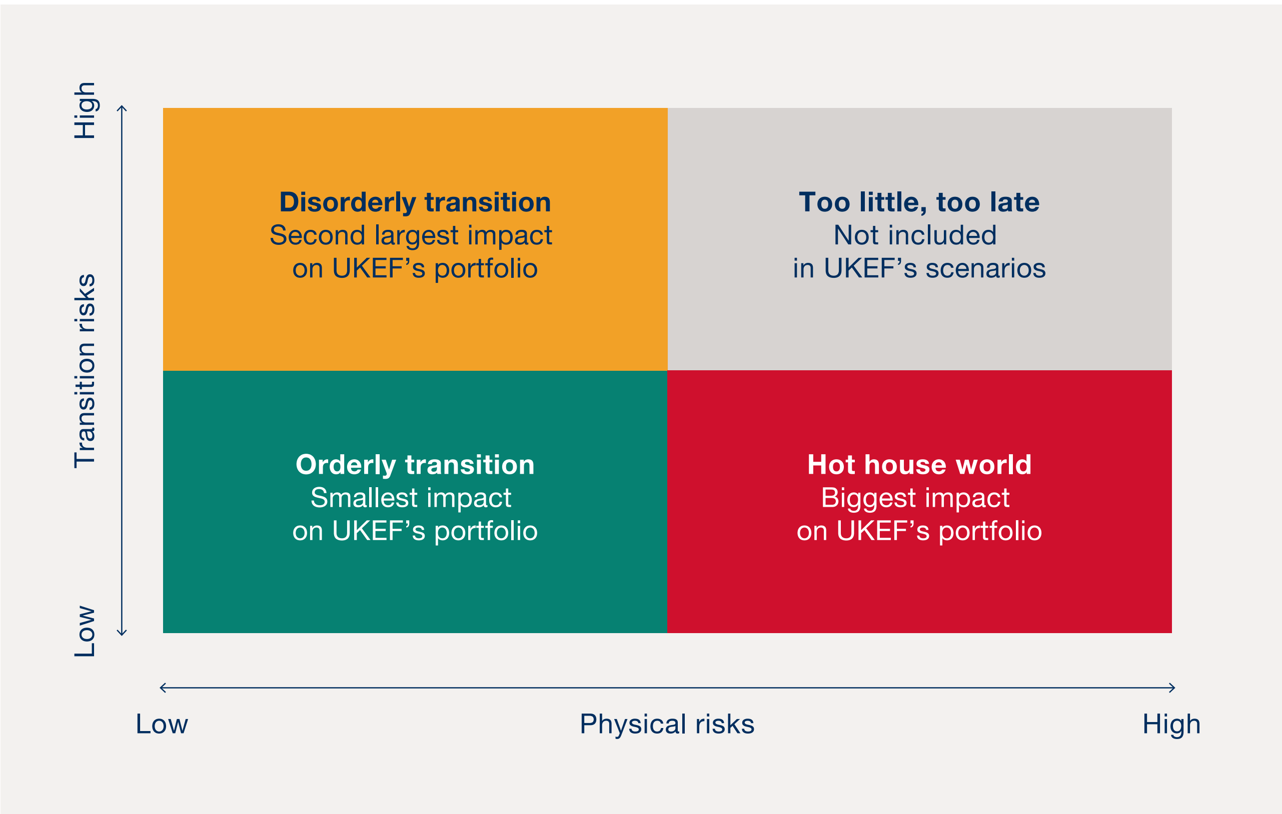
UKEF is exposed to both financial and non-financial risks at a strategic level. We recognise that non-financial risks (such as operational and reputational risks) can also have financial impacts, affecting our ability and license to operate effectively.

Our exposure to strategic-level climate-related financial risk is determined by the composition of our portfolio and exogenous factors, including the speed and orderliness with which the net zero transition is realised globally. Relevant factors include the industries and sectors we support, the locations of the end buyers and projects, the product types used and the time horizons of exposure.

At the strategic level, we understand our exposure to climate-related financial risk primarily by using our in-house portfolio modelling tool to analyse different climate-related scenarios and their effects on our portfolio. This helps us understand the resilience of our strategy under potential future states.

We currently run three climate-driven stress tests on our portfolio as part of a wider suite. This year we enhanced our climate-related scenarios consistent with those of the Network for Greening the Financial System (NGFS), including a hot house world scenario, a disorderly transition scenario and (for the first time) an orderly transition scenario.

The broad result of our climate-related portfolio stress testing is stress on our capital ratios under each scenario, with the hot house world scenario by some way the highest-impact. The results of our stress testing are reported to ERiCC and to HM Treasury as part of our risk management process.



Scenarios based on the NGFS Climate Scenarios[3]

- **Hot house world:** a scenario whereby global efforts to halt climate change are insufficient, which limits transition risk but causes severe physical risk over time
- **Disorderly transition:** a future whereby global efforts to halt climate change are delayed and inconsistent, which initially minimises transition risk only for it to accelerate once high physical risk crystallises
- **Orderly transition:** assumes global measures are introduced in a timely fashion, thereby limiting both physical and transition risk

We are actively working on enhancing these stress tests to align with evolving practices in climate risk management. Our primary focus is on developing methods to simulate climate impacts at a range of future dates rather than modelling an immediate shock. This will allow us to stress our portfolios more accurately in line with different future transition pathways. Our approach to enhancing our work in this area will be to concentrate on our sovereign exposures first. Our approach will be aligned with the NGFS and the Bank of England Climate Biennial Exploratory Scenario scenarios where appropriate; we will develop a UKEF-appropriate approach, based on the unique characteristics of our portfolio.

For more detail on our climate-related stress testing, see the Chief Risk Officer's report on page 58.

Next steps

- Continue to embed and implement our Climate Change Strategy
- Integrate climate change into our strategic planning for the next business plan
- Continue working to apply climate-related scenarios to stress-testing and analysis of financial exposures and incorporate these into portfolio risk management processes and reporting; continue to enhance our approach to doing this over time as data and methodologies allow

UKEF provided over £110 million for the construction of a new motorway in Cameroon

Risk management

How we identify, assess, mitigate and manage climate-related risks

Over recent years, we have broadened and deepened our approach to risk management at a transaction level to understand and respond to the financial and non-financial risk that climate change poses to the global economy, our transactions, our portfolio and ultimately the UK taxpayer.

Sources of climate-related credit risk

- **Physical:** impacts on buyers and projects directly resulting from acute shocks and chronic stressors 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

Both physical and transition-related risks are important risk drivers for UKEF, both at transaction level and in aggregate at portfolio level. Approaches to quantifying these risk drivers are still in the relatively early stages of development. 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 poses direct financial risks to UKEF and its customers through its effect on insurance underwriting, credit, financial, market and operational risks.

As an ECA, UKEF's portfolio has some differences to many of our banking peers'. 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:

- appropriately and proportionately taking account of climate-related risk across 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
- applying relevant and appropriate climate-related scenarios to 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 progress on these commitments this reporting year includes having:

- further developed our policies and processes to reflect climate-related financial considerations in all risk management activities
- enhanced credit assessment processes for identifying, understanding and managing risks
- carried out portfolio-level stress-testing driven by climate-related scenarios
- recruited subject matter experts to bolster our capabilities in this area
- defined climate-related training requirements and initiated related training activities

Our approach to identifying and assessing transaction-level climate-related financial risk is based around the relevant counterparty.

For corporates and financial institutions, this reporting year we developed a new non-sovereign ESG and climate-related assessment framework and integrated climate-related considerations into credit risk analysis for all medium and long-term business. Our approach considers the risk categories recommended by TCFD, risk-mitigating capacities of climate change resilience and adaptation, and the potential financial implications.

For sovereign counterparties, all recent sovereign risk reviews include an explicit assessment of the potential impact of ESG and climate-related risk. In line with market practice, our approach continues to develop as we draw on a wider range of information and data sources and ESG-related analytics as they become available.

For more detail on our integration of climate-related financial risks in credit risk assessments, see the Chief Risk Officer's report on page 57.

Non-financial risk

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.

Over the reporting period, we have documented climate change considerations in screening summaries, ESHR reports and dedicated climate change papers or reports, as appropriate and proportionate to the climate change risk and impact, and to our support. For more detail on our consideration of climate change risks and impacts in transactions, see the Head of Environmental and Social Risk Management's report on page 89.

We recognise that other environmental and social issues can have strong interdependencies

Identifying, assessing and managing climate-related risks and impacts

1. All transactions 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 further 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. Assessment internally assured and signed off, with additional external assurance or input where appropriate
6. Assessment submitted to ERiCC where appropriate, and considered by the decision maker alongside all other relevant factors

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, but we also recognise a significant link with climate change. Similarly, biodiversity and other environmental issues are managed primarily through our transaction-level ESHR framework at present.

We noted with interest the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) framework this year and look forward to its development. We will continue to engage with peers and stakeholders to integrate emerging good practice into our processes as appropriate.

Next steps

- Further develop our E&S and credit assessment processes to support incorporating climate change risks and impacts in decisions about providing support
- Continue to enhance our policies, processes and data sources as they evolve in line with industry best practice
- Continue to engage with prospective customers to understand their resilience to climate-related risks and strategies for mitigating these risks
- Consider our approach to related social and environmental issues

Metrics and targets

What we use to identify, 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 by 2050. This year we have made significant progress in that objective – producing our first ever estimate of financed emissions across the full portfolio and setting industry-leading targets to reduce financed emissions in the oil and gas and power sectors.

Key metrics and targets

Financed emissions on the basis of amount at risk (AAR)

15.7 megatonnes of carbon dioxide equivalent ($MtCO_2e$)

Financed emissions on the basis of expected loss

3.8 $MtCO_2e$

Financed emissions reduction target: oil and gas sector exposure

-75% tCO_2e by 2030

Financed emissions reduction target: power sector exposure

-58% tCO_2e/£AAR by 2030

Financed emissions covered by 2030 targets

40%

Weighted PCAF data quality score for financed emissions

4

Clean growth target for our filtered origination pipeline

50%

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 both upstream and downstream

UKEF is committed to achieving 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 (see page 236).

As a financial institution, the emissions associated with the transactions we support through our lending, guarantees and insurance products (collectively referred to as our portfolio or financed emissions) are by far the more material. These portfolio emissions (which form the largest component of UKEF's Scope 3 emissions) represent our customers' Scope 1 and 2 emissions, and their Scope 3 emissions where relevant and where data allows, in line with the applicable methodology.

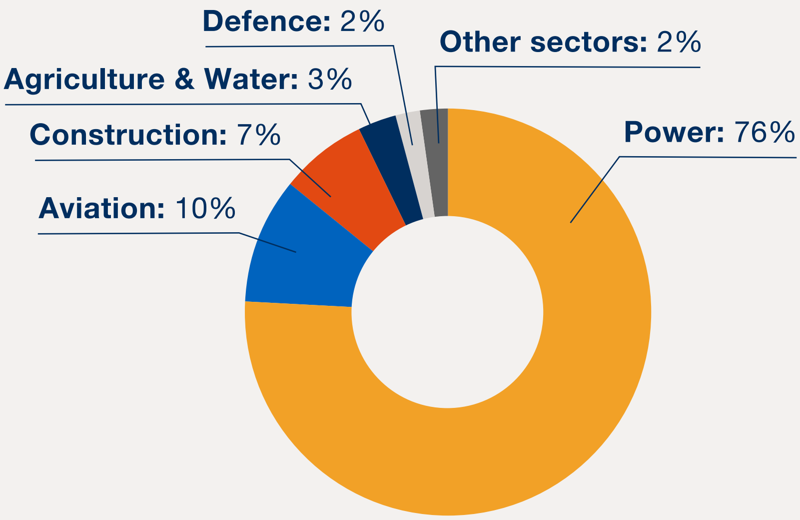
Portfolio emissions

UKEF requires all high-emitting[4] projects (those with estimated operational CO_2e emissions greater than 25,000 tonnes a year) which fall under the requirements of the OECD Common Approaches to estimate their Scope 1 and Scope 2 operational emissions before we provide support. For transactions in our portfolio outside of this requirement, there has not historically been a requirement to estimate associated emissions. This means that we have a significant historical data gap in understanding the emissions associated with our portfolio.

To address this gap, we have worked with external advisors this year to produce our first portfolio-wide emissions estimate. We have used an approach based on the Partnership for Carbon Accounting Financials (PCAF) Global Greenhouse Gas Accounting and Reporting Standard for the Financial Industry.[5]

The approach we followed has involved using environmentally-extended input–output modelling to derive sectoral emissions-factor based estimates for all transactions currently in our portfolio (the 'top-down' approach), supplemented with more granular transaction-specific estimates where these are available (the 'bottom-up' approach).

Sectoral distribution of UKEF's financed emissions as at January 2022 – attribution by expected loss (3.8 $MtCO_2e$)



Attribution of emissions from guarantees and insurance

The PCAF Standard provides methodologies for accounting for financed emissions by financial product 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 transactional estimate therefore represents the proportion of the entity or project to which UKEF is a financing party, at a point in time.

However, two key financial classes for UKEF – insurance and guarantees – are currently undeveloped in the PCAF Standard.

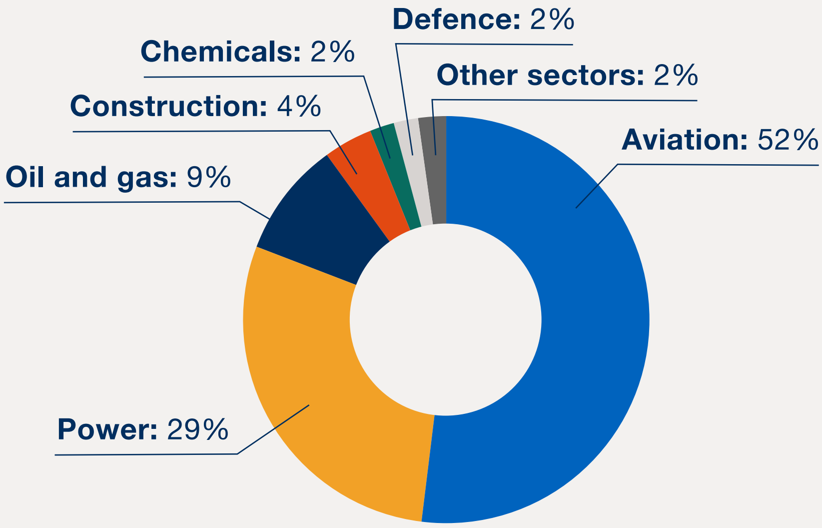
As an ECA with a portfolio materially weighted towards guarantees, we do not consider it appropriate to only attribute emissions from our guarantees when the guarantee is called, as set out in the PCAF Standard. Instead, we have developed an approach to attributing emissions from guarantees based on their expected loss.

We believe that this approach to understanding our portfolio emissions is more consistent with the economic role that a guarantee plays in a transaction and 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 strongly 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. Fundamentally, 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.

This is an area where there is no common approach as yet, and we will look to continue engaging with peers to help the industry coalesce around shared methodologies for attributing emissions from guarantees and insurance. We have noted with interest the establishment of the PCAF Insured Emissions Working Group. We will keep our approach to estimating financed emissions under review as we work to build a common industry standard.

Using a snapshot of our portfolio as at January 2022, this approach – of weighting our direct

Sectoral distribution of UKEF's financed emissions as at January 2022 – attribution by amount at risk (15.7 $MtCO_2e$)



lending using the full amount at risk and our guarantees and insurance at a percentage consistent with their expected loss – estimates our total portfolio emissions (scopes 1, 2 and where possible 3) as approximately 3.8 megatonnes of carbon dioxide equivalent ($MtCO_2e$).

Next year, while keeping wider market development under review, we will continue developing the expected loss-based approach to attribution. For example, we will explore whether a variation based on pure probability of default may provide a better view of financed emissions for secured lending in the aviation sector.

We have also estimated our portfolio emissions on a full amount at risk basis. This alternative approach does not make any distinction between loans, insurance products and guarantees. This approach would give rise to a total portfolio emissions (scopes 1, 2 and where possible 3) disclosure of approximately 15.7 $MtCO_2e$. This alternative approach helps us to understand the carbon intensity of the individual transactions that UKEF supports, and provides a basis for action for decarbonising our financing activities over time. We have therefore based the modelling underlying our decarbonisation pathways on this approach.

Note that the relative weighting of financed emissions between sectors is different under the two attribution approaches. Because expected loss is relative to risk, these differences stem from the differences in the distribution of risk between transactions.

Because ECAs are generally counter-cyclical, the size of UKEF's portfolio will fluctuate, and so will the attributable emissions. The decarbonisation pathway for UKEF's portfolio is therefore unlikely to be linear, although directionally it should trend towards our net zero target over time. Whether transactions are in their construction or operational phase will also significantly affect the emissions expected at any given point in time and we expect that committed projects coming online will increase our baseline estimate in the short to medium term. However, any inaccuracies in this distinction can lead to material over- or under-estimation.

Estimating financed emissions is a rapidly evolving field. We are committed to working with peers to help our industry coalesce around institution- and financial class-appropriate methodologies.

Strategy, Policy and Climate Change Director Davinder Mann speaking on a panel at COP26

Data quality

In producing these estimates, we have faced data quality issues common across the market and amongst peers. Our financed emissions estimates have a weighted PCAF data quality score of approximately 4 (out of 5), which means they are highly reliant on assumptions;[6] any errors in our internal data also feed through into estimates. They comprise estimates of 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, 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.)

These data quality issues mean that while we have made good progress this year in understanding the emissions associated with our portfolio, there is still a way to go. We should be able to increase data quality in future, supported by our enhanced policies and processes on climate change and market-wide progress on emissions data. We will also endeavour to continue improving the data quality of our historical transactions. This means that our baseline estimate for January 2022 will likely change in future years, as the information available and our and others' understanding of it improves.

Decarbonisation pathway

UKEF has committed to setting interim decarbonisation targets out to 2030, to guide us on our journey to net zero by 2050.

This reporting year, we worked with our external advisors to establish an initial set of sectoral decarbonisation targets for 2030. This involved projecting UKEF's portfolio emissions into the future and using the International Energy Agency's (IEA) Net Zero Emissions Scenario to develop a pathway that is consistent with a net zero global economy by 2050.

UKEF's mission is fundamentally to support UK exporters and suppliers. All our activities are determined by our mandate and our primary legislation and, as an ECA, we are inherently demand-led. The business that we do is dependent on the economic context in which we operate, including the requirements of the developing markets where our support is primarily provided and their respective priorities.

Consistent with the principle of targeting efforts where they are most material, UKEF is setting ambitious targets to reduce our financed emissions on a sectoral basis, from our January 2022 starting point, to:

- reduce absolute emissions (tCO_2e) of our oil and gas sector exposure 75% by 2030
- reduce economic emissions intensity (tCO_2e/£AAR) of our power sector exposure 58% by 2030

These sector targets cover UKEF's most carbon-intensive exposure, representing approximately 40% of our estimated financed emissions as at January 2022. As part of our drive to achieve these targets, we are implementing the government's policy on aligning UK international support for the clean energy transition.[7] Our expectation of remaining exposure in 2030 in sectors in scope of this policy is based on those transactions already in our portfolio, and on the limited exemptions to the policy through which the government will continue to support relevant fossil fuel energy sector-related activities in specific circumstances.

Within our operating constraints, we are taking steps to limit our net portfolio emissions, including by:

- engaging with our customers to support decarbonisation of their activities
- increasing our financing of low-carbon sectors through the orientation of our origination, marketing activities and product availability
- supporting development of the low-carbon UK supply chain through our products and partnerships with the government and other stakeholders

We will look to include all emissions in the scope of targets over time, based on materiality and impact, as data and methodologies allow.

The UK's world-leading aerospace sector is a major strength of the UK economy and exports are integral to the sector. As UKEF's portfolio reflects the UK's exporters, aviation is a particularly important sector for us and will likely continue to be so in the future – it currently represents approximately 39% of our total exposure (AAR). Aviation is also widely acknowledged by the IEA and others as one of the more difficult sectors to decarbonise globally. Current constraints on the availability and scalability of technologies and sustainable aviation fuel mean decarbonisation is likely to be slower than in some other sectors and not begin materially until the 2030s.

We are committed to working with aerospace customers to help decarbonise the sector and achieve customers' own emissions reduction commitments. Within the next 12 months, and following further analysis of our portfolio and decarbonisation options, we will set an emissions intensity-based decarbonisation target for our aviation exposures, recognising the shorter-term challenges of decarbonising the industry and the likelihood of progress towards decarbonisation being weighted towards the later end of the 2050 target period.

We fully expect that our progress towards all of our targets will be non-linear in the short to medium term, 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.

As set out in our Climate Change Strategy, our guiding principle will be to continue to support UK exporters and suppliers through the global transition to net zero and to embed consideration of climate change into our business. This means that in addition to annual reporting, we will take these targets into account in individual underwriting decisions alongside the full range of other policy, financial and other factors that we consider.

Other metrics and targets

Our focus this year has been on developing metrics and targets to guide the decarbonisation of UKEF's portfolio at a strategic level. UKEF also uses a selection of other metrics to track and quantify our delivery of climate-related objectives – for example, our target for 50% of our filtered origination pipeline to be in clean growth and climate adaptation.

We recognise that portfolio emissions are just one way to understand the department's impact on climate change and its exposure to climate-related risks. Our consideration of transactions will take into account many other relevant factors.

Additionally, as the UK's ECA, we have an important role to play in supporting the transition to net zero. Our success in achieving that is not easily captured by our financed emissions. We note with interest the recent launch of the Transition Plan Taskforce, co-chaired by the Economic Secretary to the Treasury. We will work with the wider government to support the creation of good practice standards for assessing climate transition.

We will also look at more ways of measuring our performance in delivering our Climate Change Strategy. For example, as data and available methodologies allow, we will continue to work with industry peers to better understand and, where relevant, quantify our exposure to climate-related risk.

Across these metrics, we will review on an ongoing basis whether setting additional targets will support the delivery of our business objectives.

Next steps

- Continue to build and improve our portfolio emissions estimates over time
- Work with peers to further develop industry standards for financed emissions
- Take our interim decarbonisation targets into account in our decision-making and report on progress
- Set interim decarbonisation targets for the aviation sector exposure within the next 12 months, and look to bring all emissions into the scope of decarbonisation targets over time
- Continue work to measure and quantify our delivery of our Climate Change Strategy where appropriate, including with regard to climate-related risk
- Consider implementing additional metrics and targets where relevant

Notes

1 UKEF. Climate Change Strategy 2021 to 2024. September 2021 [gov.uk/government/publications/uk-export-finance-climate-change-strategy-2021-to-2024]
2 Those transactions that have progressed beyond conception to realisation.
3 NGFS Climate Scenario definitions available at [ngfs.net/ngfs-scenarios-portal/].
4 Defined under the OECD Common Approaches as those projects with estimated operational CO_2e emissions greater than 25,000 tonnes per year.
5 Partnership for Carbon Accounting Financials. The Global GHG Accounting and Reporting Standard for the Financial Industry, first edition. November 2020 [carbonaccountingfinancials.com/standard]
6 PCAF's data quality score guide is available within the Global GHG Accounting and Reporting Standard for the Financial Industry (see note 5).
7 BEIS. How the government will implement its policy on support for the fossil fuel energy sector overseas. March 2021 [gov.uk/government/publications/how-the-government-will-implement-its-policy-on-support-for-the-fossil-fuel-energy-sector-overseas]

Export Guarantees Advisory Council annual report

This year, the Export Guarantees Advisory Council (EGAC) has considered and contributed to UKEF's thinking on a range of issues, as well as strengthening its relationship with the UKEF Board and UKEF officials.

Alistair Clark
Chair, Export Guarantees Advisory Council

As Chair of this Council, I joined and regularly briefed Board meetings as an ex-officio member. Board members have also attended and participated in EGAC meetings, a trend that has quickly added value and that we will continue in future.

The Council met formally four times during the financial year 2021-22 and contributed informally to strategic policy discussions throughout the year. The costs of operating the Council during 2021-22 amounted to around £3,000, largely to reimburse the cost of travel and meeting expenses. The fees paid to Council members can be found on page 151.

In September 2021 we met in person for the first time in 18 months, along with the Chair of the UKEF Board, Noël Harwerth, and met the new Minister for Exports, Mike Freer MP. The event enabled Minister Freer to be fully sighted on EGAC's role from early in his tenure. We will continue to develop this important relationship over the coming year.

Despite the continued challenges caused by the pandemic, EGAC was encouraged by UKEF officials' continued consideration of environmental, social and transparency issues. The Council finishes the reporting period confident that when doing business, UKEF applies fair, robust and relevant policies in relation to environmental impacts and human rights, bribery and corruption, climate change, sustainable lending and transparency.

▶ For details of EGAC's responsibilities, priorities and membership, see the government's website.[1]

Council members

Chair:

- **Dr Alistair Clark**
  Independent Environmental, Social and Governance Advisor

Members:

- **Dr Ben Caldecott**
  Associate Professor and Senior Research Fellow
  University of Oxford Smith School of Enterprise and the Environment
- **Ms Vanessa Havard-Williams**
  Linklaters Partner and specialist in sustainability law and policy, risk management and sustainable finance
- **Mr John Morrison**
  Executive Director
  Institute for Human Rights and Business
- **Mr Stephen Prior**
  Partner
  Prinia Consulting LLP
- **Dr Roseline Wanjiru**
  Associate Professor (Reader) of International Business and Economic Development at Newcastle Business School, Northumbria University

We look forward to welcoming two new members to the Council during the year 2022-23.

International Trade Committee

On 28 April 2021, I gave evidence at a hearing of the International Trade Committee (ITC) alongside representatives from Spotlight on Corruption and the Head of the Institute for Trade and Innovation at Offenburg University.

I explained how EGAC ensures that UKEF is directing enough resources to address its environmental, social and human rights (ESHR) commitments and responsibilities.

The Committee enquired whether UKEF had sufficiently robust systems to identify and address financial crime risk. I reported that I believe it does, but acknowledged that UKEF could engage better with stakeholders to increase transparency in this area.

The session formed part of a broader inquiry into UKEF's work, as detailed in the Governance Statement on page 129.

Climate change

Early in the year, the Council contributed to the development of UKEF's Climate Change Strategy. Members reviewed and critiqued the strategy and its commitments at the quarterly meetings and bilaterally in between.

Since the publication of the strategy in September 2021, EGAC members have monitored its implementation and made recommendations, including:

- considering transition planning
- integrating plans and metrics into operations and priorities

EGAC members welcomed UKEF's active participation in COP26 – particularly its work to achieve progress on climate change in the wider ECA community. Members encouraged officials at the conference to consider climate change as a social and human rights risk as well as an environmental risk.

In December 2021, Dr Ben Caldecott joined approximately 150 UKEF staff for an online Climate Change Forum in which he reflected on COP26 and discussed the Climate Change Strategy and its implementation. Following last year's inaugural Task Force on Climate-related Financial Disclosures (TCFD) report, the Council engaged with UKEF officials on their work towards UKEF's second TCFD report (see page 97). Council members recognise the challenges of TCFD implementation, especially as UKEF operates in environments where data can be a challenge, and advised on good practice for preparing the report.

The Council ended the reporting period content that climate factors are routinely considered in decision-making across the department. We are confident in UKEF's commitment to playing an appropriate part in global action to minimise and mitigate the most serious risks associated with climate change.

Environmental, social and human rights

The Council noted a significant increase in the number of cases that had been reviewed for ESHR risks and impacts during the year. This is because UKEF has expanded its screening to include smaller, short-term and Export Development Guarantee deals, as well as cases in aerospace and defence, which are not covered by the scope of the OECD Common Approaches for Environmental and Social Due Diligence or the Equator Principles.

In September 2021, the Council welcomed a paper on human rights risks in the solar power industry. Members discussed the potential risks for UKEF and exporters in supporting transactions in the industry, in light of modern slavery risks uncovered in key supply chains. The Council noted that the cotton industry was also vulnerable to similar human rights risks and gave advice on actions to mitigate these risks.

Council members reviewed UKEF's first Modern Slavery statement and were glad to see progress on the issue. We gave guidance on horizon scanning for modern slavery related risks across different sectors and options for due diligence.

The Council reflected on UKEF's significant contribution in international fora, including:

- the OECD Environmental & Social Practitioners' Group, where UKEF set up a working group on human rights in the solar sector
- the Equator Principles Steering Committee, where member institutions voted for UKEF to re-join the committee in a management support role, having stepped down for 12 months as required by the Equator Principles Association's governance rules

Transparency

In May 2021, the Council was briefed on UKEF's approach to financial crime compliance. The Council valued the deep dive into the processes for screening and monitoring for risk and learning about transactional examples. In March 2022, we revisited compliance policies and training and provided guidance for further strengthening the language and internal understanding in this area.

Civil society engagement

During 2021-22, the Council contributed to UKEF's developing strategy for engagement with civil society organisations. Council members welcomed the proactive approach to this important stakeholder group and will continue to support and monitor this engagement in the next year and beyond.

Notes

1 EGAC. About us [gov.uk/government/organisations/export-guarantees-advisory-council/about]

Accountability

UKEF ministers and Board members

UKEF ministers

Members of the UKEF Board and its sub-committees

Rt Hon Anne-Marie Trevelyan MP
Secretary of State for International Trade and President of the Board of Trade

Noël Harwerth
Chair of the UKEF Board and Remuneration Committee

Louis Taylor
Chief Executive Officer

Cameron Fox
Chief Finance and Operating Officer

Mike Freer MP
Minister for Exports and Minister for Equalities

Samir Parkash
Chief Risk Officer

Jacqueline Keogh (from 1 April 2022)
Member of UKEF Board and member of Audit and Remuneration Committees

Oliver Peterken (to 31 March 2022)
Member of UKEF Board, Chair of Risk Committee and member of Audit and Remuneration Committees

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

Tim Frost (from 1st June 2022)
Member of UKEF Board, Chair of Risk Committee and member of Audit and Remuneration Committees

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

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

Alistair Clark
Ex-officio member of UKEF Board and Chair of Export Guarantees Advisory Council

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

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

Register of interests

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

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

UKEF helped finance phase 2 of the construction of West Africa's largest market in Kumasi, Ghana

Governance statement

As Accounting Officer for UK Export Finance (UKEF), I am responsible to ministers and Parliament for the management of its operations, including the stewardship of its financial resources. This governance statement sets out how I have discharged this responsibility for the period 1 April 2021 to 31 March 2022.

Louis Taylor
Chief Executive Officer

The areas covered in this statement are:

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

Background

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

In providing support, we seek to:

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

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

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

Corporate governance framework

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

UKEF is strategically aligned with the Department for International Trade (DIT), but is a separate ministerial government department in its own right. Both departments report to the Secretary of State for International Trade.

I am the Chief Executive and Principal Accounting Officer of UKEF. The Secretary of State writes to me every year to outline the government's priorities for UKEF for the coming year.[1]

Statutory powers

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

Department for International Trade

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

Ministers

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

- climate change policy
- business planning
- developing business opportunities
- the International Trade Committee inquiry
- the UKEF portfolio
- the level of claims
- anti-bribery and corruption due diligence
- exposures to Russia and Ukraine
- new and prospective support for UK exporters

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 HM Treasury with reports on key business metrics, including our financial performance. A representative from HM 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 detriment. 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 on the exercise of ministerial responsibility for UKEF. A UKGI representative is an ex-officio member of the UKEF Board, representing the Secretary of State.

Particular areas of focus are:

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

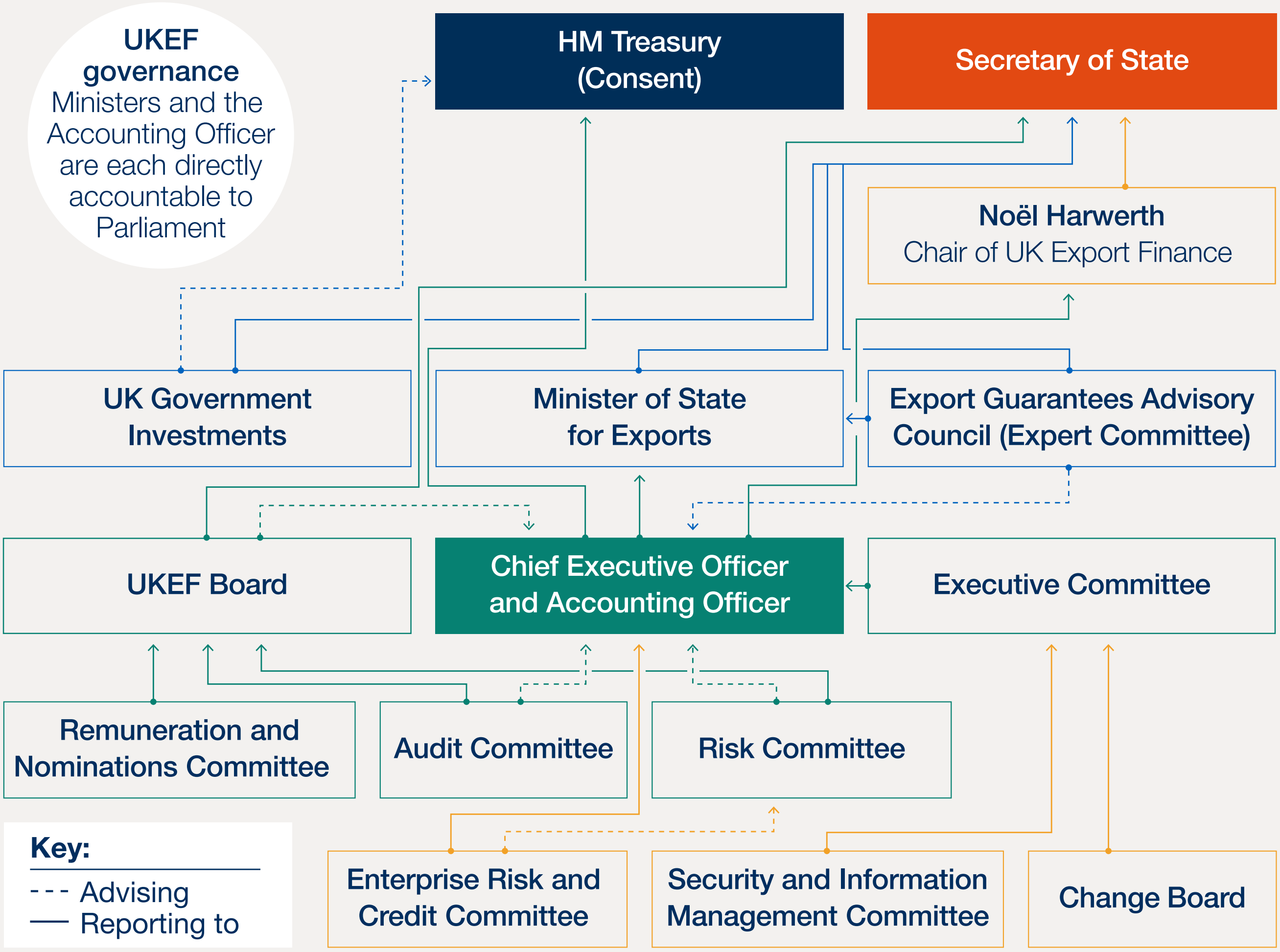
UKGI may also support HM Treasury at HM Treasury's request to help ensure appropriate governance and oversight of the government's exposure to risk taken on by UKEF. This may include, but is not limited to, assisting HM Treasury with monitoring UKEF's performance against ministerially agreed financial objectives and examining consent requests for UKEF to offer large, contentious and/or novel products or services.

Export Guarantees Advisory Council (EGAC)

EGAC is a statutory body under the EIGA. It was designated as an Expert Committee in 2016. Its statutory role is to advise the Secretary of State for International Trade on the work of UKEF, which is executed through advising UKEF's CEO. EGAC focusses its advice on the ethical policies that UKEF applies when doing business, including those related to:

- climate change
- environmental, social and human rights matters

UKEF's governance structure



- anti-bribery and corruption
- sustainable lending
- modern slavery
- disclosure, in line with information legislation

The Council independently publishes a report of its business in the year, which is available on page 114 and also from the Council's website.[2]

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

UKEF Board

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

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

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

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

UKEF is committed to ensuring that the Board and its committees operate effectively and are continually improving. During the autumn of 2021, an external Board effectiveness review took place.

Overall, the review concluded that:

- the Board and its committees took their responsibilities seriously and operated in a professional manner, compliant with the principles of the corporate governance code for central government departments
- the Board provided effective governance of the organisation
- the Board was actively engaged in developing its governance system further

The review noted that the Board was efficient and professional and, though it is an advisory Board, operated in a "more than advisory" capacity facilitated by the strong working relationship built between the Chief Executive Officer and the non-executive members of the Board. It suggested that a key challenge facing the Board was maintaining the "more than advisory" way of working as members of the Board change over the next few years.

A report detailing the findings and suggested improvements was accepted by the Board and an action plan established for implementing key recommendations during 2022-23 and beyond.

The minutes of Board meetings are published on UKEF's website.[4]

Quality of information used by the Board

UKEF Board meetings covered a variety of topics to support the running of the department and meet our objectives, including the emerging situation in Ukraine, climate change strategy, strategic risks, cross-governmental partnerships and the impact of COVID-19 on the UKEF portfolio. 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 papers before 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 pages 139 and 141. Their respective chairs formally report on their activities to the Board.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee considers and decides on proposals from the Chief Executive on individual pay decisions (other than in relation to his own pay arrangements) in accordance with the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service members. The committee comprises at least 3 non-executive directors and is chaired by the Chair of the UKEF Board (see page 129).

The committee also ensures that its recommendations consider any requirements or guidance from the Cabinet Office, including that the average increase to the Senior Civil Service pay bill is within any centrally determined budget.

The Remuneration Committee advises the Board on the effectiveness of systems for identifying and developing leadership and high potential talent, scrutinising the available 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.

- **Gordon Welsh**, Business Group Director: responsible for our support for exporters and product development. Following Gordon's retirement at the end of March, Tim Reid became Business Group Director in April 2022
- **Cameron Fox**, Chief Finance and Operating Officer (CFOO): responsible for finance and accounting, business insight and analytics, middle office operations, change management and information technology
- **Davinder Mann**, Director of Strategy, Policy and Climate Change: responsible for the department's overall approach to climate change, cross-Whitehall and civil society

stakeholder management, international relations, strategic and operational planning, ministerial, Parliamentary and cross-Whitehall engagement, governance and information management

- **Esi Eshun**, Director of Legal and Compliance: responsible for legal and financial crime compliance matters and supporting the department in managing legal and compliance risks
- **Samir Parkash**, Chief Risk Officer: responsible for leading the organisation's overall approach to risk management by managing enterprise, financial and credit risk, country risk, operational risk, pricing and portfolio risk and related management systems and practices
- **Shane Lynch**, Director of Resources: responsible for all people-related issues, staff administrative functions, strategic workforce planning, commercial functions, facilities and security
- **Richard Simon-Lewis**, Director of Business Development, Marketing and Communications: responsible for securing global opportunities for UK exporters, raising awareness of UKEF's support among exporters and overseas buyers, and generating new business
- **Paul Neville**, Director of Digital, Data and Technology: responsible for technology, change, data and digital aspects, including implementation of significant parts of the department's Target Operating Model. Paul started this role in May 2022. During 2021-22 this portfolio was managed by Cameron Fox as part of his role as CFOO

The minutes of Executive Committee meetings are published on UKEF's website.[5]

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

- The Enterprise Risk and Credit Committee (ERiCC), chaired by the Chief Risk Officer, is responsible for advising the Chief Executive on the effective management of credit risk exposures at the case-specific and portfolio levels, and operational and enterprise-wide risks across UKEF
- The Change Board, chaired by the Chief Finance and 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

UKEF keeps an up-to-date register of interests to identify and address any potential conflicts of interest involving senior executives and, if necessary, address them. No conflicts of interest or potential conflicts of interest have been identified 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 staff receive regular reminders 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 before taking them up. Staff joining UKEF are required to make relevant declarations as part of the pre-employment checking process, and conflicts of interest are also covered in the new joiner induction.

A £300,000 General Export Facility boosted sales for jewellery distributor TLKE

Governance in 2021–22

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

- all instructions given to me by ministers were in accordance with the EIGA, the Consent and applicable international agreements
- UKEF met all its financial objectives
- UKEF suffered no material operational losses
- UKEF had no major security breaches, data thefts or losses
- I met ministers regularly to brief them on issues related to UKEF, and also briefed as necessary UKGI, HM Treasury and DIT officials so that they could provide informed advice to ministers if and when required
- the appropriate balance of non-executive directors and ex-officio members on the UKEF Board was maintained
- the Executive Committee met at least twice a month throughout the year
- the UKEF Board met 10 times in the year, the Audit Committee met 8 times, the Risk Committee met 4 times and the Remuneration Committee met 4 times, all consistent with their terms of reference

Ministerial Directions

During 2021-22, there were two Ministerial Directions, on 8 December 2021[6] and 11 March 2022.[7] The former confirmed the instruction from the Secretary of State for International Trade to extend UKEF's cover for Ukraine to £3.5 billion, while the latter confirmed her instruction to retain it at that level following the invasion of Ukraine by Russia.

The uplift in UKEF's risk capacity for Ukraine to £3.5 billion in December 2021, and the decision to retain that level of capacity in March 2022, fell beyond UKEF's established risk framework, and consequently were both beyond my authority to approve. UKEF's risk framework is agreed as part of the Consent, and business falling outside that framework would be considered 'irregular' under the terms set out in Managing Public Money. In such circumstances, ministers can use their judgement of what is in the national interest to instruct UKEF to increase risk capacity for specific countries outside its normal risk framework.

The Secretary of State for International Trade consulted ministerial colleagues, including the Chancellor of the Exchequer, who concluded that raising UKEF's risk capacity for Ukraine to £3.5 billion, and then retaining it at that level, would be in the national interest. As a result, HM Treasury affirmed that business underwritten under this direction was considered 'regular', i.e. that it fell within UKEF's powers under the EIGA and within the HM Treasury Consent required under that Act.

The direction confirmed that UKEF's established risk underwriting standards were to be employed when considering support for transactions within the extended £3.5 billion risk capacity. All Ukraine business underwritten under account 3 will be reported as such in future annual reports. No business has yet been underwritten under this direction.

UKEF has written to the Public Accounts Committee (PAC) and the International Trade Committee (ITC) to inform them of both directions. UKEF has not yet received requests for further information from the PAC or the ITC about the increase to our Ukraine country limit.

Russia and Belarus

UKEF announced in March 2022 that it will no longer issue any new guarantees, loans and insurance for exports to Russia and Belarus. UKEF has very limited exposure related to Russia and Belarus, with the majority issued several years ago and the most recent guarantee provided in 2019-20.

UKEF is working closely with other government departments to ensure that it takes the UK's latest international commitments and sanctions into account before providing support.

The Task Force on Climate-related Financial Disclosures (TCFD)

UKEF made its first financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in our 2020-21 Annual Report and Accounts, and in doing so became the first government department to make such disclosures. The recommendations of the TCFD provide a framework within which UKEF can disclose information about our proactive approach to mitigating the impacts of climate change across the four key pillars of governance, strategy, risk management, and metrics and targets. In our second TCFD disclosure (available on page 97), our climate-related progress during the last 12 months is disclosed, including how the UKEF Board has provided oversight of our climate-related risks and opportunities, and how our management assesses and manages the same. Our approach to TCFD is maturing in line with emerging best practice, in what is a new and constantly evolving area, and UKEF remains a leader in this area within the UK government and among our international peers.

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

Directors	Role	UKEF Board	Audit Committee	Risk Committee	Remuneration Committee
Average attendance (members only)		94%	94%	100%	95%
Individual attendance					
Nöel Harwerth	Chair	10/10	7/8*	4/4*	4/4
Alistair Clark	Ex-officio Board member, Export Guarantees Advisory Council	10/10	–	–	–
Cameron Fox	Executive Board member	9/10	8/8*	4/4*	–
Andrew Mitchell	Ex-officio Board member, Department for International Trade	7/10	–	–	–
Candida Morley	Ex-officio Board member, UK Government Investments	10/10	8/8	4/4	4/4
Samir Parkash	Executive Board member	10/10	8/8*	4/4*	–
Oliver Peterken	Non-executive Board member and Chair of Risk Committee	8/10	6/8	4/4	3/4
Louis Taylor	Executive Board member	10/10	8/8*	4/4*	3/4*
Lawrence Weiss	Non-executive Board member and Chair of Audit Committee	10/10	8/8	4/4	4/4
Kim Wiehl	Non-executive Board member	10/10	8/8	4/4	4/4

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

International Trade Committee report

The International Trade Committee (ITC) conducted an inquiry into the work of UKEF during the spring and summer of 2021. Following a public call for evidence, the ITC held several oral evidence sessions during which it questioned a number of external stakeholders, as well as senior members of the UKEF Origination team. In June 2021, alongside the then Minister for Exports, Graham Stuart MP, I gave evidence to the Committee. The ITC published their report in September 2021.

This report recognised the important part UKEF plays in opening up export opportunities and supporting UK exporters to take advantage of them, and in particular its importance in helping businesses through the pandemic and the economic recovery. It also recognised recent progress in supporting government objectives, including SME exporters and net zero goals. As part of the report, the ITC made a number of recommendations for the department to follow.

Work is underway to implement the recommendations made in ITC report, and this is detailed in the government's response to the ITC, published in December 2021.[8]

Memorandum of Understanding between UKEF and DIT

In its first year, the Memorandum of Understanding (MoU) between DIT and UKEF formalised ways of strengthening and reinforcing the strong collaboration between the two departments.[9] This will enable DIT and UKEF to deliver shared objectives for trade and investment, leveraging opportunities across the two departments through increased engagement.

The MoU identifies Principles of Collaboration that are reflected in mutually agreed actions and key performance indicators, which form the basis for regular reviews of progress by senior officials. Action owners work across DIT and UKEF and report to MoU Managers quarterly, ensuring that the MoU remains relevant, effective, and accountable. The MoU is sponsored by the Director General, Exports and Trade, and the CEO of UKEF, who sit on both DIT and UKEF's Departmental Boards.

In 2021-22, collaboration between DIT and UKEF successfully supported the development and publication of the UK government's Export Strategy, contributed to the launch of the Clean & Green Initiative, deepened the working relationship between the two departments in the clean growth sector in the run up to COP26, and improved the flow of domestic and international referrals between the two departments. Twelve actions covering the breadth of the 2 departments' activities were fully delivered in 2021-22, reflecting the commitment to strengthen cross-departmental relations across all levels, while 27 actions were established for ongoing delivery and review.

In addition, the Public Accounts Committee (PAC)'s 'Government support for UK exporters' hearing and subsequent report in October 2020 provided a number of recommendations to DIT and UKEF. As part of the HM Treasury minuting process, the two departments worked collaboratively to provide comprehensive updates against the PAC recommendations. These were published as updates in the HM Treasury minutes in January, May and November 2021.

MarineGuard Systems was able to fulfil two export contracts in Germany with UKEF backing

Increased training, knowledge, and data sharing resulted in the successful delivery of 76 overseas workshops to DIT colleagues at Post by UKEF's Origination division, and a continued increase in DIT and UKEF enrolments of the 'Award in Trade Finance' training to upskill them on UKEF's offer and the role of finance in international trade. The two departments streamlined business referral systems, logging a total of 275 domestic referrals between DIT and UKEF on a reciprocal basis in 2021-22.

Over the next financial year, the departments will further develop their joint stakeholder engagement and strategic communications, strengthen cross-departmental sector-focussed cooperation, and increase join-up in responding to ministerial and cross-government priorities. UKEF and DIT are committed to continued collaboration to ensure they are strategically and operationally aligned in support of the government's trade and export agenda.

Risk management and assurance

UKEF is committed to following good practice in the 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 45.

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, conduct and risk-awareness expected in all our teams. To ensure that the Board is kept apprised of UKEF's primary risks and the effectiveness of UKEF's risk management, it receives a monthly report from the Chief Risk Officer covering credit, enterprise and operational risks.

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

3 lines of defence

All employees are responsible for identifying and managing risk within the scope of their role. UKEF has embedded a '3 lines of defence' framework across the organisation which defines clear responsibilities and accountabilities for decision making and independent oversight and assurance. For more information on the three lines of defence, please see page 48.

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 9 primary enterprise risk categories (as detailed on page 49 of the Chief Risk Officer's Report) and sets out controls, mitigations and contingency plans for these risks, with clear ownership and accountability.

This year, ownership of the strategic risk register moved from the Enterprise Risk Division to the new Strategy Division, in order to better integrate strategic risk analysis into UKEF's overall business strategy and planning process, with the Enterprise Risk Division continuing to play an assurance function as the second line of defence. Working with the Board and Executive Committee, the Strategy Division revised the strategic risk register to put increased emphasis on the specific risks UKEF faces as a government department as well as a commercial entity and offer greater rigour around mitigations and ownership of strategic risks. The strategic risk register is reviewed at least bi-annually by the Executive Committee and annually by the Board, and regular deep-dives on individual risks will be undertaken by the Board throughout 2022-23.

Operational risk

Operational risk management (ORM) is an integral part of the enterprise risk framework. Effective management of operational risk is central to achieving our strategic aim of delivering 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. UKEF's Operational Risk Policy details the minimum requirements for managing the department's operational risk. This in turn enables staff to make informed decisions based on a sound understanding of our operational risks.

UKEF's approach to ORM is designed to:

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

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

- credit decisions being made on the basis of incorrect data
- a breach of our reporting requirements to HM Treasury
- a data breach due to a successful cyber-attack
- a failure to obtain requisite authority to enter into a commitment
- a failure to recognise a fraudulent application or request for payment
- procurement of goods or services not in accordance with Government Commercial Functional Standards

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, to ensure an appropriate culture prevails in relation to risk management and to ensure the appropriate design, implementation and monitoring of controls is undertaken. Risk is considered in significant strategic decisions by the Executive Committee and the 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 directorate 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 directorate RACA is subject to annual scrutiny by ERiCC. A bi-annual control environment certificate 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 it delivers comprehensive assurance.

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

Financial crime compliance

UKEF 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 providing support for transactions involving financial crime, including 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), we are committed to having in place and operating reasonable and proportionate processes, systems and controls to mitigate appropriately the risk of supporting such transactions, and also to deter financial crime.

UKEF's Compliance Division is responsible for ensuring that these risks are identified and appropriately managed, and reports to the Director of Legal and Compliance. The Compliance Division has lead responsibility for the provision of policies, guidance and training across UKEF to assist in managing these risks. As such, all members of the Compliance Division hold, or are working towards, professionally recognised compliance qualifications. Three members of the team have been admitted as fellows of the International Compliance Association.

UKEF's intention is to provide increasing visibility to customers and external stakeholders on developments in relation to our approach to financial crime compliance, while respecting the privacy rights of those with whom we work.

UKEF's Business Group, Due Diligence Unit and Compliance Division have continued to undertake due diligence screening of parties in UKEF transactions as a key part of our business processes. During the course of 2021-22, this has included the screening of over 500 transactions, which have together involved over 1,700 corporate and sovereign entities and almost 9,000 individuals. In all, over 300 transactions were escalated by UKEF's Due Diligence Unit to the Compliance Division for detailed consideration of financial crime risks.

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

Aside from managing the risk of supporting transactions tainted by financial crime, UKEF is committed to protecting itself (and the taxpayer) from loss as a result of becoming a victim of financial crime. UKEF is also committed to complying with the cross-government functional standard GovS 013 (counter-fraud) and is represented on the Board of the cross-government counter-fraud function. UKEF regularly discusses risks and mitigations with other government departments, and with law enforcement agencies.

UKEF has taken a strong lead on financial crime issues 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.

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. He also chairs the Security and 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 our security objectives and requirements, and also with 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 our 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 IT infrastructure.

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

The department has worked with external partners to test our cyber security defence capabilities, including penetration testing of hardware, and has delivered a remediation programme in response to vulnerabilities flagged in that testing. In parallel UKEF asked the Government Digital Service (GDS) to review our maturity against their functional standards and to make recommendations regarding the delivery model for Digital, Data and Technology (DDAT) services. The final report was issued in September 2021 and all the GDS recommendations were accepted. As a result, the department reorganised the various teams in scope of the review and our first DDAT Director will join the department in May 2022. The new directorate will lead to a significant strengthening of our capability, governance and professional standards across our DDAT teams.

In January 2021, UKEF was assessed by the Government Security Group as having exceeded framework the standards on all 4 technical areas (cyber, personnel, physical and incident management). This has been independently assessed and verified by an external NCSC cyber security professional organisation.

UKEF established a Knowledge and Information Management (KIM) function in 2020-21 to promote good information governance and maintain compliance with statutory obligations. During 2021-22 the KIM team produced an Information Management Strategy, which set 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.

Records transfer

Section 3(4) of the Public Records Act 1958 (PRA) requires departments to transfer to the National Archives those records which have been selected for permanent preservation by the time the records are 20 years old. UKEF holds a number of records created between 1996 and 1998 which are potentially in scope of section 3(4), and which are beyond their due date for transfer to the National Archives. These records are currently subject to a retention instrument authorised by the National Archives Advisory Council, which extended the retention period by one year. The Knowledge and Information Management team has a plan in place to meet our compliance against the PRA by the end of 2022.

Business continuity plan

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

Temporary COVID-19 Risk Framework

In April 2020, at the onset of the COVID-19 crisis, the government established a temporary £10 billion risk framework (the Temporary COVID-19 Risk Framework, or TCRF) to allow UKEF to continue to provide financial support to UK exporters whose credit ratings and access to financing were impacted by COVID-19. More details about the TCRF can be found on page 56.

Data modelling & quality assurance

We perform appropriate quality assurance on our analytical and modelling work, in accordance with the Aqua book. Senior Responsible Officers (SROs) are accountable for reviewing business-critical models annually to ensure the best modelling and quality assurance practices are followed. A review of our modelling guidance is underway, with additional training and support being developed for new and current colleagues. A list of UKEF's business-critical models is published on the government website.[10]

Internal audit

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

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

The Audit Committee, acting on behalf of the Board, approves the internal audit charter. Based on IAAD's continued engagement throughout 2021-22, the Head of Internal Audit's opinion in relation to the adequacy and effectiveness of the framework of governance, risk management and control was 'moderate'. This opinion raised thematic issues which are consistent with the contents of this governance statement, including requirements to maintain the strong level of risk management and internal control in our Risk Approval Division, maintaining the strong level of control over the activities of the Business Group, and the adequacy of our claims and recoveries procedures.

I meet regularly with the Head of Internal Audit, and he also has regular direct communication with the Chair of the Audit Committee and the Audit Committee itself.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. This policy is based on guidance provided by the Civil Service employee policy, one of the expert services for the Civil Service. This was last updated in April 2020. No disclosures were made under the policy in 2021-22.

Significant risks and mitigating measures

Judicial review

In March 2022, the High Court dismissed the judicial review brought against UKEF's decision to support the Mozambique Liquified Natural Gas project, which took effect in March 2021. The court's ruling is being appealed and UKEF continues to defend the appeal, along with other defendants.

Risk management

The Risk Committee is a sub-committee of the UKEF Board. It provides independent advice to me and the Board on the adequacy of the strategic processes and frameworks for risk management, including the overall risk appetite, and on the design and operating effectiveness of the risk management framework and associated controls and processes. IAAD carried out an in-depth review of our Risk Approval Division during 2021-22. I am pleased to report that IAAD concluded that the overall framework of governance, risk management and control were considered to be strong and effective.

Business group: key controls

The key controls operating in our Business Group would likely have the greatest consequences for the department if they did not work appropriately. Failure of control could lead to errors or delays in providing exporters with the advice and support that they need as well as legal claims, breaches in security, financial loss, fraud, reputational damage, an adverse impact on the wellbeing of our employees, and the departure of key members of our staff. Our Business Conduct and Concerns Policy sets out the responsibility of staff to recognise and raise any concerns to the relevant nominated officer in relation to any breaches of law, the Civil Service Code or other wrongdoing, the consequences of which may undermine UKEF's reputation. This was last updated in March 2020. We are not aware of any disclosures having been made in 2021-22. The key controls of the Business Group are audited by IAAD every year. I am pleased to say that no major issues were reported in 2021-22 and that our internal auditors found a very strong level of management control.

Claims and recoveries

The COVID-19 pandemic has caused great disruption to business and exporters over the past couple of years, with many smaller businesses going out of business and others under great pressure. I am proud of the way UKEF has reacted to this challenge and developed new products to ease that pressure wherever possible. Despite this, and in line with 2020-21 levels, the number of claims remained high over the past year, particularly with regard to the airline industry. IAAD carried out a review of our claims and recoveries processes during 2021-22, focussing on the adequacy and effectiveness of the operational and management procedures in place. I am pleased to report that IAAD did not identify any significant weaknesses or errors in the overall process, which is a credit to the team and their ability to manage a significant increase in volume of claims during very testing times.

Corporate Governance Code for Central Government Departments

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

Louis Taylor

Chief Executive and Accounting Officer

28 June 2022

Notes

1 DIT. Letter from the Secretary of State for International Trade to UK Export Finance on UKEF's annual priorities. March 2021 [gov.uk/government/publications/letter-from-the-department-of-international-trade-to-uk-export-finance-on-ukefs-annual-priorities]
2 EGAC [gov.uk/government/organisations/export-guarantees-advisory-council]
3 UKEF. Our governance [gov.uk/government/organisations/uk-export-finance/about/our-governance]
4 UKEF. Board minutes 2021. July 2022. [gov.uk/government/publications/uk-export-finance-board-minutes-2021]
5 UKEF. Executive Committee minutes 2021. June 2022. [gov.uk/government/publications/uk-export-finance-executive-committee-minutes-2021]
6 UKEF. Increase to UK Export Finance's cover limit for Ukraine. December 2021 [gov.uk/government/publications/increase-to-uk-export-finances-cover-limit-for-ukraine]
7 UKEF. Increase to UK Export Finance's cover limit for Ukraine. December 2021 [gov.uk/government/publications/increase-to-uk-export-finances-cover-limit-for-ukraine]
8 HM Treasury. Treasury minutes: Government responses to the Committee of Public Accounts on the Eighteenth and the Twentieth to the Twenty-Fourth reports from Session 2019-21. January 2021 [committees.parliament.uk/publications/4584/documents/46348/default]
9 DIT & UKEF. Memorandum of Understanding between the Department for International Trade and UK Export Finance. December 2021 [gov.uk/government/publications/memorandum-of-understanding-between-the-department-for-international-trade-and-uk-export-finance]
10 GOV.UK [gov.uk]

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.

Louis Taylor
Chief Executive Officer

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 to:

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

HM Treasury has appointed the Chief Executive as 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.

Louis Taylor
Chief Executive and Accounting Officer

28 June 2022

Audit Committee

The Audit Committee report should be read in conjunction with the Governance Statement, which can be found on page 121.

Lawrence Weiss
Chair, Audit Committee

UKEF's Audit Committee terms of reference require the Audit Committee to be made up of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. During 2021-22, Lawrence Weiss (Chair), Oliver Peterken and Kim Wiehl, all of whom meet the relevant requirements for independence, served on this committee. Candida Morley is also a member of the committee, representing UK Government Investments (UKGI). At the end of March 2022, Oliver Peterken stepped down as a member of the committee.

Although not members of the Audit Committee, the Accounting Officer, Chief Finance and Operating Officer, Chief Risk Officer, Head of Internal Audit and a representative from the external auditors normally attend meetings. The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw, so as to facilitate open and frank discussion of particular matters among the committee members. 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
- will also be a member of the Risk Committee to help facilitate coordination between the Risk and Audit Committees

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

Key tasks and responsibilities

In general, the Audit Committee:

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

Activities 2021-22

During 2021-22, among other matters the following topics were discussed:

- the Temporary COVID-19 Risk Framework (TCRF)
- post-balance sheet events 2020-21
- corporate data quality overview
- the Libor Transition project
- climate and sustainability reporting
- the Task Force for Climate-related Financial Disclosures (TCFD) project on three occasions, covering:
    - departmental leadership of TCFD
    - the governance around climate change strategy and progress on the TCFD reporting
    - UKEF's TCFD readiness report
- financial crime compliance
- UKEF's Information Management Strategy
- revisions to the Annual Reports and Accounts
- deep dives into several projects, including:
    - Digital Trade Finance Service (DTFS)
    - Fintech Project
    - Direct Lending
- IAAD work plans, IAAD findings and management implementation of remedial actions
- the work of the external auditors, the terms of their engagement and the external auditors' findings on key judgments and estimates in financial statements
- changes to accounting policies relating to new products, financial reporting changes and the deferment of the application of IFRS 9 & 17

The Audit Committee meets at least 4 times in each year. In 2021-22 it met 8 times due to additional meetings covering financial judgements on IFRS 9 & 17.

Risk Committee

The Risk Committee report should be read in conjunction with the Governance Statement which can be found on page 121.

Oliver Peterken
Chair, Risk Committee

UKEF's Risk Committee terms of reference require the committee to be made up of at least 3 non-executive Board members or other independent representatives agreed by the UKEF Board. For 2021-22, Oliver Peterken (Chair), Lawrence Weiss and Kimberley Wiehl, all of whom meet the relevant requirements for independence, served on this committee. Candida Morley is also a member of the committee, representing UK Government Investments (UKGI). Oliver stepped down as Risk Committee Chair on 31 March 2022. He was replaced on a temporary basis by Lawrence Weiss, with Tim Frost becoming Risk Committee Chair 1 June 2022.

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

The Risk Committee's terms of reference also provide that at least one member of the Risk Committee will also be a member of the Audit Committee to help facilitate coordination between the Risk and Audit Committees.

Key tasks and responsibilities

In general, the Risk Committee:

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

Activities 2021-22:

During 2021-22, among other matters the following topics were discussed:

- the UKEF credit portfolio
- an airline leasing platform
- enterprise and operational risks
- claims scenario analysis
- stress testing and reverse stress testing
- cyber security
- TCFD preparedness within the Risk Management Group
- compliance with the General Data Protection Regulation
- the assurance testing framework and 2021-22 testing plan
- Risk Management Group delegated authorities
- pricing and credit methodology statements

The Risk Committee’s terms of reference state that it should meet at least 4 times in each year. In 2021-22 it met 4 times.

Our people

UKEF's headcount hit a 20-year high this year, now standing at 492.1 full-time equivalent employees. We also continued expanding our overseas network of International Export Finance Executives to 18 executives, covering 16 markets. This growth is evidence of the escalating demand for our products and services.

Shane Lynch
Resources Director

In April 2020, we launched our People Strategy for 2020-24 – and have now reached the halfway point in implementing it. Transforming this strategy into reality has required the commitment and support of all UKEF staff. Our success as a business depends on us harnessing all our talents.

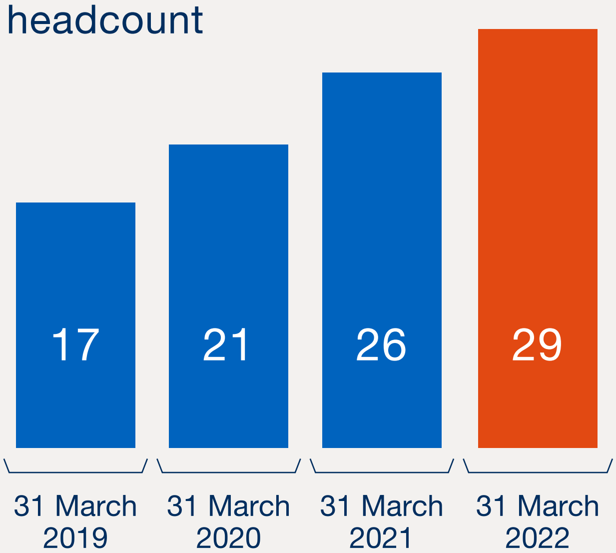
Heading into 2022-23, we currently plan to expand our workforce towards 618 UK-based staff in line with the government's most recent Spending Review commitments. The Prime Minister and Cabinet have also since stated their intention to bring the Civil Service workforce back to 2016 numbers over the next 3 years, and we will work with the Cabinet Office and HM Treasury to ensure UKEF's growth aligns with wider government action.

Workforce snapshot

This section is subject to audit.

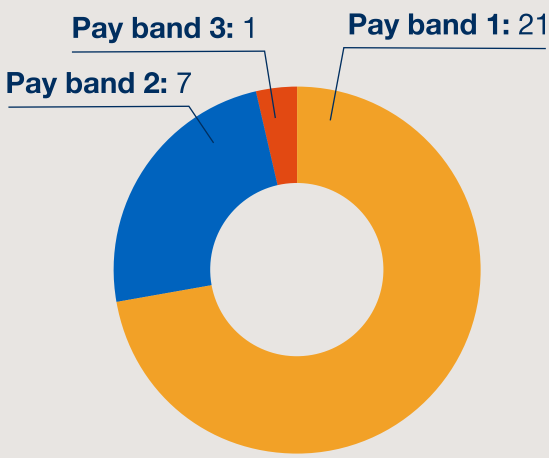
Staff turnover has increased, from 12% in 2020-21, to 13.5% by the end of March 2022.

Senior Civil Service (SCS) headcount



SCS headcount by pay band

2022



Diversity and inclusion

Women in UKEF's workforce

2022	2021	Wider Civil Service 2022
44.2%	39.2%	54.2%

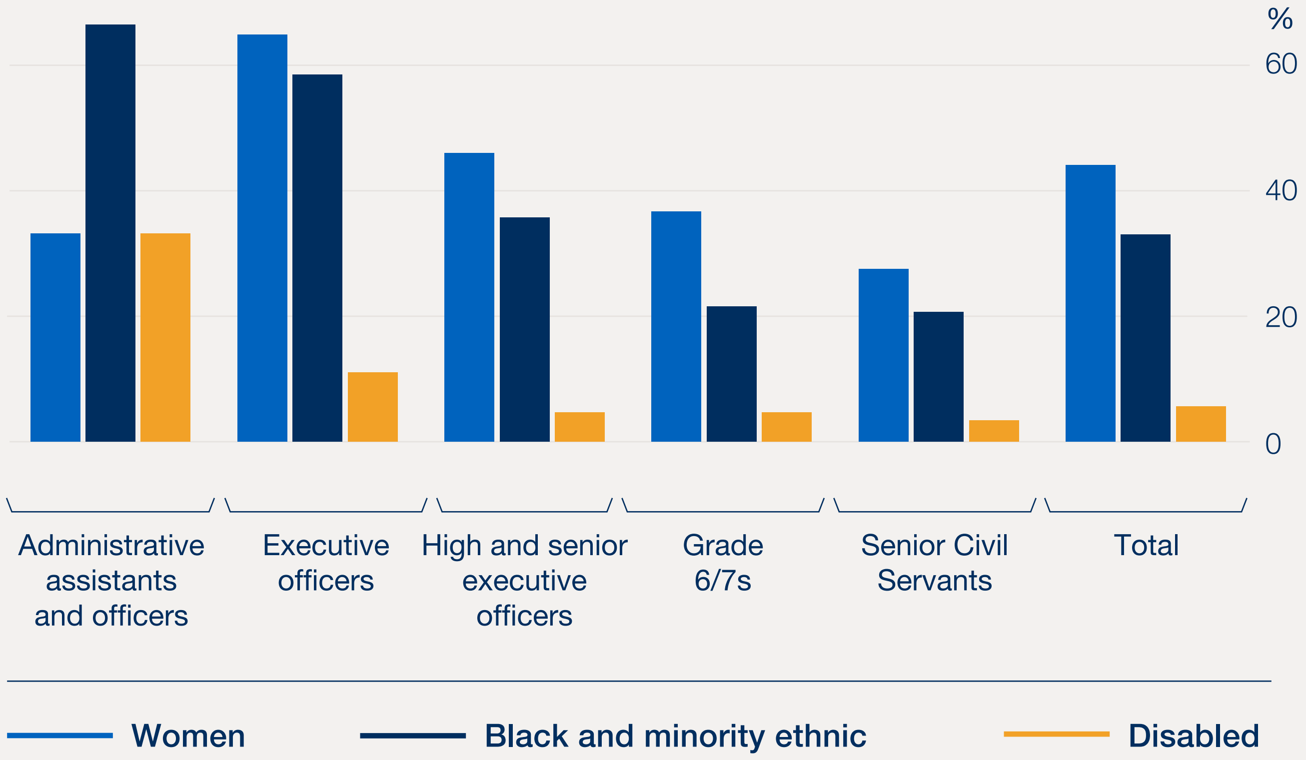
Staff belonging to ethnic minority groups

UKEF 2022	Wider Civil Service 2022
33.1%	12.7%

UKEF staff declaring a disability

2021
5.6%

UKEF staff diversity as of 31 March 2022



Our People Strategy for 2020-24 includes an ambition to improve the diversity of our workforce. UKEF is now leading the way among government departments with the most ethnically diverse workforce in the Civil Service.

Still, we recognise that more can be done to ensure equal opportunities at all levels of the department. In line with the ambitions in the People Strategy, we will continue to work to this end.

One key enabler of diversity is the recruitment process. The selection process is anonymised to protect against bias, and we offer a guaranteed interview scheme to disabled applicants.

For more information, we publish a gender pay gap report each year to provide a full breakdown of pay for employees by gender.[1]

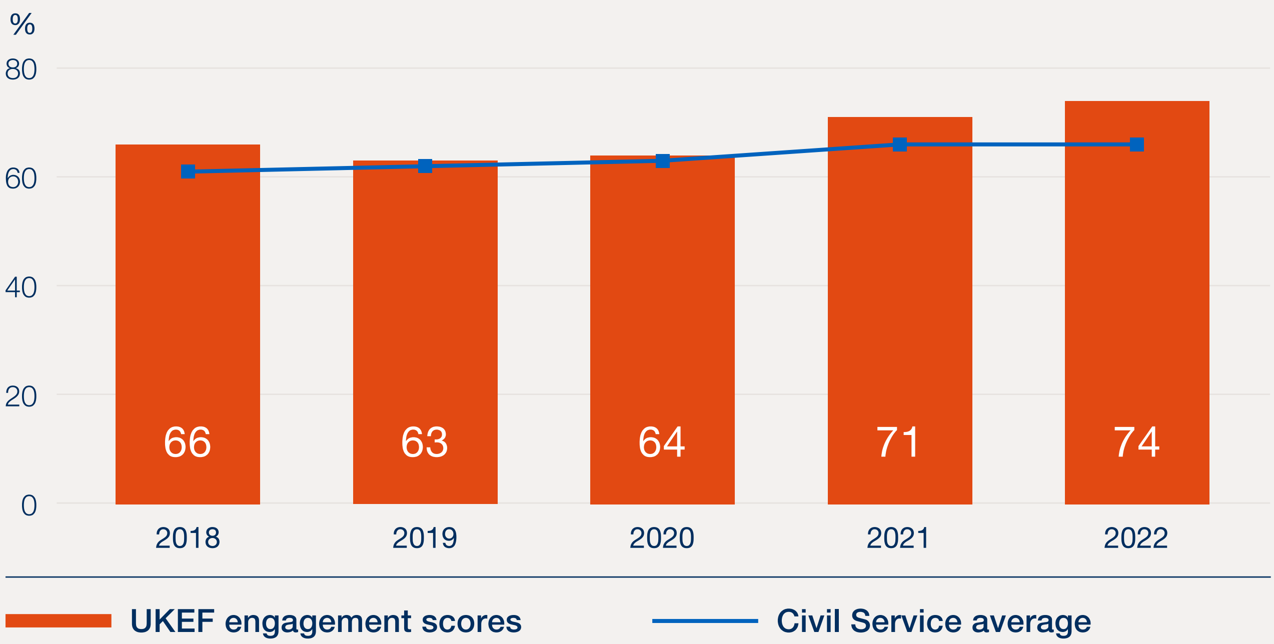
Engagement and consultation

Employee consultation

UKEF consulted with staff regarding the creation of a new Digital, Data and Technology (DDAT) directorate. The department worked with the Government Digital Service to design a new delivery model and affected staff were given the opportunity to comment on proposals during a formal consultation process. The department also consulted with staff on proposals to move two teams from the UKEF Business Group to the Strategy, Policy and Climate Change Group. Formal proposals were shared with staff and a consultation process was followed.

Staff engagement

2022	Wider Civil Service
74%	66%



Trade union relationships

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.

Human capital management

The department's approach to human capital management is set out in our 2020–24 People Strategy. This strategy focusses on our key people challenges and is designed to ensure that we have a highly engaged workforce, operating within a culture of continuous development, where staff have the skills and support required to excel in their roles. We want to ensure that all colleagues are well managed and led, in an environment that recognises and values the rich diversity we all bring to UKEF.

We achieved our highest ever staff engagement score in this year's Civil Service People Survey, retaining our "high performing" status and achieving the joint highest score of any ministerial department. Of the 101 civil service organisations which took part, UKEF was ranked seventh.

This performance is consistent with our Business Plan ambition to be a great place to work, engaging and developing our staff to deliver better for our customers.

Health, safety and wellbeing

UKEF has a range of supports 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 is also 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 workplace 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 a very slight increase on last year; the level is still well below the average for the public sector, as reported by the Office for National Statistics.

Average working days lost

UKEF

2.7

Public sector average

7

Staff with no sickness absence

2022

68%

Trade union facility time

Our recognised trade unions are the Public and Commercial Services Union (PCS) and the Association of First Division Civil Servants (FDA). There are 9 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 128.5 hours of facility time between the 9 representatives, for an estimated cost of £3,631 during the year.

Each trade union representative 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	9
Number of employees who were relevant union officials by percentage of working hours spent on facility time	
0%	0
1-50%	9
51-99%	0
100%	0
Percentage of the total pay bill spent on facility time	0.01%
Time spent on paid trade union activities as a percentage of total paid facility time hours	128.5 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 2021-22 was £305,000-£310,000 (2020-21: £285,000-£290,000: an increase of 7% from last year to this). The highest-paid director's remuneration was 6.60 times (2020-21: 6.43) the median remuneration of the workforce, which was £46,586 (2020-21: £44,681, an increase of 4.26% compared with last year).

The average percentage change from 2020-21 to 2021-22, in respect of employees of UKEF (excluding the highest-paid Director) is -0.99% for salaries and allowances and +5.18% for performance pay/bonuses.

In 2021-22, no employees (2020-21: 0) received remuneration in excess of the highest-paid director. Remuneration ranged from £23,876 to £310,000 (2020-21: £23,626 to £290,000).

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.

	2021-22	2020-21
Band of highest paid director's total remuneration (£'000)	305-310	285-290
Range of staff total remuneration (£)	23,876-310,000	23,626-290,000
Median staff total remuneration (£)	46,586	44,681
Remuneration ratio	6.60	6.43

Reasons for the increase in ratio: there were no increases in salaries this year for staff (except the lowest-paid person); performance-related pay for the workforce was a fraction higher than last year while the highest-paid director received performance-related pay at a higher level, compared with last year.

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 utilised for in-year recognition awards, while the majority of the pot is utilised to fund year-end performance awards, based on employees' performance during 2020-21. Awards were paid to individuals in August 2021.

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 will 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 is set aside to fund performance awards; again, a small part of this is set aside for in-year awards, with the majority being utilised for year-end awards. Following year-end assessments, one of 3 performance ratings will be assigned; only those receiving a "Top" rating will be 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 June 2021.

The Chief Executive's contract allows for a year-end award based on performance. Following a year-end assessment which is conducted by the Department of International Trade's Permanent Secretary, feedback is then presented to UKEF's Remuneration Committee. The Remuneration Committee and the Chair of UKEF's Board then 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 August 2021.

For the first time this year, we examined pay multiples in the lower quartile, mid-point and higher quartile. The prior year comparatives have not been included, due to the information not being readily available. As a result, we cannot yet determine whether there has been a change to the ratio as this is the first year of reporting, but year to year comparisons will be included in the Annual Report going forward.

The mid-point of the band for the highest-paid director is:

- £307,500 (total remuneration)
- £257,500 (salary component only)

25th percentile: total salary/allowances for all staff except the highest-paid director:

- £35,968 (a ratio of: 8.55:1)

  Salary component only:

  - £35,000 (a ratio of 7.36:1)

50th percentile: total salary/allowances:

- £46,586 (a ratio of 6.60:1)

  Salary component:

  - £44,000 (a ratio of 5.85:1)

75th percentile: total salary/allowances:

- £63,790 (a ratio of 4.82:1)

  Salary component:

  - £57,989 (a ratio of: 4.44:1)

Directors' salaries and pension entitlements

Subject to external audit.

Director	Salary £'000		Bonus payments £'000		Pension benefits £'000		Total £'000	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
Louis Taylor Chief Executive Officer	255-260	255-260	50-55	30-35	n/a	n/a	305-310	285-290
Cameron Fox Chief Finance & Operating Officer	135-140	135-140	5-10	0	53	55	200-205	190-195
Samir Parkash Chief Risk Officer	200-205	200-205	5-10	5-10	n/a	n/a	205-210	205-210

Notes

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 2021-22 relate to performance in 2020-21.

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

These disclosures have been subject to external audit.

The employment costs, remuneration and declarations of interest relating to UKEF's ministers and special advisers are disclosed in the Department for International Trade's Annual Report and Accounts.

Civil Service pensions

Subject to external audit.

Official	Accrued pension as at 31 March 2022 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2022 £'000	CETV at 31 March 2021 £'000	Real increase in CETV £'000	Employer contribution to partnership pension account Nearest £100
Louis Taylor Chief Executive Officer	0	0	0	0	0	38,000
Cameron Fox Chief Finance & Operating Officer	22	3	263	221	25	0
Samir Parkash Chief Risk Officer	0	0	0	0	0	29,700

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

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

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

Non-executive member	Fees for 2021-22 £000	Fees for 2020-21 £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
Oliver Peterken Member of UKEF Board, Chair of Risk Committee, member of Audit and Remuneration and Nominations Committees (left 31 March 2022)	15-20	15-20
Shalini Khemka Member of UKEF Board, member of Audit Committee 2020-21 (ceased to be a member of the UKEF Board and Audit Committee in February 2021)	0-5	10-15
Alistair Clark Chair of EGAC, member of UKEF Board	0-5	n/a
Ben Caldecott Member of EGAC	0-5	0-5
Neil Holt Member of EGAC 2020-21 (ceased to be a member in May 2021)	0	0-5
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

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

Off-payroll engagements

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

The following tables provide information on those off-payroll engagements paid more than £245 per day during the financial year 2021-22.

Highly paid off-payroll worker engagements that had lasted longer than 6 months as at 31 March 2022

Number of existing engagements at 31 March 2022	**10**
of which, had existed for	
less than 1 year	2
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	3
Total	**10**

Tax assurance for new off-payroll engagements

No. of temporary off-payroll workers engaged during the year ended 31 March 2022	**6**
of which:	
not subject to off-payroll legislation	0
subject to off-payroll legislation and determined as in-scope of IR35	5
subject to off-payroll legislation and determined as out-of-scope of IR35	1
No. of engagements reassessed for compliance or assurance purposes during the year	0
of which: No. of engagements that saw a change to IR35 status following review	0

The number of existing and new off-payroll engagements has decreased since 2020-21. As we have grown in size, we have required fewer interim contractors who have been replaced by employees; the creation of a Digital, Data and Technology directorate staffed by employees has reduced the requirement for temporary project contractors.

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 2021-22, including engagements of individuals whose daily cost was less than £245 per day, was £2,520,661 (2020-21: £1,811,376).

Expenditure on consultancy

Total expenditure on consultancy in 2021-22 amounted to £4,556,053 (2020-21: £948,218). The increase this year is as a result of increased activity on the Financial Reporting Changes Programme, which will implement two new accounting standards.

Severance payments

This section is subject to external audit.

UKEF made two severance payments during the year, both of which were voluntary exit payments.

The total amount paid was £113,851 (2020-21: nil). The highest was £71,966 and the lowest was £41,885, with a median of £56,925.

Notes

1 UKEF. Gender pay gap report 2020 to 2021. March 2022 [gov.uk/government/publications/uk-export-finance-gender-pay-gap-report-2020-to-2021]

Parliamentary Accountability and Audit

Louis Taylor
Chief Executive Officer

Statement of Outturn against Parliamentary Supply

For the year ended 31 March 2022

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 their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain 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 to, but different to, IFRS. An understanding of the budgeting framework and an explanation of key terms is provided on pages 77-88, in the financial review section of the performance report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

Summary tables 2021-22

Audited information

									2021-22	2020-21
		Outturn			Estimate			Outturn vs Estimates saving/(excess)		Outturn
Type of spend	SoPS note	Voted £'000	Non-voted £'000	Total £'000	Voted £'000	Non-voted £'000	Total £'000	Voted £'000	Total £'000	Total £'000
Departmental Expenditure Limit										
Resource	SoPS1.1	–	–	–	1	–	1	1	1	(499)
Capital	SoPS1.2	1,413	–	1,413	1,600	–	1,600	187	187	784
Total DEL		1,413	–	1,413	1,601	–	1,601	188	188	285
Annually Managed Expenditure										
Resource	SoPS1.1	(323,965)	–	(323,965)	648,384	–	648,384	972,349	972,349	217,719
Capital	SoPS1.2	457,131	–	457,131	1,601,142	–	1,601,142	1,144,011	1,144,011	1,109,370
Total AME		133,166	–	133,166	2,249,526	–	2,249,526	2,116,360	2,116,360	1,327,089
Total budget										
Resource	SoPS1.1	(323,965)	–	(323,965)	648,385	–	648,385	972,350	972,350	217,220
Capital	SoPS1.2	458,544	–	458,544	1,602,742	–	1,602,742	1,144,198	1,144,198	1,110,154
Total		**134,579**	**–**	**134,579**	**2,251,127**	**–**	**2,251,127**	**2,116,548**	**2,116,548**	**1,327,374**

Figures in the shaded grey areas cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Audited information

Net cash requirement				2021-22	2020-21
	Note	Outturn £'000	Estimate £'000	Outturn vs Estimate, savings/ (excess) £'000	Outturn £'000
Net cash requirement	SoPS3	(117,027)	1,543,186	1,660,213	757,537

Administration costs				2021-22	2020-21
	Note	Outturn £'000	Estimate £'000	Outturn vs Estimate, savings/ (excess) £'000	Outturn £'000
Administration costs	SoPS1.1	–	1	1	(499)

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 within SoPS1 below.

The notes on pages 173 to 226 form part of the Statement of Parliamentary Supply.

Notes to the SoPS, 2021-22

SoPS1. Outturn detail, by Estimate line

SoPS1.1 Analysis of resource outturn by Estimate line

Audited information

											2021-22	2020-21
							Outturn Estimate			Estimate		
	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**	**Outturn vs Estimate, saving/(excess) £'000**	**Outturn Total £'000**
Voted spending in DEL												
A. Export Credit Guarantees and Investments	66,329	(66,329)	–	–	–	–	–	1	–	1	1	(499)
Total	66,329	(66,329)	–	–	–	–	–	1	–	1	1	(499)
Voted spending in AME												
B. Export Credits	–	–	–	710,943	(948,183)	(237,240)	(237,240)	176,237	–	176,237	413,477	118,815
C. Fixed Rate Export Finance Assistance	–	–	–	259	(298)	(39)	(39)	104	–	104	143	(27)
D. Loans and interest equalisation	–	–	–	–	(107)	(107)	(107)	(101)	–	(101)	6	(240)
E. Direct Lending	–	–	–	38,376	(124,955)	(86,579)	(86,579)	472,144	–	472,144	558,723	99,171
Total	–	–	–	749,578	(1,073,543)	(323,965)	(323,965)	648,384	–	648,384	972,349	217,719
Total Resource	66,329	**(66,329)**	**–**	**749,578**	**(1,073,543)**	**(323,965)**	**(323,965)**	**648,385**	**–**	**648,385**	**972,350**	**217,220**

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 and Estimate

A. Voted spending in resource DEL (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 £413 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 £559 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 20 to the financial statements for further information on UKEF's foreign currency risk.

SoPS1.2 Analysis of capital outturn by Estimate line

Audited information

							2021-22	2020-21
	Outturn			Estimate				
Type of spend (Capital)	Gross £'000	Income £'000	Net £'000	Total £'000	Virements £'000	Total inc. virements £'000	Outturn vs Estimate, saving/ excess) £'000	Outturn £'000
Voted spending in DEL								
A. Export Credit Guarantees and Investments	1,413	–	1,413	1,600	–	1,600	187	784
Total	1,413	–	1,413	1,600	–	1,600	187	784
Voted spending in AME								
B. Export Credits	–	–	–	–	–	–	–	–
C. Fixed Rate Export Finance Assistance	–	–	–	–	–	–	–	–
D. Loans and interest equalisation	–	(1,099)	(1,099)	(606)	–	(606)	493	(2,564)
E. Direct Lending	655,187	(196,957)	458,230	1,601,748	–	1,601,748	1,143,518	1,111,934
Total	655,187	(198,056)	457,131	1,601,142	–	1,601,142	1,144,011	1,109,370
Total Capital	**656,600**	**(198,056)**	**458,544**	**1,602,742**	**–**	**1,602,742**	**1,144,198**	**1,110,154**

Virements are the reallocation of provision in the Estimates that do not require Parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury).

Explanation of variances between Capital Outturn and Estimate

E. Direct Lending £1,144 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 31st March 2022.

More details of UKEF's risks, including foreign currency and liquidity risk, can be found in note 20 to 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

Audited information

	SoPS Note	Outturn £'000	Estimate £'000	Outturn vs Estimate, saving/(excess) £'000
Resource outturn	SoPS1.1	(323,965)	648,385	972,350
Capital outturn	SoPS1.2	458,544	1,602,742	1,144,198
Accruals to cash adjustments:				
Adjustments to remove non-cash items:				
Depreciation and amortisation of equipment and intangible assets		(498)	(525)	(27)
Net foreign exchange differences and other non cash items		126,906	(545,540)	672,446
New provisions and adjustments to previous provisions		(213,478)	(393,467)	(179,989)
Adjustments to reflect movements in working balances:				
Increase/(Decrease) in receivables		(15,797)	131,275	147,072
(Increase)/Decrease in payables		(148,739)	100,316	249,055
Use of provisions		–	–	–
Net cash requirement		**(117,027)**	**1,543,186**	**1,660,213**

Parliamentary accountability disclosures

These disclosures are subject to audit.

Regularity

I can confirm that, for the financial year ended 31 March 2022, 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 2021-22.

Other Parliamentary accountability disclosures

In 2021-22 UKEF has not made any special payments or gifts and does not have any remote contingent liabilities.

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

Louis Taylor

Chief Executive and Accounting Officer

28 June 2022


Jane Cooper who is Regional Head of Export Finance Managers for London and the South East

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 2022 under the Government Resources and Accounts Act 2000.

The financial statements comprise the Department's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive 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 2022 and of the Department's 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(B) to the financial statements concerning the significant uncertainty attached to the final outcome of the underwriting activities. The long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years. Details of the impact of this on the financial statements are provided in Note 1(B) to the financial statements.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn Against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2022 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Export Credits Guarantee Department in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Export Credits Guarantee Department's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Export Credits Guarantee Department's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Export Credits Guarantee Department is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements nor my auditor's certificate thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion 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 Export Credits Guarantee Department and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Report.

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

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

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the Export Credits Guarantee Department or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report 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;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Export Credits Guarantee Department's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Export Credits Guarantee Department will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Export Credits Guarantee Department's accounting policies, key performance indicators and performance incentives;
- Inquiring of management, the Export Credits Guarantee Department's head of internal audit, and those charged with governance, including obtaining and reviewing supporting documentation relating to the Export Credits Guarantee Department's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud; and

- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Export Credits Guarantee Department's controls relating to 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

- discussing among the engagement team and involving relevant internal and external specialists, 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 Export Credits Guarantee 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 also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of the Export Credits Guarantee Department's framework of authority as well as other legal and regulatory frameworks in which the Export Credits Guarantee Department operates, focusing 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 Export Credits Guarantee Department. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriate (Main Estimates) Act 2021, 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

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing 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;

- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;

- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal and external 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 also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

29 June 2022

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

Financial statements

UKEF 2021-22
at 31 March 2022

Statement of Comprehensive Net Income

For the year ended 31 March 2022

	Note	2021-22 £'000	2020-21 £'000
Export Credit Guarantees and Insurance			
Income			
Gross premium income		566,736	490,737
Less ceded to reinsurers		(125,493)	(160,932)
Net premium income	**3(a)**	**441,243**	**329,805**
Net investment return	3(b)	14,462	4,097
Net foreign exchange gain	6	9,159	–
Total income		**464,864**	**333,902**
Expenses			
Net claims charge for the year	5	(10,078)	(54,488)
Changes in insurance liabilities (net of reinsurance)	18	(151,284)	(324,389)
Staff costs	7	(27,142)	(22,001)
Other administration and operating costs	8	(24,603)	(15,744)
Net foreign exchange loss	6	–	(24,595)
Total expenses		**(213,107)**	**(441,217)**
Net income/(loss) arising from Export Credit Guarantees and Insurance activities		**251,757**	**(107,315)**
Export Finance Assistance			
Income			
Net investment return	3(b)	50,760	14,585
Net foreign exchange gain	6	35,965	–
Total income		**86,725**	**14,585**
Expenses			
Staff costs	7	(7,614)	(6,412)
Other administration and operating costs	8	(6,903)	(4,589)
Net foreign exchange loss	6	–	(113,489)
Total expenses		**(14,517)**	**(124,490)**
Net Income/(loss) arising from Export Finance Assistance activities		**72,208**	**(109,905)**
Net operating income/(loss) for the year		**323,965**	**(217,220)**

All income and expenditure is derived from continuing operations.

The notes on pages 173 to 226 form part of these accounts.

Statement of Financial Position

As at 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
Non-current assets:			
Equipment and intangible assets		1,808	893
Financial assets			
Fair value through profit or loss	9(a)	–	49
Loans and receivables	9(b)	2,227,715	1,845,501
Insurance contracts			
Insurance assets	10	229,305	224,552
Reinsurers' share of insurance liabilities	11	631,729	577,923
Insurance and other receivables	12	305,854	242,663
Total non-current assets		**3,396,411**	**2,891,581**
Current assets:			
Financial assets			
Fair value through profit or loss	9(a)	52	263
Loans and receivables	9(b)	183,110	132,041
Insurance contracts			
Insurance assets	10	41,618	52,516
Insurance and other receivables	12	146,166	132,649
Cash and cash equivalents	13	329,685	112,658
Total current assets		**700,631**	**430,127**
Total assets		**4,097,042**	**3,321,708**
Current liabilities:			
Financial liabilities			
Fair value through profit or loss	15	(2)	(19)
Consolidated Fund Payable	16	(329,685)	(112,658)
Provisions	17(b)	(11,574)	(12,413)
Insurance and other payables	17(a)	(171,872)	(63,059)
Total current liabilities		**(513,133)**	**(188,149)**
Non-current assets plus net current assets		**3,583,909**	**3,133,559**
Non-current liabilities			
Financial liabilities			
Fair value through profit or loss	15	–	(39)
Insurance contracts			
Insurance liabilities	18	(2,065,600)	(1,860,510)
Insurance and other payables	17(a)	(297,822)	(259,701)
Total non-current liabilities		**(2,363,422)**	**(2,120,250)**
Assets less liabilities		**1,220,487**	**1,013,309**
Taxpayers' equity			
Exchequer Financing		(2,134,315)	(2,155,673)
Cumulative Trading Surplus		3,936,213	3,684,456
General Fund		(581,411)	(515,474)
Total taxpayers' equity		**1,220,487**	**1,013,309**

The notes on pages 173 to 226 form part of these accounts.

Louis Taylor
Chief Executive and Accounting Officer

28 June 2022

Statement of Cash Flows

For the year ended 31 March 2022

	Note	2021-22 £'000	2020-21 £'000
Cash flows from operating activities			
Net operating income/(loss)		323,965	(217,220)
Adjustments for non-cash transactions:			
Depreciation & amortisation			
– Depreciation of equipment	8	498	209
Other:			
Audit fees	8	240	212
Amortised loans & receivables income	9(b)	(83,784)	(45,144)
Net unrealised foreign exchange (gain)/loss on net assets other than cash	6	(43,362)	132,050
Provisions:			
Insurance liabilities net of reinsurance movement	18	151,284	324,389
Financial guarantees provision movement	17(b)	(904)	8,683
Claims provision movement	10(a)	10,982	45,805
Interest on claims provision movement	10(b)	13,740	29,352
Impairment of uninsured Capital Loans	9(b)	38,376	30,586
Movements in Working Capital other than cash:			
Claims assets before provisions	10(a)	(11,006)	(37,095)
Interest on claims assets before provisions	10(b)	(935)	(13,690)
Loans & receivables	9(b)	105,186	147,507
Insurance & other receivables		(77,708)	(346,229)
Insurance & other payables		148,795	292,923
Financial assets held at fair value	9(a)	260	467
Financial liabilities held at fair value	15	(56)	(190)
Net cash inflow/(outflow) from operating activities		**575,571**	**352,615**
Cash flows from investing activities			
Purchase of equipment and intangibles		(1,413)	(784)
Export Finance Assistance loans:			
Advances	9(b)	(655,187)	(1,237,625)
Recoveries	9(b)	198,056	128,257
Net cash inflow/(outflow) from investing activities		**(458,544)**	**(1,110,152)**
Net cash inflow/(outflow) from operating and investing activities		**117,027**	**(757,537)**

	Note	2021-22 £'000	2020-21 £'000
Cash flows from financing activities			
Receipts from the Consolidated Fund (Supply):			
relating to the current year		100,000	870,195
Net cash inflow/(outflow) from financing activities		**100,000**	**870,195**
Net increase in cash and cash equivalents in the year before adjusting payments to the Consolidated Fund		217,027	112,658
Payments to the Consolidated Fund:			
relating to the prior year	13	–	(137,730)
Net increase/(decrease) in cash and cash equivalents in the year		**217,027**	**(25,072)**
Cash and cash equivalents at the beginning of the year	13	112,658	137,730
Cash and cash equivalents at the end of the year	**13**	**329,685**	**112,658**

The net increase in cash and cash equivalents in the year includes the effect of foreign exchange rate changes on cash held in foreign currency of £1.8 million (refer to note 6).

The notes on pages 173 to 226 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2022

	Note	Exchequer financing £'000	Cumulative trading surplus £'000	General fund £'000	Total reserves £'000
Balance at 1 April 2020		(3,106,838)	3,791,771	(212,153)	472,780
Changes in taxpayers' equity for 2020-21					
Non-Cash Adjustments:					
Auditors' remuneration	8	212	–	–	212
Movements in Reserves:					
Transfers between reserves		193,416	–	(193,416)	–
Recognised in Statement of Comprehensive Net Income		–	(107,315)	(109,905)	(217,220)
Total recognised income and expense for 2020-21		**193,628**	**(107,315)**	**(303,321)**	**(217,008)**
Amounts arising in year payable to the consolidated fund		757,537	–	–	757,537
Balance at 31 March 2021		**(2,155,673)**	**3,684,456**	**(515,474)**	**1,013,309**
Changes in taxpayers' equity for 2021-22					
Non-Cash Adjustments:					
Auditors' remuneration	8	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	13	(117,027)	–	–	(117,027)
Balance at 31 March 2022		**(2,134,315)**	**3,936,213**	**(581,411)**	**1,220,487**

The notes on pages 173 to 226 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 2021-22 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

Future accounting developments

The 2021-22 FReM applies financial reporting standards that are effective for the financial year.

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

IFRS 16: *Leases*

Whilst IFRS 16 became effective for the period beginning on or after 1 January 2019 in the public sector, UKEF, like other departments (with the exception of those that met the criteria and adopted it early) will be adopting this from 1 April 2022 as required by HM Treasury in the FReM. IFRS 16 replaces IAS 17: *Leases*, which made a distinction between finance and operating leases and did not require lessees to recognise assets and liabilities arising from operating leases.

The new standard introduces a single lessee accounting model which requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. As such, a lessee will recognise depreciation on the right-of-use asset and interest expense on the lease liability, and classify cash repayments against the lease liability into a principal and an interest portion.

On transition to IFRS 16, UKEF will adopt the following practical expedients as mandated by FReM:

- not reassess whether a contract is, or contains, a lease at the date of initial application (IFRS 16 (C3))
- not make any adjustments for short term leases and continue to recognise the lease payments as an expense (IFRS 16 (6) (C10.c))
- not make any adjustments for leases for which the underlying asset is of a low value and continue to recognise the lease payments as an expense (IFRS 16 (6) (C9.a))
- apply a 'cumulative catch-up' approach, which involves making an adjustment to the opening balance of equity, rather than retrospectively applying IFRS 16 to each prior period presented (IFRS 16 (C5.b))
- recognise a right-of-use asset at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial application (IFRS 16, (C8.b.ii))

UKEF does not expect there to be a material impact from the adoption of IFRS 16.

IFRS 9: *Financial Instruments* and IFRS 17: *Insurance Contracts*

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 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 2 standards. Management continues to assess the impact of these new standards as part of the ongoing programme to implement the changes. Management has considered a number 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. These decisions, options and judgements will form the basis of the working assumptions to be used in the implementation of the 2 standards.

Major FReM changes for 2021-22

UKEF has reviewed the major FReM changes for 2021-22 and determined there are no changes that will have a significant impact on the department's 2021-22 financial statements.

(B) Use of 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 contacts (refer to note 1(D) for details) and the deferral of the application of IFRS 9 (refer to note 1(A) for details).

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

Significant uncertainty arising from the nature of UKEF's underwriting activity (accounts 1-3 and 6)

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

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

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

(C) Summary of significant accounting policies

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

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

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

(D) Insurance contracts

Product classification

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

Fund basis of accounting for insurance contracts

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

Under the fund basis of accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until 3 years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until 9 years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year).

Liability adequacy test

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

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

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

Premium income

Premium income for the underwriting year is recognised as follows:

- **Project business:** the income on all guarantees and insurance contracts, excluding overseas investment insurance, that becomes effective during the year (including income for which deferred payment terms have been agreed)
- **Overseas investment insurance:** the amount due in the financial year in which the annual cover commences
- **Reinsurance provided under cooperation agreements with other export credit agencies:** premiums due based on notifications received in the year from the lead export credit agency

Interest receivable – underwriting activities

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

Insurance assets

Claims: these are recognised when authorised.

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

Reinsurance assets

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

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

(E) Net investment return

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

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

- moratorium interest: interest on Paris Club sovereign country rescheduled balances. This includes interest on both original debt and capitalised interest
- late (penalty) interest: interest on arrears of the above
- interest on direct funded loans
- default interest: interest on non-Paris Club balances
- bank interest: interest on balances held with commercial banks. The majority of UKEF funds are deposited with the Government Banking Service and do not earn interest

UKEF pays the following type of interest:

- delay interest: interest on claims paid up to 90 days following borrower repayment default

(F) Foreign exchange

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

(G) Consolidated Fund Payable

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

(H) Exchequer financing

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

(I) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded. UKEF recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

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 Staff and Remuneration report.

(J) Financial assets

Recognition and measurement

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

- fair value through profit or loss
- loans and receivables

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

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

'Loans and receivables' include insurance receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial and are therefore carried at their estimated net recoverable amount. Amortised cost is the amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between the initial amount and the maturity amount minus any reduction for impairment. For loans, in accordance with IAS 39.AG8, at any point in time the amortised cost is the net present value of the updated future expected cash flows, discounted by the original effective interest rate. Re-estimation of the future cash flows arising from a financial instrument carried at amortised cost normally results in a change in carrying amount, since the revised estimated cash flows are discounted at the original effective interest rate. The necessary adjustment is recognised in profit and loss.

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

Impairment of financial assets

Financial assets other than those at fair value through profit or loss, are regularly assessed for indicators of impairment on an incurred loss basis. Financial assets are impaired where there is objective evidence that, as a result of 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. The criteria that UKEF's Enterprise Risk and Credit Committee will use to assess if there is objective evidence of an impairment loss include:

- overdue payments of interest and principal
- breach of material loan covenants or conditions
- significant deterioration in credit quality

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

(K) Financial liabilities

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

(L) Financial guarantee contracts

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

(M) Provisions

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

(N) Contingent liabilities

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

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

2. Segmental information

UKEF applies IFRS 8: *Operating segments* considering UKEF's legal and regulatory reporting requirements. These form the basis of the operating results that are regularly reviewed by the chief operating decision maker. The chief operating decision maker is the Accounting Officer who is responsible for allocating resources and assessing performance of the operating segments.

UKEF's operations are categorised into one of the following accounts:

- **Account 1** relates to guarantees and insurance issued for business prior to April 1991, and insurance issued by the Insurance Services Group of UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities ('Insurance Services Business')
- **Account 2** relates to the credit risk arising from guarantees and insurance issued for business since April 1991
- **Account 3** relates to guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria
- **Account 4** relates to the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements
- **Account 5** relates to the provision of direct lending (in the normal course of business) (since 2014)
- **Account 6** relates to all business underwritten and booked under the Temporary COVID-19 Risk Framework (TCRF) – approved by HM Treasury since 2 April 2020

The TCRF supplementary risk framework was put in place to support the UK economy. For further details about TCRF, refer to the Chief Risk Officer's report on page 45.

i. 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
Changes in insurance liabilities net of reinsurance	–	–	–	–	–	–	–
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							
Claims charge & provision for likely claims	–	(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 costs	(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**

ii. Segmental Statement of Comprehensive Net Income for the year ended 31 March 2021

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Income							
Gross premium income	–	433,444	–	–	–	57,293	490,737
Less ceded to reinsurers	–	(128,962)	–	–	–	(31,970)	(160,932)
Net premium income	**–**	**304,482**	**–**	**–**	**–**	**25,323**	**329,805**
Net investment return income	3,409	688	5,028	267	9,290	–	18,682
Claims credit	3,503	–	–	–	–	–	3,503
Changes in insurance liabilities net of reinsurance	–	–	–	–	–	–	–
Net foreign exchange gain	–	–	–	–	–	–	–
Total income	**6,912**	**305,170**	**5,028**	**267**	**9,290**	**25,323**	**351,990**
Expenses							
Net claims charge for the year	–	(57,991)	–	–	–	–	(57,991)
Changes in insurance liabilities net of reinsurance	–	(308,729)	–	–	–	(15,660)	(324,389)
Staff costs	(284)	(16,735)	(796)	(170)	(5,484)	(4,944)	(28,413)
Other administration and operating costs	(203)	(11,976)	(570)	(122)	(3,924)	(3,538)	(20,333)
Net foreign exchange loss	(11,015)	(13,472)	–	–	(113,489)	(108)	(138,084)
Total expenses	**(11,502)**	**(408,903)**	**(1,366)**	**(292)**	**(122,897)**	**(24,250)**	**(569,210)**
Net income	**(4,590)**	**(103,733)**	**3,662**	**(25)**	**(113,607)**	**1,073**	**(217,220)**

iii. Additional segmental information

For the year ended 31 March 2022, there was one customer (the parties paying the premium) who accounted for more than 10% of the total premium revenue, net of amounts ceded to reinsurers. This customer accounted for net premium income of £147.3 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 2022

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Non-current assets:							
Equipment and intangible assets	–	1,808	–	–	–	–	1,808
Financial assets							
– Loans & receivables	–	–	967,422	–	1,260,293	–	2,227,715
Insurance contracts							
– 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							
– Fair value through income	–	–	–	52	–	–	52
– Loans & receivables	–	–	39	1,047	182,024	–	183,110
Insurance contracts							
– 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**

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Current liabilities:							
Financial 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)
Provisions	–	(11,574)	–	–	–	–	(11,574)
Insurance and other payables	(403)	(94,946)	(1)	(3)	(30)	(76,489)	(171,872)
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							
Financial liabilities							
– Financial liabilities held at fair value	–	–	–	–	–	–	–
– 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 liabilities	**–**	**(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**

v. Segmental Statement of Financial Position at 31 March 2021

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Non-current assets:							
Equipment and intangible assets	–	893	–	–	–	–	893
Financial assets							
Fair value through income	–	–	–	49	–	–	49
Loans & receivables	–	–	668,420	1,019	1,176,062	–	1,845,501
Insurance contracts							
– Insurance assets	170,059	54,493	–	–	–	–	224,552
– Reinsurers' share of insurance liabilities	–	522,721	23,232	–	–	31,970	577,923
Insurance and other receivables	–	53,961	–	–	–	188,702	242,663
Total non-current assets	**170,059**	**632,068**	**691,652**	**1,068**	**1,176,062**	**220,672**	**2,891,581**
Current assets:							
Financial assets							
Fair value through income	–	–	–	263	–	–	263
Loans & receivables	–	–	69	1,156	130,816	–	132,041
Insurance contracts							
– Insurance assets	38,428	14,088	–	–	–	–	52,516
Insurance and other receivables	10	80,334	–	3	1	52,301	132,649
Cash and cash equivalents	49,296	143,146	(84,632)	2,876	(21,078)	23,050	112,658
Total current assets	**87,734**	**237,568**	**(84,563)**	**4,298**	**109,739**	**75,351**	**430,127**
Total assets	**257,793**	**869,636**	**607,089**	**5,366**	**1,285,801**	**296,023**	**3,321,708**

	Account 1 £'000	Account 2 £'000	Account 3 £'000	Account 4 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Current liabilities:							
Financial liabilities							
– Financial liabilities held at fair value	–	–	–	(19)	–	–	(19)
Consolidated Fund (Payable)/ Receivable	(49,296)	(143,146)	84,632	(2,876)	21,078	(23,050)	(112,658)
Provisions	–	(12,413)	–	–	–	–	(12,413)
Insurance and other payables	(384)	(36,821)	–	–	(24)	(25,831)	(63,060)
Total current liabilities	**(49,680)**	**(192,380)**	**84,632**	**(2,895)**	**21,054**	**(48,881)**	**(188,150)**
Non-current assets plus net current assets	**208,113**	**677,256**	**691,721**	**2,471**	**1,306,855**	**247,142**	**3,133,558**
Non-current liabilities							
Financial liabilities							
– Financial liabilities held at fair value	–	–	–	(39)	–	–	(39)
– Insurance liabilities	–	(1,704,465)	(108,415)	–	–	(47,630)	(1,860,510)
Insurance and other payables	–	(38,211)	–	–	–	(221,489)	(259,700)
Total non-current liabilities	**–**	**(1,742,676)**	**(108,415)**	**(39)**	**–**	**(269,119)**	**(2,120,249)**
Assets less liabilities	**208,113**	**(1,065,420)**	**583,306**	**2,432**	**1,306,855**	**(21,977)**	**1,013,309**
Taxpayers' equity							
Exchequer Financing	(1,495,466)	(2,944,879)	702,564	2,118	1,603,040	(23,050)	(2,155,673)
Cumulative Trading Surplus	1,703,579	1,879,459	100,260	–	–	1,158	3,684,456
General Fund	–	–	(219,518)	314	(296,185)	(85)	(515,474)
Total taxpayers' equity	**208,113**	**(1,065,420)**	**583,306**	**2,432**	**1,306,855**	**(21,977)**	**1,013,309**

3. Premium income and net investment return

3(a) Premium income

	2021-22 £'000	2020-21 £'000
Underwriting premium income:		
Insurance contracts premium receivable		
Current underwriting year:		
Gross premium	463,720	453,981
Less ceded to reinsurers	(121,824)	(158,577)
Net premium income	**341,896**	**295,404**
Previous underwriting years:		
Gross premium	1,753	14,930
Less ceded to reinsurers	(3,669)	(2,355)
Net premium income	**(1,916)**	**12,575**
Summary		
Gross premium	465,473	468,911
Less ceded to reinsurers	(125,493)	(160,932)
Net premium income	**339,980**	**307,979**
Financial guarantees premium amortised (IAS 39)		
Summary		
Gross premium	101,263	21,826
Less ceded to reinsurers	–	–
Net premium income	**101,263**	**21,826**
Total net premium income	**441,243**	**329,805**

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

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

3(b) Net investment return

					2021-22	2020-21
	Note	Account 1 £'000	Account 2 £'000	Account 6 £'000	Total £'000	Total £'000
Export Credit Guarantees and Insurance						
Interest income	4	11,039	1,106	–	12,145	3,766
Other income		–	188	2,129	2,317	331
Total income		**11,039**	**1,294**	**2,129**	**14,462**	**4,097**
Net income		**11,039**	**1,294**	**2,129**	**14,462**	**4,097**

					2021-22	2020-21
	Note	Account 1 £'000	Account 2 £'000	Account 6 £'000	Total £'000	Total £'000
Export Finance Assistance						
Amortised loans & receivables income	9(b)	13,684	107	69,993	83,784	45,144
Gain in fair value of derivatives		–	298	–	298	489
Other income		–	–	5,313	5,313	–
Total income		**13,684**	**405**	**75,306**	**89,395**	**45,633**
Impairment of loans & receivables	9(b)	–	–	(38,376)	(38,376)	(30,586)
Loss in fair value of derivatives		–	(259)	–	(259)	(462)
Total costs		**–**	**(259)**	**(38,376)**	**(38,635)**	**(31,048)**
Net income		**13,684**	**146**	**36,930**	**50,760**	**14,585**

4. Interest income

	Note	Account 1 £'000	Account 2 £'000	2021-22 Total £'000	2020-21 Total £'000
Interest arising from claims					
Interest charged in the year	10(b)	15,315	10,517	25,832	33,103
Net (increase)/decrease in provisions for unrecovered interest	10(b)	(4,329)	(9,411)	(13,740)	(29,352)
Interest arising from claims net of provisions		**10,986**	**1,106**	**12,092**	**3,751**
Other interest		53	–	53	15
Interest credit for the year		**11,039**	**1,106**	**12,145**	**3,766**

Other interest includes bank interest on balances with commercial banks.

5. Net claims credit and provision for likely claims

	Note	Account 1 £'000	Account 2 £'000	2021-22 Total £'000	2020-21 Total £'000
Amounts authorised and paid in the year	10(a)	–	(103,139)	(103,139)	(106,894)
Expected recoveries on claims authorised and paid in the year		–	65,752	65,752	52,909
Provision on claims authorised and paid in the year		**–**	**(37,387)**	**(37,387)**	**(53,985)**
Net change in provisions for claims authorised and paid in previous years		4,163	22,242	26,405	8,180
Claims credit/(charge) for the year	10(a)	**4,163**	**(15,145)**	**(10,982)**	**(45,805)**
Change in provision for claims on financial guarantees	17(b)	–	904	904	(8,683)
Net claims credit & provision for likely claims		**4,163**	**(14,241)**	**(10,078)**	**(54,488)**

There is no reinsurance element included within the figures above.

6. Net foreign exchange gain/(loss)

					2021-22	2020-21
	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	10(a)	2,186	3,032	–	5,218	(9,838)
recoverable interest on claims after provisions	10(b)	1,409	9	–	1,418	(4,297)
insurance premium receivables		–	(769)	(231)	(1,000)	(4,602)
financial guarantees provisions		–	(65)	–	(65)	40
insurance payables		109	1,944	123	2,176	(2,845)
cash		71	1,261	80	1,412	(3,053)
Net foreign exchange gain/(loss) for year		**3,775**	**5,412**	**(28)**	**9,159**	**(24,595)**

	Note	Account 5 £'000	Account 6 £'000	Total £'000	Total £'000
Export Finance Assistance					
Net foreign exchange gain/(loss) arising on:					
loans & receivables	9(b)	35,930	–	35,930	(113,096)
payables		(315)	–	(315)	2,588
cash		350	–	350	(2,981)
Net foreign exchange gain/(loss) for year		**35,965**	**–**	**35,965**	**(113,489)**

	Total £'000	Total £'000
Summary:		
Net foreign exchange gain/(loss) for year on cash assets	1,762	(6,034)
Net foreign exchange gain/(loss) for year on net assets other than cash	43,362	(132,050)
Net foreign exchange gain/(loss) for year	**45,124**	**(138,084)**

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 2022**	**31 March 2021**
Euro	1.18	1.17
Japanese yen	159.78	152.42
US dollar	1.32	1.38

7. Staff costs

	2021-22 £'000	2020-21 £'000
Salaries and wages	25,683	21,067
Social security costs	2,949	2,394
Other pension costs	6,124	4,952
Total staff costs	**34,756**	**28,413**
Of which:		
Export Credit Guarantees and Insurance	27,142	22,001
Export Finance Assistance	7,614	6,412

Details of staff numbers, exit packages and UKEF's remuneration policy can be found in the Staff and Remuneration report.

8. Other administration and operating costs

	2021-22 £'000	2020-21 £'000
Agency staff	2,522	1,812
Training	591	244
Recruitment	242	126
Travel & subsistence	301	(3)
Accommodation	2,620	2,484
Other IT	5,465	5,263
Project costs	7,141	2,513
Legal	714	790
Marketing & business promotion	4,509	2,198
Depreciation	498	209
Irrecoverable VAT	4,019	2,310
Other administration	2,884	2,387
Total other administrative costs	**31,506**	**20,333**
Of which:		
Export Credit Guarantees and Insurance	24,603	15,744
Export Finance Assistance	6,903	4,589
Included in the above figures:		
Audit fees	240	212

The 2021-22 audit fee figure includes an additional £30,000 for the auditors' engagement on the Financial Reporting Changes (FRC) Programme. Refer to note 1(A) for further details.

9. Financial assets

9(a) Fair value through profit or loss

	31 March 2022 £'000	31 March 2021 £'000
Fair value through profit or loss		
Interest rate derivatives in relation to Export Finance Loan Guarantees	52	312
Total	**52**	**312**
Falling due:		
within one year	52	263
after more than one year	–	49

All interest rate derivatives are categorised as level 2 instruments, with their fair values determined using valuation techniques and pricing models commonly employed by market participants, and market-observable inputs. All Fixed Rate Export Finance exposure will run off in 2022-23.

9(b) Loans and receivables

	31 March 2022 £'000	31 March 2021 £'000
Loans and receivables	2,410,825	1,977,542
Total	**2,410,825**	**1,977,542**
Falling due:		
within one year	183,110	132,041
after more than one year	2,227,715	1,845,501

	Note	Account 3 £'000	Account 4 £'000	Account 5 £'000	Total £'000
Movements:					
Balance at 1 April 2020		**–**	**4,798**	**1,109,421**	**1,114,219**
Loans advanced	21	702,562	–	535,063	1,237,625
Loans recovered		–	(2,564)	(125,693)	(128,257)
Net foreign exchange gain/ (loss)		–	–	(113,096)	(113,096)
Amortised income		9,179	240	54,458	63,877
Other movement in working capital		(39,101)	(299)	(108,107)	(147,507)
Revision to cash flows		(4,151)	–	(14,582)	(18,733)
Impairment provision		–	–	(30,586)	(30,586)
Balance at 31 March 2021		**668,489**	**2,175**	**1,306,878**	**1,977,542**
Loans advanced	21	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**
Of which:					
Capital loans recoverable		1,000,000	1,019	1,806,896	2,807,915
Net interest receivable		39	28	5,743	5,810
Recoverable expenses incurred		–	–	–	–
Unamortised income		(26,446)	–	(282,459)	(308,905)
Revision to cash flows		(6,132)	–	(3,971)	(10,103)
Impairment provisions		–	–	(83,892)	(83,892)
Falling due:					
within one year		39	1,047	182,024	183,110
after more than one year		967,422	–	1,260,293	2,227,715

Loans are calculated on the amortised cost basis (refer to note 1(J)).

The fair value of Export Finance Loans for account 3 was £978,500,000 (2020-21: £736,040,000), for account 4 was £1,075,000 (2020-21: £2,317,000) and for account 5 £1,678,705,000 (2020-21: £1,665,547,000).

10. Insurance assets

	31 March 2022 £'000	31 March 2021 £'000
Recoverable claims	183,922	178,680
Interest on unrecovered claims	87,001	98,388
Total	**270,923**	**277,068**
Falling due:		
within one year	41,618	52,516
after more than one year	229,305	224,552

Insurance assets are shown at their expected recoverable amount. The majority of the balances are subject to market rates of interest.

10(a) Recoverable claims

	Account 1 £'000	Account 2 £'000	Total £'000
Recoverable claims – gross			
Balance at 1 April 2020	**401,693**	**188,972**	**590,665**
Claims & recoverable expenditure approved in the year	–	106,894	106,894
Recoveries made in the year	(30,879)	(38,920)	(69,799)
Recoveries abandoned in the year	(9,890)	(125)	(10,015)
Net foreign exchange movements	(10,697)	(7,287)	(17,984)
Balance at 31 March 2021	**350,227**	**249,534**	**599,761**
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**
Recoverable claims – provisions			
Balance at 1 April 2020	257,078	136,359	393,437
(Release)/increase of provisions in the year	(3,503)	49,308	45,805
Recoveries abandoned in the year	(9,890)	(125)	(10,015)
Net foreign exchange movements	(3,957)	(4,189)	(8,146)
Balance at 31 March 2021	**239,728**	**181,353**	**421,081**
(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**
Net recoverable claims as at:			
31 March 2022	**87,110**	**96,812**	**183,922**
31 March 2021	110,499	68,181	178,680
31 March 2020	144,615	52,613	197,228

For further details about claims and recoveries, refer to the Chief Risk Officer's report. There are no recoverable claims on accounts 3, 4 or 6.

10(b) Interest on unrecovered claims

	Account 1 £'000	Account 2 £'000	Total £'000
Interest on unrecovered claims – gross			
Balance at 1 April 2020	1,015,016	156,614	1,171,630
Interest charged in the year	23,461	9,642	33,103
Interest received in the year	(18,968)	(445)	(19,413)
Recoveries abandoned in the year	(33,845)	1	(33,844)
Net foreign exchange movements	(21,328)	(476)	(21,804)
Balance at 31 March 2021	**964,336**	**165,336**	**1,129,672**
Interest 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 on unrecovered claims – provisions			
Balance at 1 April 2020	897,183	156,100	1,053,283
Increase in provisions in the year	20,067	9,285	29,352
Recoveries abandoned in the year	(33,845)	1	(33,844)
Net foreign exchange movements	(17,057)	(450)	(17,507)
Balance at 31 March 2021	**866,348**	**164,936**	**1,031,284**
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**
Net interest on unrecovered claims as at:			
31 March 2022	**86,689**	**312**	**87,001**
31 March 2021	97,988	400	98,388
31 March 2020	117,833	514	118,347

11. Reinsurers' share of insurance liabilities

	£'000
Balance at 1 April 2020	**359,302**
Movements summary:	
Addition to the underwriting funds in the year	158,924
Net decrease in open cash funds	–
Net decrease in open credit funds	(10,077)
Other fund movements	44,747
Net increase in insurance liabilities on closed funds	25,027
Total movements	**218,621**
Balance at 31 March 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 are summarised in note 18.

12. Insurance and other receivables

	31 March 2022 £'000	31 March 2021 £'000
Export Credit Guarantees and Insurance:		
Insurance premium receivables	433,870	329,261
Insurance prepayments and accrued income	16,152	45,923
Other receivables	1,998	128
Total	**452,020**	**375,312**
Falling due:		
within one year	146,166	132,649
after more than one year	305,854	242,663

The insurance premium receivables include the premium amounts receivable for Export Development Guarantees written during the year. The EDG product, which is accounted for under IAS 39, was launched in July 2020. For further details about UKEF's Export Development Guarantee product, refer to the Performance section.

13. Cash and cash equivalents

	£'000
Balance at 1 April 2020	**137,730**
Net cash inflow/(outflow)	(757,537)
Receipts from the Consolidated Fund:	
in respect of amounts received in the current year	870,195
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	(137,730)
Balance at 31 March 2021	**112,658**
Net cash inflow/(outflow)	117,027
Receipts from the Consolidated Fund:	
in respect of amounts received in the current year	100,000
Payments to the Consolidated Fund:	
in respect of amounts received in the previous year	–
Balance at 31 March 2022	**329,685**

Cash and cash equivalents comprise:	**31 March 2022 £'000**	**31 March 2021 £'000**
Government Banking Service	232,533	2,534
Commercial banks and cash in hand	97,152	110,124
Total	**329,685**	**112,658**

The 2020-21 closing cash balance represented the amount issued from the Consolidated Fund but not spent that year. Instead of being returned to the Consolidated Fund via the bank account, it was treated as a deemed supply for the 2021-22 financial year as agreed with HM Treasury.

14. Reconciliation of net cash requirement to decrease/increase in cash

	2021-22 £'000	2020-21 £'000
Net cash inflow/(outflow) from operating and investing activities	117,027	(757,537)
Receipts from the Consolidated Fund relating to the current year	100,000	870,195
Amounts due to the Consolidated Fund	**217,027**	**112,658**
Payments to the Consolidated Fund relating to the prior year	–	(137,730)
(Decrease)/Increase in cash	**217,027**	**(25,072)**

15. Financial liabilities at fair value

Fair value through profit or loss	31 March 2022 £'000	31 March 2021 £'000
Interest rate derivatives in relation to Export Finance Loan Guarantees	3	40
Interest rate derivative contracts entered into for hedging purposes	(1)	18
Total	**2**	**58**
Falling due:		
within one year	2	19
after more than one year	–	39

All interest rate derivatives are categorised as level 2 instruments, with their fair values determined using valuation techniques and pricing models commonly employed by market participants, and market-observable inputs. All Fixed Rate Export Finance exposure will run off in 2022-23.

16. Consolidated Fund Payable

	31 March 2022 £'000	31 March 2021 £'000
Amounts payable to the Consolidated Fund	329,685	112,658
Total	**329,685**	**112,658**
Falling due:		
within one year	329,685	112,658

The balance due within one year represents UKEF's bank balance as at 31 March 2022.

17. Insurance and other payables

17(a) Payables

	31 March 2022 £'000	31 March 2021 £'000
Export Credit Guarantees and Insurance:		
Insurance payables – amounts due to policyholders	115	116
Income Tax and National Insurance	816	656
Deferred income and other payables	65,679	21,417
Financial guarantee liabilities	403,051	300,547
Total	**469,661**	**322,736**
Export Finance Assistance:		
Other payables	33	24
Total	33	24
Total	**469,694**	**322,760**
Falling due:		
within one year	171,872	63,059
after more than one year	297,822	259,701

17(b) Provisions for financial guarantees

	31 March 2022 £'000	31 March 2021 £'000
Provisions for likely claims on financial guarantees	11,574	12,413
Total	**11,574**	**12,413**
Falling due:		
within one year	11,574	12,413
after more than one year	–	–

The movement in the provision for financial guarantees includes £904,000 (2020-21: £8,683,000) (see note 5) and (£65,000) (2020-21: (£40,000)) movement on foreign currencies.

18. Insurance liabilities

Each underwriting fund for an underwriting year is set at the higher of (i) the current expected loss, as defined below, on amounts at risk on unexpired insurance contracts, or (ii) accumulated premiums plus interest earned, less administration costs and provisions made for the unrecoverable proportion of paid claims. Premium income credited to a provision is net of any reinsurance premium ceded to reinsurers where UKEF, as lead insurer, has reinsured a proportion of the total contract risk.

The expected loss is management's best estimate of the mean of possible future losses on UKEF's insurance contracts.

Under the fund basis of accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until 3 years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until 9 years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). After this period, any excess of the net underwriting fund over the current expected loss on amounts at risk on unexpired guarantees or policies written in the relevant year is released to income. Underwriting funds for those and prior years will be equal to the expected loss on unexpired guarantees or insurance policies for the relevant underwriting year.

The following movements in underwriting funds have occurred in the year:

	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Insurance liabilities – gross of reinsurance				
Balance at 1 April 2020	1,206,128	111,372	–	1,317,500
Movements:				
Addition to the underwriting funds in the year	379,788	–	47,630	427,418
Release of excess funds – cash	(846)	–	–	(846)
Release of excess funds – credit	(61,853)	–	–	(61,853)
Other fund movements	136,099	(2,957)	–	133,142
Change in insurance liabilities on closed funds	45,149	–	–	45,149
Total movements	**498,337**	**(2,957)**	**47,630**	**543,010**
Balance at 31 March 2021	**1,704,465**	**108,415**	**47,630**	**1,860,510**
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**
Insurance liabilities – net of reinsurance				
Balance at 1 April 2020	873,015	85,183	–	958,198
Movements:				
Addition to the underwriting funds in the year	252,834	–	15,660	268,494
Release of excess funds – cash	(846)	–	–	(846)
Release of excess funds – credit	(51,776)	–	–	(51,776)
Other fund movements	88,395	–	–	88,395
Change in insurance liabilities on closed funds	20,122	–	–	20,122
Total movements	**308,729**	**–**	**15,660**	**324,389**
Balance at 31 March 2021	**1,181,744**	**85,183**	**15,660**	**1,282,587**
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**

	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
2020-21				
Gross changes in insurance liabilities	498,337	(2,957)	47,630	543,010
Reinsurers' share of changes in insurance liabilities	(189,608)	2,957	(31,970)	(218,621)
Changes in insurance liabilities (net of reinsurance)	**308,729**	**–**	**15,660**	**324,389**
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**

Movements in reinsurance are analysed in note 11.

Schedule of expected loss

As part of its liability adequacy testing process, UKEF assesses the carrying value of its insurance liabilities against a schedule of expected loss. The expected loss does not take into account any additional margins that are required to compensate UKEF for the inherent risk that actual losses may significantly exceed the expected loss.
The derived expected loss is not therefore regarded by UKEF to be a reliable estimate of the likely eventual outturn (with insufficient information available for open fund years to determine definitively and with a high degree of confidence the level of claims that will be ultimately experienced) and is presented for indicative purposes. Credit funds up to and including 2012-13 and cash fund years up to and including 2018-19 are closed years.

	2012-13 fund year £'000	2013-14 fund year £'000	2014-15 fund year £'000	2015-16 fund year £'000	2016-17 fund year £'000	2017-18 fund year £'000	2018-19 fund year £'000	2019-20 fund year £'000	2020-21 fund year £'000	2021-22 fund year £'000
Accounts 2, 3 & 6										
Credit funds										
At end of year	33,987	34,208	46,367	28,315	32,214	43,848	127,410	72,685	77,729	103,526
One year later	26,790	34,184	44,703	29,114	26,001	49,578	110,027	76,790	69,060	–
2 years later	26,204	35,429	48,413	21,070	24,134	42,298	183,377	147,227	–	–
3 years later	24,580	35,278	36,502	17,589	26,603	166,991	142,601	–	–	–
4 years later	22,511	20,860	44,479	17,535	35,966	101,218	–	–	–	–
5 years later	13,443	17,559	30,047	16,516	32,696	–	–	–	–	–
6 years later	8,158	21,376	65,202	13,008	–	–	–	–	–	–
7 years later	10,272	56,497	54,012	–	–	–	–	–	–	–
8 years later	56,951	32,230	–	–	–	–	–	–	–	–
9 years later	37,756	–	–	–	–	–	–	–	–	–
Cash funds										
At end of year	8,860	69	261	480	689	383	6,365	91	668	461
One year later	7,314	14	291	–	16	100	2,575	20	118	–
2 years later	7,583	171	78	–	–	62	1,833	14	–	–
3 years later	9,438	27	40	–	–	43	1,140	–	–	–
4 years later	4,462	–	18	–	–	4	–	–	–	–
5 years later	3,928	–	20	–	–	–	–	–	–	–
6 years later	3,335	–	–	–	–	–	–	–	–	–
7 years later	2,354	–	–	–	–	–	–	–	–	–
8 years later	5,940	–	–	–	–	–	–	–	–	–
9 years later	1,183	–	–	–	–	–	–	–	–	–
Credit fund total	**37,756**	**32,230**	**54,012**	**13,008**	**32,696**	**101,218**	**142,601**	**147,227**	**69,060**	**103,526**
Cash fund total	**1,183**	**–**	**–**	**–**	**–**	**4**	**1,140**	**14**	**118**	**461**
Expected loss total	**38,939**	**32,230**	**54,012**	**13,008**	**32,696**	**101,222**	**143,741**	**147,241**	**69,178**	**103,987**
Summary										**736,254**

Expected loss summary:	funds 2012-13 to 2021-22 open £'000	funds 2012-13 to 2021-22 closed £'000	funds 2012-13 to 2021-22 total £'000	funds years to 2011-12 closed £'000	funds total £'000
Accounts 2, 3 & 6					
Credit fund total	695,578	37,756	733,334	4,379	737,713
Cash fund total	593	2,327	2,920	–	2,920
Expected loss total	**696,171**	**40,083**	**736,254**	**4,379**	**740,633**

19. Exchequer financing

The resources consumed by UKEF in respect of its export finance activities and trading operations are supplied annually by Parliament through the Supply Procedure of the House of Commons. The Estimate voted on in the Supply Procedure also sets an annual ceiling on UKEF's voted net cash requirement. By the provisions of Section 14(2) of the Export and Investment Guarantees Act 1991, UKEF is able to pay claims direct from the Consolidated Fund in the event that sufficient funds have not been voted for the purpose by Parliament.

20. Risk management: financial instruments and insurance contracts

This note describes the nature and extent of the risks for UKEF arising from financial instruments and insurance contracts and how UKEF manages them. UKEF has established a risk management framework that seeks to identify, consider and manage the risks it faces in line with its risk appetite, minimising its exposure to unexpected financial loss and facilitating the achievement of its business objectives.

Full details of UKEF's approach to managing financial risk can be found in the Chief Risk Officer's report.

Operational risk is described in the Governance Statement.

For the purposes of this note, risks are considered under the following headings:

a. Market risk (including interest rate risk and foreign currency risk)
b. Credit risk;
c. Insurance risk (including related foreign currency risk)
d. Liquidity risk
e. Risk measurement

20(a) Market risk

Market risk is the risk of adverse financial impact due to changes in the fair value or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates and other prices. UKEF is exposed to market risk through its holdings of interest rate derivatives held in support of its Fixed Rate Export Finance (FREF) scheme. In addition, UKEF has a significant exposure to foreign currency risk, primarily due to holding US dollar denominated assets in the form of loans and receivables and net unrecovered claims. UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk (refer to notes 20(a)(ii) and 20(c)(iii)). In addition, there is some foreign exchange market risk which is explained in note 20(a)(ii).

UKEF has established principles and policies to be followed in respect of management of the key market risks to which it is exposed.

20(a)(i) Interest rate risk

Interest rate risk arises primarily from the operation of the FREF scheme, under which UKEF supports the provision of fixed rate finance to overseas borrowers. Such official financing support is provided by a number of governments or export credit agencies pursuant to the OECD Arrangement on Officially Supported Export Credits (the OECD Arrangement). The minimum fixed interest rates which may be supported under the OECD Arrangement in this manner are called Commercial Interest Reference Rates.

Support is provided in the form of interest make-up (IMU) arrangements between UKEF and the lending bank under export finance loans. These IMU arrangements are effectively interest rate swaps between UKEF and the lending bank. The lending bank provides funding for the export loan at a floating rate (usually a reference rate plus a margin). UKEF makes up the difference when the lender's floating rate, inclusive of margin, is higher than the agreed fixed rate. Conversely, where the floating rate, inclusive of margin, is lower than the fixed rate, UKEF receives the difference from the lender.

UKEF seeks to limit its exposure to interest rate risk through the use of effective hedging instruments such as interest rate swaps.

UKEF's exposure to the FREF scheme and interest rate swaps is immaterial and expected to run off in the next financial year.

20(a)(ii) Foreign currency risk

Foreign currency risk arises from two main areas: transaction risk and translation risk. Transaction risk is the risk of movements in the sterling value of foreign currency receipts on conversion into sterling. Translation risk is the risk that UKEF's Statement of Financial Position and net operating income will be adversely impacted by changes in the sterling value of foreign currency denominated assets and liabilities from movements in foreign currency exchange rates. UKEF is heavily exposed to translation risk due to the value of non-sterling assets and liabilities held. The most significant exposure relates to insurance assets (refer to note 20(c)(iii)).

UKEF is not authorised by HM Treasury to hedge its exposure to foreign currency risk.

The currency profile of UKEF's financial instruments and capital loan commitments is set out below.

	Pound sterling £'000	US dollar £'000	Other £'000	Total £'000
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 3 amounts available	–	–	–	–
Account 4 amounts available	–	–	–	–
Account 5 amounts available	4,036	551,944	447,203	1,003,183
As at 31 March 2021				
Financial assets:				
Fair value through profit or loss	–	312	–	312
Account 3 loans at amortised cost	668,489	–	–	668,489
Account 4 loans at amortised cost	2,175	–	–	2,175
Account 5 loans at amortised cost	15,865	900,683	390,330	1,306,878
Insurance and other receivables	266,793	93,592	14,927	375,312
Financial liabilities:				
Fair value through profit or loss	(39)	–	(19)	(58)
Insurance and other payables	(231,101)	(88,992)	(2,667)	(322,760)
Financial commitments:				
Account 3 amounts available	297,438	–	–	297,438
Account 4 amounts available	–	–	–	–
Account 5 amounts available	9,693	473,665	295,250	778,608

The sensitivity to changes in foreign exchange of US dollar denominated loans held at amortised cost at 31 March 2022 is as follows:

- a 10% increase would increase the carrying value by £81,950,000 (31 March 2021: £81,880,000).

20(b) Credit risk

Credit risk is the risk of loss in value of financial assets due to lending counterparties failing to meet all or part of their obligations as they fall due. Credit risk related to UKEF's insurance contracts, including financial guarantees, is discussed in note 20(c)(i).

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.

20(b)(i) Credit risk

The following table summarises the credit exposure of loans at amortised cost and 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 2022			
Account 3: Direct Lending			
Loans at amortised cost	967,461	–	967,461
Commitments	–	–	–
Account 4: Direct Lending			
Loans at amortised cost	1,047	–	1,047
Commitments	–	–	–
Account 5: Direct Lending			
Loans at amortised cost	–	1,442,317	1,442,317
Commitments	–	1,003,183	1,003,183
As at 31 March 2021			
Account 3: Direct Lending			
Loans at cost	668,489	–	668,489
Commitments	297,438	–	297,438
Account 4: Direct Lending			
Loans at cost	2,175	–	2,175
Commitments	–	–	–
Account 5: Direct Lending			
Loans at amortised cost	–	1,306,878	1,306,878
Commitments	–	778,608	778,608

20(b)(ii) Credit concentration risk

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

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
As at 31 March 2022					
Account 3: Direct Lending					
Loans at cost	–	–	967,461	–	967,461
Commitments	–	–	–	–	–
Account 4: Direct Lending					
Loans at cost	–	–	–	1,047	1,047
Commitments	–	–	–	–	–
Account 5: Direct Lending					
Loans at cost	4,945	27,785	1,409,587	–	1,442,317
Commitments	–	–	1,003,183	–	1,003,183
As at 31 March 2021					
Account 3: Direct Lending					
Loans at cost	–	–	668,489	–	668,489
Commitments	–	–	297,438	–	297,438
Account 4: Direct Lending					
Loans at cost	–	–	–	2,175	2,175
Commitments	–	–	–	–	–
Account 5: Direct Lending					
Loans at cost	4,837	32,750	1,269,291	–	1,306,878
Commitments	–	–	778,608	–	778,608

20(c) Insurance risk

Insurance risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The main insurance risk facing UKEF is credit risk accepted by it through the underwriting process. It is defined as the risk of financial loss resulting from the default of an obligor under a contingent liability or a legitimate claim under a policy of insurance or indemnity.

Underwriting funds

Under the fund basis of accounting, premium arising from policies allocated to each underwriting year, net of provisions for any unrecovered claims and expenses, is deferred until 3 years after the end of that underwriting year (for insurance contracts written in respect of business that does not extend credit to the customer after delivery) or until 9 years after the end of that underwriting year (for insurance contracts where extended credit terms are provided to the customer from the start of the underwriting year). Any excess of the net underwriting fund over the current expected loss on amounts at risk on unexpired guarantees or policies written in the relevant year is released to profit or loss. Underwriting funds for those and prior years will be equal to the expected loss on unexpired guarantees or policies for the relevant underwriting year.

The expected loss on UKEF's portfolio is calculated as the statistical mean of possible future losses, calculated based on the assessment of probability of default (PoD) and assumptions of the loss given default (LGD). The PoD is the statistical likelihood of default by an obligor over a given time horizon and is dependent upon the credit standing of the obligor. The LGD is the value of claims not expected to be recoverable in the event of default. The percentage derived is applied to the amount at risk in order to determine the expected loss on an insurance contract.

20(c)(i) Credit risk

UKEF has a significant exposure to credit risk which is measured in terms of expected loss and unexpected loss assessed at the time of underwriting the transaction, but both of which will vary over time.

Full details of the policies and procedures that have been implemented to seek to minimise credit risk can be found in the Chief Risk Officer's report.

The following table provides information regarding the credit exposure of amounts at risk and expected loss within the UKEF account 2, account 3 and account 6 portfolio as at 31 March 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**
Amounts 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**

	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**
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**

The following table provides information regarding the credit exposure of amounts at risk and expected loss within the UKEF account 2, account 3 and account 6 portfolio as at 31 March 2021.

	Investment grade £'000	Non-investment grade £'000	Total £'000
Amounts at risk, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	2,340,204	3,368,452	5,708,656
Other	938,228	9,822,751	10,760,979
Total	**3,278,432**	**13,191,203**	**16,469,635**
Account 3: Insurance Contracts			
Other	3,206,766	–	3,206,766
Total	**3,206,766**	**–**	**3,206,766**
Account 6: Insurance Contracts			
Asset-backed	139,193	545,211	684,404
Other	–	5,869	5,869
Total	**139,193**	**551,080**	**690,273**
Account 2: Financial Guarantees	834,644	1,132,021	1,966,665
Account 6: Financial Guarantees	–	6,500,904	6,500,904
Total	**834,644**	**7,632,925**	**8,467,569**
Amounts at risk, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	1,457,562	2,101,550	3,559,112
Other	916,602	7,713,867	8,630,469
Total	**2,374,164**	**9,815,417**	**12,189,581**
Account 3: Insurance Contracts			
Other	2,081,564	–	2,081,564
Total	**2,081,564**	**–**	**2,081,564**
Account 6: Insurance Contracts			
Asset-backed	139,193	130,632	269,825
Other	–	5,869	5,869
Total	**139,193**	**136,501**	**275,694**
Account 2: Financial Guarantees	834,644	1,132,021	1,966,665
Account 6: Financial Guarantees	–	6,500,904	6,500,904
Total	**834,644**	**7,632,925**	**8,467,569**

	Investment grade £'000	Non-investment grade £'000	Total £'000
Expected loss, gross of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	11,820	638,946	650,766
Other	6,049	488,114	494,163
Total	**17,869**	**1,127,060**	**1,144,929**
Account 3: Insurance Contracts			
Other	6,404	–	6,404
Total	**6,404**	**–**	**6,404**
Account 6: Insurance Contracts			
Asset-backed	1,778	22,415	24,193
Other	–	394	394
Total	**1,778**	**22,809**	**24,587**
Account 2: Financial Guarantees	8,763	36,588	45,351
Account 6: Financial Guarantees	–	288,904	288,904
Total	**8,763**	**325,492**	**334,255**
Expected loss, net of reinsurance			
Account 2: Insurance Contracts			
Asset-backed	8,272	365,423	373,695
Other	5,862	385,393	391,255
Total	**14,134**	**750,816**	**764,950**
Account 3: Insurance Contracts			
Other	4,245	–	4,245
Total	**4,245**	**–**	**4,245**
Account 6: Insurance Contracts			
Asset-backed	1,778	5,730	7,508
Other	–	394	394
Total	**1,778**	**6,124**	**7,902**
Account 2: Financial Guarantees	8,763	36,588	45,351
Account 6: Financial Guarantees	–	288,904	288,904
Total	**8,763**	**325,492**	**334,255**

Information is presented based upon the grade of the ultimate obligor.

There are no amounts at risk and expected loss on account 1.

Insurance assets – unrecovered claims

When a default event occurs, UKEF will seek to recover the amount of any claims paid under the insurance policy or guarantee. The total amount of the unrecovered claim is recorded within unrecovered claims, with a provision made for any amount estimated to be irrecoverable. Such provisions are determined on a case-by-case or, for sovereign risk, sometimes on a country by country basis and are derived from assessments of the likely recovery. Provisions are arrived at by using a variety of information including payment performance, expected Paris Club treatment, International Monetary Fund/World Bank debt sustainability analysis, and UKEF's own assessment of the economic risk.

Additionally, for certain unrecovered claims (e.g. related to guarantees for aerospace asset-backed financing), the amounts estimated as being recoverable will also be partly dependent upon the value of the underlying assets. These are determined on the basis of industry standard worst-case values provided by an independent valuer. Individual provisions on unrecovered claims within the aerospace portfolio are assessed on a case-by-case basis. For cases where the aircraft remain with the airline during and following a debt restructuring, the calculation of provisions, using a portfolio risk model, aligns the calculation of provisions and expected loss as closely as possible with the calculation of expected loss for performing cases. For cases where aircraft are remarketed and sold or placed on an operating lease following repossession from the original airline, provisions are based upon the current value of the exposure, less expected recoveries net of estimated future costs.

For claims paid under insurance contracts written in underwriting years still open, provisions are charged against the balance of the underwriting fund for the relevant underwriting year. Any excess of provisions over the available underwriting fund for the year is charged to net income. Any provisions against paid claims on insurance contracts written in years where the underwriting funds have been released are charged directly to net income.

The following table provides information regarding the credit exposure of the recoverable claims and related interest as at 31 March 2022.

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**

The following table provides information regarding the credit exposure of recoverable claims and related interest as at 31 March 2021.

31 March 2021	Investment grade £'000	Non-investment grade £'000	Total £'000
Recoverable claims – gross			
Account 1	2,129	348,098	350,227
Account 2	13,852	235,682	249,534
Total	**15,981**	**583,780**	**599,761**
Recoverable claims – net of provisions			
Account 1	2,121	108,378	110,499
Account 2	13,798	54,383	68,181
Total	**15,919**	**162,761**	**178,680**
Interest on unrecovered claims – gross			
Account 1	4	964,332	964,336
Account 2	27	165,309	165,336
Total	**31**	**1,129,641**	**1,129,672**
Interest on unrecovered claims – net of provisions			
Account 1	4	97,984	97,988
Account 2	27	373	400
Total	**31**	**98,357**	**98,388**

20(c)(ii) Credit concentration risk

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

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

The following table provides an indication of the concentration of credit risk within the UKEF account 2, account 3 and account 6 portfolios 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**
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**

	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**
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**

The following table provides an indication of the concentration of credit risk within the UKEF account 2 and account 3 portfolio as at 31 March 2021.

	Europe £'000	Americas £'000	Middle East and Africa £'000	Asia Pacific £'000	Total £'000
Amounts at risk, gross of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	3,193,739	332,796	1,023,967	1,158,154	5,708,656
Other	2,292,728	638,758	6,833,273	996,220	10,760,979
Total	**5,486,467**	**971,554**	**7,857,240**	**2,154,374**	**16,469,635**
Account 3: Insurance Contracts					
Other	1,125,202	–	2,081,564	–	3,206,766
Total	**1,125,202**	**–**	**2,081,564**	**–**	**3,206,766**
Account 6: Insurance Contracts					
Asset-backed	480,946	–	203,458	–	684,404
Other	5,869	–	–	–	5,869
Total	**486,815**	**–**	**203,458**	**–**	**690,273**
Account 2: Financial Guarantees	1,966,665	–	–	–	1,966,665
Account 6: Financial Guarantees	6,500,904	–	–	–	6,500,904
Total	**8,467,569**	**–**	**–**	**–**	**8,467,569**
Amounts at risk, net of reinsurance					
Account 2: Insurance Contracts					
Asset-backed	1,324,434	291,247	1,023,967	919,464	3,559,112
Other	339,539	570,369	6,724,340	996,221	8,630,469
Total	**1,663,973**	**861,616**	**7,748,307**	**1,915,685**	**12,189,581**
Account 3: Insurance Contracts					
Other	–	–	2,081,564	–	2,081,564
Total	**–**	**–**	**2,081,564**	**–**	**2,081,564**
Account 6: Insurance Contracts					
Asset-backed	66,368	–	203,457	–	269,825
Other	5,869	–	–	–	5,869
Total	**72,237**	**–**	**203,457**	**–**	**275,694**
Account 2: Financial Guarantees	1,966,665	–	–	–	1,966,665
Account 6: Financial Guarantees	6,500,904	–	–	–	6,500,904
Total	**8,467,569**	**–**	**–**	**–**	**8,467,569**

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

20(c)(iii) Foreign currency risk

A material proportion of UKEF's insurance guarantees and policies are written in US dollars, exposing UKEF to significant foreign currency risk. 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 2022.

	Pounds 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**

The sensitivity to changes in foreign exchange of US dollar denominated net insurance assets at 31 March 2022 is as follows:

- a 10% increase would increase the carrying value by £10,150,000 (31 March 2021: £10,455,000).

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 2021.

	Pounds sterling £'000	US dollar £'000	Other £'000	Total £'000
Recoverable claims				
Gross	396,787	157,512	45,462	599,761
Provisions	(321,294)	(75,630)	(24,157)	(421,081)
Interest on unrecovered claims				
Gross	931,395	181,706	16,571	1,129,672
Provisions	(866,234)	(148,579)	(16,471)	(1,031,284)
Net insurance assets at 31 March 2021	**140,654**	**115,009**	**21,405**	**277,068**

20(d) Liquidity risk

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

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

	One year or less £'000	Between one and 5 years £'000	Between 5 and 10 years £'000	Between 10 and 15 years £'000	15 years or 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**

	One year or less £'000	Between one and 5 years £'000	Between 5 and 10 years £'000	Between 10 and 15 years £'000	15 years or more £'000	Total £'000
As at 31 March 2021:						
Account 2: Insurance Contracts						
Gross amounts at risk	2,169,432	8,612,985	4,377,650	1,182,117	127,451	16,469,635
Less: amounts at risk ceded to reinsurers	(286,789)	(2,707,039)	(898,812)	(331,172)	(56,242)	(4,280,054)
Net amounts at risk	**1,882,643**	**5,905,946**	**3,478,838**	**850,945**	**71,209**	**12,189,581**
Account 3: Insurance Contracts						
Gross amounts at risk	105,512	1,597,158	1,485,642	18,454	–	3,206,766
Less: amounts at risk ceded to reinsurers	(36,463)	(583,743)	(503,418)	(1,578)	–	(1,125,202)
Net amounts at risk	**69,049**	**1,013,415**	**982,224**	**16,876**	**–**	**2,081,564**
Account 6: Insurance Contracts						
Gross amounts at risk	59,599	237,778	290,123	102,773	–	690,273
Less: amounts at risk ceded to reinsurers	(36,074)	(141,713)	(174,745)	(62,047)	–	(414,579)
Net amounts at risk	**23,525**	**96,065**	**115,378**	**40,726**	**–**	**275,694**
Account 2: Financial Guarantees						
Gross amounts at risk	286,319	1,562,742	117,604	–	–	1,966,665
Less: amounts at risk ceded to reinsurers	–	–	–	–	–	–
Net amounts at risk	**286,319**	**1,562,742**	**117,604**	**–**	**–**	**1,966,665**
Account 6: Financial Guarantees						
Gross amounts at risk	1,108,642	5,392,262	–	–	–	6,500,904
Less: amounts at risk ceded to reinsurers	–	–	–	–	–	–
Net amounts at risk	**1,108,642**	**5,392,262**	**–**	**–**	**–**	**6,500,904**

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

20(e) Risk measurement

UKEF uses its own portfolio risk simulation model (PRISM) to undertake all portfolio-level credit risk modelling, and to monitor and report on its potential future exposure for its account 2, account 3 and account 6 insurance business. See the Chief Risk Officer's report for more details.

Scenario analysis and stress testing

We use PRISM to conduct regular scenario analysis and stress testing of the account 2, 3 and 6 portfolios as a central part of UKEF's risk management framework, using criteria endorsed by the Enterprise Risk and Credit Committee (ERiCC) and reviewed by the Board and Risk Committee. These simulate specific potential events, such as financial crises by geographical region or industry sector deterioration, and movements in the main factors that determine the insurance risk faced by the organisation. In addition to this, climate 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).

The following table sets out the impact of stress tests on credit ratings, persistence of default and recovery rates on total expected loss and on the Statement of Comprehensive Net Income – which for insurance contracts takes account of the utilisation of the underwriting fund.

There is no remaining exposure on account 1.

Sensitivity analysis for account 6 Financial Guarantee Contracts is not considered to have any significant impact on net income for the year.

	Across the board ratings downgrade by		Increased persistence	Reduced recovery rates
	1 notch £'000	2 notches £'000	+ 2 years £'000	-20% £'000
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 Guarantees				
Decrease in net income for the year	(509)	(1,848)	–	–
As at 31 March 2021:				
Account 2: Insurance Contracts				
Increase in expected loss	132,707	323,234	34,860	198,746
Decrease in net income for the year	(27,986)	(104,172)	(527)	(68,760)
Account 3: Insurance Contracts				
Increase in expected loss	2,020	7,750	2,550	2,126
Decrease in net income for the year	–	–	–	–
Account 6: Insurance Contracts				
Increase in expected loss	3,834	7,386	–	143
Decrease in net income for the year	–	–	–	–

21. Capital loan commitments

The following table summarises the movement in amounts authorised and available to be drawn on issued and effective lending products which are accounted for on an amortised cost basis under IAS 39.

	Account 3 £'000	Account 5 £'000	Account 6 £'000	Total £'000
Movements:				
Balance at 1 April 2020	**–**	**896,822**	**–**	**896,822**
Loans issued & effective	1,000,000	463,370	–	1,463,370
Amounts drawn	(702,562)	(535,063)	–	(1,237,625)
Net foreign exchange adjustments	–	(57,028)	–	(57,028)
Change in cover	–	10,507	–	10,507
Balance at 31 March 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**

22. Contingent liabilities

The following table summarises the total amount at risk on issued and effective products.

	31 March 2022 £'000	31 March 2021 £'000
Summary: Gross of reinsurance		
Account 2	22,837,301	18,436,300
Account 3	3,076,096	3,206,766
Account 6	8,480,004	7,191,177
Total	**34,393,401**	**28,834,243**
Summary: Net of reinsurance		
Account 2	17,952,808	14,156,246
Account 3	1,987,266	2,081,564
Account 6	8,063,939	6,776,598
Total	**28,004,013**	**23,014,408**

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

The following tables summarise movements in amounts at risk on issued and effective products which are accounted under IFRS 4.

Gross of reinsurance	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Balance at 1 April 2020	**17,679,068**	**3,400,712**	**–**	**21,079,780**
Guarantees and insurance policies issued and effective	3,163,109	–	726,653	3,889,762
Run-off	(3,083,971)	(65,172)	–	(3,149,143)
Net foreign exchange adjustments	(1,499,532)	(128,774)	–	(1,628,306)
Interest rate adjustments	31,274	–	–	31,274
Change in valuation	179,687	–	(36,380)	143,307
Balance at 31 March 2021	**16,469,635**	**3,206,766**	**690,273**	**20,366,674**
Guarantees and insurance policies issued and effective	5,233,103	–	386,150	5,619,253
Run-off	(2,753,811)	(104,657)	(61,158)	(2,919,626)
Net foreign exchange adjustments	511,644	(26,013)	14,497	500,128
Interest rate adjustments	208,497	–	2,209	210,706
Change in valuation	(203,628)	–	(17,697)	(221,325)
Balance at 31 March 2022	**19,465,440**	**3,076,096**	**1,014,274**	**23,555,810**

Net of reinsurance	Account 2 £'000	Account 3 £'000	Account 6 £'000	Total £'000
Balance at 1 April 2020	**13,580,956**	**2,214,192**	**–**	**15,795,148**
Guarantees and insurance policies issued and effective	2,277,081	–	285,815	2,562,896
Run-off	(2,416,493)	(48,784)	–	(2,465,277)
Net foreign exchange adjustments	(1,126,980)	(83,844)	–	(1,210,824)
Interest rate adjustments	70,104	–	–	70,104
Change in valuation	(195,087)	–	(10,121)	(205,208)
Balance at 31 March 2021	**12,189,581**	**2,081,564**	**275,694**	**14,546,839**
Guarantees and insurance policies issued and effective	3,797,583	–	348,204	4,145,787
Run-off	(1,864,331)	(77,413)	(24,933)	(1,966,677)
Net foreign exchange adjustments	390,872	(16,885)	9,472	383,459
Interest rate adjustments	197,895	–	2,861	200,756
Change in valuation	(130,653)	–	(13,089)	(143,742)
Balance at 31 March 2022	**14,580,947**	**1,987,266**	**598,209**	**17,166,422**

22(b) Products accounted for as financial guarantees

The following table summarises movements in amounts at risk on issued and effective products which are accounted for under IAS 39.

Gross & net of reinsurance	Account 2 £'000	Account 6 £'000	Total £'000
Balance at 1 April 2020	**758,681**	**–**	**758,681**
Guarantees and insurance policies issued and effective	1,540,729	6,540,257	8,080,986
Run-off	(256,604)	–	(256,604)
Net foreign exchange adjustments	(3,517)	–	(3,517)
Interest rate adjustments	(5,685)	–	(5,685)
Change in valuation	(66,939)	(39,353)	(106,292)
Balance at 31 March 2021	**1,966,665**	**6,500,904**	**8,467,569**
Guarantees and insurance policies issued and effective	1,660,444	1,046,964	2,707,408
Run-off	(249,473)	(259,540)	(509,013)
Net foreign exchange adjustments	16,129	76,783	92,912
Interest rate adjustments	56,079	115,456	171,535
Change in valuation	(77,983)	(14,837)	(92,820)
Balance at 31 March 2022	**3,371,861**	**7,465,730**	**10,837,591**

23. 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 in the Performance section of this Annual Report and Accounts.

24. Related party transactions

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

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

25. Events after the reporting period

On 12 April 2022, Sri Lanka notified its creditors via a press release from its Ministry of Finance that it will suspend external debt service payments given the economic crisis impacting the country. UKEF therefore expects to receive and pay claims in relation to 5 buyer credit facilities. UKEF has exposure of £148 million with a gross first year exposure of £25 million. The Ministry of Finance advised creditors to calculate Sri Lanka's missed payments after 12 April 2022, and add interest, for eventual repayment. As such, UKEF will expect to recover claims paid in the future in line with the terms of any relevant Paris Club restructuring agreement.

The Accounting Officer authorised these financial statements for issue on the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

Annexes

Business supported

Export Credits

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Cameroon				
Magil Construction Corporation	Cameroon, Ministry of Economy, Planning and Regional Development	Construction of road	DL Loan (Enhanced)	43,978,359
Magil Construction Corporation	Cameroon, Ministry of Economy, Planning and Regional Development	Construction of road	Buyer Credit Guarantee	80,827,514
China				
Fives Landis Limited	Shiyan Hongzhao Automobile Parts Industry Co Ltd	Supply of advanced machinery	Supplier Credit Finance Guarantee	580,500
Côte d'Ivoire				
Colas Afrique SA	Côte d'Ivoire, Min. of Finance	Construction of road and bridges	Buyer Credit Guarantee	23,443,129
Dints International Limited	Entreprise Multi-services Soro Zie	Supply of heavy equipment, spares and parts	Standard Buyer Loan Guarantee	7,531,499
NMS Infrastructure Limited	Côte d'Ivoire, Min. of Finance	Construction of hospitals	Buyer Credit Guarantee	26,396,353
NMS Infrastructure Limited	Côte d'Ivoire, Min. of Finance	Construction of hospitals	DL Loan (Enhanced)	104,080,990
Dubai				
Airbus S.A.S	Emirates	Airbus aircraft	Asset Based Guarantee	239,589,112
Egypt				
Rolls-Royce PLC	Egyptair Holding Company	Rolls-Royce engines	Asset Based Guarantee	30,065,474
Ethiopia				
Airbus S.A.S	Ethiopian Airlines Group	Airbus aircraft	Asset Based Guarantee	64,037,318

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Ghana				
Acrow Global Limited t/a Mabey Bridge Limited	Ghana, Min. of Finance & Economic Planning	Supply of emergency bridges	Buyer Credit Guarantee	48,883,772
BHM Construction International (UK) Ltd	Ghana, Min. of Finance & Economic Planning	Construction of road	DL Loan (Enhanced)	30,959,477
BHM Construction International (UK) Ltd	Ghana, Min. of Finance & Economic Planning	Construction of road	Buyer Credit Guarantee	45,491,782
Contracta Construction UK Limited	Ghana, Min. of Finance & Economic Planning	Construction of market	Buyer Credit Guarantee	99,918,142
Contracta Construction UK Limited	Ghana, Min. of Finance & Economic Planning	Construction of market	DL Loan (Enhanced)	33,346,120
Powerx Equipment Limited	Bilqis International Limited	Supply of materials handling machinery	Supplier Credit Finance Guarantee	1,390,456
QG Construction UK Limited	Ghana, Min. of Finance & Economic Planning	Construction of road	Buyer Credit Guarantee	31,455,162
QG Construction UK Limited	Ghana, Min. of Finance & Economic Planning	Construction of road	DL Loan (Enhanced)	29,158,775
QG Construction UK Limited	Ghana, Min. of Finance & Economic Planning	Construction of road	Buyer Credit Guarantee	16,040,475
QG Construction UK Limited	Ghana, Min. of Finance & Economic Planning	Construction of road	DL Loan (Enhanced)	15,988,114
Quarry Manufacturing & Supplies Ltd	Reliance Logistics & Construction Ltd	Design and construction of project	Standard Buyer Loan Guarantee	1,314,860
Unatrac	Reliance Logistics & Construction Ltd	Supply of construction equipment	Supplier Credit Finance Guarantee	3,929,410
Tesab Engineering Limited	Reliance Logistics & Construction Ltd	Supply of construction equipment	Standard Buyer Loan Guarantee	932,032
Hong Kong				
Airbus S.A.S	Cathay Pacific Airways Limited	Airbus aircraft	Asset Based Guarantee	70,969,248
Indonesia				
Not disclosed[1]	Not disclosed	Not disclosed	Bond Insurance Policy	7,851,893
Ireland				
Airbus S.A.S	Avolon Holdings Limited	Airbus aircraft	Asset Based Guarantee	33,564,729

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Lithuania				
L3harris Commercial Training Solutions Limited	Avia Solutions Group	Two B737 Max full flight simulators	Buyer Credit Guarantee	16,075,269
L3harris Commercial Training Solutions Limited	Avia Solutions Group	Eight A320/B737 flight training devices	Buyer Credit Guarantee	12,083,293
Malaysia				
Airbus Group	Measat Satellite Communication Systems SDN BHD	Satellite	Buyer Credit Guarantee	41,869,576
Royal IHC Limited	DNEX (Dagang Nexchange BHD)	Supply of a telecom cable plough	Standard Buyer Loan Guarantee	2,756,755
Netherlands				
Airbus S.A.S	Aercap Holdings N.V.	Airbus aircraft	Asset Based Guarantee	18,726,700
Oman				
BAE Systems (Oman) Limited	Oman, Min. of Finance	Typhoon aircraft maintenance	DL Loan (Enhanced)	122,811,146
Peru				
Dints International Limited	San Martin Contratistas Generales S.A.	Spare parts and components for construction equipment	Supplier Credit Finance Guarantee	1,367,224
Saudi Arabia				
Not disclosed	Not disclosed	Not disclosed	Export Insurance Policy (EXIP)	809,048,089
Senegal				
Naffco Fzco	Senegal, Min. of Finance	Supply of emergency vehicles	Buyer Credit Guarantee	80,333,200
Naffco Fzco	Senegal, Min. of Finance	Supply of emergency vehicles	DL Loan (Enhanced)	42,516,617
Serbia				
Bechtel Enka UK Ltd	Serbia, Min. of Finance	Construction of a smart road	Buyer Credit Guarantee	405,348,227
Spain				
Not disclosed	Not disclosed	Not disclosed	Bond Insurance Policy	2,701,610

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Taiwan				
Ørsted Taiwan	Mercury Taiwan Holdings Limited	WTG installation vessel and offshore cable protection systems	Project Financing Guarantee	211,315,448
Thailand				
Spi Global Play Ltd	Harbor Mall Company Ltd	Soft play equipment	Supplier Credit Finance Guarantee	1,314,586
Trinidad and Tobago				
Man Truck and Bus UK Limited	Ramdass Transport Company Ltd	Supply of trucks, trailers, tyres and spare parts	Supplier Credit Finance Guarantee	578,774
Türkiye				
Airbus S.A.S	Pegasus Hava Taşımacılığı Anonim Şirketi (Pegasus Airlines)	Airbus aircraft	Asset Based Guarantee	9,486,659
Airbus S.A.S	Türk Hava Yolları A O (THY) (Turkish Airlines)	Airbus aircraft	Asset Based Guarantee	36,525,083
Cambridge University Press	Dünya Eko Basim Yayin Ve Dağitim Tic A.Ş.	Supply of educational materials	Standard Buyer Loan Guarantee	895,149
ERG International UK Ltd	Türkiye, Min. of Finance	Construction of high speed railway	Buyer Credit Guarantee	1,094,760,809
General Electric Company	Kalyon Güneş Enerjisi Üretim Anonim Şirketi	Construction of a solar farm	Project Financing Guarantee	261,172,814
The Boeing Company	Güneş Ekspres Havacılık A.Ş. (SunExpress)	Boeing aircraft	Asset Based Guarantee	175,157,263
Rolls-Royce PLC	Türk Hava Yolları A O (THY) (Turkish Airlines)	Rolls-Royce engines	Buyer Credit Guarantee	21,158,634
Uganda				
Nexus Green Limited	Uganda, Min. of Finance	Solar powered water pumps, modules, cabling, tanks and towers	DL Loan (Enhanced)	82,786,864
Unatrac Limited	Dott Services Ltd	Supply of construction machinery	Supplier Credit Finance Guarantee	2,543,888

Exporter/investor	Buyer/airline/ operating lessor/ borrower	Project/goods and services	Product	Maximum liability (£)
Ukraine				
Central Plains Group Ltd	LLC Central Plains Group	Supply of agricultural equipment	Standard Buyer Loan Guarantee	2,248,115
Prestige Diagnostics UK	Ukraine, Min. of Finance	COVID-19 testing kits	DL Loan (Enhanced)	21,753,243
United Arab Emirates				
AF Construction LLC	Sharjah Environment Co LLC – Bee'ah	Construction of office buildings	DL Loan (Enhanced)	33,623,865
United Kingdom				
British Airways	British Airways	Non-contract specific support	Export Development Guarantee	1,046,964,000
Jaguar Land Rover Automotive PLC	Jaguar Land Rover Automotive PLC	Non-contract specific support	Export Development Guarantee	543,420,312
James Cropper Public Limited Company	James Cropper Public Limited Company	Non-contract specific support	Export Development Guarantee	22,107,456
John Wood Group PLC	John Wood Group PLC	Non-contract specific support	Export Development Guarantee	400,231,976
Mace Finance Limited	Mace Finance Limited	Non-contract specific support	Export Development Guarantee	44,217,105
Megger Group Limited	Megger Group Limited	Non-contract specific support	Export Development Guarantee	116,683,365
NSG UK Enterprises Limited	NSG UK Enterprises Limited	Non-contract specific support	Export Development Guarantee	244,959,619
The Body Shop International Limited	Natura & Co Holdings SA	Non-contract specific support	Export Development Guarantee	85,782,704
United States				
Airbus S.A.S	Delta Airlines	Airbus aircraft	Asset Based Guarantee	54,502,544
GE Caledonian Limited	Atlas Air Worldwide Holdings	Aircraft engine overhauls	Buyer Credit Guarantee	2,785,991

Trade finance and insurance: businesses supported by sector

Product type	No. exporters	SMEs	No. destination Countries	Maximum liability (£)
Administrative and support service activities				
Bond Support	1	1	1	60,776
Export Insurance Policy (EXIP)	1	1	1	1,632,180
Export Working Capital Scheme	1	1	1	759,705
General Export Facility	2	2	n/a	4,240,000
Arts, entertainment and recreation				
Bond Support	1	1	2	1,867,407
EXIP	0	0	0	–
Export Working Capital Scheme	0	0	0	–
General Export Facility	0	0	n/a	–
Construction				
Bond Support	2	2	1	624,959
EXIP	1	1	0	9,082
Export Working Capital Scheme	0	0	0	–
General Export Facility	1	1	n/a	2,000,000.00
Financial and insurance activities				
Bond Support	0	0	0	–
EXIP	1	0	1	26,751,639
Export Working Capital Scheme	0	0	0	–
General Export Facility	2	2	n/a	4,610,581

Product type	No. exporters	SMEs	No. destination Countries	Maximum liability (£)
Information and communication				
Bond Support	1	1	3	1,116,113
EXIP	0	0	0	–
Export Working Capital Scheme	0	0	0	–
General Export Facility	1	1	n/a	1,280,000
Manufacturing				
Bond Support	17	17	24	9,724,097
EXIP	17	13	7	4,199,162
Export Working Capital Scheme	9	8	15	5,675,610
General Export Facility	49	47	n/a	82,344,620
Mining and quarrying				
Bond Support	3	3	0	2,160,666
EXIP	0	0	0	–
Export Working Capital Scheme	0	0	0	–
General Export Facility	1	1	n/a	2,360,000
Other Service activities				
Bond Support	0	0	0	–
EXIP	1	1	1	53,317
Export Working Capital Scheme	0	0	0	–
General Export Facility	2	2	v	4,038,821
Professional, scientific and technical activities				
Bond Support	3	3	1	1,685,646
EXIP	5	5	3	9,606,536
Export Working Capital Scheme	2	2	1	450,800
General Export Facility	15	13	n/a	31,699,177

Product type	No. exporters	SMEs	No. destination Countries	Maximum liability (£)
Transportation and storage				
Bond Support	1	1	2	164,582
EXIP	1	1	1	33,596
Export Working Capital Scheme	0	0	0	–
General Export Facility	2	1	n/a	6,800,000
Water supply, sewerage, waste management and remediation activities				
Bond Support	0	0	0	–
EXIP	0	0	0	–
Export Working Capital Scheme	0	0	0	–
General Export Facility	1	0	n/a	5,000,000
Wholesale and retail trade; repair of motor vehicles and motorcycles				
Bond Support	1	1	0	1,013,985
EXIP	10	10	15	4,532,875
Export Working Capital Scheme	0	0	0	–
General Export Facility	23	23	n/a	33,364,240

Sponsorship

Sponsorship in relation to the UK Trade and Export Finance Forum	
Standard Chartered Bank	£40,000
HSBC	£25,000
Santander	£10,000
Lloyds	£15,000
GE Capital	£15,000

Notes

1 Details not disclosed due to reasons of commercial confidentiality.

Sustainability of our estate

UKEF has reported annually on the sustainability of its estate since 2006, to operate the estate efficiently and reduce the environmental impact of operations and their associated costs.

UKEF's estate

UKEF is based at 1 Horse Guards Road (1HGR), London, SW1A 2HQ. UKEF is a minor occupier of 1HGR, accounting for 8.52% 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 (GGC) 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.

Whilst the impact of the pandemic has lessened in 2021-22 and an increasing number of staff have returned to the office, there is still a significant proportion of staff who continue to operate from home; therefore the impact on building services was significantly reduced.

UKEF is a tenant in a government building, and 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	2021-22	2020-21	2019-20	2018-19
Estate waste recycled (tonnes)	3.70	1.45	11.81	12.56
% of waste recycled	64.38%	59.77%	59.33%	58.89%
Estate water (m^3)	2437	626	2010	2149

Energy from the estate	2021-22	2020-21	2019-20	2018-19
Electric (kilowatt hours)	468,570	363,785	454,852	451,366
Gas (m^3)	64	29	404	396
Whitehall District Heating system (megawatt hours)	315	126	107	114

	2021-22	2020-21	2019-20	2018-19
Domestic travel (kilograms of CO_2)	1,104	1,530	18,552	17,890
International (kilograms of CO_2)	325,304	790	1,062,262	460,800

* The 2019-20 Reporting Accounts for domestic and International flights showed incorrect data. Figures printed for 2019-20 were 2018-19 data. The above table now shows correct data.

The impact of the pandemic is still being felt by UKEF, therefore both international and domestic air travel has been reduced significantly from previous years. Whilst the number of flights has increased in 2021-22, UKEF continued to use Microsoft Teams to facilitate business meetings with domestic and overseas clients.

Waste

UKEF has a target to reduce waste sent to landfill to less than 10% of overall waste, 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.

	2021-22	2020-21	2019-20	2018-19
Confidential waste (kilograms)	1,429.49	504.81	3,711.59	4,357.63
Toner recycling (kilograms)	–	–	7.15	24.48
Mixed recycling (kilograms)	808.58	465.17	4,162.11	3,692.10
Compostable waste (kilograms)	38.08	13.44	290.76	–
General non-recycled waste (incinerated) (kilograms)	2,047.79	974.18	8,094.00	8,771.26
Recycled waste (kilograms)	3,700.87	1,447.20	11,810.02	12,563.23

Water

UKEF's water is not measured separately from other tenants and UKEF reports water consumption as being a proportion of the whole building at 1HGR. Again, due to the impact of the pandemic, the number of staff utilizing services in 1HGR was significantly reduced.

Energy from the estate	2021-22	2020-21	2019-20	2018-19
Electricity (kilowatt hours)	468,570	363,785	454,852	451,366
Gas (m^3)	64	29	404	396
Whitehall District Heating system (megawatt hours)	315	126	107	114
Water (m^3)	2,437	626	2,010	2,149

Sustainable procurement

UKEF uses existing framework agreements which have been centrally procured through Crown Commercial Services. Additionally, UKEF's key facilities management suppliers have sustainable objectives and environmental policies in place, committing them to sustainable provision.

Biodiversity and natural environment

UKEF's London office has no access to or control over external land. Therefore, UKEF does not have a biodiversity plan.

Notes:

- All 1HGR utility payments (including water, waste and energy) are included in the set annual lease payments. The figures used above have been apportioned to departmental costs based on floor occupancy of 8.52%.
- Business travel gross emissions do not include journeys made by bus or taxi.

UKEF core tables

Total resource and capital spending for UKEF

The tables on the following pages provide a summary of the department's expenditure outturn for 2017-18 through to 2021-22, along with the planned expenditure for 2022-23 to 2024-25. The outturn and planned expenditure is recorded on the same basis as the information on financial performance in the Statement of Parliamentary Supply beginning on page 153. They represent the spending incurred by UKEF in meeting its objectives, detailed in the Performance section beginning on page 10.

Resource

£'000	Plans			Outturn				
	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Resource DEL (Admin & Prog)								
A. Export Credits Guaranteed and Investments	91,225	90,925	91,037	66,262	48,745	41,320	37,565	33,623
Resource AME								
B. Export Credits			196,160	(237,240)	118,815	(135,012)	(74,420)	(24,519)
C. Fixed Rate Export Finance Assistance			173	(39)	(27)	(267)	(290)	(621)
D. Loans & Interest Equalisation			(28)	(107)	(240)	(493)	(799)	(1,694)
E. Direct Lending			521,086	(86,579)	99,171	(81,972)	(53,484)	22,215
Total			**717,391**	**(323,965)**	**217,719**	**(217,744)**	**(128,993)**	**(4,619)**

Capital

£'000	Plans			Outturn				
	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Capital DEL								
A. Export Credits Guaranteed and Investments	1,310	2,040	3,716	1,413	784	135	79	671
Capital AME								
E. Direct Lending			2,098,953	457,131	1,109,370	307,710	426,448	167,736

Note: AME budgets for years beyond 2022-23 are not available, as these will be agreed as part of the annual Supply Estimates process.

Resource DEL (RDEL)

For UKEF, RDEL represents the administrative cost associated with running the department (known as Administration and Programme DEL). Resource DEL has gradually increased over the preceding 5 years with a step increase seen from 2020-21 onwards primarily due to staffing costs, IT and project costs and overseas export managers cost. The increase in staff numbers is to to enable business growth, which has been matched by an ambitious IT strategy from 2020-21 onwards. A network of overseas export managers was established in 2020-21 to give the department further reach outside of the UK and to allow presence in key 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 include software purchases. In 2021-22 this also includes cost in relation to an office refurbishment to support UKEF's Smarter Working Programme. The increase in Capital DEL expenditure budgeted for 2022-23 is a result of UKEF's Financial Reporting Changes programme, which will update and replace systems and processes to allow adoption of two new accounting standards, IFRS 9 and IFRS 17.

Resource AME (RAME)

For UKEF, RAME this 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). In 2020-21 expenditure on Export Credits and Direct Lending increased significantly due to a rise in demand for UKEF support and an increase in unrecoverable claims and impairments as a result of volatility and uncertainty in the market, particularly in response to COVID-19. Foreign exchange loss also contributed to the overall net expenditure in 2020-21.

Capital AME (CAME)

For UKEF, CAME represents lending activity. In the March 2020 Budget, UKEF was allocated an additional £2 billion for Direct Lending in 2020-21 and 2021-22 to support clean growth projects as part of the UK's transition to a low carbon economy. 2020-21 outturn was significantly higher than previous years largely because of a £700 million BAE Systems Qatar deal drawing. Capital AME is shown net of loan repayments.

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.
Bond insurance policy (BIP)	Insurance cover for the unfair calling of bonds (except tender bonds) or for the fair calling of bonds caused by certain political events.
Bond support scheme (BSS)	A scheme under which UKEF provides guarantees to lenders in respect of bonds related to UK exports. Where a lender issues a contract bond (or procures its issue by an overseas lender) in respect of a UK export contract, we can typically guarantee 80% of the value of the bond.
Buyer credit (BC)	A finance facility in which, normally, a guarantee is given by UKEF to lenders supplying finance to an overseas borrower buying UK goods/services.
Claims	Amounts paid out by UKEF under guarantees or insurance where there has been a default and UKEF is required to honour its obligations to the bank/insured party.
Commercial Interest Reference Rate (CIRR)	The minimum interest rate UKEF charges for direct loans, in accordance with the OECD Arrangement on Officially Supported Export Credits.
Commitment	A case not yet the subject of an issued guarantee, but for which UKEF has agreed the terms of its support and provided its commitment to the bank/exporter. Cases at this stage are included in UKEF's portfolio as the department has agreed to accept the risk.
Common Approaches	The rules agreed at the OECD for ECA due diligence in regards to environmental, social and human rights aspects of projects supported.
Concentration	This typically refers to either sector or regional concentration in the risk portfolio, indicating where UKEF has a greater proportion of its exposure.
Corporate (risk)	These are risks on commercial trading and financial institutions which are capable of being put into liquidation or receivership.

Term	Description
Counterparty	UKEF refers to other entities who have a relationship with the department, but are not the key source of risk on transactions, as a counterparty. Examples include ECAs who provide reinsurance, or agent banks providing loans which UKEF supports.
Country limit	The maximum amount of cover available for a particularly country as agreed under the exposure management framework.
Credit period	The period over which a loan is repaid by the borrower, or for insurance products, the period for contractual payment by the buyer.
Credit quality	This typically refers to the level of default risk of an entity or the portfolio. For example, it can be measured by the proportion of investment grade rated (low risk) obligors versus non-investment grade rated (high risk) obligors.
Direct lending (DL)	Under the Direct Lending Facility, UKEF provides loans within an overall limit of £8 billion to overseas buyers, allowing them to finance the purchase of capital goods and/or services from UK exporters. Of that limit, £2 billion has been allocated to support clean growth projects and £1 billion for defence transactions.
Effective business	Business where UKEF has provided a guarantee or insurance, received premium and all other conditions have been satisfied so that UKEF is on risk.
Expected loss (EL)	How much UKEF estimates it should lose. For cases, the statistical estimate of the most likely financial outcome on a case, based on the likelihood of default and estimates of recoveries; and for the whole portfolio, the sum of the individual transaction expected losses, representing the mean of the loss distribution.
Export credit agency (ECA)	Most developed and emerging economies have an ECA. Although structure and organisation differs, they all exist to promote exports by providing insurance, reinsurance and guarantees to exporters and banks on behalf of the state. Many ECAs have reinsurance arrangements with each other (see reinsurance).
Export Development Guarantee (EDG)	A guarantee of up to 80% to support working capital facilities, which are not tied to specific export contracts but instead support a company's general export business activities or investment requirements in support of exports. Minimum loan size of £25 million.
Export insurance policy (EXIP)	An insurance facility provided by UKEF to exporters that covers them against the risk of not being paid under their export contract. Cover can be provided for both cash and credit payment terms.
Export working capital scheme (EWCS)	A scheme provided by UKEF to 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.

Term	Description
Exposure	A generic term referring to the value of the risks UKEF is holding. For pre-issue business this is measured by maximum liability and for issued business this is measured by amount at risk. Exposure can be net of reinsurance and some measures of exposure also include claims.
Exposure management framework (EMF)	A framework for setting prudent restrictions on the concentrations in the portfolio. For country limits, this is based on a matrix and limits are determined by the size of the economy and the country's expected loss. For sectors, regions and obligors, this is based on the percentage of the portfolio attributed to that slice of risk.
Facility	The name given to each individual provision of support by UKEF.
General Export Facility	A scheme under which UKEF provides guarantees to lenders where finance is not tied to specific export contracts, covering a range of facility types to support a company's general export business activities. Facility types can include trade loans and bonds. Designed with SMEs in mind, the guarantee covers up to 80% of the value of the facility and is made available via UKEF's streamlined digital application process.
Horizon of risk	The total period of time where UKEF is on cover. For credit transactions, this includes both the pre-credit (or drawdown) period and the repayment period.
Introductions to other sources of support	A referral from UKEF, usually through its Export Finance Managers, to other third-party sources of support.
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 £50 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.

Term	Description
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.
Paris Club	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 (see note 1 of the Financial Statements). This does not include premium from direct lending, which is amortised as interest income, and uses an exchange rate fixed at the point when premium is received (rather than month-end rates, as for premium income issued).
Premium-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. PRR can be calculated for individual cases, and the PRR for new business in each year is a financial objective. PRR is an in-year measure, with a target ratio of premium: expected loss (plus charge on unexpected loss) of 1.35.
Pricing adequacy index (PAI)	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	A private market assist is 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	Transactions which are dependent on generating sufficient revenue from a project to service debt, once commissioned.

Term	Description
Provisions or provisioning	Amounts which are set aside within UKEF's trading accounts to allow for non-recovery of claims already paid and of claims to be paid in the future.
Public (risk)	Risk that is assessed to be with an entity linked to the government, but which does not benefit from full state support or a guarantee (for example, a local municipality or a state utility).
Recoveries	Amounts that UKEF has been able to get back after paying a claim (e.g. through restructuring, sale of assets, etc).
Reinsurance	UKEF shares risk by reinsuring it with other partners in 2 main ways: sharing a proportion of transaction with other ECAs based on the amount of content produced in that country (ECA reinsurance); or purchasing reinsurance directly from the private sector to reduce risk concentrations (see active portfolio management).
Risk appetite limit (RAL)	A risk weighted cap on the maximum amount of risk that UKEF can take on. Calculated as the 99.1 percentile of the portfolio loss distribution (see loss distribution), with a maximum of £5 billion.
Run-off	UKEF's risk decreases as loan repayments are made or insurance risks expire. The way in which the amounts at risk reduce is called the run-off.
Short-term	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 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 and is used to guarantee Bills of Exchange or Promissory Notes issued by the borrower.
Supply Chain Discount Guarantee (SCD)	A guarantee of up to 80% provided by UKEF to a lender to support a supply chain finance facility provided by the lender to an exporter. Suppliers can draw on the facility to discount approved invoices; the exporter then makes payment to the lender at the face value of the invoice at maturity. UKEF covers the risk of the exporter failing to repay the lender.
Unexpected loss	Measures statistical losses above expected loss to a certain degree of confidence. UKEF uses 99.1%.
Ultimate obligor	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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