UK Infrastructure Bank Limited

Annual Report and Accounts 2021-2022

For the period 1 April 2021 to 31 March 2022

EXECUTIVE SUMMARY

Contents

Chair's statement

Over a year ago, in June 2021, the UK Infrastructure Bank Limited ("the Bank") opened its doors at its offices in Leeds. Following the COVID-19 pandemic, the further shocks during the last year have once again highlighted the urgency of the Bank's missions – tackling climate change and supporting economic growth. Infrastructure investment across the UK will be vital to achieve these missions.

I am encouraged by how much the Bank has already achieved. We are creating a permanent and important UK financial institution to deliver on the Bank's missions.

The Bank agreed delegated authority with HM Treasury, in line with the objective to be operationally independent. We set up our headquarters in the centre of Leeds, where we were grateful for the welcome by Leeds City Council and the West Yorkshire Combined Authority alongside local universities and businesses. While Leeds is our headquarters, we also opened a London office this year.

We appointed John Flint as the Bank's permanent CEO last summer. John is an established banking executive who brings a wealth of experience from HSBC, where he was the former Group Chief Executive.

John Flint's appointment marked an important moment as the Bank established governance frameworks and processes to oversee its activities and continues to recruit staff to help us achieve our ambitious and nationally important goals. In June 2022 our permanent Board was announced. John's top priority has been to recruit the permanent executive team. As of September 2022, five new permanent executive members

had started their roles, completing the leadership team. Together our diverse executive and non-executive directors will bring valuable experience and expertise in their respective roles.

We have grown at pace, resourcing key functions to enable us to undertake both local authority and private sector lending, but there is still a way to go. We've been pleased with the level of staff engagement and we have made it a priority to develop an attractive offer for our permanent staff, making the organisation diverse by design. We believe the Bank gives its employees the chance to tackle significant issues and provides unique development opportunities, combining the best of both the private and public sectors.

Importantly, the Bank made five new loans across the private and local authority sectors during the financial year. Our investments have included financing: the development of facilities to support the supply chain for offshore wind, two subsidy-free solar farms, a new green bus route, and two ultrafast broadband deals for "hard-to-reach" communities across the UK.

Together, these demonstrate the Bank is open for business and catalysing investment to support regional economic growth and net zero ambitions.

I am particularly heartened by the way the Bank has partnered and engaged extensively with other organisations. Collaboration is a guiding principle at the Bank, and we have forged strong links with a wide range of stakeholders who engaged in developing the Bank's first strategic plan. In line with our discussions with HM Treasury, the Bank will look to improve the UK's energy security, helping protect the country from future volatility in global markets.

Since the end of the financial year, I've been delighted with the progress we've made hiring permanent staff and closing a further five deals worth over £700 million – including an undersea electricity interconnector between the UK and Germany and an ultrafast broadband deal. By the end of October 2022, the Bank had announced 10 deals in total, unlocking over £4.6 billion in private capital, and is continuing to respond to interest from the market.

The strategic plan, published in June 2022, sets out where we can best deploy the Bank's resources to crowd-in investment and deliver on our critically important missions. Following the appointment of the new Prime Minister, we will continue to work closely with his administration to support the government's long term economic growth, net zero and energy security objectives.

The Bank has achieved a great deal in its first year, though much remains to be done. In the coming year I look forward to the Bank being put on a statutory footing, and the scaling up of our local authority lending and advisory offer, as the Bank matures into an enduring institution executing our important missions.

Chris Grigg

Chair, UK Infrastructure Bank Limited

Chief Executive Officer’s statement

It was a privilege to take up my role as the first permanent CEO of the Bank in September 2021. The Bank is a unique institution with an urgent mission to tackle two pressing intergenerational challenges – the transition to net zero and supporting local growth across the UK. I am excited to be leading the Bank to tackle these strategic objectives through market leadership, crowding-in additional investment and over time generating a financial return.

In this first year of the Bank, we have focused on growing the organisation from ‘start-up’ form. We have established our headquarters in Leeds and are working to establish ourselves as one of the most prominent and valued members of the business community. I would like to thank the Leeds City Council and the Leeds City Region Enterprise Partnership for their welcome.

The urgency of our mission means we have looked to do deals while we grow, which in turn has informed our development. Since our first investment in October 2021, we completed four more in the financial year to 31 March 2022, covering digital, clean energy and transport sectors, split between private investment and local authority lending. Our current pipeline of deals is healthy and spans our priority sectors. As our activity increases, the potential pipeline will grow, with the number of projects that meet our investment principles also expanding.

We have already put in place many of the foundations that will see the Bank become an enduring feature of the UK’s institutional landscape. This is thanks in no small part to our people. We are a people-led organisation and the number of people employed by the Bank has rapidly grown. The people we hire and the culture we foster within the Bank are crucial as we continue to scale up our investment activity. We will seek to create a diverse workforce, who are inspired by our mission and will thrive in tackling the complex and multifaceted problems we must address.

In order to fulfil the mandate we have been given, we have to be brave and take risks. Our culture must therefore be supportive of this attitude, acknowledging the need to learn, adapt and innovate as we grow, whilst recognising our responsibilities as a publicly funded institution. To this end, we will build a culture that seeks to adopt the most beneficial aspects of the private and public sectors.

I am delighted to have recently appointed the first members of my leadership team who share this vision. In the coming months we will be continuing recruitment across all functions and levels of the Bank. The pace of our recruitment will be determined by our ability to attract candidates of the appropriate calibre. We do not intend to compromise on quality in favour of pace.

Another significant milestone in our first year was the publication of our first strategic plan, which sets out how we will deliver on our mission. The Bank has undertaken a significant amount of work to develop this plan, involving large scale and detailed engagement with industry, academia, and stakeholders across government. Publication does not mark the end of our engagement. It is critical that we maintain an ongoing dialogue.

Readers of this report will notice the very healthy profit achieved during the first year of the Bank’s operation. This is not what one would reasonably expect for a start-up organisation – indeed it is reasonable to expect it to take several years before a new Bank reaches profitability. This result, whilst welcome, requires an explanation.

When the Bank was created in 2021 it was seeded with a couple of third-party managed funds – the Digital Infrastructure Investment Fund, and the Charging Infrastructure Investment Fund. These funds had been established by the Infrastructure and Projects Authority in 2017-2018. In early 2022 one of the investments in the Charging Infrastructure Investment Fund was sold at a substantial gain. It is this gain that explains the healthy profit achieved in our first year.

Finally, I would like to extend my thanks to our Shareholder, HM Treasury, to the Shareholder Representative, UK Government Investments, and to the Board of the Bank for their support, expertise, and constructive challenge over this first year.

None of us is naïve about the challenges we face on our mission. However, we have started to build an organisation that will seek to address these issues in a way that has not been attempted before in the UK. I am confident we are well on the way to making a difference.

John Flint

Chief Executive Officer, UK Infrastructure Bank Limited

Our business

Who we are

The UK Infrastructure Bank Limited is a new, government-owned policy bank, focused on increasing infrastructure investment across the United Kingdom. Our mission is to partner with the private sector and local government to increase infrastructure investment in pursuit of our two strategic objectives:

- **to help tackle climate change**, particularly meeting the government's net zero emissions target by 2050; and
- **to support regional and local economic growth** through better connectedness, opportunities for new jobs and higher levels of productivity.

How we operate

Delivering on our triple bottom line: achieving strategic objectives, crowding-in private capital and generating a positive financial return.

Impact and credibility: we will focus our investments where we can maximise our impact.

Partnership: we will collaborate with private and public sector stakeholders.

Operational independence: we are wholly owned and backed by HM Treasury, but we have operational independence in our day-to-day activity.

Flexibility: market conditions evolve, and we will change with them. We will review our focus annually – adapting our approach and priorities. Our investment strategy is designed to be flexible and leverage our ability to invest across the capital structure. We will assess each deal on a case-by-case basis to identify the financing structure that best fits a deal's needs and supports the Bank's mission.

Our activities

Provision of infrastructure finance

How we invest

We will assess investments against these principles:

Investment principle 1: The investment helps to support the Bank's objectives to drive regional and local economic growth or support tackling climate change.

Investment principle 2: The investment is in infrastructure assets or networks, or in new infrastructure technology. The Bank will operate across a range of sectors, but will prioritise in particular clean energy, transport, digital, water and waste.

Investment principle 3: The investment is intended to deliver a positive financial return, in line with the Bank's financial framework.

Investment principle 4: The investment is expected to crowd-in significant private capital over time.

Private sector projects must meet all four of our investment principles, and local authority projects must meet the first three.

Our strategic plan sets out more detail on how we will deliver on our mission and can be found at: www.ukib.org.uk/strategic-plan.

Private sector financing

Our private sector function will invest up to £8 billion and issue up to £10 billion of government guarantees. We will provide corporate and project finance and invest across the capital structure, including senior debt, mezzanine, guarantees and equity.

What makes us different

We sit in a unique position between the market and government. This allows us to act differently to other market actors, particularly in our approach to:

- **Concessional finance:** where possible, we will invest on terms in line with other investors. We can go further, where required to deliver on our strategic objectives. This includes:
    - taking on risks that other investors are unwilling, or not yet willing, to take in a way that encourages the development of markets; and
    - offering preferential terms, including on price and tenor, where that is justified to deliver on our mission and compliant with our legal obligations.
- **Risk:** our risk appetite is different to that of commercial institutions because we are focused on achieving strategic policy objectives as well as delivering a positive financial return.
- **Flexibility:** we do not have a preferred investment type. We will assess each deal on a case-by-case basis, working to identify the financing structure that best fits a deal's needs and supports the Bank's mission.
- **Partnership:** as a government-backed policy bank, our presence in a deal can help instil confidence with potential investors. We will act as a cornerstone investor in challenging markets.
- **Leadership:** we can provide practical and intellectual leadership, convening partners and drawing on the expertise in our networks.

Local authority lending & advisory function

Our local authority function will lend up to £4 billion to local authorities for high value and strategic projects of at least £5 million.

Local authorities are at the forefront of unlocking regional and local economic growth and have a significant role to play in the net zero transition. They are responsible for key infrastructure – including transport, waste, and regeneration – that impact the UK's emissions and many authorities have set ambitious net zero targets. Their funding and financing come from a range of sources, and the need to deliver day-to-day spending and statutory services can squeeze the resources available for long-term infrastructure projects.

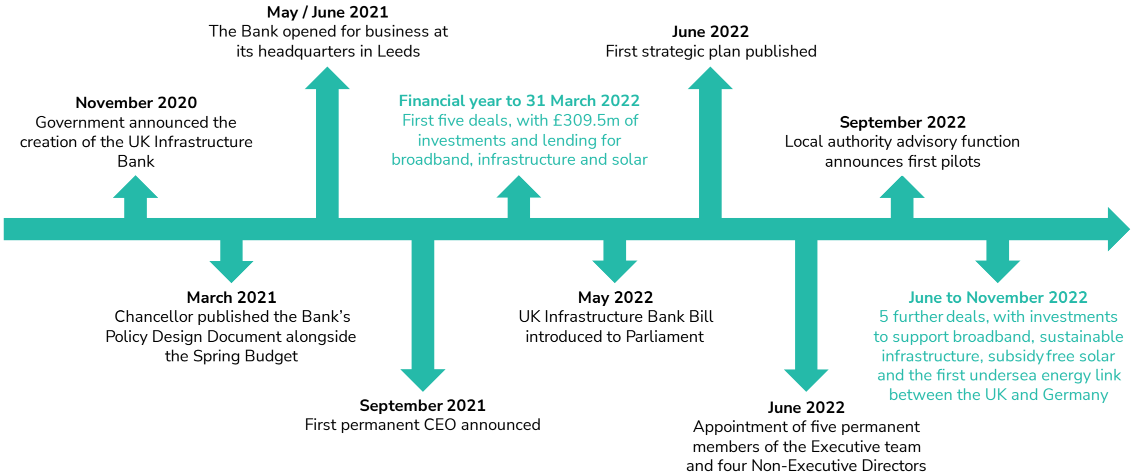
We will support local authorities in delivering their infrastructure priorities, with targeted pilot programmes that will inform the development of effective and replicable financial models to address common infrastructure challenges.

Management of the UK Guarantees Scheme

We are responsible for managing, on behalf of HM Treasury, existing guarantees already issued under the UK Guarantees Scheme ("UKGS"). These were previously the responsibility of the Infrastructure and Projects Authority and have no impact on the Bank's financial statements.

Performance overview

Our journey so far



Key achievements in 2021-22

In its first financial year to 31 March 2022, the Bank has already provided funding to UK infrastructure projects, whilst also focusing on the various stages of set-up and development. The following list provides a summary of our key achievements in the financial year:

- Agreeing our delegated authority with HM Treasury, our Shareholder;
- Establishing interim Board and Executive governance processes to oversee our activities;
- Resourcing key functions to enable both local authority and private sector lending;
- Beginning to recruit permanent staff to embed our processes and activities;
- Engaging extensively with the market in developing our strategy; and
- Completing five deals across private and public sectors.

2021-22 outcomes at a glance

Business outcomes	Values
Profit before taxation	£109.8 million
Net comprehensive income	£104.1 million
Return on Equity[1] ("ROE")	29.8%
Investment-related outcomes	
Total invested in private sector and local authority lending	£309.5 million
Private capital mobilised	£271.0 million

[1] In accordance with the Bank's Financial Framework, the adjusted ROE calculation comprises net income before tax, plus any current year fair value movements recognised through profit and loss and exceptional items as may be agreed with HM Treasury, divided by our average shareholder equity in the period plus the average of any cumulative exceptional items. In the financial year 2021-22, there were no adjustments or exceptional items. As described in the CEO's statement above, fair value movements in our funds were significant, with the sale of an underlying investment supporting overall fair value gains of £123.0 million in the year. This outcome is anomalous to expectations of normal activity for the Bank's first year of operations.

Summary of performance and priority outcomes

The Bank's focus in the first year of operation was to set up a functioning entity (with governance structures, controlled processes and operational teams) and commence its business. During the financial year to 31 March 2022, the Bank successfully agreed a Financial Framework with HM Treasury that sets out financial objectives, financial limits, reporting requirements, controls and operational procedures. The Financial Framework also outlines the key elements of the Bank's risk management framework, which continues to be built on, communicated and embedded as the organisation grows.

By the end of the financial year, the Bank had implemented initial governance structures, controls and processes with a largely interim headcount of 132 staff plus 2 Non-Executive Directors. The Bank completed five deals with local authorities and the private sector and has also assumed its responsibility for administering and managing the UK Guarantees Scheme, the legacy guarantees on HM Treasury's balance sheet.

How we utilise our funds

Lending

The Bank's first five deals with local authorities and the private sector spanned across the energy, travel infrastructure and digital connectivity sectors. A total of £309.5 million has been committed, split as follows:

- Private sector £192.8 million
- Local authority £116.7 million

Private sector lending

The Bank agreed to invest £150 million, as a co-lender in two separate deals during the year, to support the provision of high-capacity broadband to c.470,000 hard-to-reach premises in England and Northern Ireland. A further £42.8 million commitment was made against our investment in two subsidy-free solar farms.

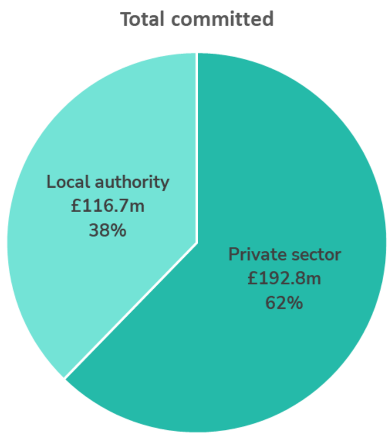
Local authority lending

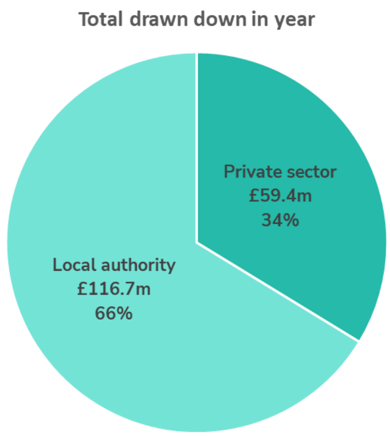
The Bank lent £116.7 million in the year to two local authorities. The first loan was for a quay development project that will service the offshore wind sector. The second loan was to support the delivery of a net zero travel infrastructure.

Committed and drawn down

By the end of the financial year, the local authority loans were fully drawn and £59.4 million of the private sector loans was drawn down leaving £133.4 million of undrawn loan commitments.

The Bank continues to develop its pipeline of new deals and expects this to grow considerably in the coming years. The charts below show the splits of loans committed and drawn down as a proportion of the Bank's overall investment and lending activities in the financial year:





Fund investments

The Bank provided funding to the energy and digital connectivity sectors via investment funds, with £27.8 million drawn by the Charging Infrastructure Investment Fund ("CIIF") and the Digital Infrastructure Investment Fund ("DIIF") during the financial year. The Bank committed to providing another £189.5 million to the fund investments in the financial year and the overall investment, including the fair value gains, stood at £170.1 million at 31 March 2022.

The in-year investment split is set out below:

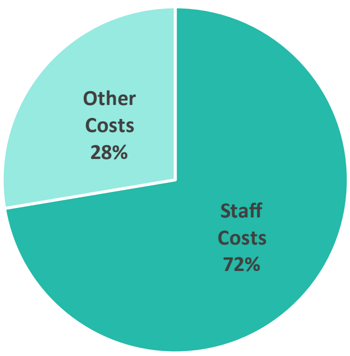
- CIIF £16.4 million
- DIIF £11.4 million

Financial guarantees

The existing guarantees administered and managed under the UK Guarantees Scheme on HM Treasury's behalf are in addition to the Bank's ability to issue £10 billion of new guarantees in its own name as soon as is practicable. No new guarantees were issued during the financial year.

Operating expenditure

Operating expenditure increased proportionately throughout the year to 31 March 2022, reflecting the scaling up of operations. The outturn for operating expenditure in the financial year was £12.2 million, within our agreed budget of £18 million. The split of these costs was as follows:



- Staff costs of £8.9 million, consisting primarily of planned costs relating to contractors and secondees; and
- £3.4 million of other expenditure including information technology and professional fees.

Income and fair value gains

During the financial year, our net interest, fees and commission income amounted to £2.2 million.

In addition, the Bank recognised fair value gains of £123.0 million arising from fund investments. A substantial proportion of these gains arose from the sale of an underlying investment within the CIIF.

Impact and additionality

Demonstrating, measuring, and communicating impact and additionality is central to the Bank's strategic objectives and its triple bottom line.

We set an initial framework that allowed us to consider how we can measure impact across the Bank's two strategic objectives, its investment and operating principles.

We also identified four outcome-based metrics from an initial review and have used these to capture the impact of deals both individually and at portfolio level through reporting from the respective counterparties.

- **Relative Carbon Emissions (ktCO_2e):** This measures total carbon emissions from a project (in thousands of tonnes) compared to a counterfactual.
- **Employment (number of jobs):** This measures the number of jobs supported from the time of investment until the end of the reporting period.
- **Productivity (Gross Value Added ("GVA")/hour):** This provides a measure of the extent to which an investment may contribute to increased productivity.
- **Private Finance Mobilised (£m):** This measures the amount of private finance mobilised for each investment.

For the 5 deals completed in the financial year to 31 March 2022, potential benefits associated with each investment were estimated at the investment decision point[2].

The estimates measure benefits over the timeframe of the investment, and attribute to the Bank's proportion of finance to total finance. These KPIs are not the only matters to be considered in understanding the full impact of investments. For example, we recognise measuring jobs supported by our investments does not capture the full impact on regional and local economic growth. Over time we will use benchmarks, sector frameworks and wider metrics to place the investments' impact in context.

We have started to undertake qualitative Environmental, Social, Resilience and Governance assessments of deals and we will develop internal standards and our approach as our capability widens.

We have now published our approach[3] to additionality for private deals which provides guidance on the relevant questions and the evidence requirements to test and assess the additionality of each deal, using a combination of project level evidence, expert judgement and external expertise. We also stress the importance of developing our investment narrative upfront to help us articulate our impact as a result of our investments.

We know there is a lot more to do for us to be an organisation that is confident of the impact and influence we have, and to communicate with credibility and integrity. To get there, we expect to develop our next impact framework and other metrics, bolster our understanding of investment needs and have developed an evaluation plan.

[2] Each deal has had varying levels of data and information provided; all have had incomplete information but in each case the information available has been considered sufficient basis on which to make an informed decision.

[3] www.ukib.org.uk/additionality-ukib-investments-our-approach.

UK Infrastructure Bank Limited
One Embankment, Neville Street
Leeds, England
LS1 4DW

www.ukib.org.uk

INFRASTRUCTURE
BANK