Performance report

About UK Export Finance

Who we are

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

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

Our mission

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

We help UK companies:

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

How we do it

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

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

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

2022-23 in figures

£6.5 bn
Financial support issued

55,000
UK jobs supported

£46.3 bn
Maximum annual exposure

210
SMEs supported

£60 bn
Capacity to support exports

532
Exporters supported

This year's milestones

2023 Best export credit agency

GTR 2023 Leaders in Trade

2022

APRIL:

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

MAY:

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

JUNE:

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

JULY:

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

AUGUST:

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

SEPTEMBER:

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

OCTOBER:

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

NOVEMBER:

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

DECEMBER:

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

2023

JANUARY:

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

FEBRUARY:

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

MARCH:

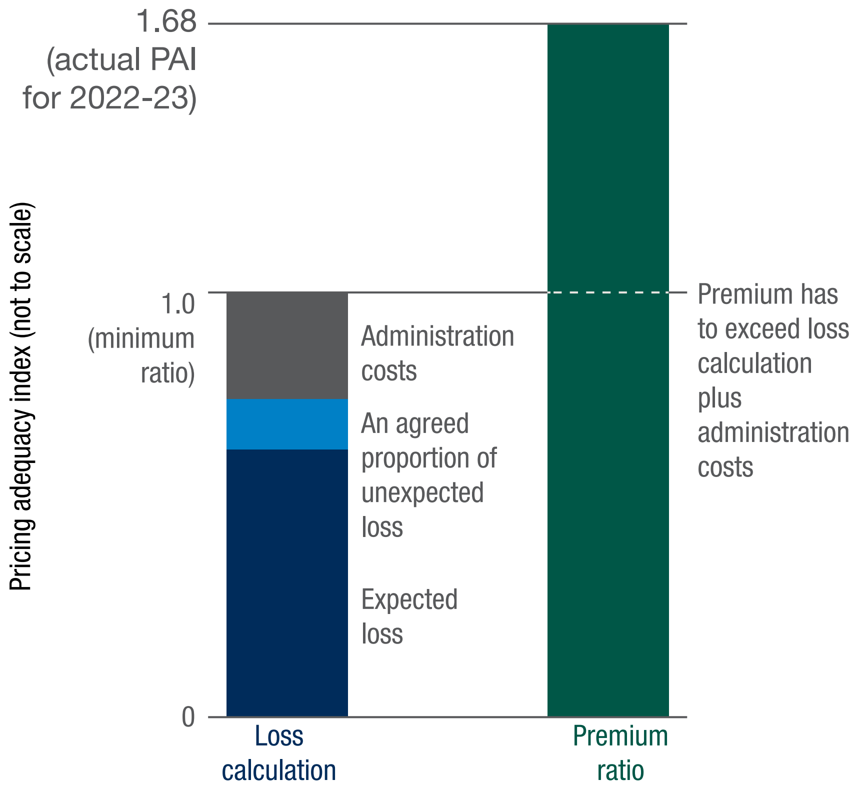
- Total capacity to support exports raised to £60 billion
- Announced the appointment of the first International Export Finance Executive for South Korea
- Welcomed the government's 2023 Green Finance Strategy alongside the British Business Bank, UK Research and Innovation and the UK Infrastructure Bank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

Financial objectives

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

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

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



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

Performance against objectives

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

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

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

How to read the performance chapter

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

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

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

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

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

Our accounts

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

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

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

Active accounts

Old account number	New account name	Account description
Account 2	Guarantees & Insurance Account	Relates to the credit risk arising from guarantees and insurance issued by UKEF for business since April 1991.
Account 3	National Interest Account	Relates to guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's Accounting Officer had advised did not meet normal underwriting criteria.
Account 5	Direct Lending Account	Relates to the provision of direct lending (in the normal course of business) since it was introduced in 2014.

Closed accounts

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

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

Chief Executive's report

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

Tim Reid
Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2022-23 in review

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

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

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

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

How we calculate the number of exporters we have directly supported

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

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

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

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

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

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

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

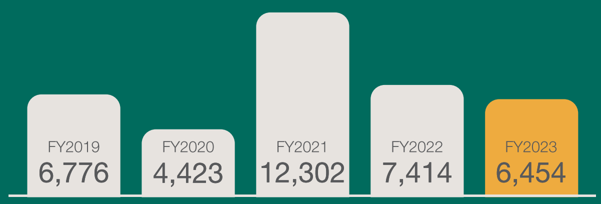
The commitment of UKEF staff to serving customers, managing risk, acting responsibly and making the greatest possible impact has been invaluable in achieving this consistent level of support over time. UKEF will continue to build on this strong foundation. Retaining and recruiting talented people is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

Tim Reid
Chief Executive and Accounting Officer
22 June 2023

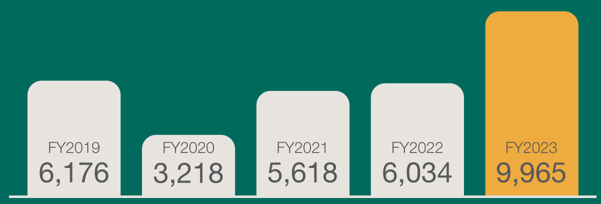
5-year summary*

Financial overview

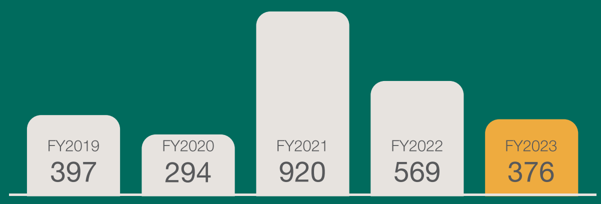
Business supported (£m)



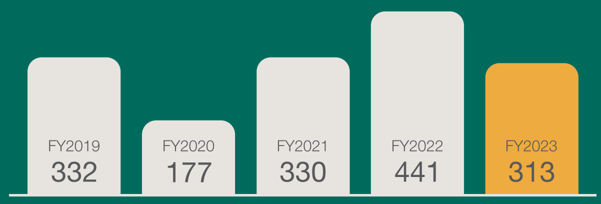
Value of commitments (£m)



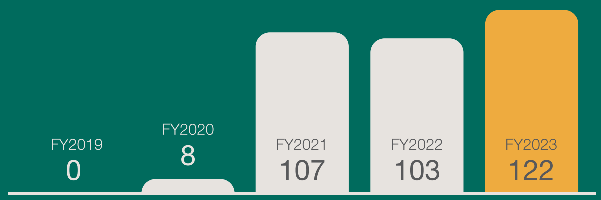
Premium income issued (£m)



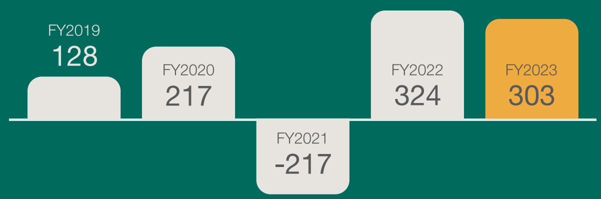
Premium income earned (£m)



Claims paid (£m)



Net operating outturn (£m)



How our support for exporters breaks down

*definitions for each indicator can be found on page 23

Our achievements in 2022-23

Implementing the Export Strategy

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

Maritime, life sciences and clean growth sectors

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

Global Britain

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

Trade for good

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

Levelling up

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

Levelling up (continued)

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

Great place to work

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

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

The year ahead

Ministerial priorities for UKEF

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

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

In 2023-24, we will:

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

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

In 2023-24, we will:

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

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

Support the outcomes of the government's new Integrated Review

In 2023-24, we will:

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

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

In 2023-24, we will:

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

Spending review

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

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

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

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

Our impact

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

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

> "Free and fair trade is what global prosperity and security are based on"
>
> **Kemi Badenoch**
> Secretary of State for Business and Trade

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

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

Delivering the government's priorities

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

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

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

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

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

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

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

Supporting economic growth

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

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

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

Direct impact 〉 **Indirect impact (supply chain)** 〉 **Total impact[2]**

Direct impact	Indirect impact (supply chain)	Total impact[2]
UKEF facilitates exports, which supports jobs and economic activity within the beneficiary company	the beneficiary company purchases from suppliers who employ staff and support economic activity in the UK	economic activity, wages, profits, jobs

55,000

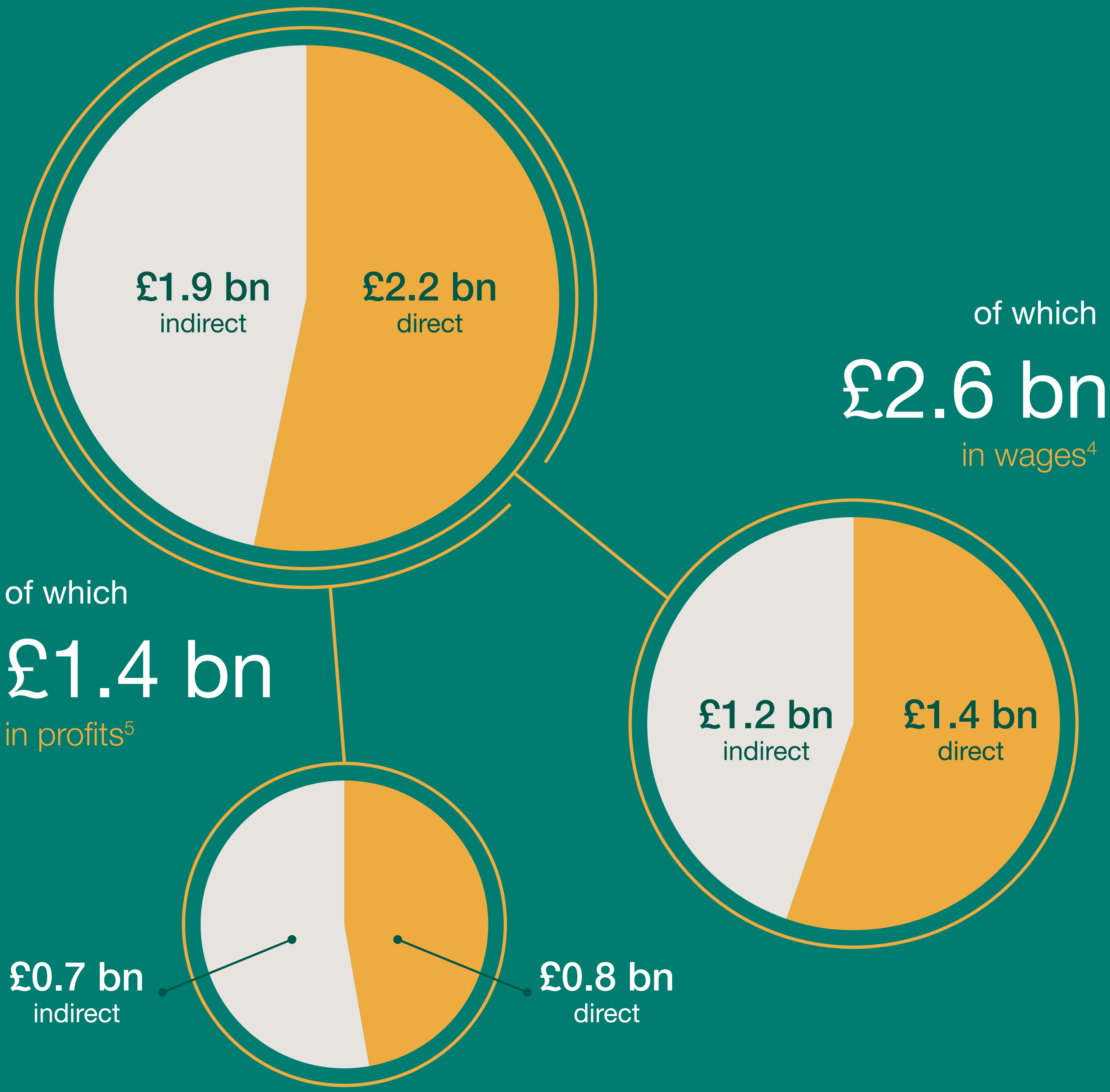
full-time equivalent (FTE) jobs


= 2,000 jobs

29,000 indirect

27,000 direct

£4.1 billion



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

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

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

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

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

Spotlight on trade finance

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

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

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

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

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

Spotlight on overseas projects and UK export development

Export credits

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

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

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

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

UK export development

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

Doing business sustainably

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

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

International engagement

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

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

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

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

Financing sustainable growth

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

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

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

We continue to develop our approach to sustainability by:

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

Spotlight on clean growth

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

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

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

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

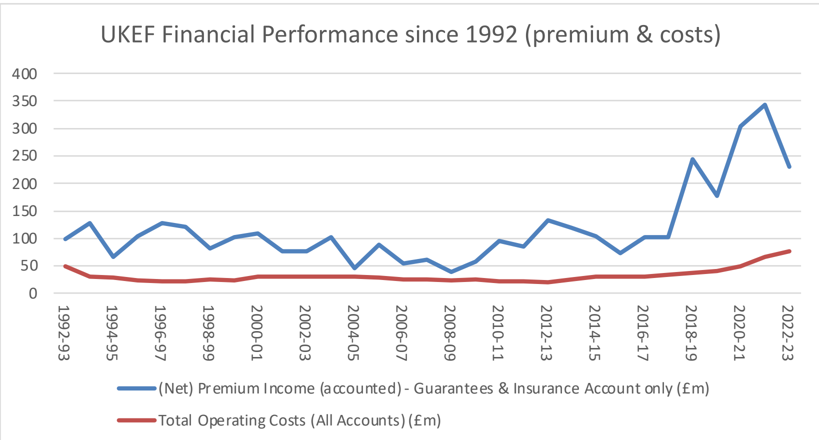
Fiscal responsibility

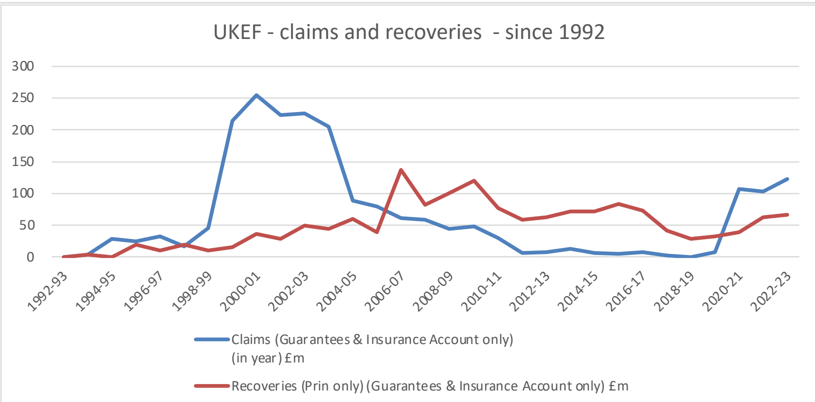
UKEF operates at no net cost to the taxpayer over time, meeting financial objectives set by HM Treasury to ensure fiscal responsibility while supporting UK exports. We take on risk to stimulate UK exports and, when economic conditions change, pay claims on some of our guarantees and insurance policies.

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

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

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





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

Spotlight on aerospace

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

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

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

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

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

Economic context

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

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

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

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

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

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

Rising interest rates

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

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

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

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

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

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

Emerging markets

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

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

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

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

International tension

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

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

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

UK outlook

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

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

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

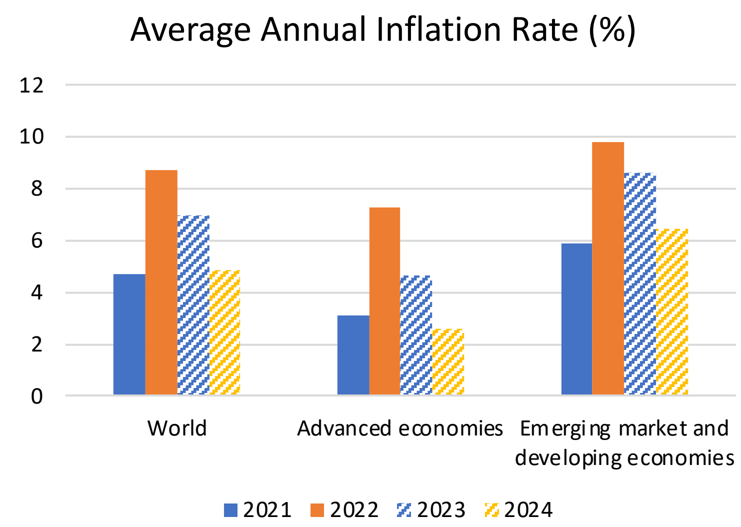
UKEF outlook

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

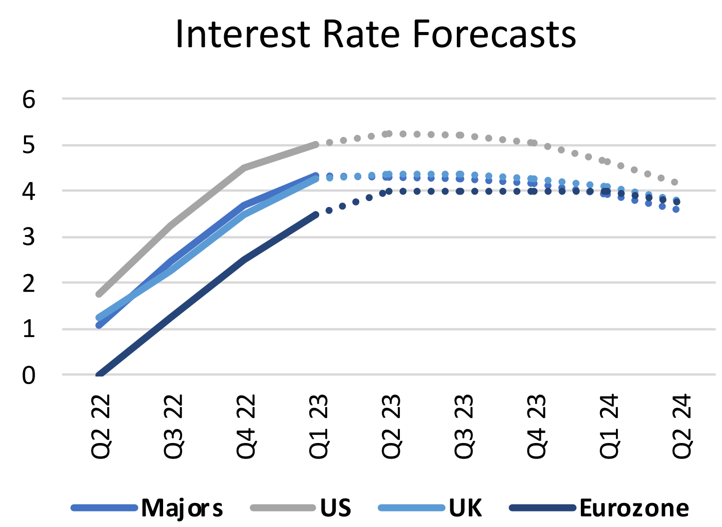
As financial conditions are expected to remain tight, debt refinancing will become more difficult, and in some cases inaccessible, for sovereigns and corporates at the lower end of the rating scale, eroding longer-term debt sustainability. Interest rates, however, seem close to peaking and could come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

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

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



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



Source: Bloomberg

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

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

Chief Finance and Operating Officer's report

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

Cameron Fox
Chief Finance and Operating Officer

Financial results overview

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

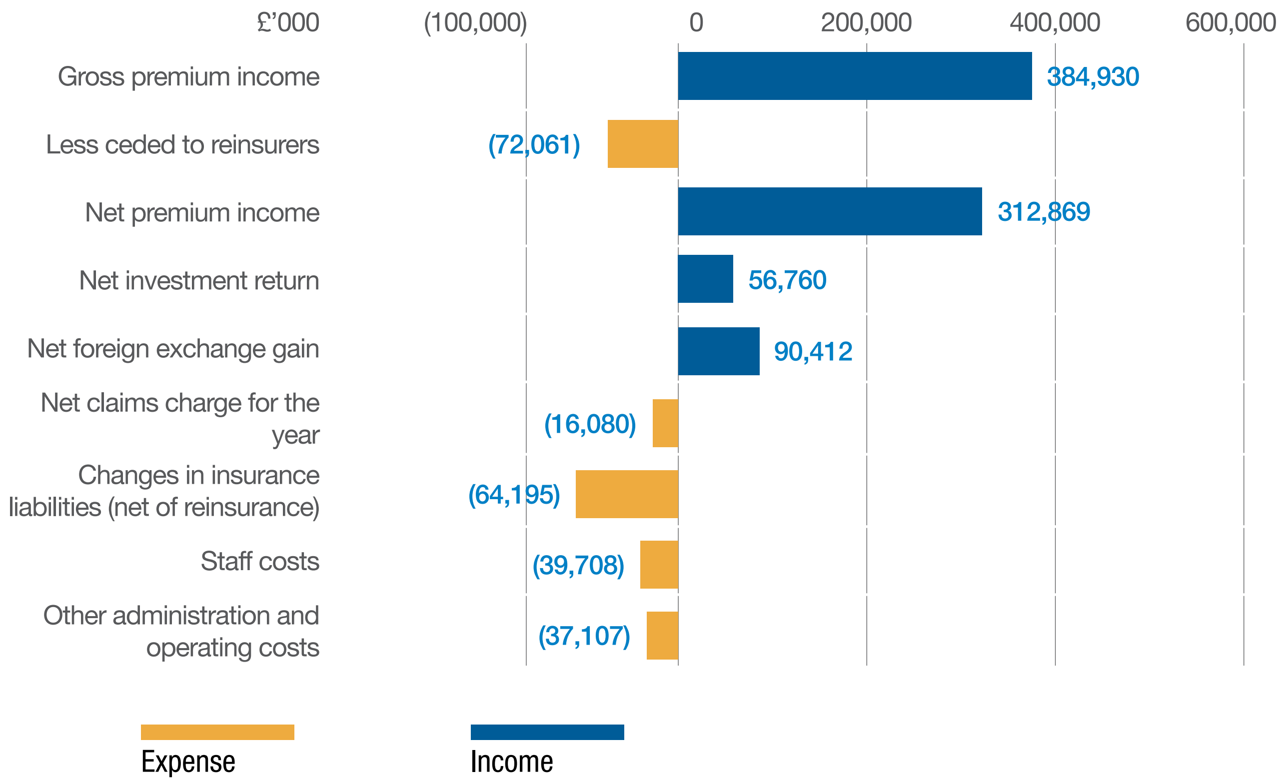
Net operating gain:

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

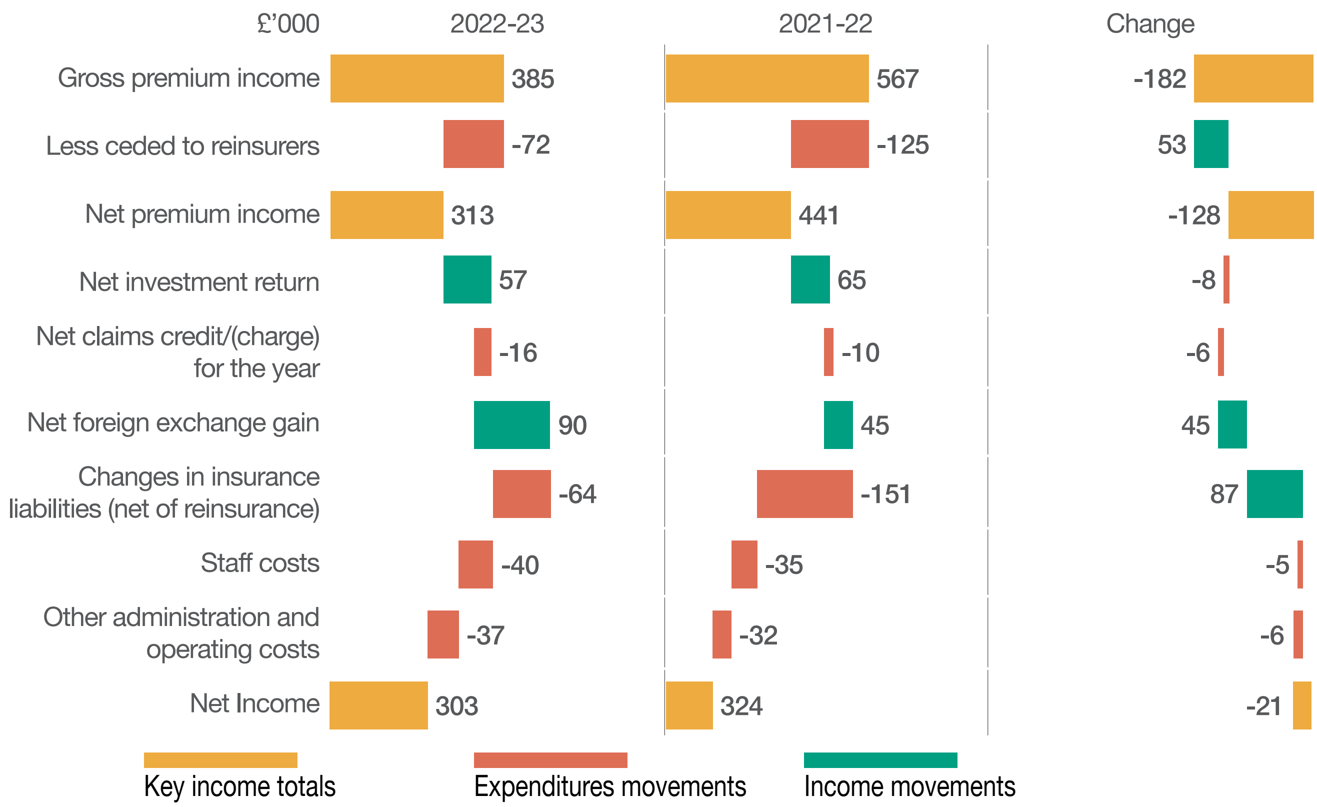
This change is driven by a combination of a decrease in net investment return (largely increased loan impairments), increased reserving requirements and additional planned operating costs to support the delivery of the business plan. See the Chief Risk Officer's report on page 58 for more details of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

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

Statement of comprehensive net income for 2022-23



Comparison of statement of comprehensive net income for 2022-23



Insurance and underwriting activity (premium income)

Net premium income revenue earned:

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

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

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

Net investment return

Net investment return for export credit guarantees and insurance activities:

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

Net investment return for export finance activities:

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

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

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

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

Net claims credit (and provisions for likely claims)

Net claims paid:

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

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

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

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

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

Foreign exchange

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

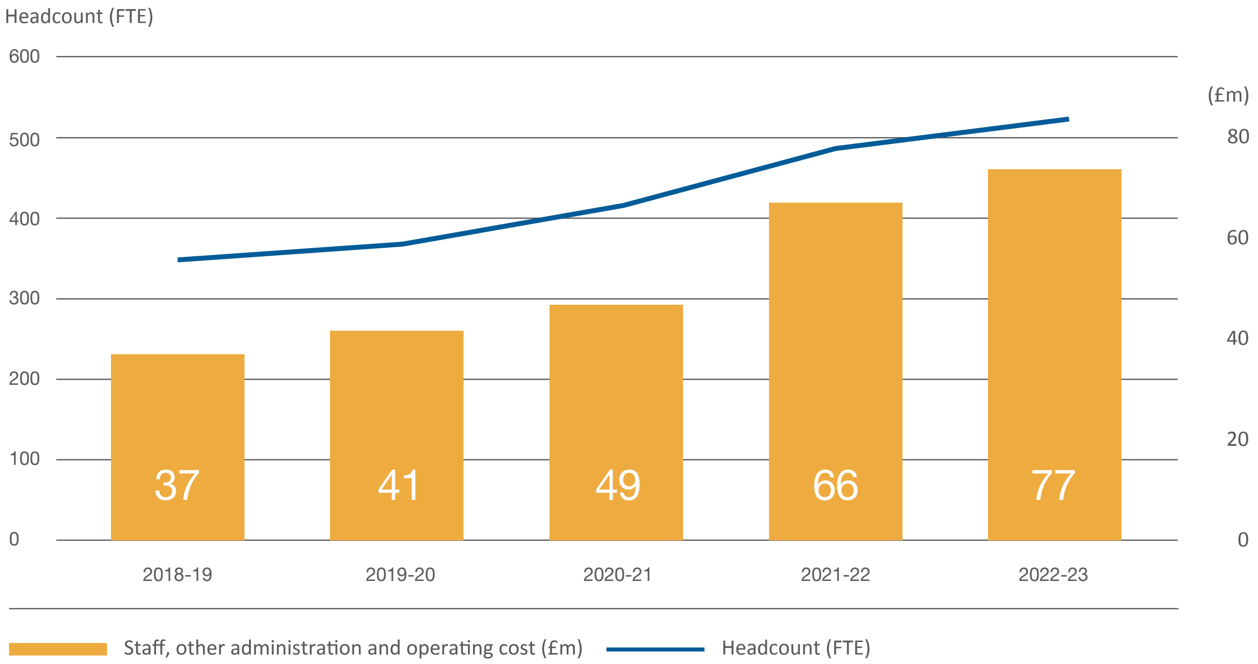
Net foreign exchange gain:

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

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

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

Operating costs and headcount



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

Reserving for insurance liabilities

(Net) underwriting funds at year end:

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

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

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

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

Operating costs

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

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

Long-term assets and liabilities

Direct lending loans at year end:

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

Gross recoverable claims at year end:

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

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

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

UKEF's most significant liability relates to insurance reserving.

Financial results by account

UKEF currently operates 6 accounts.

Account 1: Pre - 1991 Guarantees & Insurance - this relates to guarantees and insurance issued for business before April 1991, and insurance issued by the Insurance Services Group of UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities.

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

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

Account 4: Fixed Rate Export Finance - relates to the provision of Fixed Rate Export Finance (FREF) to banks (now closed to new business), together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements. (The scheme closed in 2011 for new business and during the course of 2022-23 all remaining exposure ran off).

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

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

Management commentary - 5 year summary

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

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

(All results rounded to the nearest million)

Pre - 1991 Guarantees & Insurance Account

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

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

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

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

Net operating income:

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

Recoveries of claims paid:

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

Recoveries of interest on claims paid:

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

Balances for gross claims:

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

Balances for net claims:

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

Interest on net unrecovered claims:

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

Guarantees & Insurance Account

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

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

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

Net premium income:

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

Net operating income:

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

Release from funds:

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

Claim recoveries:

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

Gross claims balances:

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

Net claims balances:

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

National Interest Account

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

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

Fixed Rate Export Finance Account

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

Direct Lending Account

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

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

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

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

Net operating gain:

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

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

Net investment return:

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

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

New loans originated (not including facility increases):

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

Loan impairment on the portfolio:

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

Temporary Covid-19 Support Account

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

Net operating gain:

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

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

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

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

Net premium income:

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

Financial reporting changes

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

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

The International Accounting Standards Board has decided to extend, to 2023, the temporary exemption for insurers to apply IFRS 9 so that both IFRS 9 and IFRS 17 can be applied simultaneously. In the public sector, IFRS 17 application has been delayed by 2 years until 2025-26; therefore UKEF, like other central government departments, will adopt this for an annual period beginning on 1 April 2025.

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

Budgeting framework

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

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

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

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

- Departmental Expenditure Limits (DEL), which covers spending that is subject to limits set in the spending review. Departments may not exceed the limits

  that they have been set in this budgetary category
- Annually Managed Expenditure (AME), which covers spending that is demand-led or exceptionally volatile in a way that could not be controlled by the department

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

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

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

Explanation of variances between estimate and outturn summary

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

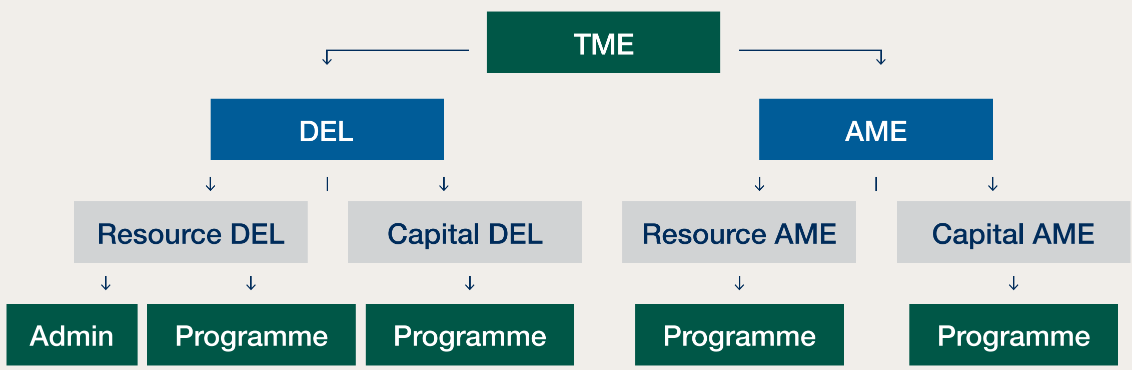
In the absence of any operating income outside the ambit of the supply estimate, UKEF's net resource outturn and net operating cost or income are identical.

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

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

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

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



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

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

Chief Risk Officer's report

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

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

Samir Parkash
Chief Risk Officer

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

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

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

Operating Environment And Mandates

Treasury consent and risk appetite

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

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

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

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

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

Financial objectives

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

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

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

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

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

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

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

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

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

Pricing

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

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

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

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

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

Economic capital and the risk appetite limit

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

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

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

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

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

Risk taxonomy

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

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

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

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

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

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

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

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

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

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

Risk Management And Controls

Financial risk management

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

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

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

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

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

Portfolio modelling

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

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

Risk concentrations

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

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

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

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

Modelling assumptions

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

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

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

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

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

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

Stress testing and scenario analysis

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

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

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

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

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

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

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

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

Climate risk management

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

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

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

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

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

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

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

Assessing Risk

Assessing credit risk

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

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

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

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

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

Assessing sovereign risk

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

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

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

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

Exposure management framework

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

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

- the maximum country limit is £5 billion

Active portfolio management

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

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

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

The Paris Club and G20

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

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

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

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

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

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

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

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

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

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

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

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

Assessing corporate, SME and project finance risk

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

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

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

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

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

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

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

Assessing financial counterparty risk

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

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

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

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

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

2022-23 Risk Performance

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

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

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

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

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

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

Portfolio trends

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

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

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

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

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

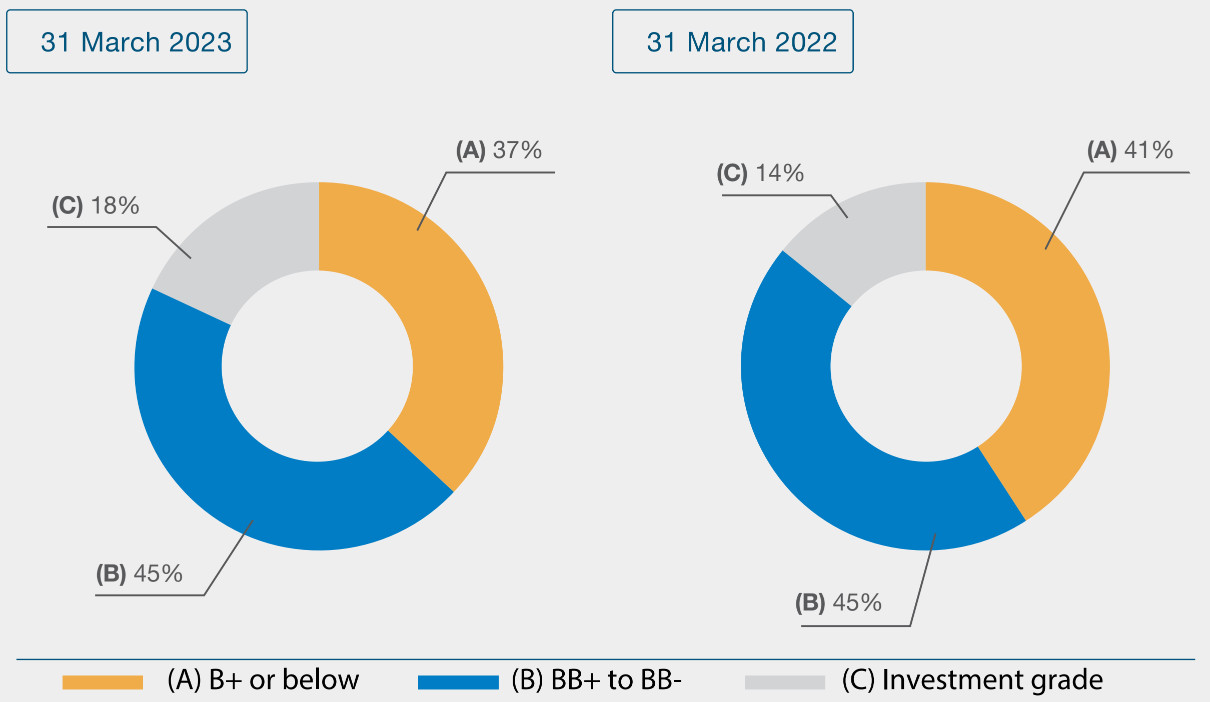
We have also seen very rapid growth in our short-term trade finance business, from a small base, through our General Export Finance product.

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

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

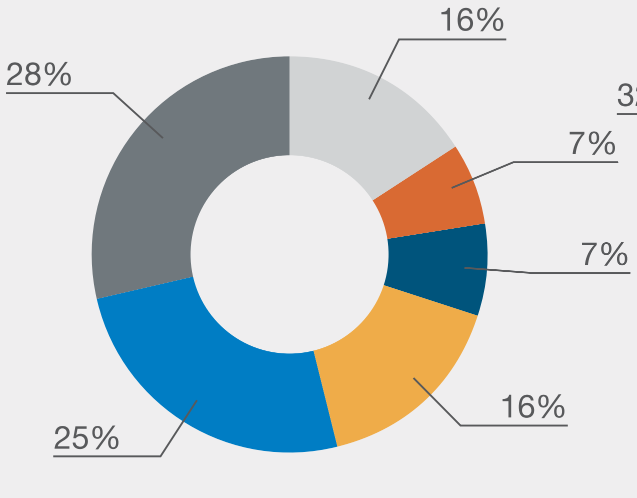
Current higher interest rates are a major pressure for all corporates, but particularly SMEs, who have fewer options for accessing liquidity and may previously have benefitted from Covid-19 support schemes. This has already fuelled a rise in corporate insolvencies in official statistics through 2022.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

Amount at risk (net of reinsurance) by credit rating

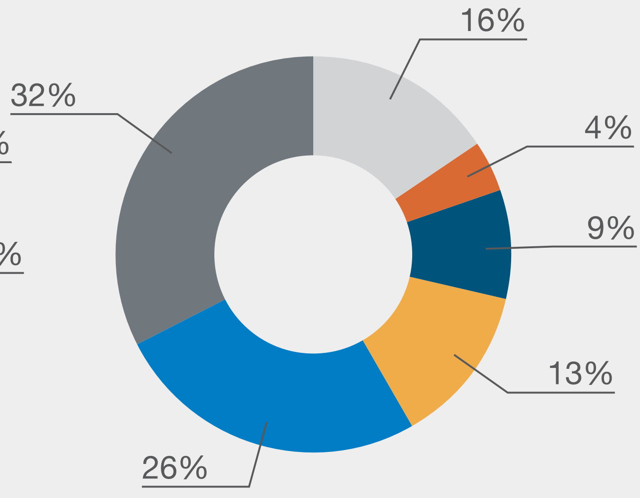


Regional breakdown of amount at risk (net of reinsurance)

31 March 2023

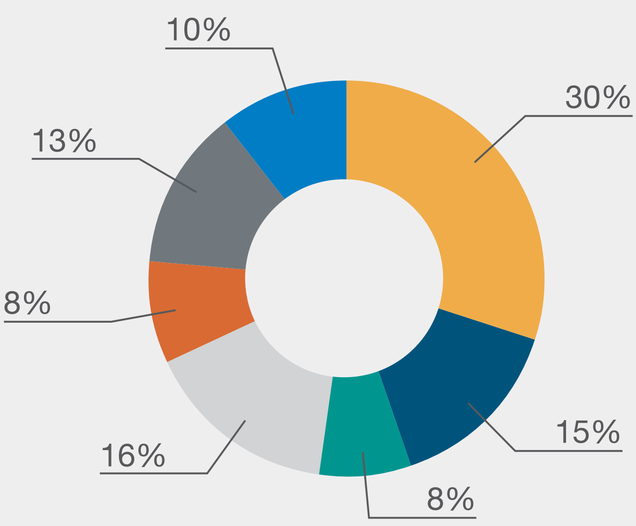


31 March 2022

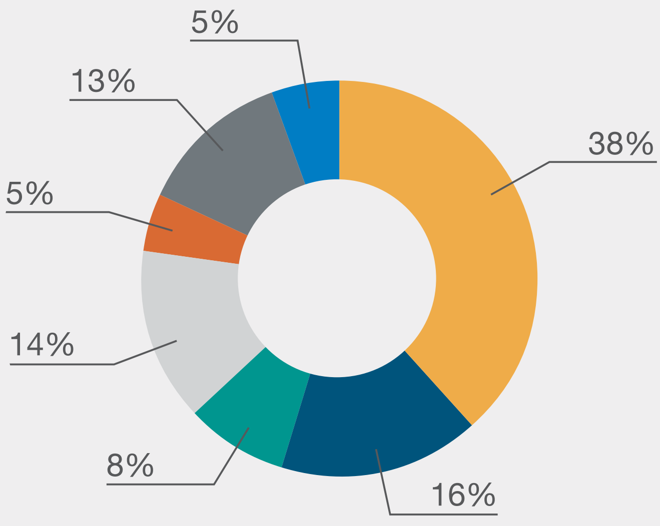


Sector breakdown of amount at risk (net of reinsurance)

31 March 2023



31 March 2022



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

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

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

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

Claims

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

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

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

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

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

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

Claims outlook

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

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

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

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

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

Outstanding claims paid, provisions and impairments

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

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

Claims paid

Outstanding claims paid on the Guarantees and Insurance Account:

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

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

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

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

Provisions

Overall provisions on claims for Guarantees and Insurance Account business:

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

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

Overall provision amount for historic business issued before 1991:

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

Impairments

Impairments on Direct Lending Account:

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

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

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

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

Recoveries

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

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

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

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

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

Total recoverable claims (excluding interest on unrecovered claims):

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

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

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

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

Aerospace recoveries

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

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

Of the remaining 14 aircraft:

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

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

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

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

Aerospace recoveries: long term

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

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

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

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

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

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

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

Statutory limits

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

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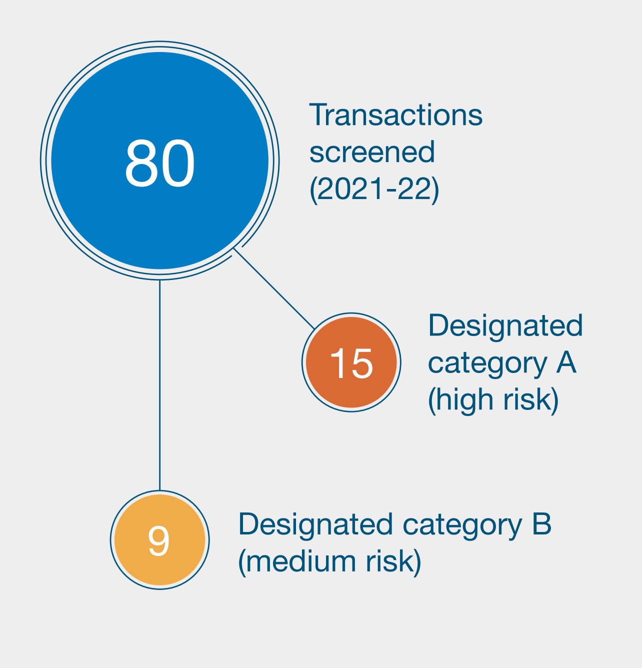
Environmental and social risk management report

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

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

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



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

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

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

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

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

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

Source: IFC[2]

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

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

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

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

In reviewing ESHR matters, UKEF relies on:

- publicly available information

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

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

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

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

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

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

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

Due diligence

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

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

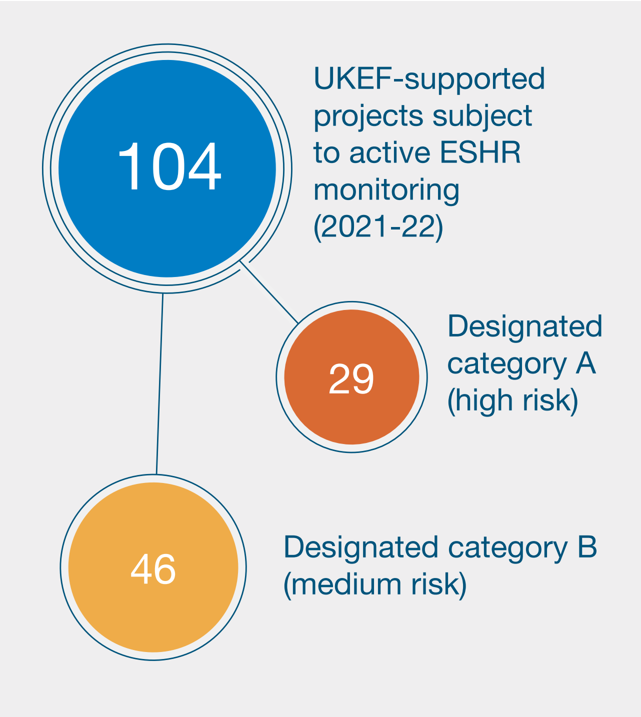
In 2022-23, UKEF worked with a wide variety of project developers and exporters to help them understand and effectively manage the ESHR risks associated with their activities. Additionally, the E&S Division has prepared and delivered E&S workshops to current and potential overseas borrowers in Türkiye,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

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

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

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

Monitoring



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

Our monitoring commonly includes:

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

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

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

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

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

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

International cooperation

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

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

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

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

ESHR Policy review

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

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

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

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

Task Force on Climate-related Financial Disclosures

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

Introduction

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

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

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

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

Key disclosure milestones

2022-23

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

2021-22

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

2020-21

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

Governance

Our governance around climate-related risks and opportunities

Chief Executive Officer & Accounting Officer
(CEO)

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

Executive Committee

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

Change Board

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

TCFD Project Board

Supports the Senior Responsible Owner in delivery of the TCFD Project

Enterprise Risk and Credit Committee (ERiCC)

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

Board

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

Risk Committee

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

Audit Committee

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

Export Guarantees Advisory Council (EGAC)

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

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

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

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

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

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

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

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

Strategy

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

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

Net zero by 2050[2]					
Strategic pillar	By increasing our support to clean growth and climate adaptation	By reducing our portfolio greenhouse gas emissions	By understanding and mitigating our climate-related financial risks	Through transparency and disclosure	By providing international leadership on climate change amongst ECAs and relevant financial institutions
Where to see our progress	Spotlight on clean growth (page 39)	Metrics and targets (page 91)	Chief Risk Officer's report (page 58) Environmental and social risk management report (page 77)	Task Force on Climate-related Financial Disclosures (page 82)	Doing Business Sustainably (page 38)

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

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

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

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

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

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

Scenario analysis

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

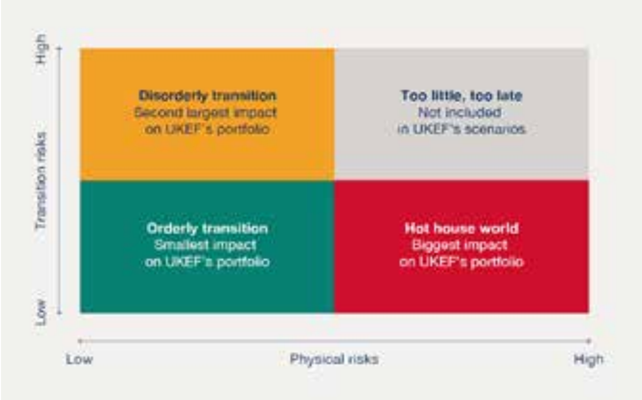
We currently run climate-driven stress tests on our portfolio twice a year, using three climate-related scenarios with a time horizon to 2050. These scenarios are consistent with those of the Network for Greening the Financial System[4] (NGFS) and the approach is consistent with that used in stress testing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

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

Sources of climate-related credit risk

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

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



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

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

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

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

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

Risk management

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

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

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

Financial risk

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

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

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

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

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

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

Identifying, assessing and managing ESG and climate change credit risk

1. All medium and long-term transactions are reviewed individually in line with UKEF's policies and procedures. Short-term and delegated transactions are managed through our risk management frameworks
2. Transactions which require an additional ESG and climate change credit risk assessment are identified based on established criteria, including whether there are net zero, adaptation, transition or other plans
3. Information is collected, including through customer engagement where appropriate
4. An ESG and climate change credit risk assessment is made and integrated into the credit risk assessment, with additional internal assurance and sign-off where needed. This ensures that climate-related financial risks are considered in capital structure, tenor and collateral
5. The assessment is submitted to ERiCC where appropriate and considered by the decision-maker alongside all other relevant factors

Non-financial risk

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

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

1. All transactions are screened for climate change risk and impact either at product level, through delegated financial institutions or directly by the E&S team

2. Where relevant, the E&S team determines whether further assessment is required and to what extent

3. If more assessment is required, the E&S team assesses the relevant aspects of a project, supply or company which may add to global emissions and/or may be affected by physical or transition risk

4. Recommendations may be provided to reduce climate-related risks and impacts

5. The assessment is internally assured and signed off, with additional external assurance or input where appropriate

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

7. After approval, transactions are monitored for performance against action plans, including emissions reporting commitments

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

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

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

Metrics and targets

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

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

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

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

Financed emissions

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

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

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

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

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

Methodology

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

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

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

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

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

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

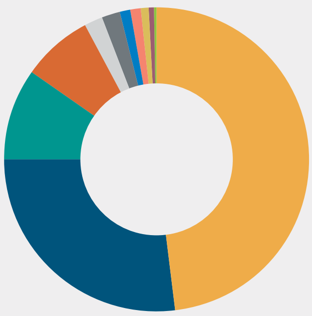
Rebasing and year-on-year emissions performance

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

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

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

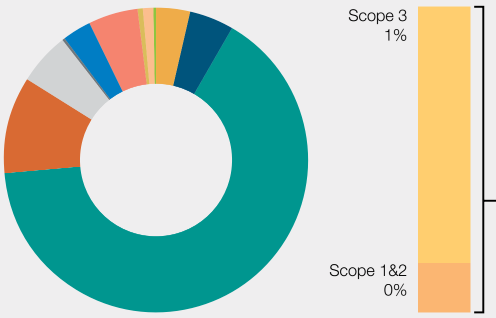
Sectoral distribution of expected loss at January 2023



%	Sector
48	Construction
27	Manufacture of machinery & equipment
10	Power, including renewables
7	Aero
2	Agriculture & Water
2	Transportation
1	Chemicals
1	Mining and Metals
1	Other
1	Services
<1	Defence
<1	Oil and Gas

Sectoral distribution of UKEF's financed emissions at January 2023

- attribution by expected loss (1.07 $MtCO_2e$)

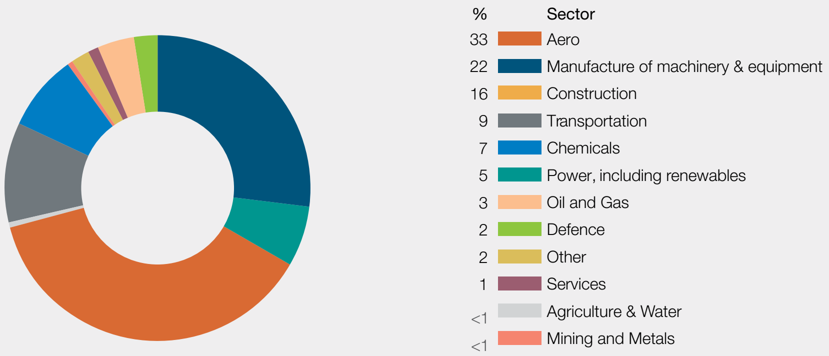


%	Sector
65	Power, including renewables
11	Aero
5	Agriculture & Water
5	Mining and Metals
5	Manufacture of machinery & equipment
4	Construction
3	Chemicals
1	Oil and Gas
1	Other
<1	Transportation
<1	Services
<1	Defence

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

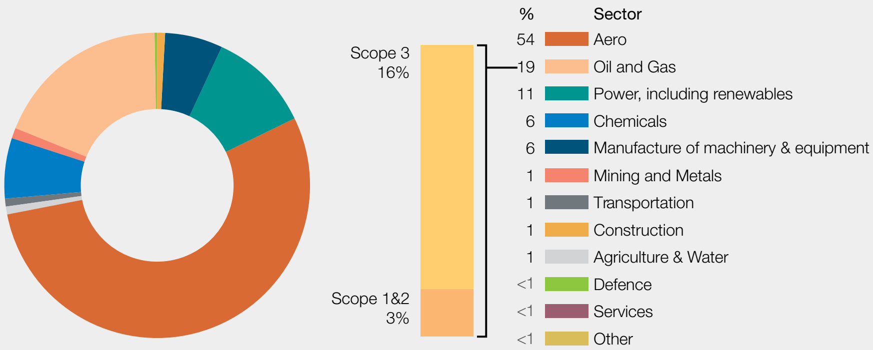
Last year we estimated our emissions as at January 2022 to be 15.7 $MtCO_2e$ on an amount at risk basis. We have revised that baseline estimate to 6.92 $MtCO_2e$ which represents a 56% decrease. This year, absolute financed emissions increased to 10.83 $MtCO_2e$ on an amount at risk basis (see chart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

Sectoral distribution of amount at risk at January 2023



Sectoral distribution of UKEF's financed emissions at January 2023

- attribution by amount at risk (10.83$MtCO_2e$)



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

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

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

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

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

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

Data quality

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

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

Environmentally-extended input-output modelling

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

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

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

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

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

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

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

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

Portfolio decarbonisation and sector pathways

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

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

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

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

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

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

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

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

Financed emissions reduction target: aviation sector exposure

-35% tCO_2e/£AAR by 2035

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

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

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

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

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

Engaging with customers and partners

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

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

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

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

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

Our support for enabling technologies

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

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

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

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

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

Our products

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

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

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

Other metrics and targets

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

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

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

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

Notes

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

Export Guarantees Advisory Council annual report

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

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

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

Dr Alistair Clark
Chair (until October 2022)

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

Members

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

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

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

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

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

Ms Sarah Steele
Senior Legal Advisor, North Sea Transition Authority

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

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

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

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

General matters

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

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

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

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

Climate change and sustainability

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

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

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

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

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

Members heard about and advised on work

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

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

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

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

Environmental, social and human rights (ESHR)

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

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

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

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

Transparency and anti-bribery & corruption

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

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

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

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

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