

MINUTE OF UKEF BOARD MEETING – 20 OCTOBER 2016

Present: Guy Beringer (Chair) Item 3 – P Cauthery / H Steadman / J
 Sir Eric Peacock Shephard
 Amin Mawji
 Louis Taylor Item 4 – V Agapitou / R Smith-Morgan
 David Havelock / M Christensson
 Gordon Welsh
 Cameron Fox Item 5-8 – P Radford and members of
 Justin Manson the Country Risk Analysis Division
 Emily Ashwell
 Matt Barnes Item 9 – S Lynch

Apologies: Caleb Deeks

Secretary: Patrick Crowley
 Charles Hickson (Observer)

1. **Draft Minutes of 22 September 2016 Meeting**

1.1. The draft minutes were agreed.

2. **Business Performance Update**

2.1. The Head of the Business Group talked the Board through the dynamic approach now used for monitoring UKEF's business pipeline and removing deals that will not come to fruition. This approach is expected to show a greater connection to forecast business.

2.2. UKEF's Chief Executive highlighted the smooth transition in senior roles within the Business Group and the number of individual staff across all levels whose good work is coming to prominence.

3. **Annual Aerospace & Defence Review**

3.1. UKEF's newly appointed Head of Aerospace & Defence introduced to the Board two of the Business Managers in his team and raised a number of strategic issues for discussion from his presentation.

3.2. The members of the Board were asked to advise on:

- 3.2.1. Proposals from a major aerospace manufacturer for UKEF to roll up support for UK content across the production range into a number of deliveries.
 - 3.2.2. How UKEF might account for large defence cases which might otherwise put UKEF's existing market limits under pressure;
 - 3.2.3. The approach by other ECAs towards supporting the defence sector; and
 - 3.2.4. How UKEF might address limited bank capacity for funding defence exports and the potential for using direct lending in these cases.
- 3.3. The Board supported the principle of a separate account for large defence transactions and requested that a proposal paper be prepared. Following discussion, the Board also asked for papers to be presented on the defence sector relating to both the approach of other ECAs and potential for using direct lending.

4. Export Credit Agencies' Claims Experience

- 4.1. Following the 2015 Credit Risk Review the Board asked for a comparison of UKEF and other Export Credit Agencies' (ECA) recent claims experience. The Head of Credit Risk Group introduced the paper and highlighted the dearth of quantitative data available from which to draw categorical conclusions and that recoveries were not reconcilable.
- 4.2. The Head of the Pricing and Portfolio Risk Unit described the main themes from the comparison underscoring that claims paid by ECAs have been low and stable over the last decade. UKEF's claims relative to exposure were one of the lowest due to UKEF's sophisticated and controlled approach to portfolio risk management.
- 4.3. The Chair of the Board initiated discussion about the growth of UKEF's short-term portfolio, the sources of data and the usefulness of the analysis to UKEF.

5. Local Currency Financing

- 5.1. The Head of Credit Risk Group introduced four closely inter-linked papers (items 5-8) authored by members of the Credit Risk Group for the Board to approve recommendations. He emphasised *inter alia* UKEF's strong record in managing credit risk, the need to support the Department for International Trade's export led strategy, the strength of the US dollar and the prudential relationship of the proposed Risk Appetite Limit and Exposure Management Framework hard limit to the Total Group Exposure Limit as a justification for considering an increase in UKEF's existing limits.
- 5.2. The Head of Country Risk Analysis Division outlined the eligibility criteria of a proposed Local Currency Finance Model that would facilitate an increase in the number of currencies that UKEF could support and provide a methodology for considering further currencies.
- 5.3. The Board discussed the proposal in relation to priority markets, crystallisation thresholds and de-risking UKEF's exposure matching local currency obligations to revenue. The Board approved the recommendation for Local Currency Finance.

6. Active Portfolio Management

- 6.1. The Board considered the paper, which proposed an additional tool to address the long tenor of UKEF's risk book. The Board's discussion took into account issues of risk concentration, UKEF's exposure to the Middle East, the value for money element of mitigation measures, and UKEF's particular role as an ECA.
- 6.2. The Chair of the Board voiced the need for stakeholders to have a sophisticated understanding of UKEF's systemic risks alongside UKEF adopting a more active portfolio management approach. The Board accepted the recommendation for Active Portfolio Management.

7. Recalibration of the Risk Appetite Limit

- 7.1. The Board discussed a recommendation to double the Risk Appetite Limit to a maximum permissible (non-flexed) level of £5bn in expectation of new

business support. The Head of Country Risk Analysis Division articulated the argument that such an increase would be commensurate with the doubling of the Total Exposure Limit in 2013 and would signal the Government's ambition to exporters.

7.2. In assessing the proposal, the Board asked about the limits set by other ECAs, the anticipated growth of UKEF's book, and what performance expectations might be generated by an increase to the limit. The Board accepted the proposal to raise the Risk Appetite Limit with a flex for subsequent currency movements.

8. Review of the Exposure Management Framework

8.1. The Head of Country Risk Analysis Division put forward a recommendation to double the Exposure Management Framework Hard Limit from £2.5bn to £5bn and to recalibrate the Country Limits Matrix, such a recommendation being consistent with the prior recommendation to increase the Risk Appetite Limit.

8.2. The Chair of the Board enquired about the countries that this would have an effect on and the Head of Credit Risk Group emphasised the case-by-case approach to be taken for each country.

8.3. The recommendation to increase the Country Hard Limit and to recalibrate the Country Limits Matrix was accepted.

8.4. The Chair of the Board extended his gratitude to the authors of the credit risk papers for the considerable work they put in to producing such detailed recommendations.

9. Leadership Development

9.1. The Human Resources Director provided an overview of leadership development in UKEF as part of the Remuneration Committee's Annual Report, drawing attention to the recent changes to the size and governance of the Senior Leadership Team.

9.2. The Board discussed the impact of the recent leadership development programme and future areas of focus, which included improving communication, greater ownership by leaders of their development, maximising the utility of leadership away days, and coaching.

10. Any other business

10.1. The members of the Board were reminded by the Secretary that the next meeting would take place at a different venue, 1 Great George Street on 30 November 2016.

Patrick Crowley
Chief Executive's Office