Overview of UKEF's pricing policy and methodology

Our premium policy supports UK exporter competitiveness, while ensuring that we meet our financial objectives and meet our obligations under international agreements such as the OECD Arrangement on Officially Supported Export Credits (the OECD Arrangement)[1] and the World Trade Organisation (WTO) Agreement on Subsidies and Countervailing Measures, in relation to the adequacy of risk-based pricing.

Our **financial objectives** are set by HM Treasury. For pricing, they are designed to ensure, as far as possible, that the premium rates we charge reflect the risk taken on and are sufficient for us to operate at no net cost to the taxpayer over time.

Premium-to-risk ratio

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

Pricing adequacy index

Whereas the premium-to-risk ratio serves purely as an annual measure, the pricing adequacy index considers a three-year time scale, applied across three accounting periods:

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

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

Our performance against these objectives is reported in our Annual Report.

Pricing methodologies

We set risk-based premium rates for all our products using pricing methodologies and parameters that are reviewed annually by the UKEF Enterprise Risk & Credit Committee (ERiCC), endorsed by the Board's Risk Committee and agreed by HM Treasury.

UKEF aims to support UK exporter competitiveness and as such, it is our policy that we set the lowest achievable premium rates, subject to the following:

[1] The OECD Arrangement aims for a level-playing field on export credits among members of the OECD. OECD members undertake to operate within these guidelines when providing official support for export credit of two years or more.

- premium rates may not undercut the minimum rates set out in the OECD Arrangement
- no individual premium can be set below our calculated estimate of the risk associated with that transaction
- aggregate premiums must satisfy the premium-to-risk ratio and pricing adequacy index financial objectives
- market benchmarking rules for Market Benchmarking Countries under the OECD Arrangement premium rates must comply with our international obligations, including subsidy rules

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