



UK Government
Investments

Financial Investment Report

October 2026

Technical Annexes

Contents

Annex A: Definition of terms	3
Annex B: Data scope and validation	6
Investment data	6
Departments in scope	7
Public financial institutions in scope	8
Coverage of public sector entities	8
Assets in scope	8
Data recency	9
Geographical considerations.....	9
Private/public sector classification	9
Non-financial data estimates	9
Data exclusions	10
Data validation	10
Annex C: Data methodology.....	11
Analysis scope.....	11
Quality assurance	11
Application of Artificial Intelligence (AI)	12
Categorisation of investments with complex investment structures	12
Valuation methodology.....	14
Categorisation by SIC codes.....	15
Annex D: Analytical methodologies.....	16
General analytical methodologies.....	16
Data and methodology – portfolio returns analysis approach.....	17
Case studies returns analysis	21
Investment deployment against plans analysis	22
Interest rates on fixed-rate lending analysis	23
Cornish Lithium case study	24

Annex E: Assessing and understanding the performance of public financial institutions 25

 British Business Bank 25

 British International Investment..... 26

 National Wealth Fund..... 26

 UK Export Finance 27

Annex F: Risk budgeting 29

 Risk budgeting policy..... 29

Annex A: Definition of terms

Table A1: Table of defined terms for Financial Investment Report and its annexes

Term	Definition
Arm's length body (ALB)	An organisation that operates at a distance from core government departments but is funded by and accountable to government, often delivering public services or regulatory functions.
Basel	International regulatory frameworks (Basel I, II, III) developed by the Basel Committee on Banking Supervision, aimed at strengthening the regulation, supervision, and risk management of banks. The framework sets minimum capital, risk, and liquidity standards for banks to promote financial stability.
Concentration risk	The potential for significant loss when a portfolio or financial institution is overly exposed to a single asset, sector, or geographic area.
Credit risk	The risk that a borrower or counterparty will fail to meet its contractual financial obligations in full and on time, resulting in financial loss to the lender or investor.
Currency risk	The risk of financial loss due to fluctuations in exchange rates, affecting the value of assets, liabilities, or cash flows denominated in foreign currencies.
Defaults	Failures to meet the terms of a debt agreement, such as missing scheduled interest or principal payments, or breaching other key covenants.
Dividend	A distribution of distributable reserves by a company to its shareholders, typically paid in cash or additional shares.
Downside risk	The financial risk of potential losses on an investment – e.g. when asset returns fall below a specified threshold, such as expected return, target return, or zero. It focuses specifically on the likelihood and potential extent of adverse outcomes and potential losses.
Economic capital modelling	A process used by financial institutions to estimate the amount of capital required to absorb potential losses from risks (credit, market, operational, etc.) over a specified time horizon and at a given confidence level. It helps ensure solvency and informs risk management and capital allocation decisions. In the context of this report, Economic Capital Modelling is used by public financial institutions to quantify downside risk.
Equity investment	Ownership interest in an entity, typically in the form of shares, entitling the holder to a proportional claim on profits and assets.
Equity loan	Specifically referring to the Help to Buy scheme, it is a loan issued to support a deposit for a new build property. It counts as a second charge on the property and must be repaid when the property is sold or the mortgage is redeemed. The first five years are interest free, with an interest rate applied in subsequent years.
Equity risk	The financial risk associated with holding investments in equities. It reflects the possibility of losing part or all of the capital invested due to factors such as market volatility, economic downturns or adverse events affecting specific industries or companies.
Equity transaction	Whole or partial acquisition or disposal of an equity investment.

Term	Definition
Fair value	A measurement basis reflecting the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial asset	An item that has monetary value and is held either through a contractual right to receive something (e.g. dividends or interests) or an ownership claim on another entity (e.g. stocks and shares). In the context of this report, we often refer to equity investments and loans and not the wider range of investments that otherwise form part of this term.
Financial risk	A broad term encompassing the risk of loss due to fluctuations in financial markets, including credit risk, market risk (e.g., interest rate, currency, equity risk), liquidity risk, and operational risk.
Financial transaction	An agreement or action that results in the transfer of money or a financial asset between parties. Financial transactions include activities such as lending, borrowing, investing, purchasing, and settling obligations, and are recorded in the financial accounts of the entities involved. In the context of this report, we often refer exclusively to equity investments and loans and not the wider range of investments that otherwise form part of this term, such as guarantees.
Gross investment return	The total return on an investment portfolio ignoring fees, expenses, and cost of financing. It includes both income (e.g., interest, dividends) and capital gains/losses, realised and unrealised.
Illiquid	Describes an asset that cannot be easily sold or exchanged for cash, and often only with realising a significant loss in value or delay. Not traded on a public market and as a result its value is usually derived by reference to comparable investments or portfolios.
Liquidity	The ability to meet short-term obligations as they fall due, or to quickly convert assets into cash with minimal loss of value.
Loan	A financial asset resulting from a transaction in which a sum of money is lent by one party, i.e., the lender(s) to the borrower under an agreement to be repaid, usually with interest, over a specified period. Loans may be secured or unsecured, with their terms and conditions governed by the loan agreement.
Management information	Operationally relevant data relating to a business function or activity, that is produced for management purposes and is not necessarily audited.
Maturity	The date on which a financial instrument (e.g. loan, bond) becomes due for repayment of principal and any accrued interest.
Multilateral development banks (MDBs)	International organisations owned by several countries to provide funding and expertise to support economic and social development. By pooling money, countries can invest in development projects across different countries and share the risks. Examples include the World Bank and the European Bank for Reconstruction and Development.
Net investment return	The total return on an investment portfolio after deducting all fees, expenses, and cost of financing. It includes both income (e.g., interest, dividends) and capital gains/losses, realised and unrealised.
Outstanding balance	The amount of principal (and sometimes accrued interest) that remains unpaid on a loan, credit facility, or other financial obligation at a specific point in time.
Principal	The principal, short in this report for principal repayment, are scheduled repayments of an initial amount borrowed.
Public financial institution	A government-owned or controlled entity whose main function is to meet policy objectives through financial transactions, subject to the controls and reporting requirements set out in the Financial Transaction Control Framework.

Term	Definition
Public sector net financial liabilities (PSNFL)	A measure of the public sector's financial position that is wider than public sector net debt and includes all financial assets and liabilities recognised in the National Accounts. It is a key fiscal aggregate used by government to assess the sustainability of the public finances and provides the basis on which many financial assets and liabilities are classified for fiscal reporting purposes.
Realised gains (losses)	Profits (or losses) that occur when an asset is sold for more (or less) than its purchase price. The value is reported in the accounts at the point of sale.
Return on equity	A measure of financial performance calculated by dividing net income by shareholders' equity. It shows how effectively a company is using its equity base to generate profits.
Shareholding	The ownership of shares in a company, conferring rights such as voting and receipt of dividends.
Stress test	An analysis or simulation designed to assess how a financial entity or system would cope with adverse economic or financial scenarios.
Syndicated loan	The process where a group of lenders jointly provide funds to a single borrower, thereby spreading risk among multiple institutions.
Unrealised gains (losses)	The increase (or decrease) in value of an asset that is still held and has not yet been sold. These are "paper" gains or losses and can fluctuate until the asset is disposed of.

Annex B: Data scope and validation

The analysis included within this report is based on unaudited management information collected from government departments, public financial institutions and Homes England. None of the data should be considered as national or official statistics. The full list of organisations in scope for the data collection can be found in **Tables A2 and A3** below.

Investment data

Data on investments, including valuations, for the financial years 2023-24, 2024-25, and 2025-26 was commissioned from government departments using a pre-defined template. In some instances, data relating to investments managed by public financial institutions and Homes England was commissioned from these organisations directly. Where possible, certain data fields of this template were pre-populated with data received via previous years' data commissions. These pre-populated templates were provided to departments, public financial institutions and Homes England for them to review and update as needed, before returning the complete data to UK Government Investments (UKGI). The data received was cross checked by UKGI ahead of inclusion in this report, using a combination of automated and manual validations.

While UKGI undertook a range of automated and manual validation checks on the information submitted, UKGI did not independently audit or verify the underlying records, valuations, assumptions or methodologies used by reporting organisations. Responsibility for the completeness and accuracy of submitted data remains with the relevant department, public financial institution or sponsoring organisation.

Data reflected in this report reflects a separate commission process from the data commission which formed the basis of the inaugural *Financial Investment Report*, published in November 2025. References within this report which refer to data from the 2023-24 and 2024-25 financial years are based on new commission data and may not align or be directly comparable with figures quoted in UKGI's previous report. This difference derives from an evolution in the data collection approach and granularity, which necessitated a new commission process.

While this report provides a portfolio-level view of government's financial assets, responsibility for individual investment decisions remains with the relevant department, public financial institution or other sponsoring organisation. Investments are approved and managed in accordance with the governance, approvals and controls applicable to the investing organisation, supported by government-wide guidance and frameworks including *Managing*

Public Money, the *Green Book* and the *Orange Book*. Investments are recorded in the accounts of the relevant organisation and continue to be managed by that organisation throughout their lifecycle.

Departments in scope

Table A2: List of 18 government departments in scope of the report

Department Name	Does the organisation have financial transactions?	Comments
Cabinet Office	Yes	
Department for Business, Innovation, Science and Trade	Yes	Absorbed parts of DSIT, ¹ British Business Bank is an arm's length body
Department for Culture, Media and Sport	Yes	Absorbed parts of DSIT
Department for Environment, Food and Rural Affairs	Yes	
Department for Energy Security and Net Zero	Yes	Great British Energy is an arm's length body
Department for Education	Yes	The Student Loans Company is an arm's length body
Department for Transport	Yes	
Department for Science, Innovation and Technology	Yes	Merged into DBIST and DCMS ²
Department for Work and Pensions	Yes	
Department of Health and Social Care	Yes	
Foreign, Commonwealth and Development Office	Yes	British International Investments are an arm's length body
His Majesty's Revenue and Customs	No	
His Majesty's Treasury	Yes	National Wealth Fund is an arm's length body
Home Office	No	
Ministry of Defence	Yes	
Ministry of Housing, Communities and Local Government	Yes	Homes England and National Housing Bank are arm's length bodies
Ministry of Justice	No	
UK Export Finance	Yes	Is both a department and a public financial institution

1 Machinery of government changes announced in July 2026 resulted in the functions of the Department for Science, Innovation and Technology being redistributed to the Department for Business and Trade (subsequently renamed as the Department for Business, Innovation, Science and Trade), Cabinet Office (subsequently renamed Office for Prime Minister and Cabinet) and the Department for Culture, Media and Sport (subsequently renamed as the Department for Digital, Culture, Media and Sport). This report relates to government's investment portfolio as of 31 March 2026, and therefore refers to all departments by their names as of that date.

2 *ibid.*

As can be seen in **Table A2**, not all departments have financial transactions. As such, three out of 18 departments provided a nil return.

Note that due to its significant size compared to other assets, the student loan portfolio is excluded from the analytical outputs in this report. This is because its overall value is so large that it would skew the results of any analysis undertaken and make it more difficult to draw meaningful conclusions about the remainder of the portfolio.

Public financial institutions in scope

Table A3: Public financial institutions in scope of the report

Institution Name	Data Commissioned Directly
British Business Bank (BBB)	Yes
British International Investment (BII)	Yes
National Housing Bank (NHB) ³	No, as new entity
National Wealth Fund (NWF)	Yes
The Student Loans Company (SLC)	No, as excluded from detailed analysis
UK Export Finance (UKEF)	Yes

Although Homes England is not a designated public financial institution, they were commissioned directly as they hold £16bn of investments and are therefore a key specialist institution.

Coverage of public sector entities

The scope is limited to central government as outlined above and all organisations within their accounting boundaries, as well as any institution designated as a public financial institution outside of central government. Devolved administrations, local government at all tiers, NHS trusts, and pension funds are excluded as they fall outside the scope of this exercise.

Assets in scope

The report covers financial assets classified as equity and loans. The portfolio includes a range of financial instruments within these two broad categories, including: loans, convertible loans, and investments in the equity of both private and publicly-listed companies. The portfolio also includes investments in funds and other investment organisations which make their own investments in turn.⁴ Guarantees as a class of asset are not included within the primary scope.

³ Established after data commission was sent out to departments and organisations.

⁴ A broad range of financial asset types are excluded, notably: property, plant and equipment, cash and foreign exchange contracts, derivatives, provisions, trade receivables and payables, inventories, lease liabilities, overdrafts, guarantees, pension assets, revaluation reserves, right-of-use and intangible assets, heritage assets, charitable and lottery funds, capital contribution reserves, and intellectual property.

Data recency

For all organisations covered by the data commission, UKGI sought three years of data for all investments in existence during financial year 2025-26, including unaudited data as of 31 March 2026. This enables portfolio level changes to be observed across all three financial years. This annex sets out the data scope as it has been agreed for this year's report.

Geographical considerations

The geographical registration of assets is not a limiting factor; all relevant financial assets are considered irrespective of their geography. The geographical classification of domestic or international is based on the geography of its main economic activity, not on where it is legally registered.

Private/public sector classification

Only entities classified as belonging to the private sector under European System of Accounts 2010 standards are included. For the purposes of this report, private sector refers to any investment outside the public sector where the value of the asset would be captured in fiscal metrics (PSNFL). This includes households, non-governmental organisations and other governments. Therefore, loans to, or equity investments into: public sector organisations, public corporations, or other entities classified as being within the public sector are excluded. We apply a hierarchy in order to ascertain the classifications if there is any doubt, as seen in **Figure A4**.

Figure A4: This figure shows the hierarchy used to determine public/private sector classifications of the entities financial transactions are provided to.

First option: Use ONS official classification.

Second option: Use HM Treasury interim classification.

Third option: UKGI applies own judgement based on ESA 2010 criteria

Non-financial data estimates

There are aspects of the data collection that require the organisations to provide estimated data or categorical data that is normally not captured by finance reporting functions. This includes things such as: geography, main source of risk and cost of managing the investment. For data of this kind, UKGI provided detailed guidance on either classifications or hierarchies for how this data can be estimated. We also provided specific support for organisations where they had any questions about how to complete this ask.

Data exclusions

Any data returned to us which did not form part of the scope as we set out were excluded from the data aggregation exercise. We undertook additional checks with the organisation providing the information to understand if this was genuinely an asset that should be excluded or not.

Data validation

UKGI relies on departments, public financial institutions and Homes England for the accuracy and completeness of the underlying data submitted through the commission process.

In response to the data commission returns, follow-ups were conducted on received datasets and additional reviews were undertaken on portfolio totals. This included running both automated checks and full manual reviews of each data submission in parallel. In addition, published annual reports, where available, were used to corroborate the most material items in the portfolio.

Handling of specific data limitations

Line items in the returned data provided to UKGI from central government departments, public financial institutions and Homes England sometimes contained certain nuances. Specific issues that arose included, but were not limited to:

- Challenges in providing operational staff and non-staff costs for managing the investments;
- Inconsistencies in cash-flow sign conventions;
- Inconsistency between previous years' data returns and this year's; and
- Estimated exit and maturity dates.

UKGI sought to resolve these issues through further enquiries with the data providers on a record-by-record basis. UKGI cannot guarantee that all issues have been identified through our checks, but we have resolved the ones that were identified and we operate on a priority by materiality basis. In effect, we check all the data up until a point where any issues would result in a non-measurable change.

Annex C: Data methodology

Analysis scope

Before the analysis was prepared, workshops were undertaken with subject matter experts to establish what potential analysis would be of most interest and benefit. The analytical scope was therefore the driver behind the information gathered.

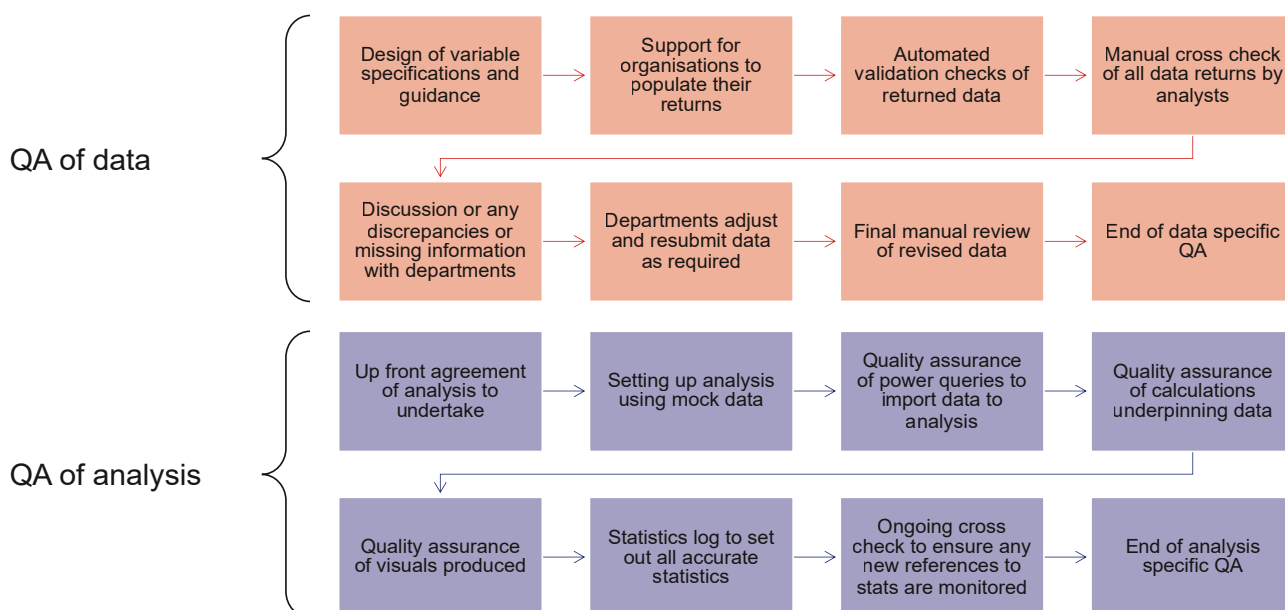
Once the data had been received by UK Government Investments (UKGI), departmental returns were combined into a consolidated dataset.

Quality assurance

Several steps have been taken to ensure quality and reliability of the dataset and analysis.

All data underwent a multi-stage quality assurance (QA) process as described earlier. This validation included the application of an automated series of logical tests applied to the data, as well as a manual review by subject matter experts at UKGI. Similarly, all Power Queries and analytical outputs were subject to an in-depth quality assurance exercise to ensure accuracy and methodological consistency. The quality assurance of the analysis focused on the underlying data of the visuals and the structure of the analysis. Finally, the outputs were further assured and reviewed through an extensive senior review process. Our full data quality assurance process can be seen in **Figure A5** below.

It was not feasible to review every data point given the size of the dataset. Instead, a materiality-based approach has been applied, with the greatest scrutiny focused on the largest items and the most significant outliers. As a result, the quality assurance is considered sufficient for portfolio-level reporting, although uncertainty increases when analysing individual sub-portfolios in detail. As this is a new data commission, the review has also identified data quality improvements that can be implemented in future iterations.

Figure A5: Quality Assurance steps of dataset and analysis

Application of Artificial Intelligence (AI)

To produce this report, internally available AI tools, compliant with the data security standards of our organisation, have been used in a limited way. Use of AI tools has been compliant with government's AI policy, standards and guidelines.

- Application of AI for the preparation of the analysis, including for data cleaning or supplementation has been minimal. Any analytical influence has been manually reviewed, cross-checked and validated by subject matter experts.
- In instances where AI has been used for drafting purposes, any text generated has been subject to multiple rounds of review by drafters and senior staff.

All final decisions on wording, data values, and analysis, have ultimately been made by a human.

Categorisation of investments with complex investment structures

The underlying data for this report classifies each investment according to a number of different characteristics. Most of these classifications were supplied directly by departments via the data commission process, with a few being supplemented by UKGI. These characteristics include:

- Geographic focus;
- Valuation method;
- Sector (based on SIC codes);
- Its classification as an investment institution or not; and
- Its classification as a public or private sector investment according to ESA10.

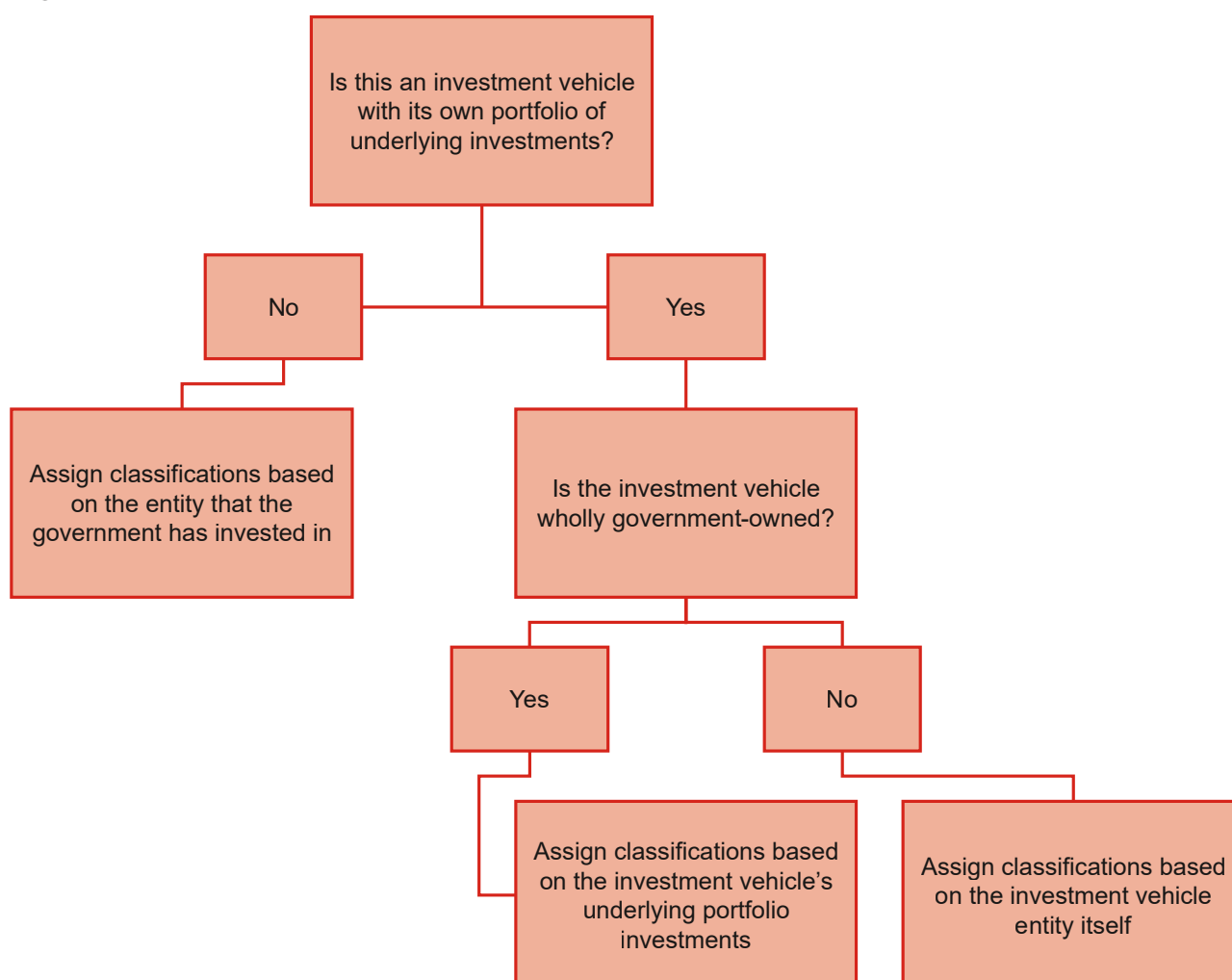
In some cases where data was supplemented by UKGI, verification from relevant organisations providing the data was sought.

Accurate classification of the investment data can be challenging as investees within the portfolio operate with different financial structures and operating models. For example, whilst classifying relevant SIC code or geography for a company producing a good or service is relatively straightforward, doing so for a fund that invests in multiple sectors or products may not be as straightforward.

Wholly owned government investment vehicles like the public financial institutions fall into the latter category, as do investments in multilateral development banks (MDBs) such as the International Finance Corporation, where the UK government is one of multiple investors. Investments in these types of investment vehicles require distinguishing whether the characteristic label corresponds to the investment vehicle itself, or to its underlying investments.

For example, a UK-based fund could be assigned a geographic focus of “international” if its underlying investments are primarily outside of the UK. For this reason, UKGI adhered to a consistent structure when classifying investments in these types of investment vehicles, as detailed in **Figure A6** below.

Figure A6: Structure UKGI used to classify investments with a complex structure



As shown above, for investments in vehicles that are wholly government-owned, characteristics of the investment are assigned based on the investment vehicle's underlying portfolio of investments. This is our way of aligning our classifications with how it is done when calculating PSNFL. This was determined to be most appropriate as the investment vehicle effectively functions as a government capital pass-through. In these structures, the underlying portfolio investments best represent the intention of the investment and associated financial transaction. Conversely, investments in vehicles which are not wholly government owned are characterised at the level of the investment vehicle, given that the presence of other investors in the vehicle limits government's power to control and direct underlying investment portfolio decisions.

The decision structure described above was applied in determining each investment's geographic focus and SIC codes, as well as in classifying each investment as private- or public-sector, and identifying the valuation methodology used to value each investment. Further information relevant to these investment characteristics is outlined in the following paragraphs.

Valuation methodology

Valuations of individual assets were provided to UKGI by departments, public financial institutions, and Homes England. A range of methodologies and standards may be applied depending on the specific characteristics and context of a loan or equity investment. The valuation methodologies, and their application to the assets in question, reported to UKGI were taken as provided and no further validation of those methodologies was undertaken.

For each valuation method, the quality of the underlying assumptions impacts the accuracy of the valuation itself. The quality of the underlying assumptions is not something UKGI explored for the purposes of this report. UKGI considers this to be a greater source of uncertainty in the aggregated value assessment than the classification factor. This is because not only could the quality of the assumptions vary but the assumptions themselves can vary between investments given the different sources of the data. Moreover, the portfolio contains a substantial component of illiquid assets which can also be a source of valuation uncertainty.

Table A6: A breakdown of the different valuation methodologies.

Valuation Methodology	Methodology Notes
Adjusted cost	For example, cost adjusted for impairments
Amortised cost	Typically used for the valuation of loans
Equity method	The historical cost increased or decreased based on the proportional share of the investee's profits or losses
Historical cost	The historical price paid to acquire the investment
Income approach / discounted cash flow	Valuation based on future cash flow forecasts related to the investment
Market multiples	Valuation based on benchmarking to similar companies or assets
Net asset value	Typically used for the valuation of investments in funds or investment institutions
Trading value	The market price of publicly-traded assets
Other	Methodologies which do not fall into the categories described above

Therefore, while this report provides an aggregate of valuations, the range and difference in methods applied to each item within the portfolio puts some constraints on the scope of reporting on a collective value of the assets.

Categorisation by SIC codes

SIC codes for each investment formed part of the data commission scope. SIC code classifications do not form part of the financial accounting process and therefore were assigned specifically for this commission. We consider the SIC code allocation to be from the perspective of where the risk sits. For loans, this would be the sector in which the loan taker operates within and for equity it reflects the industry the company operates within. It is therefore a reflection of which sector organisations and funds are economically active in. In either case, multiple sectors can be relevant, and no single classification is possible in which case this has been noted.

Annex D: Analytical methodologies

General analytical methodologies

The data collected supports analysis of both the scale of capital currently represented within government's investment portfolio, changes in that portfolio over the past three years, and the current reported value of those assets, in line with the objectives of the *Financial Transaction Control Framework*.

The investment cost base captures cumulative capital deployed into investments that remain within the portfolio in 2025-26, net of repayments of principal, capital returns and disposals. The investment value at the reporting date captures the carrying or fair value of each investment, based on the valuation approach applied by the reporting organisation. Taken together, these measures provide the basis for assessing how the portfolio has evolved over time and for interpreting reported financial performance.

However, because the dataset is centred on investments existing within the portfolio during 2025-26, it does not provide a complete record of all historic capital deployed by government, particularly where investments were fully exited before 2025-26. As our data builds over time other analytical methodologies could be supported and will be considered in future iterations.

Data and methodology – portfolio returns analysis approach

In general, this report assesses portfolio returns associated with the portfolio of investments held during 2025-26, rather than seeking to estimate the return on all capital historically deployed by government or the performance of selected individual investments. Returns are assessed over a three-year period and expressed on an annualised basis.

For the portfolio-wide analysis presented in this year's report, returns are estimated over the three-year period ending on the reporting date. Cash flow information was collected on an annual basis for each of the three years, including items such as interest received, dividends, exit proceeds, principal repayments, distributions and relevant administrative costs. The returns calculation additionally reflects changes in the value of the asset over each of the three years, representing the unrealised value of each investment. Returns were assessed against a denominator based on the average of the value of each investment at the start of the period, and the value of the investment at the start of the period plus any incremental investments made during the period. This provides a pragmatic measure of the capital base generating those returns observed during the period under consideration. Following calculation of the annual returns for each of the 2023-24, 2024-25 and 2025-26 financial years, an annualised return figure for the entire three-year period was calculated. This multi-year approach reflects the data collected through this year's commission and provides a more stable basis for analysis than a single-year measure, while remaining proportionate to the quality and granularity of data currently available.

To assess performance against government's financing cost, returns were compared with a borrowing benchmark derived from government's Weighted Average Yield (WAY), referencing the corresponding WAY for each investment based on the year the investment was first made. Alternative approaches to deriving a benchmark cost of financing are possible, but this method is pragmatic and a consistent proxy for government financing costs across the portfolio.

For a mathematical description of the method please see the explainer box below.

Explainer: Step by step method for calculating the returns. For definitions of terms, please see table below the box.



Step 1: Calculate the cash flows for each investment for each financial year. Note that different types of investments will take different cashflows into account on the basis of how our data collection is defined (see table below). This is done by taking the following factors into account:

$$CF_i = V_i - V_{i-1} - N_i + D_i + I_i + PR_i + P_i + DA_i$$

Institution type	Investment institution		Non-investment institution	
Variable	Equity	Loan	Equity	Loan
V_i	✓	✓	✓	✓
V_{i-n}	✓	✓	✓	✓
N	✓	✓	✓	✓
D	✓	✓	X	X
P	X	X	✓	✓
I	X	X	X	✓
PR	X	X	X	✓
DA	X	X	✓	X

Step 2: If you are taking staff and non-staff operational expenses into account, adjust by that year's costs:

$$CF^a_i = CF_i - A_i$$

Step 3: Calculate the returns base for the specific year:

$$RB_i = \frac{V_{i-1} + (V_{i-1} + N_i)}{2}, \text{ if the asset existed at the beginning of the time period; and}$$

$$RB_i = N_i, \text{ if the asset did not exist at the beginning of the time period.}$$

Step 4: Calculate the return by taking total cashflows over the returns base (including or excluding operational costs depending on which metric you want to look at):

$$r_{y_i} = \frac{CF_i}{RB_i}$$

Step 5: Take all three years into account by taking the product of all years:

$$\prod_{i=1}^p (1 + r_{y_i}) - 1 = r_T$$

Step 6: Annualise the return over the appropriate time period:

$$r_{A_i} = (r_T)^{1/n} - 1$$

Step 7: Take away the WAY which has been adjusted to take the time period of investments into account:

$$r_F = r_A - r_{WAY}$$

Symbol	Meaning
i	Year
n	Number of years we have data for (can be a decimal)
V_{i-n}	Starting value – Investment value at 2022-23 year-end
V_i	Reporting data value – (currently: Investment value at 2025-26 year-end)
N	Total investments over chosen period
D	Total distributions received over chosen period
P	Total proceeds received over chosen period
I	Total interest paid over chosen period
PR	Total loan principle over chosen period
A	Total apportioned admin costs over chosen period
DA	Dividends paid over chosen period
CF	Total net cashflow (excluding admin costs) over chosen year
RB	Return base
r_T	Total return over the period
r_A	Annualised return (n-year root)
r_F	Final return after deducting WAY
r_{WAY}	Weighted average yield (WAY)

While returns have been calculated at an investment level, only aggregate figures have been published. This approach has been taken for two reasons. Firstly the intention of the report is to provide transparency around performance of government's investment portfolio as a whole, rather than to evaluate the performance of individual departments, public financial institutions, or investments.

Secondly, this report represents the first iteration of this returns methodology, and we consider that a portfolio-level view is more appropriate from a data quality and statistical perspective as mentioned in the quality assurance section.

At portfolio level, the aim is to provide an indicative assessment of whether the financial return generated by the portfolio is broadly consistent with government's cost of borrowing, recognising the practical constraints of collecting comparable information across a large and heterogeneous set of assets. For selected key investments, a more detailed approach has been applied where data availability allows, in order to illustrate how returns can be assessed over the life of an investment and compared with an appropriate financing benchmark. These examples are covered by the case studies returns analysis below.

The returns analysis should be interpreted as an indicative portfolio-level estimate rather than a precise measure of investment performance. The methodology reflects the current state of the available data and may evolve as data quality, coverage and historical information improve.

Case studies returns analysis

A more detailed methodology was used for selected key individual investments and case studies. These case studies were chosen not only because of their relative materiality, but also because they have existed for a long period of time and can therefore demonstrate the insights you can gain from a lifetime return perspective. In these cases, the return assessment is undertaken over the life of the investment, from the initial capital deployment to the reporting date, rather than over the standard three-year window used for the consolidated portfolio. Annual cash flows were considered for the selected case study programmes over the programme lifetime, and returns were assessed against total capital invested using an Internal Rate of Return methodology, allowing for a longer-term view of performance over time. The financing benchmark is derived from the WAY, with the relevant benchmark applied by reference to the timing of capital deployment, including where investments have received multiple injections over time. This approach provides a more meaningful basis for examining the performance of significant individual investments, while recognising that such analysis is more resource-intensive and depends on higher-quality historical data than is available consistently across the full portfolio.

These methodological choices reflect the current stage of development of the *Financial Investment Report*. The portfolio-level analysis prioritises comparability and feasibility across the full set of in-scope investments, while the analysis of selected individual investments provides greater depth where the supporting data permits. In both cases, the results should be interpreted alongside the wider context of the portfolio, including differences in asset type, maturity, risk profile and policy purpose.

Investment deployment against plans analysis

The report analyses government's historical outturn of actual spend (outturn) to government's announced plans for spending for financial transactions.

The planned expenditure data collected for this piece of analysis derives from government's published long-term spending plans, including Spending Review and Budget documents, specifically referring to the sections within these documents which outline planned spending within Capital Departmental Expenditure Limits (DEL) for financial transactions. These sources included the following publications: Spending Review 2025,⁵ Budget 2025,⁶ Autumn Budget 2024,⁷ and Spending Review 2021.⁸

Outturn data was sourced from the Public Expenditure Statistical Analysis for 2022, 2023, 2024, 2025 and 2026, specifically referencing the section of these publications on financial transactions in Capital DEL.⁹ All numbers are in nominal terms.

For each respective data set, planned or outturn spend was added to the previous years' spending to calculate a cumulative figure. Cumulative planned expenditure for each budget or spending review document was then compared to cumulative historic spend to understand how outturn figures have historically aligned with and diverged from planned spending.

5 [Spending Review 2025](#)

6 [Budget 2025](#)

7 [Autumn Budget 2024](#)

8 [Spending Review 2021](#)

9 [Public Expenditure Statistical Analyses \(PESA\)](#)

Interest rates on fixed-rate lending analysis

This piece of analysis compares the interest rate that government charges on its loan investments to gilt rates offered at the time that each loan was originated.

For each fixed-interest loan instrument, the analysis considers the prevailing gilt rate as of the initial investment date, as indicated by the Debt Management Office's published WAY on gilts data.¹⁰ The spread between the investment's interest rate and the WAY for each loan was calculated by subtracting the relevant WAY from the investment interest rate at each percentile to the WAY gilt rate. The analysis presents the resulting spread information according to the term of the loans within the portfolio, bucketing the loans into categories based on increments of 5 years. The resulting chart presents the spread for each term bucket based on a weighted average spread calculation, with the spread of each loan within the bucket weighted according to the loan's value as of March 2026. We note that within each bucket loan instruments charge a wide range of interest rates which is not fully reflected by a single weighted average figure. The figure also presents the value of fixed-rate loans outstanding within each bucket, based on the data commissioned.

The second piece of analysis similarly examines the spread between government's outstanding fixed-interest rate loans and gilt yields, but instead presents the value of outstanding loans according to each investment's spread figure. Spreads for each loan were calculated using the same methodology described above. The investments were bucketed in increments of 1% of spread, with the value of loans issued at a lower rate than the WAY gilt rate for a given maturity (a negative spread) indicated in red, and those charging a positive spread in blue.

¹⁰ [DMO: Weighted Average Yield Data](#)

Cornish Lithium case study

This case study examines the National Wealth Fund's (NWF) investment in Cornish Lithium. This analysis examines the government's motivation for the investment, with regards to the UK's economic relationship to the global lithium market. An understanding of the investment rationale and policy motivation for the investment was developed through conversations with the NWF, as well as via reference to investment factsheets from the UK Infrastructure Bank (the precursor to the NWF)¹¹ and the NWF.¹²

The first piece of analysis within the case study examines the present-day sources of lithium to the UK market. It references data on imports of lithium carbonate, and lithium oxide and hydroxide, published by the World Bank's World Integrated Trade Solution.¹³ This data includes the dollar value, quantity in tonnes, and national source of UK imports. The case study specifically references data for the years from 2019 to 2025. Note that the price index has been based on the dollar value and exchange rate effects have not been taken into account.

The second piece of analysis compares fluctuations in lithium prices over time to the volume of lithium imported to the UK annually. The annual value of imports in tonnes were sourced from the World Bank's Integrated Trade Solution, aligned with the first piece of analysis. Lithium price data was sourced from the World Bank's open knowledge repository, with pricing information on a monthly interval.¹⁴

11 [UKIB Factsheet: Cornish Lithium \(2023\)](#)

12 [NWF Factsheet: Cornish Lithium \(2025\)](#)

13 [United Kingdom Lithium oxide and hydroxide imports by country](#)

14 [World Bank Open Knowledge Repository](#)

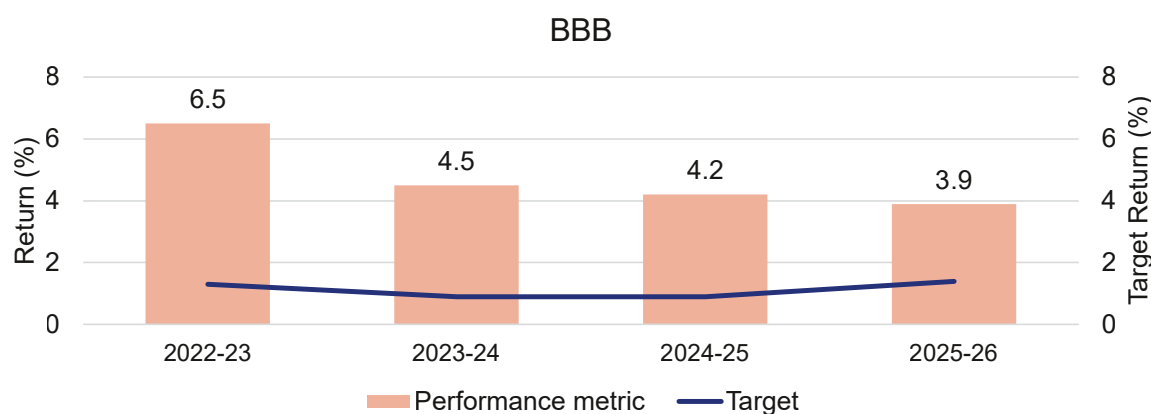
Annex E: Assessing and understanding the performance of public financial institutions

As outlined in **Chapter 3**, each public financial institution has an organisational performance metric aligned to its mandate and objectives. As these institutions operate in different markets and areas of expertise, performance might ordinarily be assessed against sector-specific benchmarks and peers rather than through direct comparison across government. Understanding and transparently reporting these metrics will increase in importance as their capacity to invest is expanded. This annex explains each performance metric and brings together recent reporting. Together with the portfolio-wide assessment of returns in **Chapter 3**, these metrics provide complementary perspectives on performance and should be considered in parallel to form a fuller picture of how effectively and sustainably public capital is being deployed. One of the benefits of the *Financial Investment Report* is providing a central overview, bringing together performance information from across a diverse set of institutions within a single framework.

British Business Bank

Performance metric: The British Business Bank (BBB) uses adjusted returns to calculate its return on investment. The measure includes the programmes on the institution's balance sheet and those that BBB administers on behalf of others (including the associated fee incomes). It excludes some specific investment programmes such as the Coronavirus emergency response loan guarantee schemes and Future Fund. The adjusted approach filters out items deemed to not be commercial in nature, volatile components, and temporary factors that could obscure fundamental performance trends.

Figure A7: A chart showing the performance of BBB against its agreed targets over time.

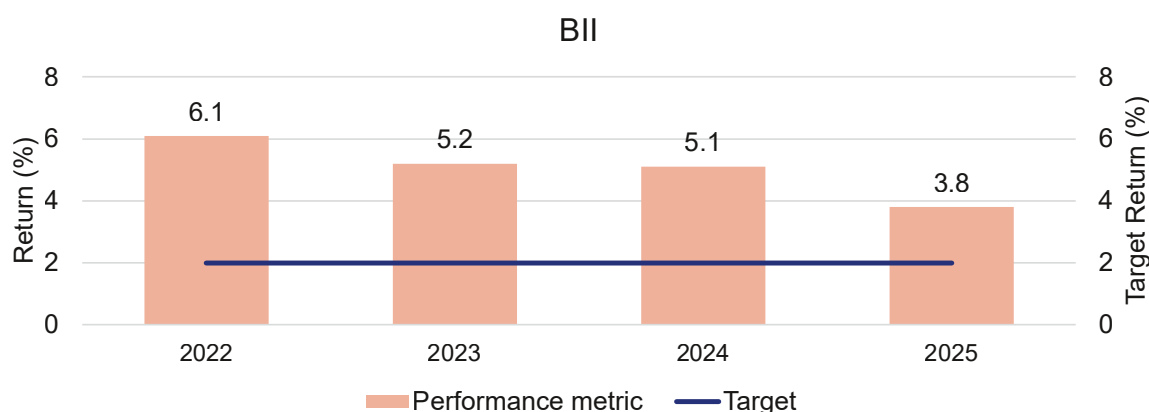


Performance assessment: BBB's return benchmark is set in relation to the government's cost of borrowing (a lagged 5-year cumulative rate based on annual average gilt issuance yields) and increased to 1.4% (previously 0.9%), in the five years to 31 March 2026. The increase reflects higher UK gilt rates observed in the later years of this period. When calculated using BBB's methodology, the portfolio generated positive returns from both debt and equity over this period. Equity assets grew and recorded further fair-value gains, while debt assets remained broadly stable and continued to produce positive returns, supported by capital repayments from ENABLE Funding securitisations.

British International Investment

Performance metric: British International Investment (BII) tracks portfolio returns in both GBP and USD because most of its investments are denominated in US dollars. This means they have a picture of returns that limits the impact of exchange rate volatility. Reflecting its long-term investment horizon, BII performance is measured as the weighted average annual return across the total portfolio on a rolling seven-year basis, against a minimum return target of 2%.

Figure A8: A chart showing the performance of BII against its agreed targets over time. BII has a reporting year that aligns with the calendar year.

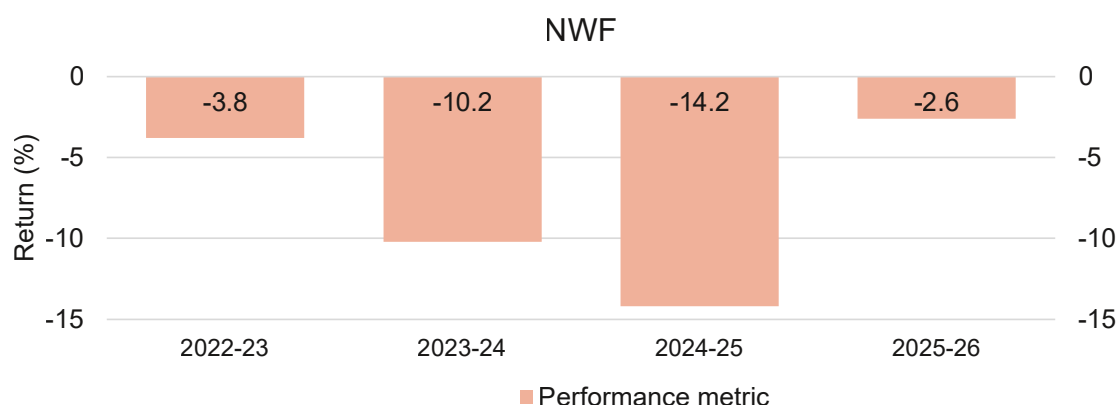


Performance assessment: BII's performance can be subject to considerable volatility due to the type of markets it is mandated to target. Nonetheless, BII remains ahead of its 2% financial return hurdle, and the seven-year weighted average annual portfolio return is currently 3.8%, as shown in the chart above.

National Wealth Fund

Performance metric: The National Wealth Fund's (NWF's) Return on Equity (ROE) is a financial ratio that measures how effectively an organisation generates profit from a shareholder's investment. NWF's adjusted ROE is calculated as profit or loss before tax, plus any adjusting items agreed with HM Treasury, divided by weighted average shareholder equity plus the average cumulative adjusting items.

Figure A9: A chart showing the performance of NWF over time. NWF has not set out a performance target yet as it is in the build-up phase of the portfolio. NWF existed as UKIB in the year 2022-23 and so UKIB's annual report and accounts has been used for the first year.

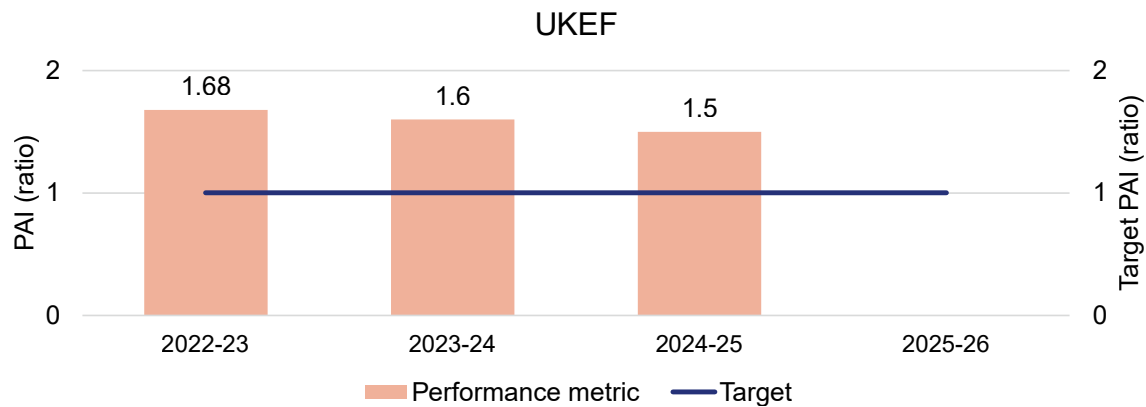


Performance assessment: NWF's current negative ROE is broadly reflective of the fact that NWF is in the early stages of deploying capital. The expectation for organisations which are similarly in their relatively early stages, is that they will generate positive portfolio-level returns as investments mature, in line with return targets. ROE improved from -14.2% in 2024–25 to -2.6% in 2025–26, as its loss before tax more than halved to £67.5m. The main driver was rapid portfolio growth, which increased net interest income and boosted fee income. The improvement was partly offset by digital-sector restructuring losses, unrealised equity valuation losses and higher operating costs.

UK Export Finance

Performance metric: UK Export Finance (UKEF) calculates a pricing adequacy index (PAI) to assess whether, over time, the organisation earns enough premium income to cover its risk and operating costs. This metric covers most of UKEF's activities, including export credit guarantees, insurance and direct lending. There are some exclusions applied from performance reporting (investments that fall into the National Interest Account and the Temporary Tariff Relief Account). The PAI ensures UKEF remains financially responsible and does not expose the taxpayer to excessive losses when taking on transactions to provide support that the private sector cannot. The PAI considers the modelled risk exposure from investments (expected loss and an agreed proportion of unexpected losses), operational costs and a fixed rate of HMG borrowing costs. This is then compared to the amount of income earned. The metric is represented as a ratio, with 1.0 as the minimum ratio allowed by HM Treasury (representing break-even). Figures over 1.0 mean that UKEF is bringing in more money than required to cover its expenses and risk.

Figure A10: A chart showing the performance of UKEF against its agreed targets over time. UKEF has not yet published its 2025-26 annual report and accounts, so 2024-25 is the last year for which we have full coverage of performance data.



Performance assessment: For 2024-25 UKEF’s PAI was at 1.5, which was above target and meant the organisation expected to earn 50% more premium income than its losses and administration costs combined. Performance above target has been a consistent trend for UKEF over recent years, as premium income and forecast premiums continue to exceed the estimated cost of risk and administration.

Annex F: Risk budgeting

Risk budgeting policy

This Annex provides further detail on the risk budgeting policy summarised in Chapter 4.

As government increasingly deploys financial transactions to achieve its policy aims, its approach to risk management will evolve to ensure taxpayer money is invested sustainably. In addition to the existing tools in place to manage risk (see box below), the *Financial Transaction Control Framework* outlined the government's commitment to set a limit (or risk budget) on exposure to unexpected losses from financial transactions. Following a year of working closely with UK Government Investments (UKGI) and public financial institutions, HM Treasury has developed and introduced a *risk budgeting policy*.¹⁵

Explainer: How government assesses and governs investments



To ensure risks are managed and value for money is considered when delivering investments, as well as other forms of spending, the government has various guidelines and frameworks in place including:

- ***Financial Transaction Control Framework***, which outlines the guidelines and controls for government financial transactions;
- ***Managing Public Money***, which sets principles for the proper use, control and accountability of public funds;
- ***The Green Book***, which sets the guidance for appraisals, the process of assessing the costs, benefits and risks of different options to achieve government objectives; and
- ***The Orange Book***, which sets the principles for risk management in government.

These frameworks support risk management by ensuring that investments meet a consistent set of standards and consider a wide range of factors before being deployed. A full list of tools and frameworks can be found in the *Financial Investment Report 2025*.

¹⁵ [Risk budgeting policy](#)

Risk budgets are intended to provide a high-level control on risk-taking rather than a target for investment or risk consumption. A high level of risk consumption may indicate that an institution is becoming more exposed to particular risks and requires closer monitoring, while a low level may indicate that there is capacity to undertake further investments, subject to the institution's mandate and the quality of its investment pipeline.

The setting of risk budgets is intended to be broadly analogous to the economic capital approach used in regulated financial institutions. In government's case, the economic capital is "virtual" as most public financial institutions are not fully capitalised or regulated, hence they are not actually required to hold minimum levels of capital. However, risk budget breaches are equivalent to spending without HM Treasury consent and therefore could have consequences for the institutions.

There are two strands to the policy¹⁶ that enable HM Treasury to achieve its policy objectives:

- **Risk benchmarking:** The first objective is to understand the level of financial investment risk across the portfolio. To achieve this, risk benchmarking is used to set a consistent basis for comparing risks across the portfolio. Public financial institutions will be required to report figures using the Standardised Approach set out in Basel III.
- **Risk budget:** The second objective is to control risk using delegated limits. Risk budgeting will be used to set a ceiling on the level of modellable investment risk that public financial institutions are not allowed to exceed. These limits can be set using the Standardised Approach or using a bespoke model developed by the public financial institution.

While the policy was agreed in June 2026, the first financial year (2026-27) is considered a pilot year, and public financial institutions will be expected to implement the policy in full from 1 April 2027.

Public financial institutions currently use a range of approaches to assess and manage investment risk, reflecting differences in their mandates, portfolios, business model and data environment. These include bespoke economic-capital models, stress testing, sensitivity analysis and scenario analysis, alongside the Standardised Approach. Further detail on current approaches and implementation plans is summarised in the table below:

16 [Risk Budgeting for Public financial institutions: Implementing economic-capital based controls](#)

Table A11: The current status of public financial institutions implementing the risk budgeting policy as of July 2026, including current approaches and intended future plans.

Public financial institution	Current approach as of July 2026	Intended future plans
British Business Bank	• Stress testing • Sensitivity analysis	Will implement the Standardised Approach as of April 2027.
British International Investment	• Stress tests	Will implement the Standardised Approach as of April 2027.
National Housing Bank	• Stress tests	Are developing the Standardised Approach methodology internally and will implement as of April 2027.
National Wealth Fund	• Standardised Approach • Bespoke Economic Capital model (F-IRB) • BoE / PRA Stress testing	NWF will continue to produce a Standardised Approach model for the purposes of HM Treasury reporting and will develop further bespoke economic models.
UK Export Finance	• Bespoke economic capital model, including scenario analysis and stress tests	In addition to producing a bespoke model, UKEF will also produce a Standardised Approach model for the purposes of HM Treasury reporting.

The case study below outlines how NWF's approach supports the identification and management of risk across its portfolio.

Case Study: National Wealth Fund's approach to managing risk



Overview

NWF was established to address financing gaps in areas that support the government's growth and clean energy objectives. It invests in projects and sectors where risks can be higher than those typically accepted by private investors alone. Effective risk management is therefore important to ensure that public capital is deployed appropriately and that risks remain within agreed limits.

NWF's risk modelling approach

NWF-supported investments may involve longer time horizons and payback periods, uncertain demand and revenue projections, and emerging technologies. NWF has therefore developed an economic capital-based modelling framework alongside stress-testing capabilities to estimate potential losses under adverse but plausible scenarios.

NWF uses its economic capital model to support internal risk management and will also produce estimates using the Standardised Approach for HM Treasury reporting. Together, these arrangements support NWF's implementation of the risk-budgeting policy and its engagement with HM Treasury on the level of risk associated with its portfolio.

The modelling framework helps NWF quantify its exposure to key risks and assess the potential impact of adverse scenarios, supporting more informed investment and portfolio-management decisions.

Supporting the mobilisation of private capital

By using quantitative modelling and stress testing, NWF can demonstrate to government that the risks associated with its investments are being actively identified, measured and managed. This can help provide confidence in NWF's governance and risk-management arrangements as it invests alongside private capital.

