# PERFORMANCE REPORT

# ABOUT UKEF

## 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 and 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.

# 2023/24 IN FIGURES

**£8.8 billion**
financial support issued

**£51.6 billion**
maximum annual exposure

**£60 billion**
capacity to support exports

**650**
exporters supported

**336**
SMEs supported

**41,000**
UK jobs supported

# THIS YEAR'S MILESTONES

## APRIL

» UKEF appoints a new Country Head to its Brazil post to promote trade opportunities with the UK.

## MAY

» Named 'Best Export Credit Agency' at Global Trade Review's Leaders in Trade awards.

» £300,000 support for Telford-based battery and renewable energy specialist AceOn.

» G7 Export Credit Agencies meet in Rome.

## JUNE

» World's first hydrogen-powered bus company, Wrightbus, receives £50 million support package backed by UKEF.

» £5 million General Export Facility support provided to Wirral-based Marine Specialised Technology Group.

» Ukraine Recovery Conference in London takes place. Announcement of £26 million to rebuild six new bridges near Kyiv.

## JULY

» New OECD Arrangement terms and conditions that enable climate-friendly British exporters to receive more flexible and competitive support come into effect thanks to successful negotiations led by UKEF.

» £680 million loan guarantee for new high-speed electric railway in Türkiye.

» €422 million of financing underwritten for historic upgrades to 103km of Zanzibar's road network and Pemba Airport.

## AUGUST

» UKEF backs £50 million loan from HSBC, NatWest, and Citi for industrial fastenings group Trifast.

» £2.5 million guarantee awarded to small Dewsbury furniture firm Jay-Be.

## SEPTEMBER

» Memorandum of Understanding (MoU) signed with Japanese export credit agency Nippon Export and Investment Insurance.

» Bond support scheme guarantee enables small Surrey-based cleantech firm, Gas Recovery and Recycle Limited, to secure a £4 million order to supply its tech to a solar facility in India.

## OCTOBER

- Export Development Guarantee unlocks £16.5 million Santander UK package for Nottinghamshire aerial data-capture business DEA Aviation Limited.
- Second annual West and Central Africa Trade and Investment Forum takes place in London.
- Jordan Shorto, Deputy Head of Aerospace at UK Export Finance awarded BExA-GTR Young Exporter/ Export Financier of the Year Award for 2023.

## NOVEMBER

- Annual UKEF customer conference takes place in North Greenwich, London.
- Framework agreement signed with Brazilian aircraft manufacturer Embraer to increase use of UK suppliers.
- £370 million Export Development Guarantee signed for offshore wind specialist Seaway7.
- First ever Invest-to-Export Development Guarantee issued for SeAH Steel Holding's construction of SeAH Wind UK's wind tech factory near Redcar, supporting 1,500 jobs in the supply chain.
- MoU signed with the Japan Bank for International Cooperation to promote clean energy and other businesses in the United Kingdom.

## DECEMBER

- £226 million financing deal signed to help build over 350km of new critical drainage system in Iraq.
- UKEF joins ECA partners at COP28 in Dubai to launch Net Zero Export Credit Agencies Alliance.
- Largest ever Sub-Saharan Africa deal signed (€415 million) to deliver critical flooding infrastructure works in Angola, supporting over 11,000 jobs.
- UKEF and Export Finance Australia sign a MoU to deepen collaboration on energy transition, infrastructure and supply chains.
- Export Finance Managers Elizabeth McCrory and Phill Potter awarded MBEs for their services to businesses in The King's New Year Honours List 2024.

## JANUARY 24

- UKEF partners with other export credit agencies to secure over €1.2 billion in financing for 140km electric railway project in Türkiye.

## FEBRUARY 24

- $100 million guarantee announced to Northern Ireland tech firm EOS IT Holdings to bolster international exports.
- Berne Union celebrates 90th anniversary with London event hosted by UKEF.
- Export finance guarantee unlocks £1.4 million Santander UK deal for Skiwear firebrand OOSC Clothing.

## MARCH 24

- Robert Gillespie appointed as new Board Chair.
- UKEF signs co-operation agreement with U.S. Department of Energy LPO.
- MoU signed with the government of Benin in support of local infrastructure projects.

# FINANCIAL OBJECTIVES

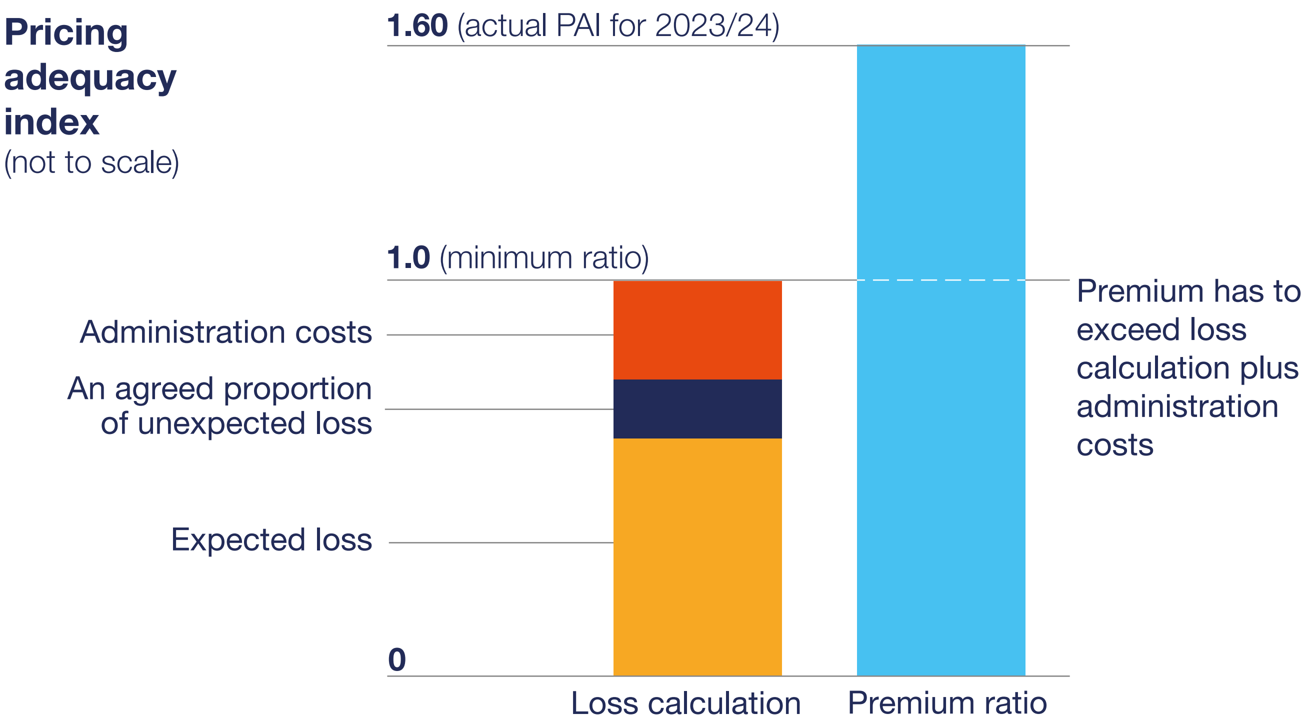
HM Treasury agrees a standing consent with UKEF, providing parameters within which we can operate. These parameters embed fiscal responsibility in the way we work.

HM 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 111.

**How UKEF calculates premiums to make sure it covers costs and losses**



## Performance against objectives[1]

| Objective and description | Results |
|---|---|
| **Maximum commitment**<br>This measure places a cap on the maximum amount of nominal risk exposure (ie the total amount of taxpayers' money that may be put at risk by UKEF). | **Met**<br>The highest recorded maximum exposure in the year was £51.6 billion, against a maximum permissible level of £60 billion. |
| **Risk appetite limit**<br>This limit places a constraint on UKEF's appetite for risk at the 99.1 percentile of UKEF's estimated portfolio loss distribution. | **Met**<br>UKEF's 99.1 percentile of the portfolio loss distribution did not exceed £4.0 billion against a maximum permissible level of £6 billion. |
| **Reserve index**<br>This index ensures that UKEF has accumulated, over time, sufficient revenue to cover possible losses, to a 77.5% level of confidence. | **Met**<br>The reserve index did not fall below 1.85 in the year, against a target minimum of 1.00. |
| **Pricing adequacy index**<br>This index tests whether, over time, UKEF earns sufficient premium income to cover all its risk and operating costs. It is measured over 3 different periods: | |
| (i) past 2 years and present year. | **Met**<br>This index at 31 March 2024 was 1.60, against a monthly minimum target of 1.00. |
| (ii) previous, present and next year. | **Met**<br>This index did not fall below 1.57, against a monthly target minimum of 1.00. |
| (iii) present year and next 2 years. | **Met**<br>This index did not fall below 1.63, against a monthly target minimum of 1.00. |
| **Premium to risk ratio**<br>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**<br>This ratio did not fall below 2.07, against a target minimum of 1.35. |

1 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 is now at £60 billion as of 31 March 2024.

# PERFORMANCE OVERVIEW

# HOW TO READ THE PERFORMANCE CHAPTER

The performance chapter is a comprehensive overview of UKEF's 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 and 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 with 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. This 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 six accounts, each defined by the nature of business supported by the department. Three of the six accounts are active and three 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 and 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 and 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. |

# CHIEF EXECUTIVE'S REPORT

UKEF's mission is to 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. That is a bold and ambitious objective, and I am extremely proud of UKEF's work over the last year to fulfil it.

Tim Reid
Chief Executive and Accounting Officer
29 July 2024

This has been my first full year as CEO of UKEF, and I have been happy to see the impact of UKEF's work across the UK and around the world. At the start of the year, I agreed UKEF's priorities with our former Minister for Exports. These were to:

1. drive economic growth by supporting more UK exporters, helping us meet the £1 trillion exports ambition set out in the government's Export Strategy
2. further improve quality of service to reach and attract UK exporters
3. maximise the real-world impact of UKEF's work on the government's objectives at home and overseas
4. ensure UKEF supports the outcomes of the government's new Integrated Review

These priorities underpinned our work throughout the year.

## 2023/24 in review

### Driving economic growth

With our capacity of £60 billion, increased by £10 billion with HM Treasury's consent last year, UKEF can provide certainty of support for more British exporters than ever. During 2023/24 we provided over £8.8 billion of support to 650 businesses of all sizes and types, supported up to 41,000 jobs in communities around the whole UK and the contribution of up to £3.3 billion to the overall economy. With the exception of the first year of the pandemic (2020/21), during which we provided significant support under our temporary COVID-19 framework, this is the highest value of support in a single year for over 30 years. With this growth in business issued, the department has taken on more exposure to risk, although our average portfolio credit quality has remained broadly stable.

UKEF's support can be broken down into different types, supporting UK exporters and overseas buyers. Since introducing our Export Development Guarantee (EDG) and General Export Facility (GEF), we have been able to unlock working capital for businesses in the UK, through our ability to guarantee loans that were not export contract-specific. In 2023/24 we used the EDG and GEF to provide £3.2 billion and £575.6 million respectively.

Once again, we provided help to large numbers of SMEs, with 88% of businesses whom we directly supported being in this category.[2]

UKEF continues to operate with a global footprint. Africa (£1.3 billion) and the Middle East (£419.5 million) remain two of UKEF's largest markets for new business, reflecting the strong trade links between these regions and the UK. The Indo-Pacific region, in which UKEF is strengthening trade ties, accounted for £376.6 million in new business. We underwrote two of our largest ever deals in Sub-Saharan Africa this year. In one of these deals we're helping to build more than 2,000 kilometres of new road in Senegal, connecting major towns and cities which will help boost local economies. However, we are now diversifying our portfolio, and this year has seen growth in both our pipeline and our business volumes in other regions, notably the Indo-Pacific and Latin America. We have continued to extend our overseas network to support origination activity, and provide opportunities to increase the geographic reach of our financing support. To this end, in the past year the network has expanded to 22 Country Heads around the globe, including new hires in Vietnam and the Dominican Republic.

UKEF's commitment to excellence continues to be recognised in the market – we were named Best Export Credit Agency (2023) by GTR.

Following the pattern of recent years, volatility has remained the key political theme for the year. The illegal Russian invasion of Ukraine continues to disrupt and distort world markets, and we have also seen further instability with the impact of the conflict in Gaza. UKEF has played its part in the government's response to this volatility, whether by guaranteeing working capital loans to enable businesses to continue to invest, or by taking on risk from the private sector to give it confidence to continue its business. For instance, UKEF is still operating under a Ministerial Direction to remain open for business in Ukraine, with £3.5 billion of financial capacity. We will continue to assess transactions on a case-by-case basis in accordance with normal policy and practice, while also obtaining written consent from Ministers and HM Treasury before providing support for each transaction. Further information can be found in the National Interest Account chapter on page 43.

The corollary of increased business, and a reflection of the volatility I cite above, is the stress it places on our portfolio and an increase in the number of claims that we have received. That will always be a natural consequence of the role UKEF undertakes, operating in markets where risk is greater, meaning that the commercial sector is hesitant to venture. Strong risk analysis, portfolio and claims management is therefore a core competence of the organisation. While there is no room for complacency, we do have processes and procedures in place to be well situated to protect taxpayers' interests. For more information on our portfolio management and claims, see the Chief Risk Officer's report on page 56.

2 This figure includes export assists for the first time in 2023/24.

Our in-house environmental, social, human rights, legal, compliance and financial crime specialist teams have continued to help ensure that as business volumes increase, high standards in terms of due diligence of new transactions and the ongoing monitoring of existing ones are upheld and improved in line with international commitments and best practice.

At UKEF we not only make deals happen, we get them done the right way.

UKEF is reporting a net operating gain of £49 million for the year ended 31 March 2024, compared with a net operating gain of £332 million for the year ended 31 March 2023. On a foreign exchange-adjusted basis, the net operating gain for the financial year was £104 million, compared with a net operating gain of £242 million for the year to 31 March 2023.

This change is the result of business being written during the course of the year in relation to support for Ukraine on the National Interest Account (see NIA overview on page 43 for more details). In terms of UKEF's overall performance in connection with normal business however (so not including National Interest Account, Temporary COVID-19 support or foreign exchange results) UKEF reported an Operating gain of £230 million compared with £160 million for the year ending 31 March 2023 which is a more meaningful comparison of our performance.

## Improving quality of service for our customers

UKEF's product offering supports UK businesses of all sizes with their exporting activity. Alongside our support for the involvement of UK companies in projects around the world, an area of growing strategic focus continues to be our direct support for SMEs. These businesses, particularly those with a turnover of below £10 million, will need a different approach to larger enterprises to help them navigate the complexities of trade finance and insurance – and we are committed to tailoring our financing offer accordingly. This in turn requires from us a greater focus than ever on customer experience.

Customer surveys show that we continue to have an 80% satisfaction score and the launch of our new website, designed specifically for SMEs, has seen a record number of new enquiries.

In order to improve accessibility, we are bringing on board new partners to deliver our flagship General Export Facility – this year we have partnered with Virgin Money and ABN Amro as well as increasing the value and tenor thresholds within which our products can be approved automatically by our partner banks. This essentially gives greater flexibility to SMEs accessing UKEF-backed credit.

In 2023/24 we supported at least 336 SMEs.[3] But we know we need to go further. That is why we have outlined our plans to support 1,000 SMEs per year by 2029 in our new business plan.

3 This figure includes export assists for the first time in 2023/24.

To achieve this level, we know we need to make more of our digital services and improve our use of data while making our engagement with SMEs simpler and more effective. This year we designed and built a new digital service for customers to access our export insurance product, and continued research to better understand the needs of smaller businesses and evolve our product offering. Alongside significant programmes to implement new international accounting standards and to replace our core banking system, these organisational change projects are a significant operational focus for UKEF. They do pose resourcing and prioritisation challenges, particularly to digital, data and technology teams. We are actively managing these challenges in the run-up to the Spending Review that we expect later in 2024.

UKEF, in providing guaranteed finance on commercial terms, operates as part of a wider ecosystem of government finance support for SMEs, ranging from grants from Innovate UK through to equity and debt schemes from the British Business Bank. We continue to work with the Department for Business and Trade as well as other public finance institutions to enable businesses to identify the range of solutions available to them across government. But UKEF's support is not solely directed to SMEs. We have extended our non-contract-specific guarantees to some of the UK's larger businesses too. For example, during 2023/24, six businesses benefited from UKEF's support through the Export Development Guarantee (EDG), which can help companies secure larger working capital loans. Changes made to the EDG product expected later this year will deliver greater exporting impact going forward.

UKEF exists to complement, rather than compete with the private market. We recognise that this means taking on risk on behalf of the exchequer, and by extension being prepared to pay out on losses and claims. UKEF does this within a stringent fiscal framework, ensuring losses are minimised and that our support for UK exporters comes at no net cost to the taxpayer.

**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 exporter receiving support from the private sector.

## Maximising our impact through sustainable financing

Beyond the impact on businesses, jobs and the economy, UKEF's support can help address some of the most pressing challenges of our times. Support in mobilising sustainable finance helps us maximise our real-world impact. A major imperative is to support clean growth, and those businesses in the UK's supply chains which have great potential to export, but will require sustained investment to reach that stage.

This year we completed on our first ever Invest-to-Export EDG, securing a major overseas investment in North East England by helping South Korean manufacturer SeAH Steel Holdings to build a wind technology factory in Teesside. This transaction was also notable for being UKEF's first joint financing with K-Sure, the South Korean export credit agency. For more information on our support for sustainable transactions, as well as trends across our wider portfolio, see Our Impact (page 31).

Nowhere is the need for export credit agencies to work together to achieve global outcomes clearer than in our response to climate change. I led the UKEF delegation at COP28 in Dubai, where we became a founding member of the new Net Zero Export Credit Alliance – the first public finance chapter of the Glasgow Financial Alliance for Net Zero – this alliance aims to decarbonise finance with joint action from public and private sectors.

We are also leading the market in sustainable lending with our industry-leading climate-resilient debt clauses (CRDCs), under which we can pause debt repayments from sovereign borrowers in the event that they are hit by climate shocks.

## Delivering the Integrated Review: International partnerships

As we look to strengthen collaboration with significant trade partners, UKEF has entered into a number of co-operation agreements with other export credit agencies throughout the year, including with Export Finance Australia, Nippon Export and Investment Insurance, Japan Bank for International Co-operation, and EXIM Thailand.

These partnerships, and wider collaboration between export credit agencies in a range of specialisations, is becoming ever more important as the geopolitical context in which we work becomes more complex, and our governments look to their ECAs to play a greater role in addressing economic and strategic challenges. Our priorities have been a focus of discussions across numerous bilateral and multilateral engagements with other ECAs this year, including at the G7 group.

In July 2023, the new modernised OECD Arrangement on Officially Supported Export Credits came into force, offering greater flexibilities in tenors, pricing and repayment structures in ECA financing, alongside the updated Climate Change Sector Understanding, which now offers further incentives to a broader range of new clean growth technologies.

I am pleased with the role UKEF played alongside the wider OECD Participants' Group in negotiating these updates so we could secure ECAs' continued relevance in an ever evolving market.

## Looking ahead

Looking forward, we have launched our new five-year business plan covering the period 2024 to 2029, alongside a new Sustainability Strategy that succeeds our previous Climate Change Strategy. Together, these set out our ambitions for UKEF, by growing export support for businesses across the UK, engaging with SMEs, financing projects in developing markets and driving the energy transition. 2024/25 is the first year of that business plan.

Our previous plan, for which 2023/24 was the final year, focused on agility and adaptability, which stood UKEF in good stead to respond to the many challenges of the period – the global pandemic and its long tail, war in Europe and increasing conflict around the world, and the escalating emergency of climate change. Working with other parts of government, UKEF has been at the forefront of the government's response to all these and many other challenges, as well as significantly widening the range of exporters we can now support.

In addition to underwriting business that will contribute to our five-year milestones across the whole new plan, we will establish enabling workstreams that aim to realise these objectives throughout the full period.

These will include:

**Objective 1: Catalyse growth in UK trade through UKEF’s world-leading export finance and insurance offer**

- Develop a new product strategy for the business plan period.
- Deepen our engagement with strategic sectors.

**Objective 2: Significantly increase the number of SMEs that benefit from UKEF’s support**

- Optimise our export insurance product offer to support smaller transactions.
- Further widen distribution channels to broaden conduits of UKEF support.

**Objective 3: Support a broad range of business to export, driving local growth across all regions**

- Deliver targeted marketing activity to businesses across the country.

**Objective 4: Position UK exporters and suppliers at the heart of the global low carbon transition**

- International engagement to support joint policy outcomes.
- Review and enhance UKEF’s offer for transition and clean growth financing.

**Objective 5: Use our finance in developing markets to create positive impact overseas and in the UK**

- Work within the OECD to further embed good international industry practice standards for ECAs, including on tackling bribery.
- Work with cross-government partners to strengthen collaboration in developing markets.

Meanwhile, we have also identified five strategic enablers underpinning the plan:

- putting the customer at the heart of everything we do
- being purposeful and responsible with our risk-taking
- making UKEF the best place to work for our people
- ensuring we have the right digital and data solutions to inform our activities
- ensuring UKEF is an agile, fit-for-purpose organisation

We will do this by supporting our colleagues – encouraging all staff to live our departmental values of taking responsibility, excelling together, respecting all and making a difference. UKEF is one of the smallest Whitehall departments, but it is also one of the most diverse. It is also one of the most engaged. Last year's Civil Service People Survey showed that the overall staff engagement figure was 70%, compared with a benchmark of 65% across the Civil Service as a whole. We expect that our customers and portfolio will continue to face pressure from heightened geopolitical risks and increasing debt levels in 2024/25. We will continue to manage these risks in line with UKEF's risk management framework (for more detail, see the Chief Risk Officer's Report on page 56).

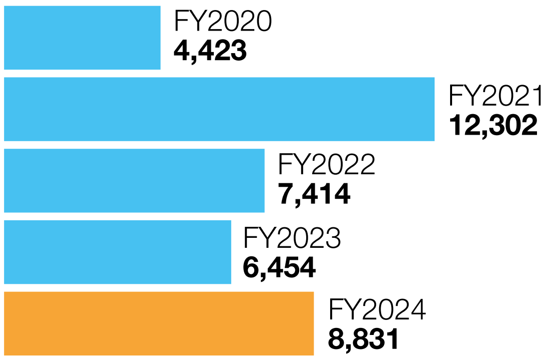
UKEF currently remains subject to its 2021 Spending Review settlement which provides sufficient resource to drive forward plans while protecting the taxpayer. In the run-up to the next Spending Review, anticipated to take place later in the 2024/25 financial year, we continue to focus on efficiency and productivity including investment in modernising our operations.

I look forward to working closely with Robert Gillespie as our new Chair to deliver on our mission, as well as new Board member representing the Department for Business and Trade Joanna Crellin CMG. I would also like to reiterate my thanks to Noël Harwerth OBE for her eight years of outstanding leadership as well as to Andrew Mitchell and Niall Mackenzie for their hard work and support in their roles as our principal liaisons within the Department for Business and Trade. Also, I'd like to thank Candida Morley as ex-officio member of the Board from UKGI for her service to UKEF. I am very grateful for the continued support from my fellow members of the Executive Committee, and for the hard work and dedication from all the staff around UKEF.

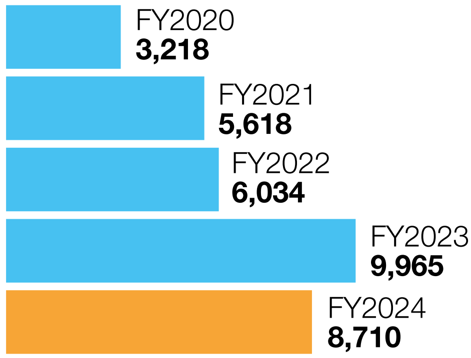
**Tim Reid**
Chief Executive and Accounting Officer
29 July 2024

# FIVE-YEAR SUMMARY

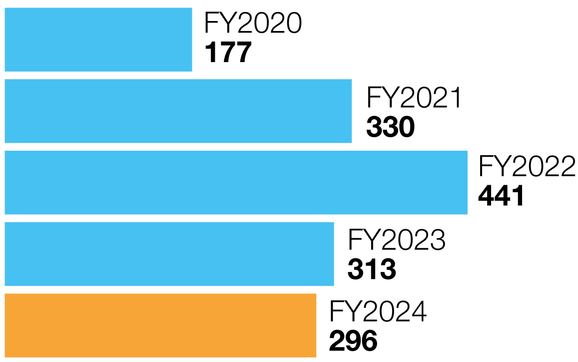
### Business supported (£m)



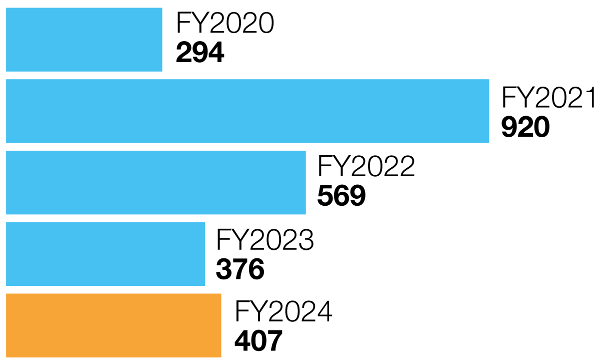

### Value of commitments (£m)



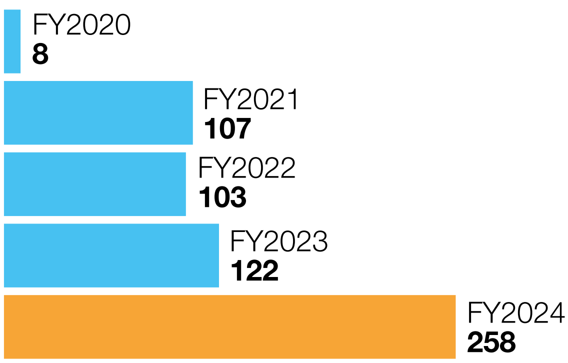

### Premium income earned (£m)



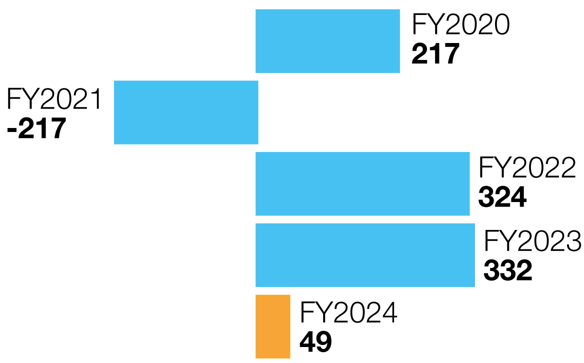

### Premium income issued (£m)




### Claims paid (£m)

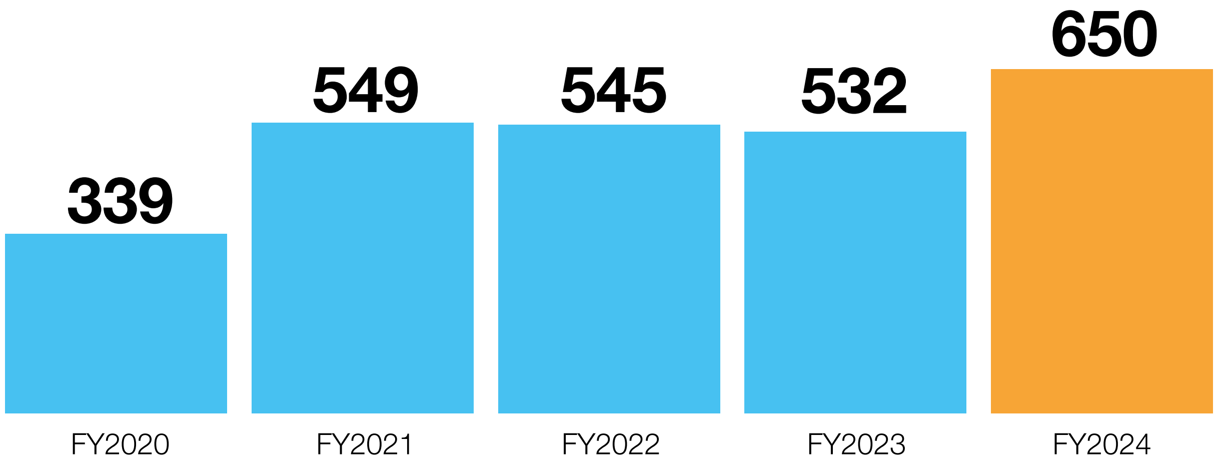



### Net operating outturn (£m)

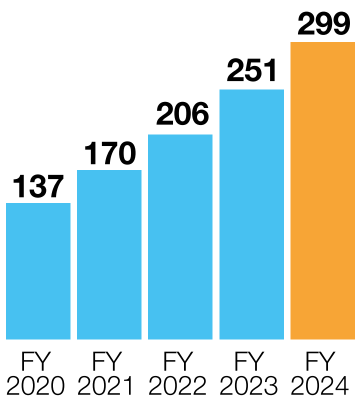


## How our support for exporters breaks down

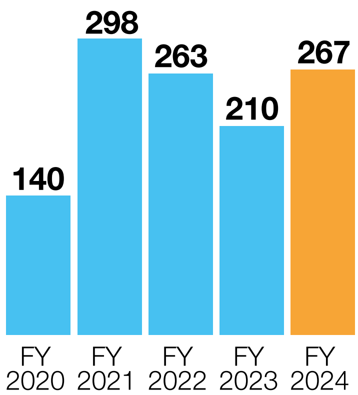
**650** total exporters supported



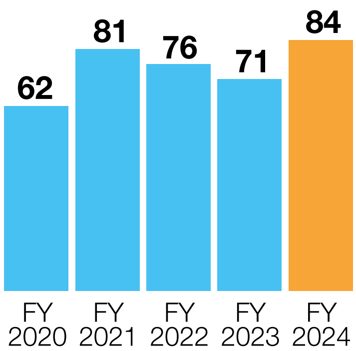

Of which:
**Direct support under a UKEF product**



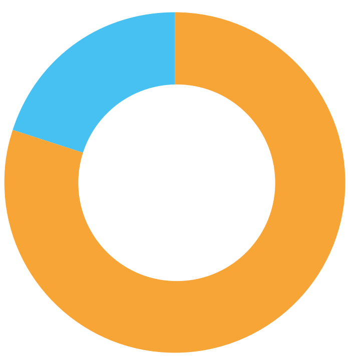

Of which:
**Tier 2 suppliers**




Of which:
**Private market assist**




Of which:
**Small to medium-sized enterprise**

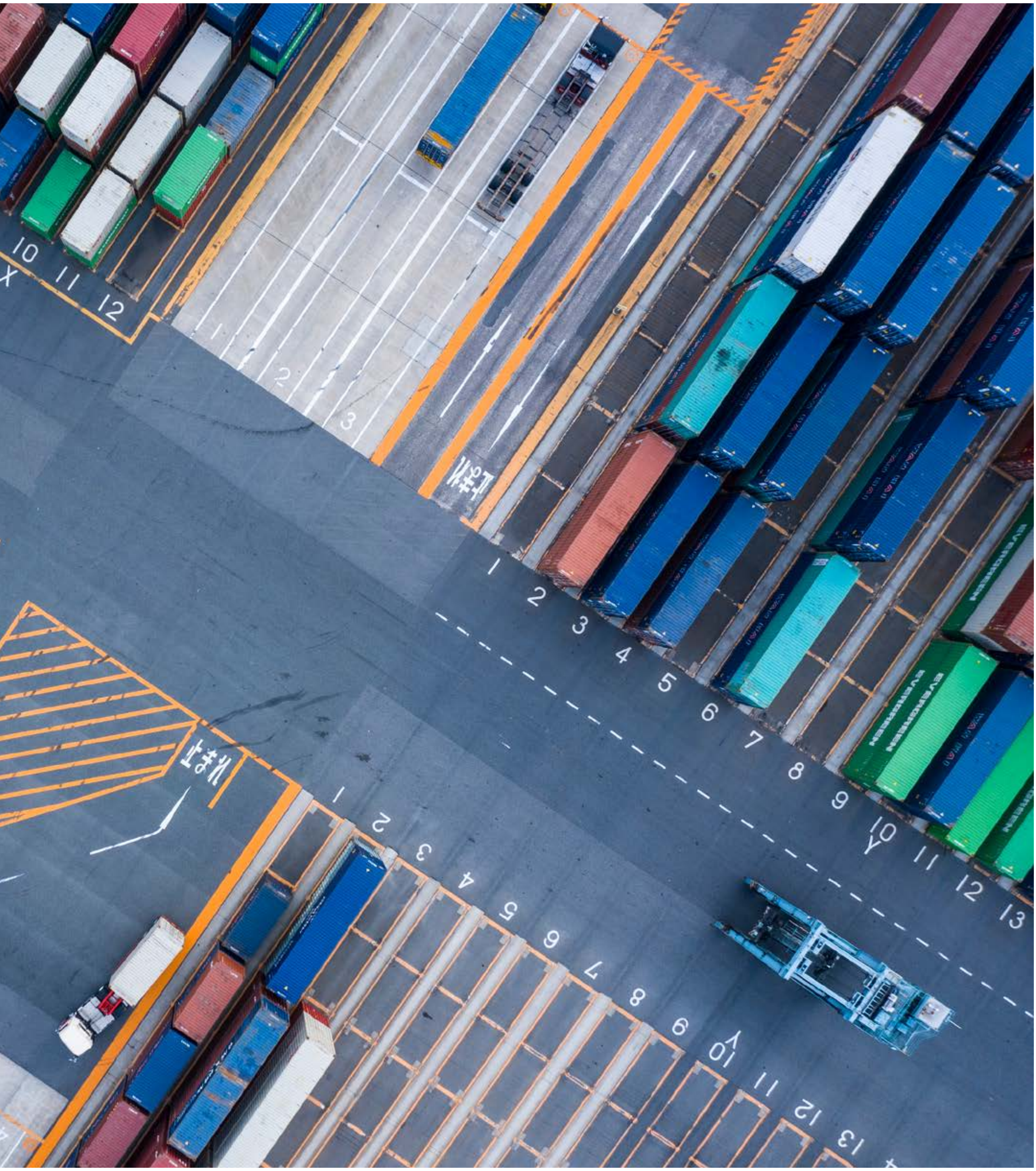


**88%**
FY2024*

FY2020 **77%**
FY2021 **79%**
FY2022 **81%**
FY2023 **84%**

*This year's SME calculation (88%) includes export assists for the first time

# PERFORMANCE ANALYSIS



# OUR IMPACT

UKEF provides billions of pounds of financial support each year, enabling UK businesses of all sizes to grow by tapping into the significant exporting opportunities that global markets provide.

The real-world outcomes that we deliver through our financing go even further – from job creation in communities around the UK, renewables projects supporting the global transition to net zero, and infrastructure projects that support development goals, to name just a few.

Our Impact Framework helps us measure and articulate our impact around the themes of prosperity, sustainability, and public policy. These themes have underpinned the development of our 2024-29 business plan – with each delivery objective aligned to the impact that we want to deliver for our customers and their communities. UKEF will report progress against these business plan objectives in future annual reports.

## Prosperity: economic growth through export finance

Supporting economic growth through export financing is at the core of our mandate and shapes everything we do. Our support of up to £3.3 billion to the economy and supporting up to 41,000 jobs across the country in 2023/24 demonstrates that our financing makes a tangible, positive impact in communities across the UK.

SMEs are an increasingly important segment of our business, as these smaller companies account for over 99% of UK businesses and 60% of employment.[4] Currently, only around 10% of these are exporters. We know that exporting can help companies to grow and to innovate and our direct support can be critical to help companies on their export journey.

4 www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release

## Our Impact

**Prosperity**
Supporting economic growth and jobs

**Public Policy**
Contributing to wider public policy priorities

**Sustainability**
Promoting the low carbon transition

**Fiscal**
Breaking even over time

We have enhanced the GEF and expanded the range of finance partners we work with (for example, Virgin Money and ABN AMRO onboarded this year). These efforts have helped improve access to finance for SMEs and brought the value of our support under our SME-targeted trade finance schemes to historic highs of £575.5 million for 244 companies.

We also continue to drive larger companies' investment in export growth for UK PLC, with £3.2 billion in support through our Export Development Guarantee provided in 2023/24. This slight decline on recent years reflects a return to a more normalised operating environment for the UK's banking sector after the pandemic and shocks in the market precipitated by the Ukraine conflict, as well as a greater strategic focus on export growth and impact in our transaction due diligence.

As highlighted, in 2023 we provided our first ever Invest-to-Export loan guarantee by helping South Korean manufacturer SeAH Steel Holdings to build a wind technology factory in Teesside. This project will support more than 1,500 jobs in the UK supply chain as the factory seeks global contracting opportunities in the high-growth offshore wind market.

UKEF maintained its support for the UK's strategic sectors this year. The global aviation sector has continued its strong financial performance in 2023, reaching pre-pandemic levels of demand in markets such as Europe and North America. This return of traffic combined with high liquidity in the commercial financing market has meant that ECA financing for civil aircraft and engines has remained at historically low levels.

UKEF support remains important, especially for clients with large order books which need diversity of funding sources as well as customers operating in markets where commercial appetite is more constrained (for example in Africa). In 2023/24 we provided £3.6 billion financing to the sector, with our support focused on new and more fuel-efficient aircraft. We continue to work with customers and multilateral partners to support decarbonisation efforts in the sector, including through the OECD. As global demand for new aircraft remains high from airlines seeking to reduce fuel costs and decarbonise their fleet, we anticipate demand for our support will continue going forward. Our reporting on Task Force on Climate-related Financial Disclosures on page 84 sets out UKEF's approach to financed emissions across our portfolio, including aviation.

## Sustainability: promoting the low carbon transition

Mobilising finance is at the centre of global efforts to tackle climate change. As the world moves closer to 2050, finance will increasingly need to be green or transitional. UKEF is playing an important role in promoting the low carbon transition and supporting its customers to respond to the impacts of climate change.

Having set up the Renewables and Transition underwriting team in 2021 following the introduction of HMG's fossil fuel policy, we are becoming established in the renewables sector and are seeing significant business and pipeline volumes. The transition presents increasing opportunities for businesses, and UKEF helps enable UK companies to engage in that opportunity.

Low-carbon transport also remains a significant part of our clean growth portfolio. We backed a £680 million deal that will enable Rönesans Holding to finish construction of a high-speed electrified railway connecting Mersin with the cities of Adana, Osmaniye and Gaziantep in Türkiye. The railway is expected to reduce carbon dioxide equivalent ($CO_2e$) emissions by over 150,000 tonnes a year and is creating new, multimillion-pound export contract opportunities for the UK's infrastructure, engineering, and project management sectors.

We closed a large deal this year in Angola to build new flood defences that will protect communities along the coast. Our guarantee secured financing for a €415 million contract between exporter Innovo Group and Angola and was announced at the UN's COP28 climate change summit as an example of the role of international trade in supporting global adaptation against climate change and extreme weather.

These overseas projects create a world of opportunity for UK suppliers, but our domestic product offering also supports clean growth jobs at home. Northern Ireland-based Wrightbus received £50 million to boost exports of electric and hydrogen-powered buses supported by a loan guarantee from UKEF. The company plans to double its workforce in the next three years, creating 1,000 new local green jobs.

## Public policy: supporting wider government policy priorities

UKEF's ability to leverage private finance with government-backed guarantees and insurance puts us in a unique position to contribute to the government's economic, trade, foreign and development policy priorities.

In a volatile geopolitical environment, UKEF's financing offer helps exports from the UK's defence sector and supports our allies to build their capability and expertise to defend themselves from military threats. We work alongside the Department for Business and Trade, the Ministry of Defence, HM Treasury, and the Foreign, Commonwealth and Development Office to deepen relationships with overseas stakeholders and tailor our offering accordingly.

In 2023/24 we continued to support Ukraine's defence against Russia's illegal invasion, helping their navy modernisation programme through a buyer credit facility guarantee. This allowed the transfer of two Royal Navy vessels to Ukraine's Navy which will in turn help secure vital corridors to export grain and other materials, supporting their economy in the face of Russian bombardment. You can find more details about our financing to Ukraine through our National Interest Account on page 43.

UKEF's role as part of the government's international finance offer – communicated to stakeholders through the British Investment Partnerships toolkit – is another important area of the UK's foreign policy where UKEF's finance can create benefits at home and abroad.

Export credit agencies represent a well-developed mechanism for mobilising finance into partner countries, bringing large finance capacity, long maturities, and embedded high environmental and social standards. UKEF has a recognised role as a leader and innovator in financing projects that help deliver impact and prosperity. This year UKEF provided £2.7 billion of financing in support of UK exports in official development assistance (ODA) eligible countries, unlocking commercial finance for priority projects.

There is strong demand for ECA financing in the civil infrastructure sectors, particularly in Africa and parts of the Middle East where many markets have seen greater liquidity constraints and challenging credit conditions. UKEF leverages its strong network in this space to deliver infrastructure projects which are sustainable, impactful and contribute to the safety of local communities.

For example, this year we secured £226 million in financing for the Iraqi government to develop over 350km of drainage infrastructure as well as 15 stormwater and wastewater lifting stations. Upon completion, the project is expected to help over 25,000 households access clean water in the wider Al-Hillah district. For the UK there is an equally positive impact story with almost 50% of the contract value anticipated to come from UK suppliers. Supply of plant and machinery, pipes, cranes, pumps, steel well walls, stop logs and gates, project consultancy, design and engineering are all expected from the UK.

Financing projects such as these also drives progress towards the United Nations' Sustainable Development Goals (SDGs). Through our international network, we identify projects and supply chains with positive SDG-related impacts that we can support. Our approach focuses on prioritising origination activities, collecting and measuring data, and communicating our impact.

## Supporting a contribution of up to £3.3 billion to the UK economy

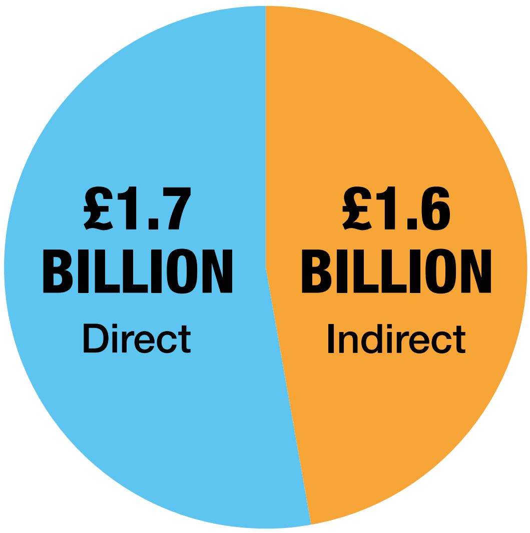
Through **£8.8 BILLION** in UKEF support in 2023/24, UKEF has backed the contribution of up to **£3.3 BILLION** in GDP.[5,6] GDP measures the overall value of goods and services produced in the economy. Our estimate captures the direct contribution to the economy by the UK exporters supported by UKEF, as well as the indirect contributions of UK businesses that supply these exporters.

UKEF **DIRECTLY** facilitates exports, encouraging employment and economic activity within the companies it supports

UKEF **INDIRECTLY** facilitates economic activity via the supply chains of companies supported

**TOTAL IMPACT** on economic activity

**£3.3 BILLION**




5 UKEF previously reported its impact in terms of Gross Value Added (GVA). This year we have reported in GDP terms as it is a more widely recognised measure of economic activity. See more information about this change at https://www.gov.uk/government/publications/uk-export-finance-economic-impacts-of-our-support-in-the-financial-year-2023-to-2024

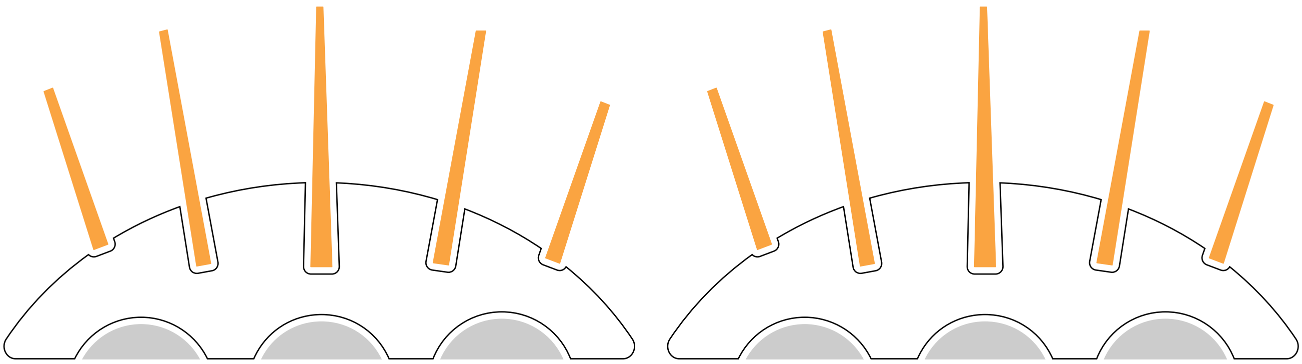
6 GDP refers to the value, profits and consumption of every item, product or service brought to the market by workers, companies or other economic resources resident inside a country in a period of time. See: What is GDP? - Office for National Statistics https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/whatisgdp/2016-11-21

## Up to 41,000 UK jobs supported

The £8.8 billion of new loans, insurance and guarantees issued by UKEF in 2023/24 is estimated to support up to **41,000 JOBS**.[7]

41,000 jobs is equivalent to over

**DOUBLE THE CAPACITY OF THE O2 ARENA.**



**20,000**

of these FTE jobs are through exporters UKEF has directly supported, and 21,000 are indirectly supported through their supply chains.

7 Jobs are measured in terms of full time equivalent (FTE) units which measures employed persons in a consistent way based on the number of hours worked per week. As UKEF support is drawn over multiple years, these supported FTE jobs may occur over numerous years.

## Methodology changes

Each year UKEF reviews and updates its methodology to ensure that our estimates of the economic benefits associated with our financial support are robust and up to date with best practices. One methodological change that we have adopted for the 2023-24 financial year relates to how we proxy for the economic impact of standby loan facilities supported through the Export Development Guarantee (EDG) product.

During the COVID-19 pandemic, UKEF provided support to exporters through the Temporary COVID-19 Risk Facility (TCRF) to ensure businesses could continue to operate through extreme economic and financial conditions. Since then, operating conditions have significantly improved and UKEF considers the impact of new standby loan facilities, compared to similar facilities provided through the TCRF, to be much less.

Our methodology for 2023/24 has been adjusted to reflect this. As a result, our estimates of the economic impacts for the financial year are about 25% lower than what it would have been if we treated these standby facilities as ordinary EDG facilities.

In addition, we look to external expertise to ensure that our approach for measuring impacts is following best practice. In March 2024 the methodology and assumptions were reviewed by the University of Strathclyde's Fraser of Allander Institute. The external review concluded that UKEF's assumptions largely conform to industry standards and provided recommendations to strengthen our assumptions and estimates. Read more information about our methodology at **https://www.gov.uk/government/publications/uk-export-finance-economic-impacts-of-our-support-in-the-financial-year-2023-to-2024.**

# ECONOMIC CONTEXT

Global growth has been resilient but subdued in 2023/24. There has been robust growth in key large economies, despite geopolitical tensions, tightened monetary conditions and elevated energy prices. Global debt levels have continued to increase.

Global growth in 2023 was supported by a normalisation of consumption in China, which re-opened from pandemic related restrictions. However, there are downside risks to China's economic outlook in 2024, such as a larger and more prolonged drop in real estate investment if there is no comprehensive policy support for the troubled property sector. Global growth was also supported by robust growth in the US, and to a lesser extent by growth in emerging markets such as India and those in Eastern Europe.

Global debt levels have continued to increase, including in emerging markets, alongside an estimated 23 million more people living in extreme poverty in 2022 compared to 2019.[8] Since 2020 there has been an increase in coups around the world, with a particularly high concentration in Africa, including in countries that UKEF covers. Climate-related risks continue to increase in prominence, with the World Economic Forum ranking extreme weather events as the risk most likely to generate a global crisis in 2024.[9]

Six sovereigns defaulted in 2023, a slight increase from five in 2022. Local currency defaults outnumbered foreign currency defaults for the first time since 1999, with six local currency defaults compared to three foreign currency defaults. All defaults were in emerging and frontier markets, where macroeconomic vulnerabilities and limited financing alternatives contributed to six distressed exchanges and three instances of missed payments.[10]

## Geopolitical tensions

Russia's illegal invasion of Ukraine in 2022 created significant energy price inflation across the world. Global energy prices fell back in 2023 but remain significantly above pre-invasion levels, depressing economic growth in Europe in particular.

Rising tensions in the Middle East continue to threaten regional stability. Approximately 12% of global trade passes through the Red Sea and onwards to the Suez Canal every year, and shipping through this channel has fallen by 66% between April 2023 and 2024, given Houthi attacks.

8 'March 2024 global poverty update from the World Bank', World Bank, March 2024. blogs.worldbank.org/en/opendata/march-2024-global-poverty-update-from-the-world-bank--first-esti
9 'The global risks reports 2024', World Economic Forum, January 2024. www3.weforum.org/docs/WEF_The_Global_Risks_Report_2024.pdf
10 'Default, Transition, and Recovery: 2023 Annual Global Sovereign Default And Rating Transition Study', S&P Global, March 2024. www.spglobal.com/ratings/en/research/articles/240327-default-transition-and-recovery-2023-annual-global-sovereign-default-and-rating-transition-study-13038208

Rerouting of seaborne containers through the Cape of Good Hope also significantly increases shipping distances, times and costs. Container freight rates on Asia-Pacific to Europe routes have risen sharply since November 2023. However, there has been a relatively small impact on headline global inflation thus far.

Escalating tensions between the US and China may create further economic fragmentation and dampen global trade. The China-Taiwan dispute could also pose risks for the manufacture of advanced semiconductors. Taiwan produces the majority of the world's semiconductors, which are a vital input into many supply chains.

2024 is a year of elections, with more citizens voting than ever before across at least 64 countries. While the context of each election is unique, some countries may experience social unrest if elections are seen to be unfairly carried out. Governments also tend to loosen fiscal policy in election years.[11] Elections in larger or more strategically significant countries may also have wider impacts beyond their own borders.

## Elevated interest rates

According to market expectations, interest rates in most major economies are expected to decline during the rest of 2024, albeit relatively slowly as inflationary pressures continue to dissipate. Forecasters expect interest rates to settle at significantly higher levels than those observed between the Global Financial Crisis and the pandemic (e.g. the US Federal Open Market Committee's central expectation for the US Federal Funds Rate target range in the long run of 2.7 to 2.95%, versus an average Federal Funds Effective Rate of 0.6% in the 2010s).

Persistently high interest rates in advanced economies may exert negative economic pressure on emerging markets. These elevated rates make safer advanced economy debt more attractive to investors, thereby decreasing the incentive to invest in riskier emerging markets. Elevated rates in advanced economies may therefore promote capital outflows from emerging markets, reduce GDP growth in those markets, and increase the likelihood of emerging market financial crises, including sovereign debt crises.

## China economic slowdown

China has experienced decades of robust economic growth which has contributed significantly to global growth in recent years. Its importance to the global economy is expected to continue – according to IMF forecasts, China will account for 21% of world GDP growth through to 2029. However, the IMF projects China's real GDP growth to slow from 5.2% in 2023 to 4.6% in 2024 and 4.1% in 2025, amid ongoing weakness in the property sector and subdued external demand. Over the medium term, the IMF expects growth to gradually decline further to about 3.3% in 2029, amid headwinds from weak productivity and an ageing population.

Given its size and position in global supply chains, slower growth in China can have a big impact on other economies around the world. For example, IMF analysis finds that a one percentage point decline in China's growth rate could reduce average growth in Africa by about 0.25 percentage points. For countries reliant on oil exports, the loss could be about 0.5 percentage points.

11 'Fiscal Monitor: Fiscal Policy in the Great Election Year', IMF, April 2024. www.imf.org/en/Publications/FM/Issues/2024/04/17/fiscal-monitor-april-2024

A sharper-than-expected deterioration in China's economy – if, for example, the property market suffers a prolonged decline – could therefore exacerbate economic and fiscal pressures in some of UKEF's key markets.

## Global debt

Global debt levels reached a record high of US$313 trillion in 2023, according to the Institute of International Finance. While 55% of this rise originated from mature markets, developing economies also reached a new record ratio of debt to GDP – average emerging market external debt reached 29.8% of GDP in 2023, an increase of 0.8 percentage points on the previous year. Developing economies have also been active in debt markets in the first half of 2024, with US$321 billion worth of debt sold by government and corporate borrowers in developing markets.

Successful access to debt markets is a positive indicator for developing economies, but has been limited to those with stronger fundamentals. Many are still unable to access global bond markets at affordable rates. For some countries that do issue new debt, this may become a threat to their debt sustainability through greater future servicing costs – including countries where a significant proportion of UKEF's exposure is concentrated. Emerging markets have US$2.4 trillion worth of bonds maturing in 2024, which they will need to finance either through government revenues or the issuance of new debt to avoid potential liquidity crises.

## UK outlook

UK real GDP grew by 0.1% in 2023. The Office for Budget Responsibility (OBR) forecasts growth to pick up to 1.2% in 2024/25, as the economy continues to be constrained by weak real wage growth, the ongoing effects of recent interest rate rises, and fading fiscal support. However, the OBR also expects growth to accelerate to around 2% in 2026, as interest rates decline and spare capacity in the economy is used up.

Inflation has declined rapidly since 2022, with prices rising in line with the Monetary Policy Committee's target rate of 2% in the twelve months to June 2024. Market expectations of Bank Rate suggest an elevated interest rate environment in the UK over the next few years, which will mean continued pressure on the most leveraged corporates and households.


## UKEF outlook

Despite significant headwinds, global growth looks set to remain stable in the short term. However, longer term global growth is expected to decline. The IMF forecasts global growth to decline to 3.1% by 2029, compared with an average of 3.7% over the period 2006 to 2015. Weaker global growth may affect demand for UKEF's services.

Global debt levels continue to increase, including in emerging markets. The share of low-income countries (54%) and emerging markets (16%) assessed by the IMF as being at high risk of debt distress this year remains elevated. Market participants' expectations that interest rates will remain "higher for longer" may also make it more expensive for highly indebted sovereigns to refinance and service their debt obligations. Taken together, these factors increase the risk of sovereign debt crises and defaults.

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.

# NATIONAL INTEREST ACCOUNT

UKEF's national interest account exclusively contains guarantees and loans issued since April 1991 for business supported on the written instruction of ministers, where UKEF's Accounting Officer had advised support did not meet normal underwriting criteria.

UKEF operates under a framework agreed with HM Treasury that is designed to allow the department to provide support in a manner which is consistent with the principles set out in Managing Public Money.

Under the framework, UKEF is able to offer support where it is needed while managing potential risks to the Exchequer arising from individual transactions, as well as from aggregate levels of exposure in a particular market, sector, and across its whole portfolio.

UKEF operates six accounts, each defined by the nature of business supported by the department. These accounts include a national interest account (NIA) which was previously known as Account 3 and had been set up to operate under Ministerial Direction. The NIA includes transactions which ministers consider to be in the UK's national interest for UKEF to support but which do not meet normal risk appetite. As well as recent transactions, it includes residual exposure from older business including, for example, UKEF backed loan for Qatar supporting the purchase of Typhoon aircraft and associated services and equipment in 2018. Guarantees, loans and insurance products supported within the NIA account have been issued on the written direction of ministers, provided to UKEF's CEO and Accounting Officer, taking account of the UK's broader interests.

This account is ringfenced and does not form part of UKEF's formal financial objectives, although business supported in the NIA does still count against UKEF's maximum cover limit for the portfolio and towards UKEF business totals.

During 2023/24, business issued under the NIA consisted exclusively of export credit and insurance support for which Ukraine was the destination market. Total support provided amounts to £333 million, £322 million of which loan support was committed in the period up to 31 March for two deals – construction of six bridges and purchase of minesweepers from the UK's Royal Navy. While the heightened risk environment for Ukraine resulting from Russia's illegal invasion in 2022 means support for transactions in Ukraine falls outside UKEF's minimum credit risk standards as set by HM Treasury, ministers have determined that it is in the UK's national interest for UKEF to remain on cover for Ukraine with the maximum cover limit for the market remaining consistent with the pre-invasion limit of £3.5 billion.

As such, £3.5 billion of financial capacity for UK exporters and their buyers in Ukraine has been made available, with requests for support considered on a case-by-case basis, in accordance with normal policy and practice, and subject to specific HM Treasury and ministerial approval.

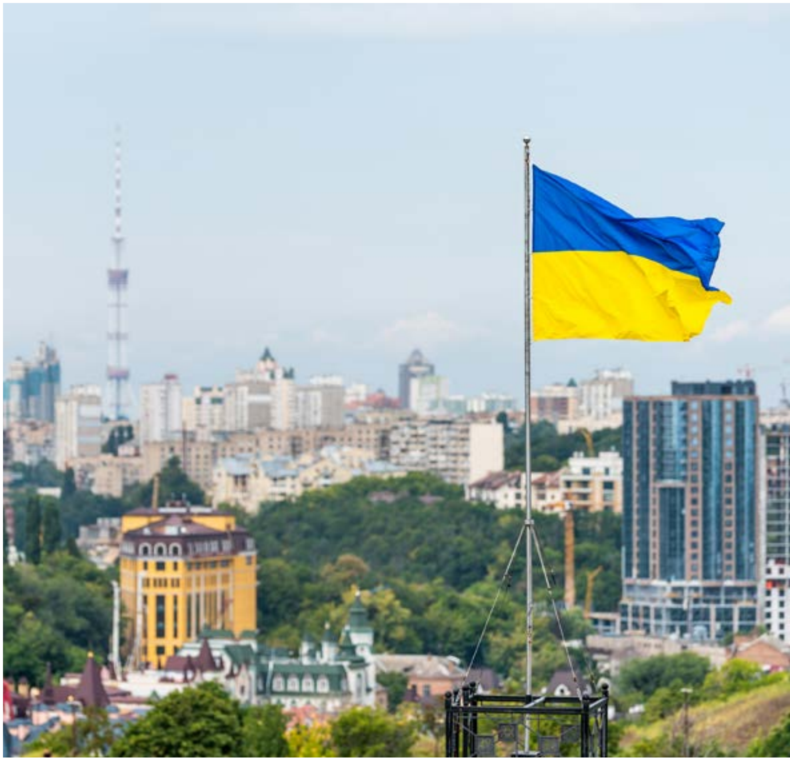
In the year, UKEF supported the export financing of critical infrastructure and provided payment risk insurance for UK exporters trading with Ukraine, thereby providing significant security, economic, humanitarian and defensive assistance. In line with ministerial instructions, these transactions are recorded in UKEF's ringfenced national interest account where there is no impact on UKEF's wider portfolio.

Since support provided for Ukrainian transactions falls outside UKEF's minimum credit risk standards, the reported outturn position in relation to all NIA business for the year is an operating loss of £149 million (refer financial statements note 2). UKEF applies the fund basis of accounting (see note 1 of the financial statements for more details) and is required to perform a liability adequacy test to ensure enough has been reserved in relation to potential insurance liabilities, as there is a deficiency in relation to Ukrainian related business additional reserving is therefore required which is charged to the Statement of Comprehensive Net Income.

Further details about the national interest account transactions relating to Ukraine can be found in the Business Supported tables in the annexes of this report.

**Ukraine in focus**

UKEF has backed a £26.3 million equivalent loan to allow the Ukrainian government to start rebuilding six bridges and reopen vital supply routes near Kyiv, supporting and further securing Ukraine's security situation and regional stability. The reconstruction of the bridges ranges from those hit by shrapnel to those which have been completely destroyed, and will ensure that the people and government of Ukraine can once more use critical transport links around the capital. Under ministerial direction, UKEF has agreed to issue this buyer credit loan guarantee allowing the Ukrainian government to access financing from Citibank, unlocking crucial funds for Kyiv Oblast's Road Service.



# CHIEF FINANCE AND OPERATING OFFICER'S REPORT

This report describes and comments on UKEF's financial performance for the year ended 31 March 2024. Given the importance of the management of UKEF's portfolio, this report should be read alongside the Chief Risk Officer's report.

Cameron Fox
Chief Finance and Operating Officer

## Financial results overview

UKEF 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 noteworthy as it comes after three years marked by significant volumes issued through the Temporary COVID-19 Support Account, which ceased accepting new business last year.

Net operating gain:

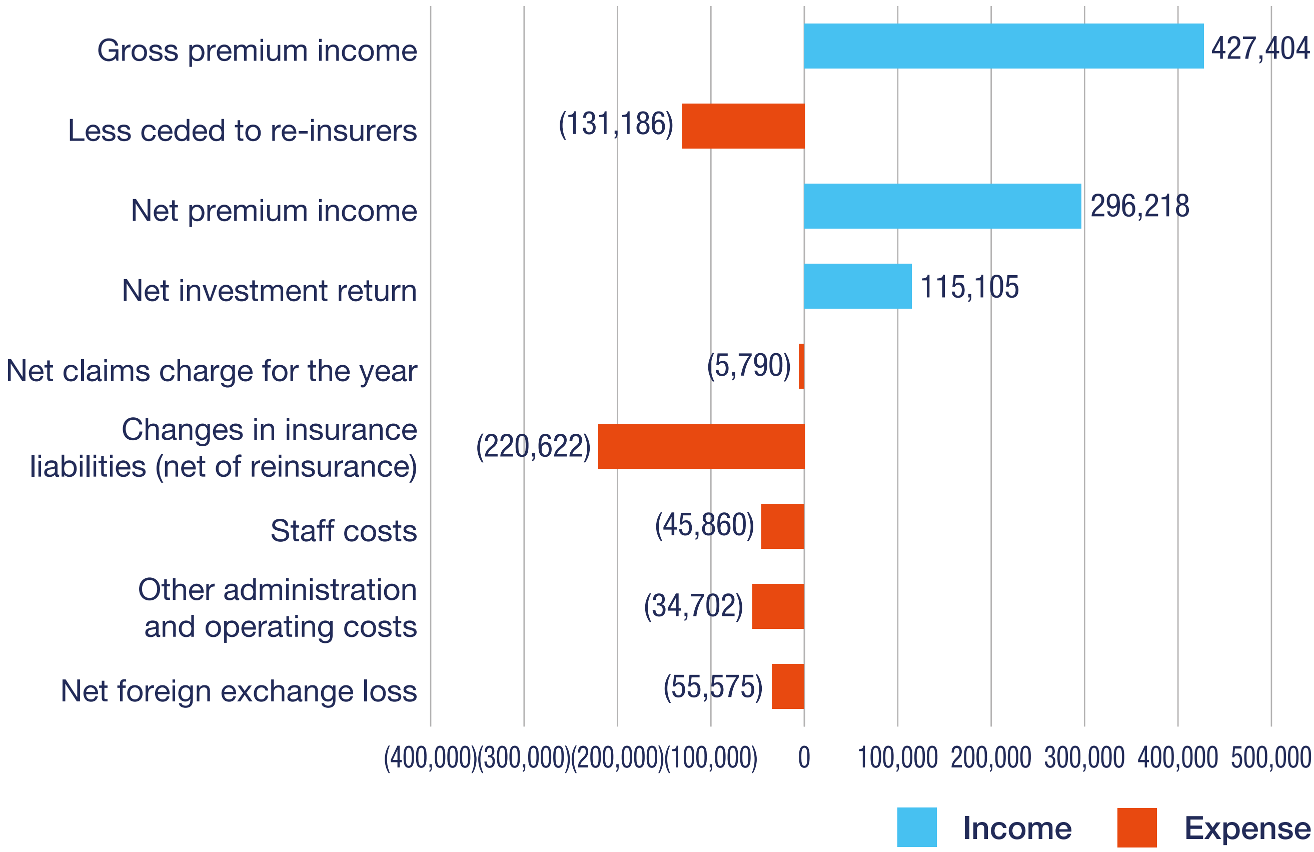
- 2023/24: £49 million (on a foreign exchange-adjusted basis: £104 million)
- 2022/23: £332 million (on a foreign exchange-adjusted basis: £242 million)

This change is driven by a loss of £149 million on the National Interest Account (see page 43 for further information) which was partially offset by increased net investment return on the Direct Lending Account driven by higher amortised interest income as a result of a larger portfolio and some early repayments. See the Chief Risk Officer's report on page 56 for more details of this year's impairments and provisions.

Full year outturn (removing foreign exchange movements) when looking only at regular business (so not including National Interest or Temporary COVID-19 support) was a gain of £230 million compared with 2022/23 which on the same basis was a gain of £160 million.

| Summary of profit and loss | 2023/24<br>£'000 | 2022/23<br>£'000 | Variance<br>£'000 |
|---|---|---|---|
| Income | | | |
| Gross premium income | 427,404 | 384,930 | 42,474 |
| Less ceded to reinsurers | (131,186) | (72,061) | (59,125) |
| **Net premium income** | **296,218** | **312,869** | **(16,651)** |
| Net investment return | 115,105 | 86,183 | 28,922 |
| Net foreign exchange gain | - | 90,412 | (90,412) |
| **Total income** | **411,323** | **489,464** | **(78,141)** |
| Expenses | | | |
| Net claims charge for the year | (5,790) | (16,080) | 10,290 |
| Changes in insurance liabilities (net of reinsurance) | (220,622) | (64,195) | (156,427) |
| Staff costs | (45,860) | (39,708) | (6,152) |
| Other administration and operating costs | (34,702) | (37,107) | 2,405 |
| Net foreign exchange loss | (55,575) | - | (55,575) |
| **Total expenses** | **(362,549)** | **(157,090)** | **(205,459)** |
| **Net income/(loss)** | **48,774** | **332,374** | **(283,600)** |
| **Net income/(loss) (FX-adjusted)** | **104,349** | **241,962** | **(137,613)** |

## Statement of comprehensive net income for 2023/24 (£'000)



## Insurance and underwriting activity (premium income)

Net premium income revenue earned:

» 2023/24: £296 million

» 2022/23: £313 million

Net insurance premiums written decreased by £17 million since 2022/23. While business supported has increased this year, the nature (in terms of both risk and product type) and timing of the business underwritten impacts on the premium income recognised.

For the breakdown of insurance premiums, see note 3 to the financial statements (page 182). Also see note 1 for details of the relevant accounting policies (page 169).

## Net investment return

Net investment return for export credit guarantees and insurance activities:

» 2023/24: £25 million

» 2022/23: £22 million

Net investment return for export finance activities:

» 2023/24: £90 million

» 2022/23: £64 million

For export credit guarantees and insurance activities, net investment return mainly comprises of interest on claims (after provisions) and fee income. The increase for 2023/24 relates mainly to increased commitment fee income on standby EDG facilities.

For export finance activities, net investment return mainly comprises of movements in impairments and amortised interest income. The increase for 2023/24 reflects greater amortised interest income as a result of a larger portfolio and some early repayments.

For the breakdown of net investment return, see note 4 to the financial statements (page 183). Also see note 1 for details of the relevant accounting policy (page 169).

## Net claims charge (and provisions for likely claims)

Net claims paid:

» 2023/24: £258 million

» 2022/23: £122 million

Recoveries of claims paid and interest on claims paid:

» 2023/24: £145 million

» 2022/23: £125 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.

A number of airlines' financial positions have now improved and recoveries have been made. During 2023/24, however, a number of sovereigns including Sri Lanka and Ghana experienced significant economic stress, resulting in an increase in claims paid.

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

Also see notes 1c, 6 and 11 to the financial statements. Note 1c explains the significant uncertainty arising from UKEF's underwriting activities (page 171). Note 6 provides a breakdown of net claims credit (page 184) and note 11 provides details of recoverable claims and unrecovered interest (page 188).

## Foreign exchange

During the year, sterling appreciated by approximately 2% against the US dollar and nearly 3% against the euro.

Net foreign exchange gain/(loss):

- 2023/24: £(56) million
- 2022/23: £90 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.

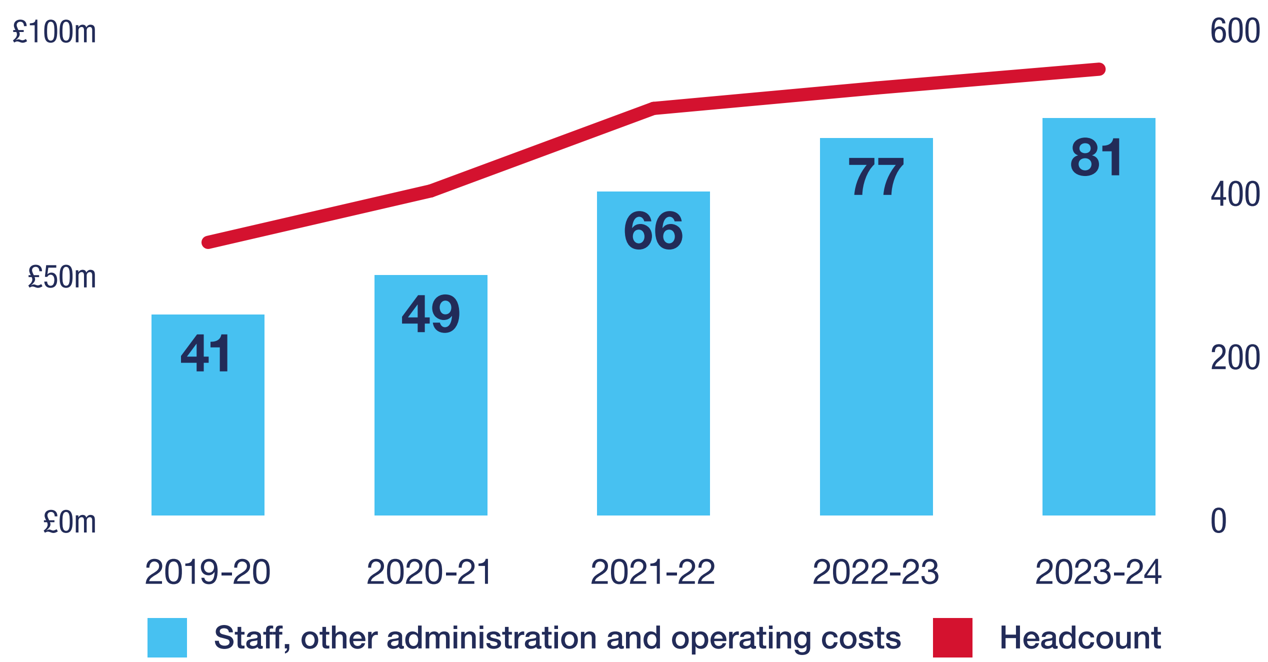
See notes 7 and 18 to the financial statements, which include details of the currency profile of our insurance assets, financial instruments and capital loan commitments.

## Operating costs

- 2023/24: £81 million
- 2022/23: £77 million

A planned increase in staff linked to business plan objectives and UKEF's spending review 2021 settlement, was responsible for the increase in operating costs. For more details, see the Our people: remuneration and staff report section (page 137).

## Operating costs and headcount



## Reserving for insurance liabilities

Net underwriting funds at year end:

» 2023/24: £1,719 million
» 2022/23: £1,498 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 2014 and 2020) amounted to £36 million in 2023 to 2024, compared with £47 million in 2022/23. This release equates to the current surplus of premium written over risk and costs of writing the business.

See note 16 to the financial statements for the detailed movements in the underwriting funds (page 192). Also see note 1d for details of the relevant accounting policy, explaining the fund basis of accounting (page 172).

## Long-term assets and liabilities

Direct lending loans at year end:

» 2023/24: £3,407 million
» 2022/23: £3,032 million

Gross recoverable claims at year end:

» 2023/24: £683 million
» 2022/23: £560 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).

Gross recoverable claims increased, owing to an increase in claims paid and foreign exchange movements.

UKEF's most significant liability relates to insurance reserving. (see Reserving for insurance liabilities section for details).

# Management commentary – five-year summary

| | 2023/24 | Restated 2022/23 | 2021/22 | 2020/21 | 2019/20 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Overall value of guarantees and insurance policies issued and effective:** | | | | | |
| New business supported | | | | | |
| – net of reinsurance – Account: Guarantees and Insurance | 7,455 | 4,950 | 5,458 | 3,818 | 3,499 |
| New business supported | | | | | |
| – net of reinsurance – Account: National Interest | 333 | 1 | - | - | - |
| New business supported | | | | | |
| – net of reinsurance – Account: Temporary COVID-19 Support | 30 | 1,114 | 1,395 | 6,826 | - |
| Total new business supported – net of reinsurance | 7,818 | 6,065 | 6,853 | 10,644 | 3,499 |
| Amounts at risk – gross of reinsurance – Accounts: Guarantees & Insurance, National Interest and Temporary COVID-19 Support | 39,258 | 39,244 | 34,393 | 28,834 | 21,838 |
| **Statement of comprehensive net income:** | | | | | |
| Premium income net of reinsurance | 296 | 313 | 441 | 330 | 177 |
| Staff, other administration and operating costs | 81 | 77 | 66 | 49 | 41 |
| Foreign exchange gain/(loss) | (56) | 90 | 45 | (138) | 55 |
| Net operating income – total | 49 | 332 | 324 | (217) | 217 |
| – Account: Pre-1991 Guarantees and Insurance | 22 | 30 | 18 | (4) | 57 |
| – Account: Guarantees and Insurance | 136 | 110 | 157 | (104) | 88 |
| – Account: National Interest | (149) | 11 | 12 | 4 | (1) |
| – Account: Fixed Rate Export Finance | - | 0 | 0 | 0 | 0 |
| – Account: Direct Lending | 17 | 110 | 59 | (114) | 73 |
| – Account: Temporary COVID-19 Support | 23 | 71 | 78 | 1 | 0 |
| Net operating income – foreign exchange – adjusted | 104 | 242 | 279 | (79) | 162 |
| **Statement of cash flows:** | | | | | |
| Claims recoveries – total | 118 | 94 | 92 | 70 | 71 |
| – Account: Pre-1991 Guarantees and Insurance | 41 | 33 | 30 | 31 | 38 |
| – Account: Guarantees and Insurance | 77 | 61 | 62 | 39 | 33 |
| Interest recoveries in the year – total | 27 | 31 | 25 | 19 | 31 |
| – Account: Pre-1991 Guarantees and Insurance | 28 | 28 | 24 | 19 | 29 |
| – Account: Guarantees and Insurance | (1) | 3 | 1 | 0 | 2 |
| Claims paid – total | 258 | 122 | 103 | 107 | 8 |
| – Account: Guarantees and Insurance | 258 | 122 | 103 | 107 | 8 |
| Net cash flow from operating activities – total | 242 | 312 | 576 | 353 | 321 |
| – Account: Pre-1991 Guarantees and Insurance | 74 | 62 | 53 | 49 | 67 |
| – Account: Guarantees and Insurance | 49 | 125 | 428 | 168 | 181 |
| – Account: National Interest | 35 | 9 | 10 | 38 | (11) |

| | 2023/24 | Restated 2022/23 | 2021/22 | 2020/21 | 2019/20 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| – Account: Fixed Rate Export Finance | 0 | 0 | 0 | 0 | 0 |
| – Account: Direct Lending | 84 | 61 | 85 | 98 | 84 |
| – Account: Temporary COVID-19 Support | 60 | 55 | 74 | 23 | - |
| Statement of financial position: | | | | | |
| Recoverable claims before provisioning | 683 | 560 | 534 | 600 | 591 |
| – Account: Pre-1991 Guarantees and Insurance | 150 | 198 | 240 | 350 | 402 |
| – Account: Guarantees and Insurance | 533 | 362 | 294 | 250 | 189 |
| Recoverable claims after provisioning | 357 | 220 | 184 | 179 | 197 |
| – Account: Pre-1991 Guarantees and Insurance | 34 | 69 | 87 | 110 | 145 |
| – Account: Guarantees and Insurance | 323 | 151 | 97 | 69 | 52 |
| Interest on unrecovered claims after provisioning | 56 | 73 | 87 | 98 | 118 |
| – Account: Pre-1991 Guarantees and Insurance | 56 | 73 | 87 | 98 | 117 |
| – Account: Guarantees and Insurance | 0 | 0 | 0 | 0 | 1 |
| Underwriting funds – net of reinsurance | 1,719 | 1,498 | 1,434 | 1,283 | 958 |
| – Account: Guarantees and Insurance | 1,403 | 1,371 | 1,318 | 1,182 | 873 |
| – Account: National Interest | 274 | 85 | 85 | 85 | 85 |
| – Account: Temporary COVID-19 Support | 42 | 42 | 31 | 16 | - |
| Recoverable capital loans before provisioning | 3,407 | 3,032 | 2,808 | 2,308 | 1,327 |
| – Account: National Interest | 1,000 | 1,000 | 1,000 | 703 | - |
| – Account: Fixed Rate Export Finance | 0 | 0 | 1 | 2 | 5 |
| – Account: Direct Lending | 2,407 | 2,032 | 1,807 | 1,603 | 1,322 |

## Pre-1991 Guarantees and 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, including on insurance issued by the Insurance Services Group of UKEF (which was privatised on 1 December 1991) for which UKEF retains all contingent liabilities.

The decrease in net operating income this year is a result of a small loss on foreign exchange movements this year compared to a gain last year as well as a smaller claims credit this year arising from a lower level of provision reductions – last year there was a one-off provision reduction when an unexpected settlement was negotiated to recover a long-standing claims balance.

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

## Guarantees and Insurance Account

This account records guarantees and insurance issued for business since April 1991.

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

- 2023/24: £7,455 million
- 2022/23: £4,950 million

Net operating income:

- 2023/24: £136 million
- 2022/23: £110 million

The change in net operating income was largely driven by larger decreases this year in the insurance fund expected losses held for closed years due to a refinement of expectations with regards those facilities currently in claim.

## National Interest Account

This account records guarantees and loans issued for business since April 1991 on the written instruction of ministers, which UKEF's CEO and Accounting Officer had advised did not meet normal underwriting criteria.

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.

New deals written during the year 2023/24 are in relation to support for exports to Ukraine. See the National Interest Account section on page 43 for further details. Also see the annexes for business supported for further details.

## Fixed Rate Export Finance Account

This account is related to the provision of Fixed Rate Export Finance (FREF) to banks, together with arrangements for reducing the funding cost of FREF loans and for certain interest rate derivative arrangements. The scheme closed in 2011 for new business with no remaining exposure.

## Direct Lending Account

This account relates to direct lending activity issued in the ordinary course of business since 2014.

UKEF's direct lending capacity for the overall facility is £8 billion. There are 53 signed loans, of which 51 are currently effective.

An additional 6 loans were assessed as impaired in the year ending 31 March 2024, most due to the Ghana sovereign default. 11 loans in total are now impaired.

See note 1 to the financial statements (page 169) for details of the relevant accounting policy.

Net operating gain:

- 2023/24: £17 million
- 2022/23: £110 million

The main driving factor behind this change was a foreign exchange loss of £45 million, compared with a gain of £78 million in 2022/23 (as most of the loans originated were in US dollars).

Net investment return:

- 2023/24: £72 million
- 2022/23: £48 million

This difference is largely due to a greater amortised interest income on the larger portfolio and on some early repayments.

New loans originated (not including facility increases):

» 2023/24: 5 (signed and effective)
» 2022/23: 5 (signed and effective)

In-year loan impairment (excluding unrealised foreign exchange movements) on the portfolio:

» 2023/24: £30 million
» 2022/23: £30 million

## Temporary COVID-19 Support Account

This account relates to all business underwritten under 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:

» 2023/24: £23 million
» 2022/23: £71 million

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

## Financial reporting changes

As outlined in note 1 to the financial statements (page 169), 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: Insurance Contracts becomes effective. This is because UKEF has utilised a temporary exemption from applying IFRS 9.

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

Where UKEF applies IAS 39, the 'incurred loss' model is in effect for impairments. This leads to different results than when 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 150) and the financial statements (page 164).

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 (£2,000), 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.

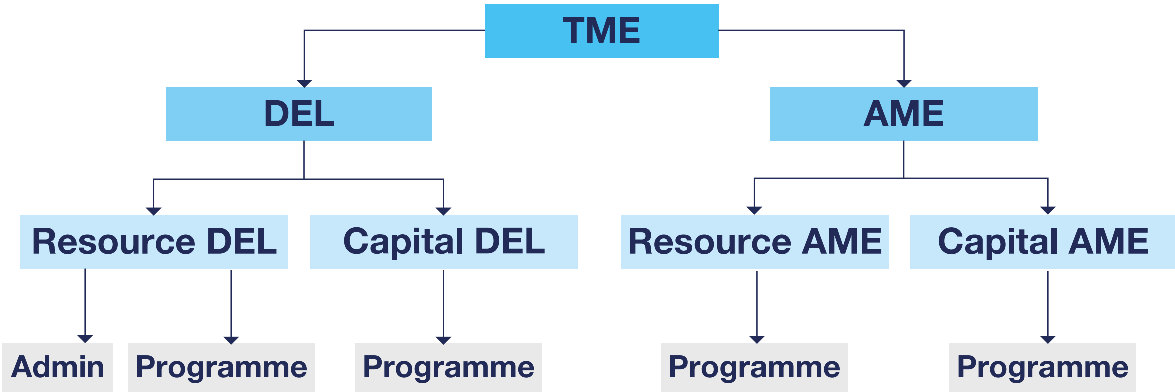
In the absence of any operating income outside the ambit of the supply estimate, UKEF's net resource outturn and net operating cost or income are identical.

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 150.




## UKEF's supply estimate versus actual outturn for the year 2023/24

| | SoPS note | Outturn £'000 | Estimate £'000 | Variance £'000 |
|---|---|---|---|---|
| Resource budget spending | | | | |
| Departmental Expenditure Limit | SoPS1.1 | - | 2 | 2 |
| Annually Managed Expenditure | SoPS1.1 | (48,774) | 1,433,343 | 1,482,117 |
| **Net resource outturn and net operating cost/(income)** | | **(48,774)** | **1,433,345** | **1,482,119** |
| Capital budget spending | | | | |
| Departmental Expenditure Limit | SoPS1.2 | 2,161 | 2,340 | 179 |
| Annually Managed Expenditure | SoPS1.2 | 430,049 | 1,035,967 | 605,918 |
| **Capital total payments/(receipts)** | | **432,210** | **1,038,307** | **606,097** |

# CHIEF RISK OFFICER'S REPORT

**Note:** this section provides a review of developments in 2023/24. It should be read in conjunction with the Governance Statement on page 111, which describes UKEF's enterprise risk management framework and control environment.

The role of risk management at UKEF is oversight 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 with the Consent of HM Treasury, UKEF has a defined control environment to help manage and mitigate our risk exposures. Collaboration and risk management go hand-in-hand at UKEF. That's why our Enterprise Risk and Credit Committee (ERiCC) is made up of representatives of all key stakeholders within UKEF, working together to ensure that our primary risks (see risk taxonomy page 59) are appropriately managed, within the suite of policies, procedures and controls, which cover our day-to-day operations.

## HM 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 and set at SDR67.7 billion (approximately £71 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 cost to the taxpayer 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 2023/24, see page 150.

## Financial objectives

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

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

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

3. Maximum commitment: the total amount of nominal credit risk exposure that the department may incur; set at £60 billion by HM Treasury (as of 31 March 2023).

4. Risk appetite limit: a form of economic capital limit of £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.

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.

These objectives do not apply to our Temporary COVID-19 Risk Framework portfolio or National Interest Account (business issued under Ministerial Direction – see page 43).

## 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.

An important principle of our pricing is to maintain a level playing field. We therefore operate within the OECD Arrangement (a framework for the orderly use of officially supported export credits) where it applies. This requires all ECAs to charge risk-based premiums sufficient to cover their long-term operating costs and credit losses. This mirrors the WTO Agreement on Subsidies and Countervailing Measures, which classifies export credit guarantee programmes that do not cover their long-term operating costs and losses as 'prohibited subsidies'.

The Participants to the OECD Arrangement reached an agreement in 2023 to modernise the arrangements after several years of negotiations. The agreement aimed to achieve more flexible financial terms and conditions for all sectors and included the introduction of new term-adjusted minimum premium rates.

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
» the expected loss of the associated transaction
» aggregate premiums satisfying our financial objectives

## Economic capital and the risk appetite limit

Economic capital 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. Economic capital is how we measure usage against our risk appetite limit.

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 £6 billion. In other words, at no time should portfolio expected loss, plus provisions against claims already paid, plus portfolio unexpected loss, exceed £6 billion. (This limit excludes business transacted in our Temporary COVID-19 Support Account or, under Ministerial Direction, in our National Interest Account).

## Risk taxonomy

The UKEF enterprise risk management framework sets out how risk is consistently managed by the business across all primary risk categories and how the oversight of the risks is undertaken via the three lines of defence.

UKEF is exposed to various risks in the achievement of its business objectives. These risks can be a result of both internal and external factors. Our enterprise risk taxonomy identifies six 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 take support our business plan, for example credit risk. Other risks are inherent in the business activities that we undertake, such as operational risk and the risk of fraud or error. However these risks are managed via the embedded control framework that operates across the department.

We consider conduct, culture and reputational risks on a transversal basis rather than as a separate risk type, as these risks can crystallise as a cause of any of the risks in our Taxonomy. UKEF's six Primary Risks are:

| Primary Risk | Definition |
|---|---|
| Strategic and business risk | The risk of direct or indirect loss arising from the 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 and 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 and 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 | **People:** The risk that ineffective leadership and engagement, insufficient capacity, capability and availability of staff, or inadequate management and support negatively impact performance. |
| | **Process:** The risk that inadequate design, documentation, oversight or non-compliance results in ineffective or inefficient internal processes. |
| | **Infrastructure and cyber:** The risk of inadequate IT systems, physical assets and data/information records and security, or other failures lead to harm, insufficient resilience, integrity and assurance. |

The risks that UKEF manage can change quickly in the environment that we operate in. Therefore, we actively review and enhance our enterprise risk management framework and policies to ensure they remain dynamic and appropriate for the risks under management. We proactively undertake horizon scanning to assess the internal and external risk environment 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 111. Also, note 18 to the Financial Statements on page 196 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. We would note however that hedging of foreign exchange risk is outside the terms of the UKEF mandate, as agreed with HM Treasury. An account of UKEF's exposure to these risks is included in note 18 to the Financial Statements on page 196. With the Consent from HM Treasury, UKEF is obliged to comply with a number of financial objectives and risk policies, procedures and individual risk methodologies (all as agreed with HM Treasury) which determine how we assess, measure, manage and report the categories of credit risk to which we are exposed.

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

ERiCC oversees portfolio-level monitoring, keeping the average weighted, portfolio credit rating firmly in mind. This includes stress testing and scenario analysis every six 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 to sovereign and individual counterparties, informed by meetings and research, which then feed through to the transactional level.

Where these ratings become stressed, UKEF maintains 'watch lists' of counterparties. Were the counterparty to become so stressed where a significant increase in credit risk has occurred or is expected, or if the credit of a non-sovereign borrower deteriorates such that UKEF might reasonably expect to pay out under a guarantee or insurance policy, the risk is managed by a dedicated unit within the Risk Management Group.

### Risk concentrations

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

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

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

Practical means of reducing risk concentration include reinsurance and counter-guarantees 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.

### Portfolio modelling

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

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

### Modelling assumptions

Our portfolio modelling (via the portfolio risk simulation model) 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 three years. Each review is accompanied by a report to ERiCC, with recommendations for action as appropriate.

We are also working toward UKEF's compliance with the IFRS9 financial reporting standard, as part of the wider FRC transformation programme (refer to the CFOO report for more details and note 1 in the financial statements). This has been our main focus of model development in 2023/24. IFRS9 requires us to incorporate a (or identify an existing) forward-looking component into our risk modelling, using forecasts of macroeconomic variables. This means that we have looked at each area of our existing portfolio modelling suite and developed new approaches and applications, where required and proportionate, using a wide range of data sources, transformations and econometric techniques.

IFRS9 also requires us to reappraise our modelling assumptions, including that we use best estimates – an unbiased evaluation of a range of possible outcomes – and not just overly conservative scenarios. One result this year has been that we have switched from using worst case to central scenarios for aircraft valuations when modelling risk in our aircraft portfolio. This has generally meant a small reduction in our view of the risk in our aircraft exposures, though the effect is moderated by the degree to which each exposure is collateralised, and we continue to charge premium on new deals in compliance with the OECD Arrangement Minimum Premium Rates.

We also use modelling to inform our approach to sovereign risk assessment and setting sovereign risk parameters. While our rating approach is described below, we have this year updated our approach to estimate loss given default and persistence of default (how long we assume a defaulting sovereign will take to return to cure their debts), based on thorough research of historic default experience and academic literature on modelling methods. We have implemented the new approach, following thorough quality assurance and approval from ERiCC. We continue to review and update our models regularly, in line with our policies, reflecting new data and the latest modelling techniques.

### Stress testing and scenario analysis

Our policy is to stress test our credit portfolio extensively every six months. We use adverse scenarios to test for potential weaknesses in our portfolio. These scenarios are designed to reflect potential emerging risks, such as a geographic 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 monitor the risk environment throughout the year, and the composition of our portfolio, and adapt our scenarios and stresses accordingly.

As 2023/24 began the world economy was adjusting to the new, higher interest rate environment. Inflation began to subside, albeit from very high rates, but the higher interest and debt servicing costs were a challenge for many debtors, particularly those who had expanded their balance sheets to get through COVID-19 and the global recession. The focus of our scenario development was therefore on the potential for interest rate pressure to materialise into losses in our portfolio – whether through heavily-leveraged sovereign debtors in Africa, or corporates here in the UK. We also considered the potential for geopolitical risk to evolve into a wider deterioration in global co-operation, leading to polarisation, reduced supply chains and greater chance of conflict in areas of historic tension. By the end of 2023, given the conflict in Gaza, we were also considering the potential for that conflict to spread across the region.

We turn our scenarios into associated credit risk parameters, such as sovereign or corporate risk ratings, and analyse their impact on our portfolio, and consequence for our risk appetite limit (RAL) and our Reserve Index (both are financial objectives in our HM Treasury Consent). ERiCC considers the results and appropriate response, which could include Active Portfolio Management. This year we have found that we remain largely within our limits even after applying various degrees of stress to our portfolio – helped particularly by the increase in the RAL at the start of the year.

And lastly, we continue our progress in building UKEF's climate risk management capacity to help implement the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. This includes our climate stress testing models and scenarios exploring both the scale of impact of climate change, and the speed with which its impacts are felt. We estimate portfolio impacts from our climate scenarios as part of our stress testing cycle, though we note that the modelling technology is still relatively nascent – there are few observations of climate/risk events to use, and the techniques are still evolving – and our interpretation of the results is mindful of that.

## Climate risk management

On page 84 is UKEF's fourth report following the recommendations of the TCFDs, which provides a full overview of how UKEF identifies and manages climate related risk and opportunities.

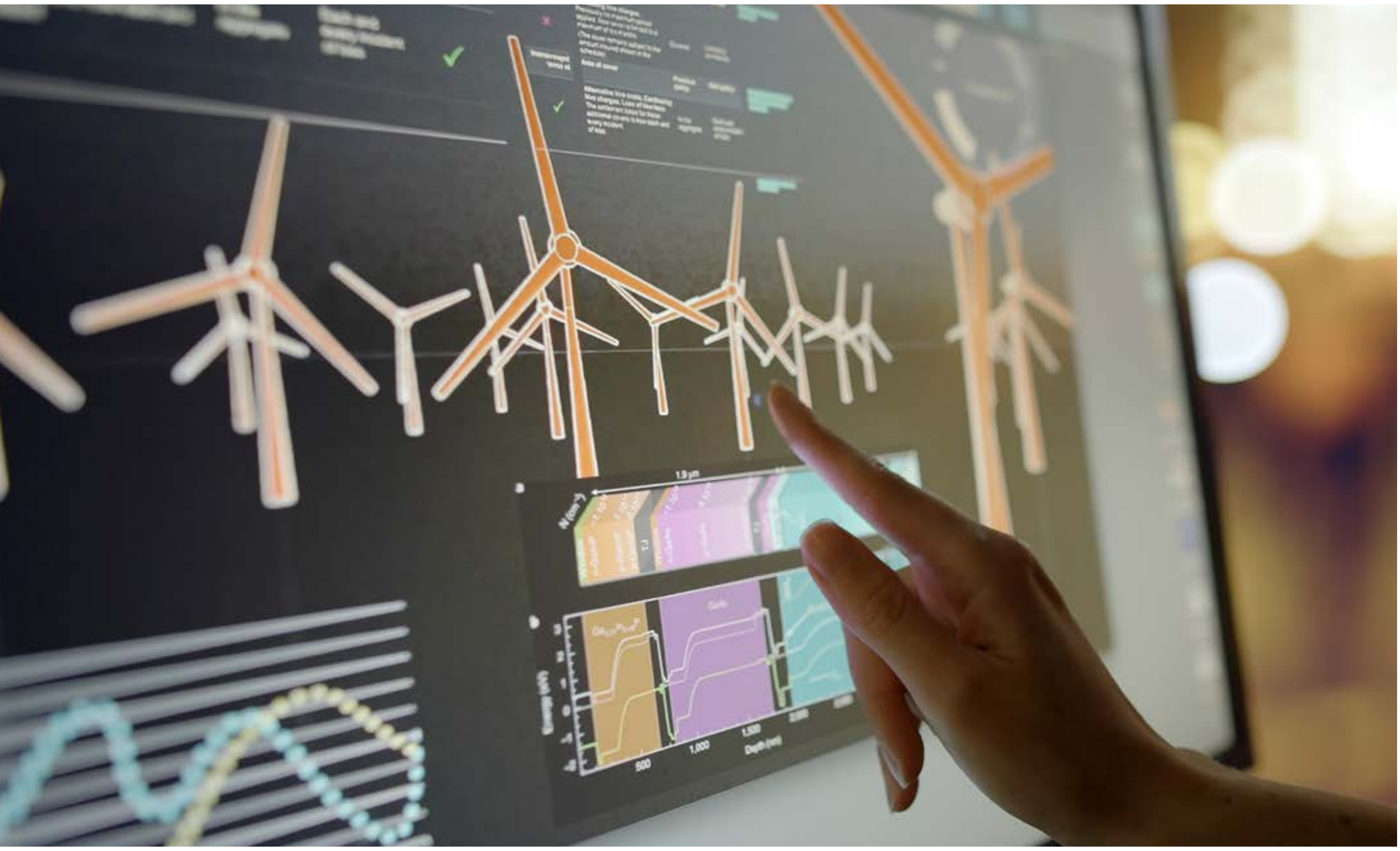
In this section, we discuss how UKEF manages climate-related credit and financial risks, and how it integrates climate risk management into its established credit risk policy. We also cover UKEF's approach to assessing and mitigating climate risks in transactions, the implementation of HMG's fossil fuel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

As part of UKEF's climate risk management, we engage on individual transactions regarding climate-related credit and financial risks and manage the climate risk portfolio stress testing and analytics. Over the year we have further enhanced and integrated climate risk management into UKEF's established governance.

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 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 in regular reviews throughout the life of our financial support and stress tested regularly. Over the past year we further enhanced our approach for reviewing sovereign transactions.

Not all climate risks can be mitigated. However, to manage these risks we conduct semi-annual stress testing exercises that identify insights into emerging risks and possible mitigating action, which provides strategic insights. Over the last year we further developed our climate risk stress test model which uses Network for Greening the Financial System scenarios – we further improved the level of details of results by desegregating economic sectors and improving the geographic coverage, while methodologically strengthening the model.

UKEF has further developed its climate risk management capacity this year and strengthened its Climate and ESG Risk Management. The Team has made good progress in further developing our tools and obtained assurance for UKEF's Climate and ESG Risk Management, and strengthened our climate and ESG-related risk management governance across the three lines of defence.



## ASSESSING RISK

### Assessing credit risk

We use the following credit risk assessment process (where not delegated to partner banks and financial institutions) to estimate expected loss.

1. We assign a risk 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 counterparty defaults, expressed as a percentage. Corporate and project finance loss given default assessments are conducted on a case-by-case basis, considering security, priority ranking, recovery prospects by market and likelihood of restructuring, sale or liquidation.
3. We estimate exposure at default: the credit risk exposure we have at the time of default.

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

### Assessing sovereign risk

We assess each country in which we have an actual or potential credit exposure and use this assessment to assign a credit rating, from AAA (highest) to D (default, lowest).

Our sovereign risk assessment framework is aligned with the one that Fitch, Moody's and S&P use. 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.

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.

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. Our sovereign credit risk economists also hold in-country meetings with all of our largest sovereign counterparties. We also maintain a sovereign watchlist, 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 (our risk appetite limit, of £6 billion) and are consistent with its financial objectives
- the maximum country limit is £6 billion (excluding the UK, which is our home market)

This year we increased our maximum country limit, to £6 billion from £5 billion in 2022/23, to match the increase in our risk appetite limit from £5 billion to £6 billion at the end of 2022/23. We then refreshed all our country limits correspondingly, and in line with the principles above.

### 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. Transactions are put to the market and bid against by the providers. UKEF reviews each bid for value for money, and other relevant factors. UKEF can then approve or reject the risk transfer.

During 2023/24, UKEF were active in the private insurance market for a selection of transactions. Our portfolio is monitored for appropriate transactions which can be placed in the private market.

### Engagement with the Paris Club and the G20 on sovereign debt sustainability and restructuring

The Paris Club is an informal group of official creditors that co-operates 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 consensual 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. UKEF attends Paris Club meetings and negotiations, supporting HM Treasury's Head of UK Delegation.

The COVID-19 crisis provided an urgent need and an opportunity for the Paris Club and G20 to formally co-ordinate on debt. The Debt Service Suspension Initiative (DSSI) was agreed by the G20 and the Paris Club in April 2020, and took effect between 1 May 2020 and 31 December 2021. The initiative provided a temporary suspension of debt-service payments to eligible countries on debt owed to G20 and Paris Club creditors. In recognition of the fact that many low-income and lower-middle-income countries will require deeper debt restructuring following the end of the DSSI, the G20 and Paris Club agreed in November 2020 to a new Common Framework. Sovereign defaults that lead to debt restructuring agreements through the Paris Club or Common Framework are managed by the Risk Management Group, working in conjunction with HM Treasury (which leads the government's sovereign debt function). Paris Club developments are monitored by ERiCC, which must approve any provisions or impairments made against this exposure. During the financial year, UKEF received recoveries totalling £69.1 million from countries which continued to make payments under their UK Paris Club debt agreements.

In September 2023, as part of a multilateral effort of Ukraine's Official Sector Creditors, UKEF agreed to extend the ongoing debt service standstill until the end of Ukraine's IMF programme in 2027. The relief captures a UKEF direct lending facility that financed the provision of medical equipment to the Government of Ukraine in 2022. The operation will provide the Government of Ukraine with further capacity as it finances its defence against Russia's illegal and unprovoked invasion.

In October 2023, G20/Paris Club creditors finalised the terms of a debt restructuring agreement with the Government of Zambia. This comprehensive debt restructuring will amend the payment schedule under a UKEF direct lending facility, financing the construction of critical hospitals and medical clinics across Zambia – the project itself has not been significantly disrupted by this process. The Government of Zambia has committed to seeking a treatment at least as favourable from all its other official bilateral and external commercial creditors. In March, the Government of Zambia announced a comprehensive and comparable restructuring deal with its international bondholders.

In January 2024, the G20/Paris Club and the Government of Ghana reached an agreement-in-principle on the headline terms of a debt treatment, consistent with the objectives of Ghana's ongoing IMF-supported programme. This agreement-in-principle facilitated the release of around $600 million of further IMF-programme financing and set the stage for continued negotiations between Ghana and the G20/Paris Club on the full and final terms of the agreement. UKEF is working closely with partner UK exporters working in Ghana with projects that have been disrupted by Ghana's sovereign default.

In March 2024, the Paris Club and the Government of Somalia reached consensus on a debt cancellation following the country's achievement of Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative. Paris Club creditors committed to cancel around $2 billion in nominal terms, representing 99% of the debt owed by the Government of Somalia to the Paris Club. Under the agreement, UKEF will cancel approximately £24 million, which combined with the approximately £44 million UKEF cancelled in 2020 at Somalia's HIPC Decision Point, means UKEF has now cancelled 100% of the debt owed to it by the Government of Somalia. The fiscal space provided through this debt relief will be used for priority areas such as health, education and infrastructure. The Government of Somalia has committed to seek a treatment at least as favourable from all its other official bilateral and external commercial creditors. It has also undertaken to implement a comprehensive poverty reduction strategy and an ambitious reform programme to create the foundations for utilised sustainable and inclusive economic growth.

A final draft of the MoU detailing the terms of the restructuring, was sent to the Government of Sri Lanka at the end of March 2024. Under the terms of this restructuring, Sri Lanka must disclose details of its other restructurings to all creditors and the Paris Club is seeking similar disclosure of the other restructurings agreed. The MoU is being updated to include appropriate disclosure wording and it is expected that this will be finalised shortly.

Information-sharing by creditors is a crucial component of promoting debt sustainability. The UK, as a creditor to other national governments, is committed to adhering to the highest standards of debt transparency. As part of the UK's commitment to the G20 Operational Guidelines for Sustainable Financing, UKEF has, since March 2021, published quarterly reports on any new issued and effective sovereign direct lending, sovereign called guarantees or finalised bilateral Paris Club restructuring agreements. The reports capture granular loan-by-loan data, including its use, beneficiary, amount, tenor and type of interest rate. The publications complement HM Treasury's annual report on the outstanding stocks of debt owed by other countries to the UK (including UKEF and FCDO), aggregated on a country-by-country basis.[12]

From April 2023, UKEF began offering Climate Resilient Debt Clauses (CRDCs) in its direct sovereign lending. The clauses 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. To encourage other creditors to adopt CRDCs in their own sovereign lending, in June 2023 UKEF published the legal text of its template CRDC on GOV.UK[13] and UKEF CRDC policy-leads regularly meet with partner creditors to provide technical advice on adoption policies. This work is part of UKEF's broader ambition to embed climate change into our decision-making in line with our Sustainability Strategy.

## Assessing corporate, SME and project finance risk

Risk assessments for our corporate (which includes aircraft financing) and project finance transactions are principally based on S&P credit rating methodologies supplemented by subjective, judgemental overlays from our team of analysts (including benchmarking against peers or other rating methodologies if appropriate).

Where support is for smaller direct UK exporters – typically small and medium-sized enterprises (SMEs) – we operate a tiered assessment system, generally dictated by the level of the request. Smaller requests within defined limits are fully managed through delegated authority to approved banks and financial institutions 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. For each assessed transaction, we combine rating frameworks with the analyst judgement, based on public data and information gained through company meetings. Here again, the individual analysts' 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.

12 All reports are available here: www.gov.uk/government/collections/uk-lending-to-national-governments
13 www.gov.uk/government/publications/climate-resilient-debt-clauses

The banks and financial institutions are also subject to periodic audits of their operations under the delegated authority scheme. Geo-political events, throughout the financial year, continue to impact corporate and sovereign cash flows and liquidity profiles with resulting consequence on leverage. As such, the Risk Management Group remains focused on cash flow generation and capital structure profiles and more recently, on debt service and interest cover multiples noting significant and persistent increases in global interest rates over the last 12 months.

## Assessing financial counterparty risk

UKEF closely monitors its financial counterparties, including banks, insurance companies, funds, aircraft operating lessors and other non-bank financial institutions (NBFIs).

All UKEF transactions require a bank or NBFI, whether as lender, guarantor, 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.

Our portfolio of insurers has been approved to facilitate our active portfolio management programme. This is where UKEF purchases insurance from the private market, subject to strict requirements, to reduce portfolio risk concentrations, decrease the likelihood of idiosyncratic losses, and/or free up headroom in country limits to support more UK exporters.

UKEF's panel of insurers was refreshed and expanded during the year. 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.

## 2023/24 RISK PERFORMANCE

In 2023/24, our customers and portfolio faced continued pressure from heightened geopolitical risks, increased debt levels and high interest rates. There has been some mitigation from the strength of the recovery in the global economy, which was far from certain at the start of the year. Stronger economic growth in a few countries and sectors has helped some of our obligors rebuild their balance sheets, particularly in the aerospace sector and hydrocarbon-exporting sovereigns. Our portfolio quality has remained satisfactory overall, with substantial new commitments and weighted average credit rating of BB- (no change from the previous year)

However, many corporates, and particularly sovereigns, continue to struggle with debt accumulated through the pandemic and recession. Efforts to control inflation are beginning to work, but with varying success, and interest rates will only come down when inflation returns convincingly to central banks' targets. We continue to see signs of stress particularly in our sovereign portfolio, with 10 downgrades through the year. Although there were fewer downgrades than last year (versus 24 in 2022/23), we expect pressure on our most indebted sovereign customers to continue into 2024/25. For many the timing of interest rate cuts in 2024/25 will be crucial, when they finally arrive, particularly where they have substantial debts to refinance.

### Portfolio trends

UKEF's strong growth in 2023/24, issuing £8.8 billion of new business, has brought our portfolio above £50 billion of commitments for the first time. This was enabled by the timely increase in our Maximum Commitment Limit to £60 billion by HM Treasury at the end of 2022/23. Our portfolio has grown significantly over the last 5 years. This has meant more exposure to risk, although our average portfolio credit quality has remained relatively stable (barring moderate deterioration through the pandemic). This is a significant success, for UKEF and the exporters we support, and allows us to continue to grow our support for UK businesses as they navigate challenging operating environments. We will continue to manage our system of portfolio limits – a significant part of our risk management framework – to enable this success to continue in a sustainable way and be consistent with the direction of our HM Treasury Consent.

Our EDG continues to be a major source of growth, contributing approximately £3 billion to new business in 2023/24. Our EDGs provide direct working capital support for UK exporters and are slightly better risk quality than our overall portfolio (though some of our existing EDGs have begun to show signs of stress via rating downgrades). This year, as our experience of this market has grown, we have further calibrated our product design to ensure we achieve maximum benefit for the UK economy with commensurate control.

EDGs also have had the indirect benefit of diversifying our portfolio geographically and across industries, which means we are making more efficient use of our risk appetite limit (diversification reduces correlation between the risks in our portfolio, and therefore our RAL consumption for a given amount of business issued). Our UK and EDG growth has helped address a long-standing issue of regional concentration, with the Middle East share of our exposures falling from 49% to 20% since March 2020.

We also saw significant growth this year in the project finance and renewables area, with new notable transactions supported in the Wind, Solar and Electrical Vehicle Battery manufacturing sector. UKEF is pleased to be at the heart of the energy transition and renewables growth, but the new technology involved brings new challenges for risk management and assessment given the overlap of this business with focal points for geopolitical tension, such as Taiwan, and increased project complexity.

Geopolitical risk is a growing concern for our portfolio and the global risk environment. We have direct exposure to Ukraine, a focal point for geopolitical tension, largely via our National Interest Account. However, we are also seeing growing interest in support for defence business from well-rated sovereigns in Eastern Europe. We expect this trend to continue through 2024/25. From a risk perspective, this will have a positive impact on our portfolio credit quality and sectoral diversification.

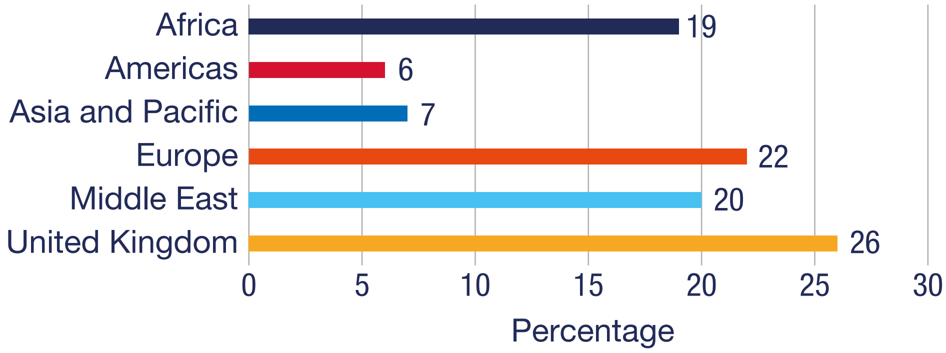
We have also seen very strong growth in our short-term trade finance business, through our General Export Finance product, which has grown into a portfolio of £0.8 billion. This is a delegated product: we operate through (and on a risk-sharing basis with) banks and other non-bank financial institutions, who administer controls on credit quality on our behalf (see 'Assessing corporate and SME risk' on page 68 of this report). For this product, our counterparts are mostly small businesses, with relatively modest 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 challenging times.

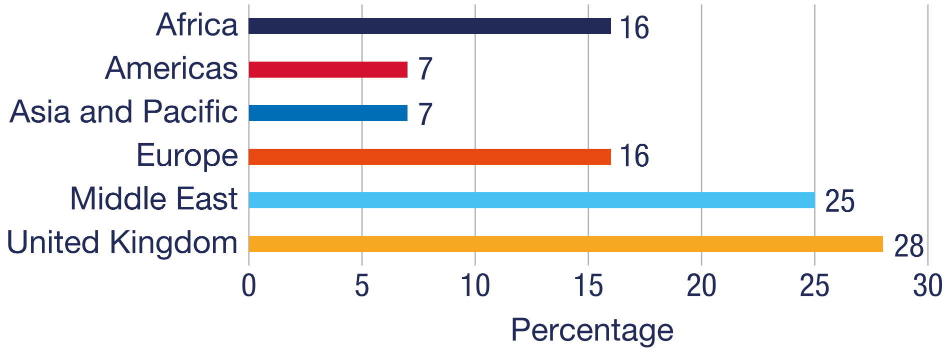
However, it also presents challenges from a risk management perspective that we must manage. Higher interest rates and weakening demand are a major pressure for all corporates, but particularly SMEs, who have fewer options for accessing liquidity and may previously have benefitted from COVID-19 support schemes. This has fuelled a steady rise in corporate insolvencies, which in 2023 reached their highest level for 30 years. While we are starting to see some signs of distress and claims in our own portfolio, the current impact on UKEF has remained limited.

## Regional breakdown of net amount at risk

31 March 2024

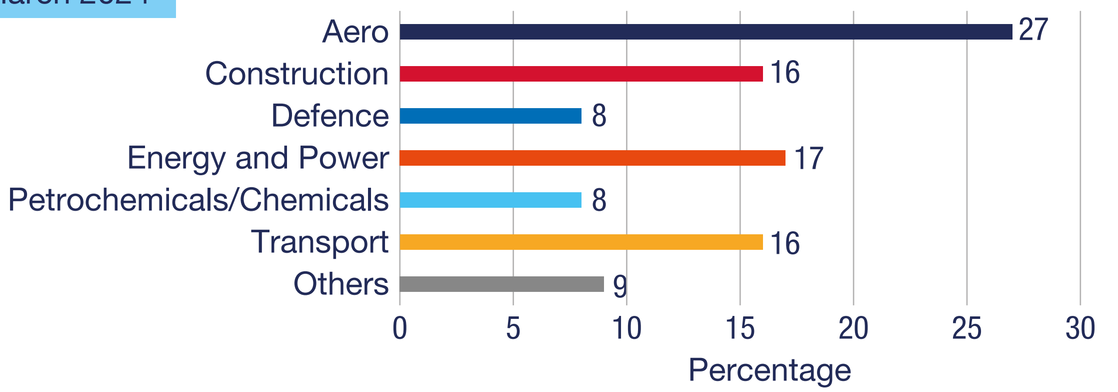



31 March 2023

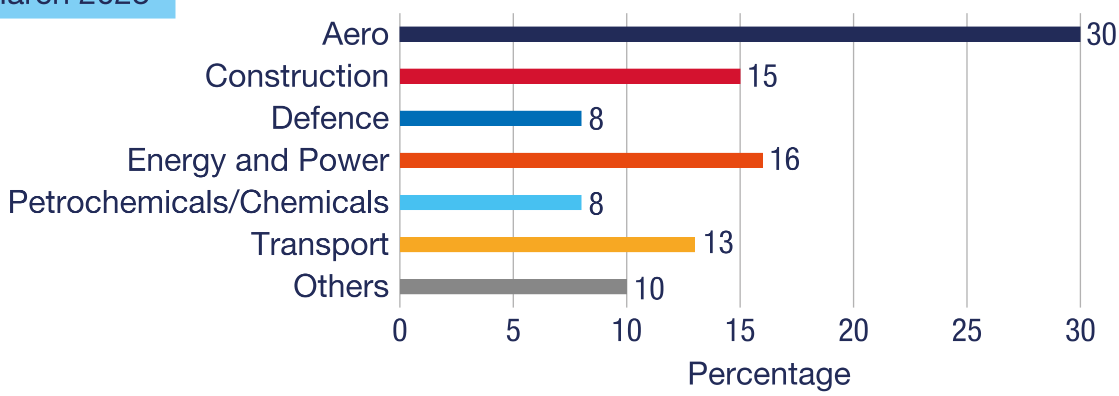



## Sector breakdown of net amount at risk

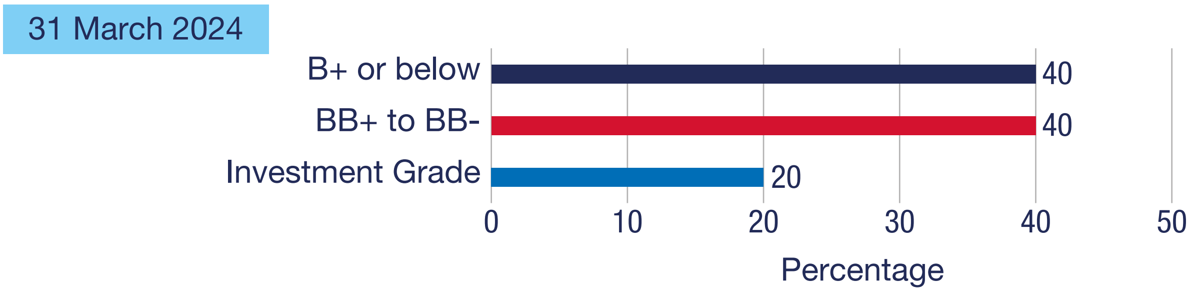
31 March 2024

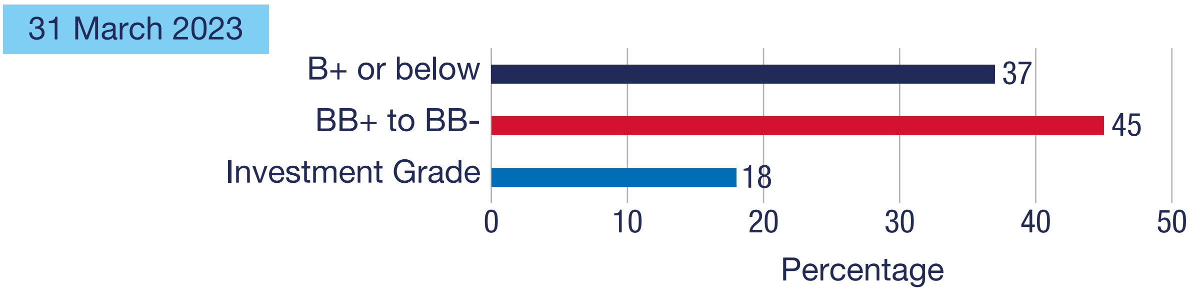



31 March 2023



**Amount at risk (net of reinsurance) by credit rating**




Despite some positive trends in the overall portfolio, particularly our continued growth without aggregate credit deterioration, there is no room for complacency. While inflation has fallen since the beginning of the year, the anticipated interest rates cuts, which will be essential to the prospects of some our most indebted customers, have yet to materialise. We anticipate increased negative credit rating pressure on some of our most indebted, and already stressed sovereign and SME counterparties and cannot rule out further defaults, with resulting claims and losses. Geopolitical volatility continues, manifesting through the continuing war in Ukraine but also the escalating conflict in the Middle East, and increased country-specific political risk via a number of coups, especially in West Africa. We will continue to monitor these challenges and mitigate their impact on our portfolio, where possible.

Finally, we are pleased to report that UKEF's Temporary COVID-19 Relief Facility (TCRF) has continued to perform well, with our aero exposures improving substantially in credit quality.

Many of our TCRF customers have also chosen to repay or refinance their facilities, and together with run-off, this has reduced our aggregate TCRF exposure to £3.6 billion, from £7.9 billion at the start of the year. We expect this trend to continue into 2024/25.

## Claims and recoveries overview

Where it is practical and represents value for money, UKEF will restructure corporate debt to enable the counterparties to continue to trade out of the crisis. By reviewing and responding to restructuring proposals in-house, we have been able to avoid defaults and claims payments, minimise loss, and ultimately return greater value to the UK taxpayer over the longer term. However, it is inevitable we will pay claims given the business we are in particularly during tougher economic conditions. We operate in a counter-cyclical manner and support to our exporters carries on through the course of economic cycles, in a risk-contained manner.

We have a strong track record of managing claims and recoveries across our portfolio. Using experience gained from previous downturns, we quickly responded to the heightened claims environment caused by the economic consequences of COVID-19, and the subsequent economic shocks of the Russian invasion of Ukraine. These shocks impacted all of our supported sectors.

Operationally we have made some changes to streamline and enhance our capability. The Special Situations Division which was formed in June 2020 to deal with the particular impact of the crisis on UKEF's aerospace book has now been wound up after successfully restructuring 96% of the portfolio in under three years. That division, and its unique skill-set, is now incorporated into the wider Restructuring, Claims and Recoveries Division (RCRD). RCRD has a wide-ranging remit across all of UKEF's distressed cases now encompassing all of aerospace, sovereign, project finance and corporates (including SMEs).

## Claims: the year in numbers

Over the course of the financial year, UKEF paid a total of 124 individual claims, amounting to a (net of reinsurance) outflow of £177.8 million when accounting for foreign exchange differences. Outstanding claims paid on our Guarantees and Insurance Account, our primary account for business issued after 1991, increased year on year to £727 million at 31 March 2024 (from £547 million in 2022/23).

### Aerospace

We paid 58 repeat claims on airline counterparties that defaulted over the COVID-19 crisis, namely Air Asia X, Thai Airways, Avianca, Norwegian Air Shuttle and Malaysia Airlines (MAB) totalling £67.5 million. The UKEF aero recovery team reduced the number of distressed and defaulted aircraft in its portfolio from 119 in June 2020 to 14 at the time of print by either negotiating complete cure settlement agreements or selling the relevant aircraft to recoup 100% of the claims paid. The RCRD team continues to make significant progress in mitigating losses with the balance of repossessed aircraft (see page 77 below) and their efforts in this space were widely recognised as both ground breaking and market-leading successes.

### Sovereign

As a continuing consequence  of the sovereign defaults over the past two years, we paid 41 claims across our distressed sovereigns, totalling £91.5 million made up of claims in Sri Lanka £29.4 million and Ghana £62.1 million.

We also still hold some outstanding claims, subject to recovery, on business issued and defaulted before 1991. Almost all of the £612 million of outstanding claims paid on this business (down from £675 million in 2022/23) refers to sovereign exposure subject to previous Paris Club restructuring agreements.

Historic sovereign exposure in Zimbabwe still makes up a considerable part of this total exposure at £308 million. The Government of Zimbabwe has continued to make token payments on its official sector debt (which is entirely in arrears).

### Corporate

We have seen an uptick in corporate claims (albeit from a very low historic base) reflecting the challenging economic climate both domestically and internationally. We paid a total of 27 in corporate claims of which eight were in respect of defaults by UK SMEs.

In the small deals space  overseen by our Strategic Sectors Division (where we support smaller loans to overseas buyers through our Bills and Notes and Standard Buyer Loan Guarantee products) have seen us pay 19 claims totalling £11.4 million on seven obligors. Because the portfolio is relatively small no discernible trends (by obligor, product or market) are apparent as it stands.

# PROVISIONS AND IMPAIRMENTS

## Provisions

The overall provisions on claims for Guarantees and Insurance Account business (issued post 1991) as of 31 March 2024 was £403 million (up from £396 million in 2022/23), mainly on account of new sovereign claims, only in part offset by successful recoveries in the aerospace sector.

The overall provision amount for historic business issued before 1991, slightly decreased on 31 March 2024 to £522 million (down from £532 million in 2022/23).

## Impairments

Excluding unrealised foreign exchange gains or losses on the impairments balance, there was no substantive net change in the balance of impairments on UKEF's direct lending portfolio (which increased year on year by £30 million).

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.

| | Financial year 2022/23 | Financial year 2023/24 | Change |
|---|---|---|---|
| Claims paid | £122m | £258m | £136m |
| Provisions for Pre-1991 Guarantees & Insurance Account | £532m | £522m | £(15)m |
| Provisions for Guarantees & Insurance Account | £396m | £403m | £7m |
| Impairments | £112m | £142m | £30m |
| Overall Recoveries | £125m | £145m | £20m |

## Claims outlook

The claims outlook for UKEF presents a mixed picture, with different impacts on different sectors which will be reflected across UKEF's portfolios.

### Aerospace

We expect claims in the aerospace sector to decrease as we see run-off on existing exposure (for example all MAB and Thai claims will be paid by March 2025) and we do not expect significant new defaults although localised stresses persist in the sector. With global domestic airline capacity at 106% of 2019 levels and international capacity at 95%, the airline industry recovery has been swift. The result has been a stabilisation in airline defaults, and over the course of the financial year, no new defaults occurred in the airline or lessor obligor portfolio. We believe passenger demand is set to continue to rise. However, supply chain and manufacturing issues are likely to restrict growth within the industry and potentially cause significant market disruption.

### Corporate

On the short-term business side, UKEF has started to receive more claims under its relatively new General Export Facility product, and the expectation is that claims associated with this product will increase over the next few years, although, to date, these defaults have been modest in both volume and value. The expectation that UKEF will support increased numbers of SMEs will, we think, invariably lead to an uptick in claims in the sector on the basis that the more we do the more likely we are to pay claims on at least that section of the portfolio.

We expect claims on the medium term corporate and project finance portfolio to remain at low levels. We have seen latent signs of stress in our strategic sectors portfolio (small exposures to overseas buyers), although because it is a small and relatively new data set, consistent themes are difficult to empirically discern at this stage.

### Sovereign

Although 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, the specific timing and scale of these payments will depend on the ongoing debt restructuring negotiations through the Paris Club and G20 Common Framework.

Sovereign exposure is always subject to geopolitical winds and in some other key markets in which UKEF has substantial exposures, such as Türkiye and Egypt, there is a heightened vulnerability to rating pressure.

## Recoveries

The recovery of claims payments is an integral part of UKEF's mission to operate at no net cost to the taxpayer over the medium term.  Our experience is that periods of high claims activity are followed by a long tail of recovery activity. Recoveries are realised in a wide variety of ways depending on the structuring of, and counterparties to, the original transaction. The method of recovery also depends on the type of product under which the claim arose.  For most products, UKEF directs the recovery action. For bank-delegated products (the GEF and analogous products) the financing bank undertakes the recovery acting as a prudent uninsured.

More generally, recoveries on unsecured transactions usually result from a restructuring and an amended repayment profile.  Recoveries on secured financings may either follow that consensual pattern or, in the alternative, arise out of the enforcement of security and realisation of proceeds to repay the claims payment.

### Sovereign recoveries

The process by which UKEF recovers debts owed by foreign sovereigns is covered in the preceding Paris Club paragraphs on page 66. Sovereign recoveries (sums paid back to the UK under various Paris Club rescheduling agreements) amount to £62 million.

### Aerospace recoveries

The asset-backed nature of UKEF’s airline portfolio provides the most obvious means for recoveries to be made when an airline obligor defaults. The aircraft (which is secured in favour of the financiers including UKEF) is repossessed, remarketed and then leased or sold to recoup claims payments. Of the 14 aircraft repossessed on UKEF direction following the COVID-19 crisis, nine are currently on operating leases earning revenue to offset claims payments. Of the remaining five ex-Thai A330 aircraft, we are in advanced negotiations to lease four, with deliveries on lease expected to take place from summer 2024. We and our remarketing experts continue to seek opportunities to lease the fifth and final aircraft.

We believe the cumulative effect of 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.

| Aircraft repossessions | Status at 31 March 2024 |
|---|---|
| 6 Boeing 787-9 aircraft, repossessed from Norwegian Air Shuttle | On lease to Air Premia (2 aircraft) and LATAM (4 aircraft) |
| 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 |

The long-term recovery strategy for aerospace involves the strategic decision as to when to sell the assets (with lease attached) to recoup all losses and ultimately fulfil our mandate. Decisions here are taken 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. We believe we are in a good position here. In financial year 2023/24 we generated strong net incomes of £77 million compared to claims of £68 million with over £91 million income projected in the next financial year against expected claims of £56 million. The cumulative effect of the income generated demonstrates the effectiveness of the leasing strategy, the enhanced attractiveness of the assets as sale propositions, and ultimately UKEF's strong capability to manage airline defaults effectively.

### Corporate recoveries

Corporate recoveries (excluding aerospace and sovereign) stood at £5 million at year end, reflecting the modest number of claims paid in this sector. If and when claims increase, we would expect recoveries to increase commensurately as UKEF implements well-established and robust recovery practices.

For the shorter-term corporates, the recovery process is delegated to the banks with which we risk share and as these transactions are both smaller value and (invariably) unsecured deals supporting UK SMEs we would expect proportionately lower quantum recoveries.

# 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 2024 and 31 March 2023 and the outstanding commitments against them.

| | At 31 Mar 2024 | | | | At 31 Mar 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Sterling | Foreign currency | Sterling equivalent in SDRs | SDR total | Sterling | Foreign currency | Sterling equivalent in SDRs | SDR total |
| | £m | SDRm | SDRm | SDRm | £m | SDRm | SDRm | SDRm |
| Section 6(1) amounts | | | | | | | | |
| Statutory limit | | 67,700 | - | 67,700 | | 67,700 | - | 67,700 |
| **Total commitments** | **10,445** | **42,060** | **9,955** | **52,014** | **14,024** | **36,439** | **12,901** | **49,341** |
| Section 6(3) amounts | | | | | | | | |
| Statutory limit | | 26,200 | - | 26,200 | | 26,200 | - | 26,200 |
| **Total commitments** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Section 6(1) amounts | | | | | | | | |
| Assets | - | - | - | - | - | - | - | - |
| Section 6(3) amounts | | | | | | | | |
| Assets | - | - | - | - | - | - | - | - |

# 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.[14]

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.

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.

## Screening

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 OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (2024 Revised) (the OECD Common Approaches) and/or the Equator Principles (EPs) (2020). Since April 2020, UKEF has undertaken to consider climate change in all its transactions.

In 2023/24, the E&S Division screened 54 transactions.

During screening, we determine whether transactions fall within the scope of the OECD Common Approaches and/or EPs. For those transactions in scope, we designate the transaction as either category A (high risk), category B (medium risk), or category C (low risk). Transactions out of scope of the OECD Common Approaches or EPs, for example EDGs that support companies' general working capital or aviation sector transactions are designated 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 2023/24, we designated 11 cases as category A, 11 as category B and 32 as NA.

14 https://www.gov.uk/government/publications/eshr-risk-and-impact-categorisations-2023-to-2024

## Due diligence

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

Where a review of the risks and impacts of a project or existing operation show it does not, or is unlikely to align with international ESHR standards, notwithstanding our efforts and advice an application for support would normally be refused, in accordance with the OECD Common Approaches and the EPs.

The ESHR standards that we adopt form the basis of our overall approach to sustainability. We typically take the International Financial Corporation's (IFC) Performance Standards on Environmental and Social Sustainability as our benchmark ESHR standards.[15]
They cover the following eight topics:

- risk management
- labour
- resource efficiency
- community
- land resettlement
- biodiversity
- indigenous people
- cultural heritage

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 UKEF 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 (borrowers, sponsors and UK exporters, for example) to:

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

In reviewing ESHR matters, UKEF relies on:

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

UKEF assesses and documents these risks, relevant mitigations, 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.

15 www.ifc.org/content/dam/ifc/doc/2023/ifc-performance-standards-2012-en.pdf

In 2023/24, the E&S Division completed 16 E&S reports for category A or B projects and a further 32 assessments on cases designated as NA. The latter 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 wellbeing 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
- access and support to local economic growth through development of infrastructure

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.

In 2023/24, 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 prepared and delivered an E&S workshop with the Ministry of Finance in Guinea, where deeper understanding and additional capacity are expected to facilitate the potential provision of UKEF support in the future. We also worked with exporters to support their ESHR capacity development.

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 2023/24, see our website.[16]

For examples of our work in action, see Our impact on page 31.

## 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

16 www.gov.uk/guidance/uk-export-finance-environmental-social-and-human-rights-risk-management

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
- provide appropriate worker conditions, mental health awareness and adequate accommodation
- maximise energy efficiency and minimise greenhouse gasses and other air emissions
- re-establish the livelihoods of people adversely affected by the project
- promote positive project and community impacts

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

## Policy and international co-operation

In support of UKEF's objective to establish a level playing field for all OECD exporters and ensure ECA transactions align with good international industry practice standards, 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, including leading the Climate Change Working Group. We want to achieve consistency in ECAs' approach to ESHR risk management practices under the OECD Common Approaches, and during the year we actively contributed to the ongoing process to update the Common Approaches.

Throughout the year, UKEF continued in its role to provide management support on the Equator Principles Steering Committee. In 2023 the EPs celebrated its 20th anniversary, and the membership continues to grow in numbers, promoting the EPs as the framework for sustainably financing in-scope projects. During the year, UKEF joined the EPs annual meeting, sharing experiences and presenting to other EPFIs on our approach to managing ESHR risks.

ESHR risks and impacts evolve and 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.

# 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 disclosure of climate-related risks and opportunities through organisations' existing reporting processes.

The 11 TCFD 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.

**Compliance Statement**

UKEF has reported on climate-related financial disclosures consistent with HM Treasury's TCFD-aligned disclosure application guidance, which interprets and adapts the framework for the UK public sector. UKEF has complied with the TCFD recommendations and recommendations disclosures:

- Governance – recommended disclosures (a) and (b)
- Strategy – recommended disclosures (a) to (c)
- Risk Management – recommended disclosures (a) to (c)
- Metrics and Targets – recommended disclosures (a) to (c)

This is ahead of the central government's TCFD-aligned disclosure implementation timetable for Phase 2.

## Our approach to sustainability disclosures

In 2021, UKEF became the first UK government department to make climate-related financial disclosures using the TCFD recommendations. UKEF is both an export credit agency (ECA) and a government department. As such, UKEF interprets and adapts the TCFD framework in a way that is appropriate for this context.

Sustainability-related disclosure frameworks continue to evolve rapidly. The International Financial Reporting Standards (IFRS) S1 and S2, the Taskforce on Nature-related Financial Disclosures and Transition Plan Taskforce recommendations have been released. Our approach to these evolving standards will align with the government's expectations for sustainability disclosures.

## Progress this year

At COP28 in December 2023, UKEF – alongside 7 other ECAs – launched the Net Zero Export Credit Agencies Alliance (NZECA). This net-zero finance alliance is the first of its kind for public financial institutions. It consists of ECAs and Export-Import Banks that together supported an estimated $120 billion in international trade in 2022. Members benefit from access to wider support from the Glasgow Financial Alliance for Net Zero (GFANZ), the United Nations Environment Program-Finance Initiative (UNEP-FI) and finance industry peers in their approaches to net zero.

In April 2024 UKEF launched its first Sustainability Strategy, covering the period 2024 to 2029, aligned with its business planning cycle. This strategy sets out how we are working to embed sustainability considerations in the way UKEF does business and what we want to achieve over the next strategic period. Our Sustainability Strategy will inform our sustainability reporting during this next strategic period.

In 2023, UKEF's first TCFD project was formally closed and brought into business-as-usual delivery. For this year's disclosure, UKEF has received third-party limited assurance, in accordance with ISAE 3000, on its financed emissions calculations. Assurance has been provided in relation to the total Scope 1 and 2 financed emissions and total Scope 3 financed emissions, calculated under the AAR (amount at risk) and EL (expected loss) approaches. This has strengthened how UKEF measures and reports its emissions, enhancing transparency through our Basis of Reporting (see Appendix www.gov.uk/government/publications/ukef-annual-report-and-accounts-2023-to-2024-by-section).

## Governance

### Our governance around climate-related risks and opportunities

**CEO and Accounting Officer**

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

**Executive Committee**

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

**Enterprise Risk and Credit Committee (ERiCC)**

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

**Board**

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

**Export Guarantees Advisory Council (EGAC)**

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

**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 of financial accounting and reporting, including on the approach to TCFD reporting

UKEF embeds consideration of climate change across our business, and climate is integrated as a management issue within our governance.

The **Executive Committee** supports the CEO and Accounting Officer in the management of UKEF. The Executive Committee oversaw UKEF's progress against its Climate Change Strategy and will continue to oversee implementation of the Sustainability Strategy. In 2023/24, the Executive Committee considered 15 submissions on climate-related issues.

The **Chief Strategy and Impact Officer** is the Executive Committee member responsible for the department's approach to climate change and sustainability. As climate change is a material issue across the department, all other Executive Committee members are also responsible for integrating climate change into their areas of accountability. The **Chief Risk Officer** is responsible for integrating these issues into the department's risk management (see the Chief Risk Officer's report on page 56). The **Co-Heads of Business Group** are responsible for integrating these issues in the execution of business (see Our impact on page 31.)

**The Enterprise Risk and Credit Committee (ERiCC)**, which is chaired by the Chief Risk Officer, considers the financial and non-financial impacts 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 to the board's Risk Committee. Enterprise risk reports, which include sustainability 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 benefitted from the introduction of the climate data dashboard, which includes a dedicated ESG risk view. As of April 2024, the Deputy Director, Climate Change and Sustainability is a member of the ERiCC.

**UKEF's Board** and its committees considered nine submissions on climate-related issues this year, including UKEF's Strategic Risk Register, which includes sustainability as a significant risk. The board provides feedback on the mitigations, controls and contingency plans held by UKEF against each strategic risk.

This year, the board and Executive Committee members also received training on climate change and sustainability topics, delivered by the Grantham Institute – Climate Change and the Environment, Imperial College London.

**The Export Guarantees Advisory Council (EGAC)** advises ministers and senior officials as needed on the department's approach to climate change, alongside other environmental, social, and ethical issues (see the Export Guarantees Advisory Council report on page 103). 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 Sustainability Strategy (2024 to 2029) aligns with UKEF's business plan for this strategic period and succeeds UKEF's Climate Change Strategy 2021 to 2024. The Sustainability Strategy sets out UKEF's strategy on sustainability issues including climate change, and how it will be delivered.

## UKEF's Sustainability Strategy 2024 to 2029:

## We will

1. Catalyse UK trade through UKEF's world-leading export finance and insurance offer
2. Significantly increase the number of SMEs that benefit from UKEF's support
3. Support a broad range of businesses to export, driving local growth across all regions of the UK
4. Position UK exporters and suppliers at the heart of the global low-carbon transition
5. Use our finance in developing markets to create positive impact on communities overseas and in the UK

## By

Accelerating the net zero transition and financing clean growth

Crowding in finance in support of sustainable development

## Milestone

Providing **£10 BILLION** of clean growth finance by 2029

Mobilising **£10 BILLION in finance in low- and middle-income countries** by 2029

## Actions

- Refresh our **transition finance** offering
- Measure our **financed emissions** and work towards our **decarbonisation targets** on the way to net zero by 2050
- Develop a **UKEF transition plan**
- Drive progress in partnership internationally

- Drive **sustainable deals** through our products and partnerships
- Assess our **development impact** and work towards a harmonised approach with peers and partners
- Develop our policies to align with **international good practice**
- Engage actively to raise standards internationally

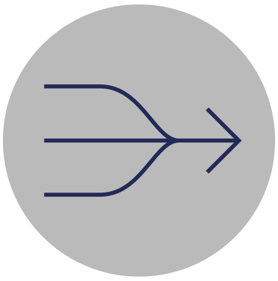
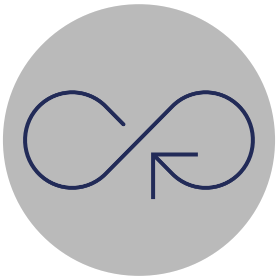
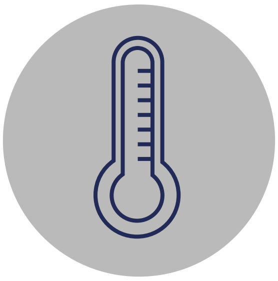
## Enablers

**Engagement** **Transparency** **Governance**

We identify and assess 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). This has been informed by our use of climate-related scenario analysis, our strategic risk register analysis and materiality assessment as set out in the Sustainability Strategy.

### Scenario analysis

Climate-related scenario analysis helps us to assess the resilience of our strategy. 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 (NGFS)[17] and the approach is consistent with that used in stress testing exercises by the Bank of England.

| Scenario | Description |
|---|---|
| **Orderly transition**  | The policies needed to transition to net zero emissions are implemented in a coordinated and efficient way, beginning today. This means the transition results in less economic disruption but creates significant initial transition costs for carbon-intensive sovereigns and industries. These costs decrease over time as actions to reduce emissions are taken. |
| **Disorderly transition**  | The transition is delayed and there is then an abrupt introduction and acceleration of climate policies aimed at reducing emissions. The more compressed and disorderly nature of the transition results in greater economic disruption, and negative impacts on carbon-intensive sovereigns and industries without plans to reduce their emissions. |
| **Hot house world**  | No further climate policies are enacted over and above the policies of the present day and there is no transition to net zero emissions. This means that transition risks are based only on the policies of the present day and the physical risks from climate change will become more severe over time. |

17 www.ngfs.net/en

Stress testing has highlighted transition risks in sectors linked to the fossil fuel industry and a mixture of transition and physical risks in many of the countries where UKEF does business. UKEF's implementation of the government's policy aligning UK international support for the clean energy transition, as applied to new transactions since 31 March 2021, will continue to reduce the risk related to concentration of fossil fuel-related assets in the portfolio as legacy transactions are amortised. We will continue to monitor the results of the stress test each year and inform our strategy accordingly. It should also be noted that as an export credit agency seeking to complement the private sector where necessary to facilitate UK exports, UKEF operates, by definition, in higher-than-average risk sectors and geographies.

The analysis also indicates risks to UKEF's development impact ambitions, as many low and middle-income countries are highly vulnerable to physical climate risk. UKEF's offering of Climate Resilient Debt Clauses (CRDCs) to eligible borrowers partially addresses this risk's impact on customers. CRDCs can help borrowing countries respond to this challenge by suspending debt repayments on a cost-neutral basis — freeing up liquidity for borrowing countries to respond to a crisis while lowering risks of default. If adopted by a critical mass of creditors, CRDCs will provide a systemic safety valve for climate-vulnerable countries. This is why UKEF is working internationally with peers to encourage the adoption of CRDCs.

We continue to develop our scenario analysis capability and integrate it into our strategic processes.

In the short term, the transactions UKEF supports are exposed to differing degrees of physical climate risk. This risk to UKEF is managed primarily through transaction due diligence, which takes into account the physical resilience of assets where relevant, based on international good practice standards. UKEF is also exposed to reputational risk related to climate change, if, for example, there is a breach in the environmental and social obligations of transactions in relation to climate change. This risk is managed through transactional due diligence and the incorporation where relevant of enforceable obligations into agreements with customers.

The key short-term opportunity is to enable UK exports and drive growth in the green economy, which is implemented through orientation of our business strategy including an enhanced product offering designed to promote clean growth transactions.

In the medium term, UKEF remains exposed to the short-term risks identified. In addition, the transactions UKEF supports are exposed to increasing transition risk over time. 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 (see Risk management). Working towards our interim decarbonisation targets in this period will also mitigate the strategic risks of exposure in these sectors.

In the medium-term, UKEF has the opportunity to make a sustained contribution to the UK's growth ambitions in this space. We have reflected this opportunity in our medium-term strategic planning documents. UKEF's business plan and sustainability strategy, 2024 to 2029, set out our ambitions to provide £10 billion of clean growth finance by 2029, supporting government climate ambitions and UK green exporters, and to mobilise £10 billion in finance in low and middle-income countries by 2029, supporting communities abroad and in the UK. These strategies set out the levers we will deploy to achieve these milestones, including products, partnerships, marketing and business development, and international engagement.

In the long term, short and medium-term risks persist and failure to address these would threaten UKEF's mission and strategic ambitions. Our strategic focus on growing the clean growth segment of UKEF's portfolio should over time act as a counterweight to the higher climate risk-vulnerable segments of the portfolio. Working towards our commitment to net zero portfolio emissions by 2050 will help UKEF to manage this risk to its business over time. UKEF's mission to advance prosperity by enabling UK exports is dependent on the UK supply chain and its future competitiveness within a net zero global economy. UKEF works with wider UK government on issues around UK supply chain capability, but this issue of UK competitiveness is subject to wider economic and geopolitical pressures. UKEF's international engagement on climate change supports our efforts to improve the support that ECAs and relevant financial institutions can provide to clean growth and transition-enabling transactions. For example, UKEF played a leading role in brokering agreement to the updated OECD Climate Change Sector Understanding and is a founding member of the Net Zero Export Credit Agencies Alliance (NZECA). In addition, chronic physical climate risks over the long-term, affecting, in particular, the emerging market economies to which UKEF provides support, has potential to disrupt our ambition to increase finance mobilised in low and middle-income countries.

## 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, so we can better understand and respond to the financial and non-financial risks 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. 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 these approaches 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 financial risks, including insurance underwriting, credit, financial market and operational risks. Our climate risk analysis considers physical climate risk and transition risk.

Methodologies for assessing climate-related financial risk for counterparties and products are still being developed across the financial industry. Climate risk management is now an established and integral part of our risk management, together with ESG risk and value drivers. We continue to work towards better identifying, understanding, and managing our climate-related financial risk exposure as developing methodologies and data allow, and we will continue engaging with financial sector peers to support this, by:

- further integrating climate and ESG-related financial risks into our credit risk assessments for our transactions, portfolio, and informing strategy and business plans
- exploring new data sources, methodologies and analytical tools and management information to further improve our climate and ESG risk management
- using climate scenarios to carry out stress testing and scenario analysis of financial exposures and incorporating these into portfolio risk management processes, reporting and informing strategy (as set out in the Strategy section above)
- further enhancing our approach to assessing the financial implications of climate change, keeping up to date with industry best practice
- building capacity development within the department through knowledge sharing

Our approach to identifying and assessing transaction-level climate and ESG-related financial risk is based around the relevant counterparty (see box below on process). This year, we further enhanced our risk management approach in our sovereign reviews. Sovereigns are now given scores for their climate and ESG-related risks, which allows us to consistently assess and reflect these risks in sovereign credit reviews.

For corporates and financial institutions, we continue to refine climate and ESG-related considerations in our credit risk analysis, for all medium and long-term transactions.

Regular climate and ESG risk analytics inform management and strategy and facilitate mitigating risks and focusing on opportunities. We have created climate and ESG tools that facilitate our analysis and risk management. These include coverage of both carbon transition risk and physical climate risk.

To further strengthen our climate-related portfolio stress testing, we have increased the geographical and sectoral granularity of our models. We have reached global coverage (at country-level) for sovereign ratings and estimate regionally representative scores for a larger variety of economic segments.

We are strengthening our climate and ESG-related risk management governance across the three lines of defence through the incorporation of ESG risks into our business strategies, internal governance arrangements and risk management framework.

### Identifying, assessing and managing climate and ESG-related credit risk

1. All medium and long-term transactions are reviewed individually in line with UKEF's policies and procedures and through regularly reviewed templates with an integrated climate and ESG-related financial risk analysis. Short-term and delegated transactions are managed through our risk management frameworks.

2. Transactions which require an additional climate and ESG-related risk assessment are identified based on established criteria.

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

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

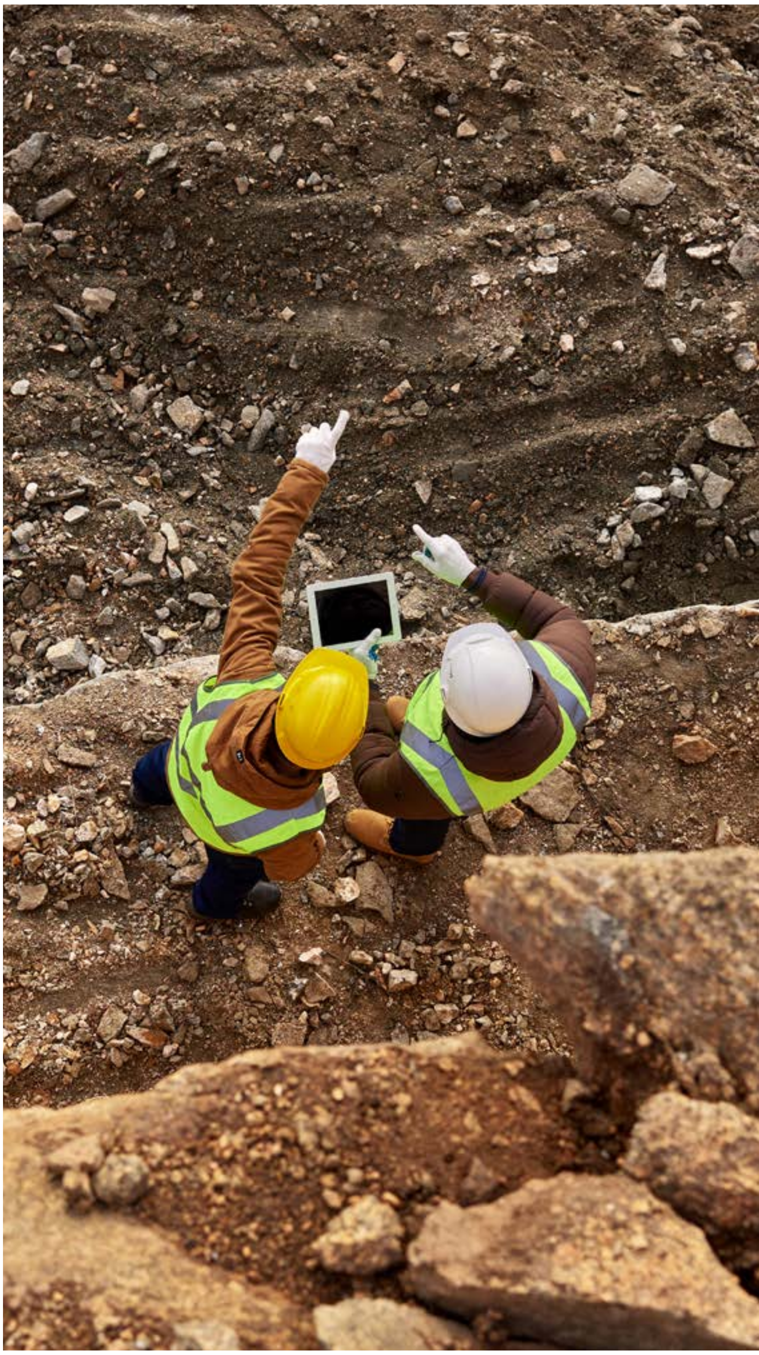
5. The assessment is submitted to our credit committee where appropriate and considered by the decision-maker alongside all other relevant factors.

For more detail on our integration of climate-related financial risks in credit risk assessments, see the Chief Risk Officer's report on page 56.

## Non-financial risk

Climate change is also a source of non-financial risk and impact, both on UKEF directly and the transactions it supports.

At a transaction level, we mitigate these risks and impacts primarily through our environmental, social, and human rights (ESHR) policy and practices, which have evolved over recent years to strengthen our approach to climate change, proportionate to the risk, impact and 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 UKEF.

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

3. If more assessment is required, the E&S Division 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 80.

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 countries to improve understanding and performance on these issues.

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 our portfolio, or financed, emissions 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. Obtaining assurance is an important part of the process for monitoring our progress.

UKEF's operational emissions stem largely from our office footprint and emissions associated with business travel (see Sustainability of our estate). As a financial institution, the emissions associated with the transactions we support (collectively referred to as our financed emissions) are by far the more material.

## Financed emissions

This section should be read in conjunction with our Basis of Reporting (see online: www.gov.uk/government/publications/ukef-annual-report-and-accounts-2023-to-2024-by-section).

Since 2022 UKEF has published annually its portfolio-wide financed emissions estimates. As the first ECA to publish its financed emissions, and in the absence of a Partnership for Carbon Accounting Financials (PCAF) methodology for ECAs specifically, UKEF has developed a bespoke double disclosure methodology. This bespoke methodology is based on the dual 'follow the risk' and 'follow the money' principles articulated in the PCAF Standard, reflecting the unique role of ECAs:

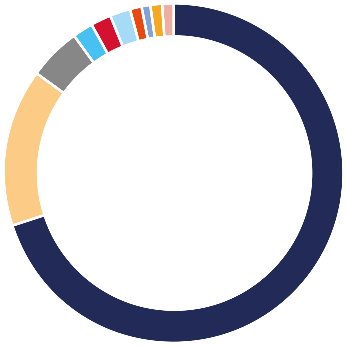
- A 'follow the risk' approach, where emissions for guarantees and insurance are attributed on an expected loss (EL) basis.
- A 'follow the money' approach, where emissions are attributed based on the amount at risk (AAR) outstanding on a loan, including where UKEF is providing a guarantee for a loan.

UKEF's financed emissions estimates comprise our customers' Scope 1 and 2 emissions. This year, we are also disclosing modelled estimates of our customers' upstream Scope 3 emissions for all sectors, using the PCAF Database. Customers' modelled Scope 3 emissions are upstream only due to data availability and restrictions of the environmentally extended input-output modelling approach employed by PCAF. Financed emissions are estimated on a calendar year basis, due to the practicalities of producing these estimates, and are therefore not consistent with the financial year-based information found elsewhere in the annual report and accounts.

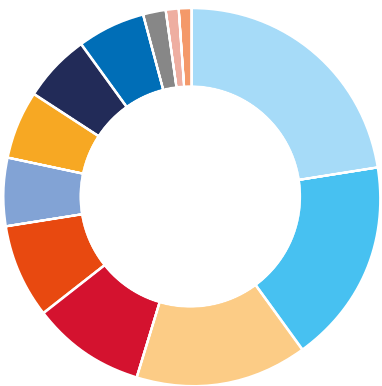
## Expected loss estimates

Absolute Scope 1 and 2 financed emissions on an EL basis were 861,122 $tCO_2e$ in calendar year 2023 (estimated as at January 2024). Absolute Scope 3 financed emissions on an expected loss basis were 176,102 $tCO_2e$ (estimated as at January 2024).

### Scope 1 and 2 financed emissions – EL basis



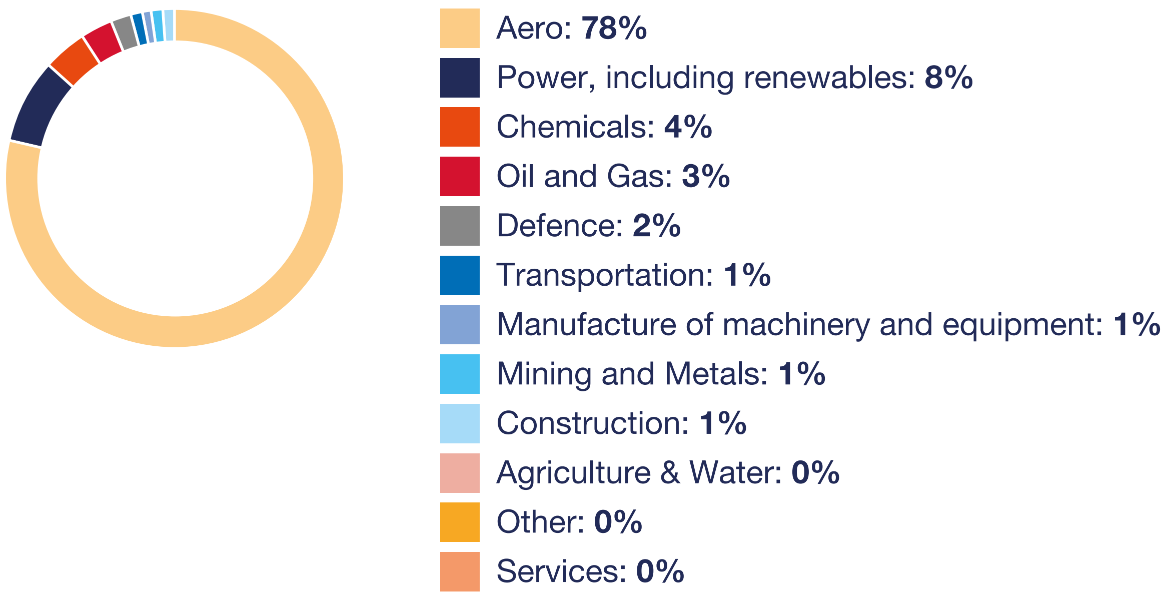

### Scope 3 financed emissions – EL basis



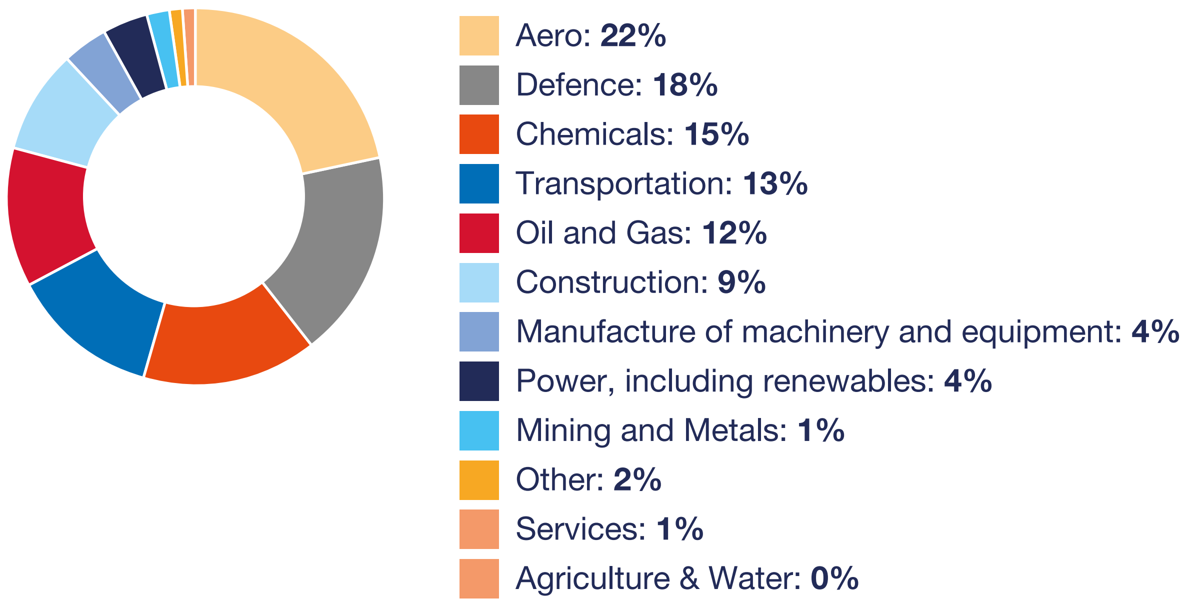
## Amount at risk estimates

Absolute Scope 1 and 2 financed emissions on an amount at risk basis were 10,816,920 $tCO_2e$ in 2023 (estimated as at January 2024). Absolute Scope 3 financed emissions on an amount at risk basis were 6,724,848 $tCO_2e$ (estimated as at January 2024).

### Scope 1 and 2 financed emissions – AAR basis




### Scope 3 financed emissions – AAR basis



## Data quality

Data quality issues are set out in more detail in the Basis of Reporting. We made continuous improvements to data quality this year. These included minor improvements to previous years, such as reassignment of sectors, but not at a scale sufficient to trigger a portfolio rebasing. Average data quality is represented by a weighted PCAF data quality score of 3.06 out of 5 (with 1 being the highest quality) for the AAR Scope 1 and 2 estimate, and 4.5 out of 5 for the EL Scope 1 and 2 estimate. This indicates estimates are comprised of a combination of reported and modelled data at varying degrees of verification.

This year we have expanded our reporting of customers' upstream Scope 3 financed emissions, in addition to Scopes 1 and 2. Currently these Scope 3 estimates are made entirely using the PCAF Database, which uses environmentally extended input-output modelling to produce broad estimates based on the high-level relevant sector and region. These modelled estimates are best understood as a high-level approximation of emissions associated with a broad economic activity, not an accurate representation of the specific activity or operation that UKEF has supported. We are expanding these disclosures, in line with the progressive recommendations of the PCAF Standard, to provide stakeholders with a broad understanding of our customers' Scope 3 emissions. Our customers' Scope 3 emissions remain outside of UKEF's financed emissions reduction targets for sectors other than oil and gas. We endeavour, over time, to improve our understanding of customers' Scope 3 emissions on a deal by deal basis but anticipate not being able to factor these into financed emissions estimates until there is greater consistency across our own portfolio and in industry practice.

## Portfolio decarbonisation and sector pathways

UKEF aims to reduce our financed emissions to net zero by 2050 and is committed to supporting UK exporters through the global low-carbon transition. The table below summarises our progress towards this ambition and towards the interim decarbonisation targets we have set to guide us on our pathway to net zero.

Our statutory role and purpose guides our approach to decarbonisation. 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. We are a UK government department with a statutory mandate to support exports and a mission to drive prosperity by contributing to economic growth. The growth in UKEF's business is therefore driven both by our policy mission and by the behaviour of our private sector market peers, including their appetite for risk.

| | Target | 2021 | 2022 | 2023 | Change 2022/2023 | Change from baseline |
|---|---|---|---|---|---|---|
| Total Scope 1 & 2 absolute financed emissions – EL basis ($tCO_2e$) | Net zero by 2050 | 453,402 | 1,023,313 | 861,112 | - 16% | +90% |
| Total Scope 1 & 2 absolute financed emissions – AAR basis ($tCO_2e$) | Net zero by 2050 | 5,239,168 | 9,072,834 | 10,816,920 | +19% | +106% |
| Oil & Gas absolute financed emissions Scope 1, 2 & 3 – AAR basis ($tCO_2e$) | Reduce 75% $tCO_2e$ by 2030, from 2021 | 1,878,764 | 2,017,999 | 1,151,953 | - 43% | -39% |
| Power, including renewables financed emissions intensity – AAR basis ($tCO_2e$/£AAR) | Reduce 58% $tCO_2e$/£AAR by 2030, from 2021 | 0.00103 | 0.00071 | 0.00072 | +2% | -30% |
| Aviation financed emissions intensity – AAR basis ($tCO_2e$/£AAR) | Reduce 35% $tCO_2e$/£AAR by 2035, from 2022 | Baseline set in 2022. | 0.0005 | 0.0009 | +75% | +75% |

Our total financed emissions have increased by approximately 19% between 2022 and 2023 on an AAR basis. This is due largely to continued post-pandemic growth in the aviation industry resulting in increased activity of existing aircraft in our portfolio, in addition to new support for aircraft. It is also influenced significantly this year by changes in the financial factors underlying financed emissions attribution factors in that sector (see Basis of Reporting for more detail on financial factors affecting financed emissions). Our oil and gas portfolio absolute financed emissions have decreased by 39% from the 2021 baseline. This is due to amortisation of legacy oil and gas exposure. We expect that emissions from our oil and gas exposure will increase in future before decreasing in the medium to long term, as legacy transactions move into operations before amortising fully. 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, which prohibits new support for transactions in the fossil fuel energy sector overseas, outside of certain specified exemptions.[18] However, restructurings or project development delays in our existing oil and gas exposure will affect our decarbonisation pathway and we will need to keep our targets under review as our portfolio evolves.

Our power portfolio financed emissions intensity has decreased by 30% from the 2021 baseline. This is due to strong progress in increasing our support for renewables within the power portfolio. While we are making good progress toward our target, we expect financed emissions intensity may increase in future years as and when we support non-renewables projects within the power sector value chain.

Our aviation portfolio financed emissions intensity has increased by 75% from the 2022 baseline. Short- to medium-term growth in aviation sector emissions to 2030 is consistent with the expectations of the IEA's Net Zero Emissions by 2050 Scenario, on which our target is based.

This year's increase in UKEF's aviation emissions is primarily due to growth in emissions in this sector – in large part from increased activity in the aviation sector post-pandemic from existing corporate and asset-based support in our portfolio and also our support for new aircraft. The scale of financed emissions growth is also impacted by financial changes which affect UKEF's financed emissions attribution, whereby changes in the value of entities supported increases the relative attribution of emissions growth to UKEF.

As set out in our previous disclosure, aviation will continue to be a highly material sector for UKEF – both in terms of our financial exposure and the associated financed emissions. The aerospace sector is important to the UK economy, providing highly skilled jobs, most of them outside London and the South East. It has an annual turnover of £35 billion, the majority of which comes from exports to the rest of the world.

18 Guidance on how the government will implement its policy on support for the fossil fuel energy sector overseas is available at: **www.gov.uk/government/publications/how-the-government-will-implement-its-policy-on-support-for-the-fossil-fuel-energy-sector-overseas**

It is widely recognised that aviation is 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. Continued support for the aviation industry is core to delivering UKEF's statutory role and purpose. Achieving UKEF's decarbonisation objectives in this sector will depend on progress towards decarbonising aviation activity in the real world, not reduction of UKEF's own aviation sector exposure. The use of sustainable aviation fuel, efficiency improvements and zero emissions technologies will play a significant role.

This year UKEF has continued to take action to support decarbonisation of the aviation sector. The government's Jet Zero strategy sets out how it will spearhead international action on aviation decarbonisation, and we are working closely with other government departments to implement Jet Zero. We also continue to engage with customers, academia, industry partners, as well as through our international engagement to progress our decarbonisation goals. We remain engaged with participants in the OECD Aircraft Sector Understanding including whether modernisation of this and other international agreements governing our support could better encourage aviation sector decarbonisation.

As stated in previous years we do not expect our progress towards our decarbonisation targets to be linear. We expect that emissions from our exposure will continue to increase and decrease year-on-year as deal-flow fluctuates and as legacy transactions move into operations before amortising, eventually trending downwards in the medium- to long-term. Year-on-year changes to our financed emissions can be heavily influenced by factors other than actual emissions in the transactions we support, such as changes in the value of corporates or projects supported. Medium to longer term performance trends will be a more useful measure of our progress towards decarbonisation.

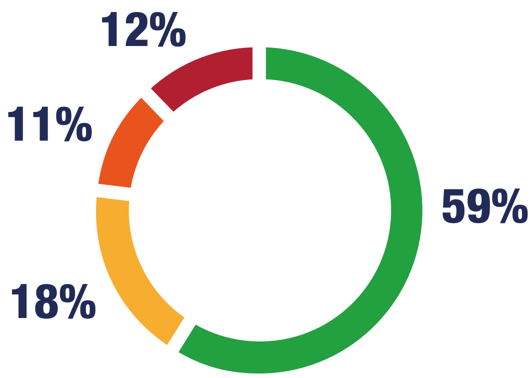
## Other metrics and targets

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

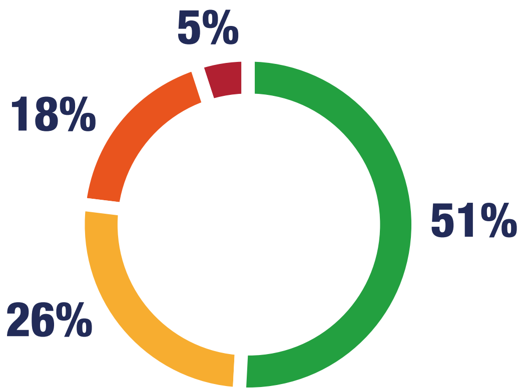
Climate change risk is integrated into our risk management framework. For more information on the metrics and targets governing UKEF's overall risk exposure and appetite, see the Chief Risk Officer's report on page 56.

The figures below summarise the exposure of UKEF's medium- and long-term portfolio to different levels of transition and physical climate-related risk, based on Moody's sovereign and sector ESG impact reports.

### Transition risk: Percentage of AAR by risk rating




### Physical risk: Percentage of AAR by risk rating




**Key:**
- Low
- Moderate
- High
- Very high

Our support for clean growth business is another important way we monitor our implementation of our climate change objectives. This year (2023/24) was the final year of our Climate Change Strategy 2021 to 2024. In April 2024, UKEF published its first Sustainability Strategy, as the successor to the Climate Change Strategy, and alongside the Business Plan 2024 to 2029. For the first time, the business plan and the sustainability strategy set out ambitious milestones UKEF will work towards with respect to sustainable business underwritten:

- providing £10 billion of clean growth finance by 2029
- mobilising £10 billion in finance in low- and middle-income countries by 2029

We will report on progress against these metrics from FY2024/25. We continue to evolve our management information framework for sustainability as relevant initiatives develop and we improve the quality and standardisation of all our data.

# EXPORT GUARANTEES ADVISORY COUNCIL REPORT

The Export Guarantees Advisory Council (EGAC) is established under Section 13 of the Export and Investment Guarantees Act 1991 as amended by the Small Business enterprise and Employment Act 2015.

The Council is an Expert Committee whose statutory purpose is to advise the Secretary of State, at his or her request, in respect of any matter relating to the exercise of his or her functions under the Act. They advise on the policies that UKEF applies when doing business, particularly those related to the application by UKEF of good business policies established by international agreements that relate to export credit agencies (ECAs). The Council does not perform executive functions or take decisions on UK Export Finance's activities.

In practice the Council provides advice to Ministers and senior officials on the potential environmental, social and human rights risks associated with projects that UKEF supports, as well as debt sustainability and anti-bribery and corruption and more recently wider financial crime procedures. The Council also considers transparency issues (including freedom of information).

Senior officials from UKEF attend each of the Council's meetings. They brief the Committee on issues and developments over the year, and on individual export transactions supported by UKEF, although the Council does not provide advice on individual transactions.

EGAC has met four times during 2023/24.

## Membership

Members of the Council are appointed by ministers.

I was formally appointed Chair of EGAC in January 2024 after approximately 12 months in the role on a temporary basis.

In January we also welcomed Ms Belinda Howell to the Council. Belinda's strategic understanding of climate change and sustainability, along with her extensive board experience in international multistakeholder organisations, will be a tremendous contribution to the Council.

The council's current members are:

**Chair** (interim from January 2023 to January 2024, appointed permanent Chair in January 2024)

**Ms Vanessa Havard-Williams**

Consultant to Linklaters, specialist in sustainability law and policy, sustainable finance and governance

## 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

### Ms Belinda Howell

Founder and Managing Director, Decarbonize Limited. Also serves on the boards of the Marine Management Organisation, London Pensions Fund Authority and Digital Catapult

## Matters considered

**Sustainability policy and strategy:**
During the year, we were consulted and gave advice on UKEF's sustainability strategy which applies from 2024-2029 and underpins UKEF's business plan. We shared our expertise and experience including in relation to UKEF's materiality assessment, the principles of transition, targets to incentivise sustainable deals, and future risk management plans.

My Council colleagues and I discussed with UKEF the benefits and trade-offs of different approaches to transition products. We recommended further development of the social impact aspects of the strategy. Council members discussed stakeholder consultation, engagement across other government departments, and the public-facing strategy. We weighed up the benefits of percentage versus absolute targets and commended the move away from a pipeline target for UKEF's Clean and Green activities.

As the project for the implementation of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations was ending and transitioning to business as usual, members reflected on UKEF's second annual report, and the lessons identified. We noted the importance of engagement with customers, including in future discussions in respect of their transition plans, in relation to hard-to-abate sectors where UKEF has set targets for reduction in financed emissions. We noted specifically that UKEF will wish to start developing thinking on further steps to assess what action those customers can take to bring down their emissions and what kind of appropriate transition related plans they may put in place.

We shared thoughts on future sustainability reporting, the pace at which reporting frameworks are likely to develop and expectations of the approach to assurance. We noted the considerable amount of change management required and cautioned that this should not be underestimated.

The sustainability strategy and other policy implementation on climate change and sustainability at UKEF aligns with UK government policy and consolidates UKEF's integration of energy transition and development projects (including social infrastructure) into its strategy. In the last few years UKEF has made considerable progress in integrating these areas and the growth opportunities they offer into its business. We commend the diligence of the team in grappling with multiple and rapidly developing issues in what are increasingly more complex transactions.

The Council anticipates that the strategic contribution of export credit agencies (and UKEF in particular) in making energy transition and development projects bankable will continue to evolve because of the well-established role they play in project-related risk management.

**Impact Framework:** Early in the year we reviewed progress of the Impact Framework that was designed to help better understand, measure, and consider the impact of UKEF activities. We discussed prioritisation, specifics of sustainability considerations and international impacts, performance metrics, timelines, levers and activities. We noted that this is a rapidly evolving area so officials would need to regularly refresh their theory of change, performance metrics and indicators.

We would like to see the framework come to be used as a decision-making tool at transaction level in future but recognise this will take time. We acknowledge and appreciate its value in contributing to strategic planning, resource allocation and risk appetite.

**Sustainability risk management in transactions:** During the year, the UKEF team presented two case studies as examples of how UKEF applies the environmental, social and human rights (ESHR) policies that inform its decision making. These policies help UKEF to consider ESHR-related project risks and impacts in accordance with relevant international standards. I commend the team for their expertise and hard work that often requires them to work in and engage with challenging and complex security and human rights conditions and complex stakeholder expectations. One project was in the early stages of due diligence. We discussed aspects of stakeholder engagement, particularly whether the approach reaches the most vulnerable people who were likely to be affected by the project. We talked about how UKEF's approach was evolving to address increasingly complex risks, particularly with regard to human rights in the projects it is considering, and the need to balance risks with positive impacts. We recommended continued internal and international engagement to evolve best practice in response to this increased complexity.

The other project was underway, and we considered how the ESHR processes and issues that had arisen had been dealt with. We discussed the involvement of local community leaders and politicians, the use of enhanced due diligence, plans for grievance mechanisms and how they were working, and the counterfactual for the region if UKEF had not been involved in the project. We noted UKEF's ability to raise ethical and environmental standards on projects in a proportionate and constructive way and to propose solutions, as well as the value of site monitoring visits.

On the basis of the information presented to the Council, I am satisfied that the ESHR policies that guide UKEF decision-making for major projects reflect international best practice. This helps UKEF to consider environmental, social and human rights-related project risks and impacts in accordance with relevant international standards. I commend the team for their expertise and hard work that often requires them to work in and engage with challenging and complex security and human rights conditions and complex stakeholder expectations.

UKEF's strategic focus on these areas and its knowhow and expertise in relation to ESHR and sustainability issues will likely only increase in importance given the predicted global demand for financing in transition, defence and infrastructure sectors.

**Transparency, anti-bribery and corruption:** The Council reviewed the Financial Crime Risk Appetite Statement and broader financial crime policy. We made suggestions for strengthening the approach and members bilaterally followed up with recommendations for further refinements.

We discussed due diligence processes for agents and third parties, training for staff and non-executive directors on ethical and proprietary matters.

We were updated on an investigation by the Information Commissioner's Office into a UKEF response to a Freedom of Information (FOI) request. Members discussed UKEF's FOI process, the process of independent reviews and the approach to applying exemptions. We observed that Cabinet Office statistics showed that UKEF was one of the most transparent departments in government in its FOI responses, notwithstanding that commercial sensitivity and security considerations sometimes constrain the responses.

## Other topics

**Sustainable lending:** Twice this year we discussed ongoing work on sustainable lending practices. We considered how financial sustainability and affordability maps against emerging markets and their interaction with non-financial sustainability. We heard about policy changes to introduce climate-resilient debt clauses, which we considered to be positive improvements. We discussed time horizons needed for progress and future adaptation risk and will continue to look at the topic next year. We considered options for undertaking Sustainable Lending Assessments and endorsed the proposed approach which seems to be at the forefront among peer ECAs of practice in this area.

**Business Plan:** Later in the year we were consulted on the business plan and gave our reflections on the direction of travel.

We noted that it is good practice to align the new business plan and the sustainability strategy where possible and welcomed efforts to do so. We look forward to UKEF's implementation of them.

**International relations:** We reviewed the strategy for UKEF's international engagement which aims to get the best terms and conditions for UKEF customers in ways that align with UK government policy. We discussed the many competing priorities and offered methods for triaging and prioritising. We shared views on objectives of international engagement, prioritising organisations to engage with and trade-offs of doing so, and how to measure influence and effectiveness. We recommended identifying a high ambition series of outcomes along with anticipating barriers to delivery and pre-emptive mitigation.

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**

The costs of operating the Council during 2023/24 amounted to circa £40,500, which covers the annual remuneration to members and the Chair, and to reimburse the cost of travel and meeting expenses. For further information on the work of the council please contact the Council Secretariat:
**EGAC@ukexportfinance.gov.uk**