KEXIM Bank (UK) Limited
Subsidiary of The Export-Import Bank of Korea

Kexim Bank (UK) Limited

Annual Report and Financial Statements for the year ended 31 December 2021

Registered number: 02693038

Kexim Bank (UK) Limited

Contents

Company information

Directors

The directors who served during the year and up to the date of signing were as follows:

P Canziani	Independent Non-Executive Director	Appointed 20 September 2021
C P J Fitzgibbon	Independent Non-Executive Director	Resigned on 24 March 2021
J Yang	Managing Director	
J H Cho	Executive Director	Appointed 17 November 2021
C I Lim	Executive Director	Resigned on 30 July 2021
C P Edwards	Independent Non-Executive Director	
H W Ko	Group Non-Executive Director	Appointed 2 August 2021
D H Lee	Group Non-Executive Director	Appointed 3 March 2022
J Y Gu	Group Non-Executive Director	Resigned on 20 January 2021
K S Lim	Group Non-Executive Director	Resigned on 28 January 2022
T Kim	Group Non-Executive Director	Appointed 10 February 2021; resigned on 20 July 2021

Company Secretary

M V Bates	Company Secretary	Appointed 9 September 2021

Registered office

3rd Floor
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Registered number

02693038

Auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ
United Kingdom

Chair's statement

Overview of 2021

In 2021 the economic environment was challenging as concerns related to the COVID-19 pandemic gave way to expectations of interest rate rises due to growing inflationary pressures in the latter half of the year.

In late 2020 the Bank had received a capital injection of GBP 61.3 million from its parent the Export-Import Bank of Korea ('Parent Bank') as part of the Republic of Korea's fiscal response to the pandemic, and during 2021 the Bank followed through on its 3-year business plan to gradually deploy its increased lending capacity to support Korean companies in the global economy. In accordance with the Bank's business plan and with the strategic policy of the government of the Republic of Korea, the Bank continued its lending to green and environmental sectors, which now represent the largest portion of the Bank's lending portfolio, whilst also achieving returns from investments in marketable interest-bearing securities, and met its year end profit target.

The Bank also developed its internal systems to strengthen operational resilience, adapt to the LIBOR transition and manage climate change financial risk. The Bank is grateful to the Parent Bank for its continuing support to its operations, compliance and IT security.

Governance and Board changes

The Board held four meetings in 2021, continuing to meet remotely until lockdown restrictions were eased in the middle of the year. It continues to focus on its effectiveness, succession planning and the Bank's relationship with the UK regulatory authorities. In March 2021, C P J Fitzgibbon resigned from the Board and C P Edwards served as Acting Chair from March until September 2021 when my appointment as Chair was given regulatory approval. The Board has been joined by one new Executive Director, J H Cho, and two new Group Non-Executive Directors, H W Ko and D H Lee and is grateful for the support and advice of their predecessors, C I Lim, K S Lim and T Kim. The Board also appointed a Company Secretary, M Bates, in September 2021.

P Canziani
Chair

Strategic report

The directors present their Strategic report for Kexim Bank (UK) Limited for the year ended 31 December 2021.

Principal activities

The Bank was established in 1992 with the objective of supporting and complementing the Parent Bank's global network. In line with this objective, its main activities revolve around providing credit facilities such as loans to corporates which have a Korean linkage. The principal activity of the Bank is wholesale banking. The Bank is a wholly-owned subsidiary of the Export-Import Bank of Korea. The Parent Bank is 100% owned by the Korean government and is solely mandated to promote international trade and investment by providing comprehensive export credit and guarantee programmes to support Korean enterprises in conducting overseas business. The credit rating of the Parent Bank is AA (Standard and Poor's) equivalent to the sovereign credit rating of South Korea.

Regulation

The Bank is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA.

A fair review of the business

Having received a capital injection of £61.3 million from its Parent Bank in 2020 as part of the Republic of Korea's response to the global pandemic, the Bank began to deploy its increased lending capacity during the year in accordance with the 3-year business plan that had been approved by the Board in December 2020. As a result, total interest-bearing assets (consisting of loans and advances, debt securities and financial investments) increased to £377 million (equivalent of US$509 million) at year end from £292 million (equivalent of US$399 million) as at the end of 2020.

The Bank's net profit increased by 57% from £795 thousand (equivalent to US$1,086 thousand) in 2020 to £1,248 thousand (equivalent to US$1,686 thousand) in 2021. The global low interest rates that characterised 2021 influenced both the Bank's interest income and borrowing costs; but the overall effect was to increase net income due to the Bank's prudent efforts to reduce borrowing costs. Despite the global pandemic, the Bank maintained high quality loan and securities portfolios resulting in a modest impairment charge of £93 thousand (2020: £102 thousand).

During 2021, the Bank has further developed its agency role for shipping finance and other corporate transactions in which the Parent Bank is a major lender. These opportunities provide the Bank with fee income which is not subject to investment risk.

After using a portion of the capital injection to eliminate US$25 million (equivalent to £18.3 million) of subordinated debt owing to the Parent Bank, the Bank's Common Equity Tier 1 and total capital adequacy ratios improved from 13.5% and 18.0% respectively at the end of 2019, to both being 36.4% at the end of 2020 and 30.0% following the partial deployment of this capital by the end of 2021. The capital injection has greatly strengthened the Bank's capacity to operate normally and make investments despite market volatility.

The Bank made investments in fixed and floating rate securities mostly held at Fair Value through Other Comprehensive Income. During the second half of the year, as a result of inflationary pressures increasing expectations of interest rate rises, the unrealised loss on these FVOCI securities fell, resulting in an unrealised loss for the year before tax of £1.77 million (2020: gain of £0.87 million). The movement particularly reflected the change in market valuation of fixed rate instruments maturing in 2025 and 2026.

During the year, the Bank recruited new expertise to its Board and management team. A Succession Planning Committee was established to find a new Chair, and selected Patrizia Canziani as its first female Chair. Dr Canziani holds a PhD in Economics from Massachusetts Institute of Technology. She has extensive knowledge of banking, in particular structured finance, with previous experience at Merrill Lynch, Deutsche Bank, J.P. Morgan, the IMF, Nomura International PLC, Commerzbank AG, and KNG Securities LLP where she was Partner and Head of Structured Finance.

In anticipation of future growth following the capital injection, the Bank also decided to separate the middle office functions of compliance and regulatory reporting. Ms Precious Uzor was appointed Compliance Manager and Money Laundering Reporting Officer in July 2021 and received regulatory approval to hold Senior Management Functions SMF16 and SMF17 in January 2022. Ms Uzor holds the ICA's advanced certificate in compliance with professional legal background.

The transition of interest rate reference rates from LIBOR to Risk Free Rates was a key theme of the year, and continued to be a standing item on the agenda of the Board's Audit & Risk Committee. In advance of the deadline the Bank had no remaining exposures referencing any of the EUR, GBP and USD LIBOR rates that were to terminate at the end of 2021. Regarding exposures referencing USD LIBOR benchmarks that terminate at the end of June 2023, and having coupons to be determined after this date, fall-back clauses have been established for all relevant securities, private placement bonds and loans sourced independently of the Parent Bank. Fall-back clauses are expected to be finalised by the end of Q2 2022 for all loans in which sub-participates in the lending of its parent. During the year, the Bank also completed the project to upgrade its core banking system to accommodate the transition to Risk Free Rates in the post-LIBOR period.

Climate change financial risk was also a key theme of the year, with a year-end regulatory expectation for managing climate risk to be fully embedded in operations. The Bank has met this expectation as far as has seemed possible in view of the information available. For further details, please see the Bank's TCFD disclosures later in this strategic report.

Economic outlook

With the successful development and ongoing deployment of vaccines to protect against the COVID-19 pandemic, the effect of the pandemic on the global economy is expected to recede during 2022, improving the international prospects for Korea-linked companies and projects. But since February 2022, the sanctions imposed on Russia in response to its invasion of Ukraine have led to upside volatility in global oil and gas prices, creating downside risk to global economic growth.

International Monetary Fund ('IMF')'s latest (January 2022) World Economic Outlook estimated that in 2021 the world economy grew by 5.9 percent, and projects global growth of 4.4 percent in 2022 (3.9 percent for developed economies and 4.8 percent for emerging and developing economies), and 3.8 percent in 2023. But these forecasts were published before the Russian invasion and are likely to be revised downward.

In the Republic of Korea, the country of 70% of the Bank's borrowers, the economy grew by 4.0 percent in 2021 and continues to grow following the Covid-19 shock in the previous year. The growth has been propelled by strong export growth, improving business investment and public support, although rising inflation resulted in the Bank of Korea raising interest rates to pre-pandemic levels of 1.25 percent from 0.5 percent in January 2022. Korea GDP is projected to grow at 3.3 percent according to the IMF or 3.0 percent according to the Bank of Korea in 2022.

In the UK, where the Bank is incorporated, managed and regulated, and the country of the largest proportion of the Bank's treasury securities, the IMF estimates that in 2021 GDP increased by 7.2 percent, and forecasts an expansion of 4.7 percent in 2022, and 2.3 percent in 2023, a slow recovery reflecting the high impact of the pandemic and the ongoing effects of leaving the European Union. The Bank of England lowered its base interest rate to an unprecedented 0.1 percent in March 2020, and kept it at this level until December 2021 when it was raised to 0.25 percent in response to ongoing rising inflation. Since the year end, interest rates have been raised twice more to 0.50 percent and 0.75 percent in February and March respectively.

In the US, in whose currency the majority of the Bank's lending is denominated, the Federal Reserve's Federal Open Markets Committee maintained interest rates at 0.25 percent throughout 2021 to support growth and employment, but raised rates to 0.5 percent in March 2022 as inflation rose to 4.3 percent. This will impact the Bank's cost of borrowing but be offset by the Bank's floating rate exposures. The Fed is expected to progressively raise interest rates during 2022.

In the year ahead, it is expected that central banks will continue to gradually raise interest rates to moderate core inflation resulting from the global economic recovery from the Covid-19 pandemic, and from disruptions to global supply chains as a result of deteriorating economic relations between some of the world's most important economies, whilst recognising that certain supply shocks to key global commodities may be beyond the capacity of monetary policy to tame. This will increase the Bank's cost of borrowing and may negatively affect valuations of the Bank's longer-duration investments, but will also present opportunities for higher returns as the Bank continues to utilise its increased capacity to expand its lending following the capital injection.

Non-Financial and Sustainability Information Statement

Climate Change Financial Risk – TCFD Disclosures

Governance

a) In accordance with the policy of the Bank's parent, the Export-Import Bank of Korea, and with the economic strategy of the government of the Republic of Korea, goals for lending to sustainable and green tech industries are included in the Bank's Business Plan which is put before the Board for approval before the start of each calendar year. Since September 2019, the Bank's Audit & Risk Committee (a Board Committee whose quarterly meetings are either attended or observed by all members of the Board), has established climate change financial risk as a standing item on the agenda of its quarterly meetings. The Audit & Risk Committee receives a quarterly update on climate change financial risk, including the progress of the Climate Change Financial Risk Working Group in implementing the recommendations of the Taskforce for Climate-related Financial Disclosures, updates on new lending in green industries, relevant UK regulatory developments, and changes in policy of the Bank's ultimate shareholder, the Republic of Korea. The Committee also receives sectoral exposures of the Bank's loan and securities portfolios, and more detailed qualitative (and where available, quantitative) information on sectors with notable exposure to transition and physical risk.
b) The Bank's Climate Change Financial Risk Working Group is a management committee that was established in late 2020 to agree and oversee how climate change financial risk should be embedded into the Bank's risk management functions and processes. It is chaired by the Deputy Managing Director who has been approved by the PRA to perform the Chief Finance function (SMF2). Other Working Group members include the Senior Managers for Loans and for Treasury and Securities, the Operations Manager and the Company Secretary. This Working Group reports to the Audit & Risk Committee. Management monitors the broad sectoral exposures of the portfolio and identifies key sectors with notable exposure to transition and physical risk. Staff and Directors attend seminars related to climate change financial risk, both at the recommendation of the Bank and on their own initiative.

Strategy

a) Consistent with the economic strategy of the Republic of Korea, the Bank identifies opportunities to support South Korea's green and sustainable industries. The Bank also monitors climate risks within its portfolios. For the purposes of climate change financial risk, the Bank defines the short term as 2021-2030, the medium term as 2031-2040, and the longer term as beyond 2040. Uncertainty over the future of the oil and gas sector extends from short term to the long term, depending upon the technical and commercial feasibility of cleaner substitutes. In the short to medium term, one transition risk to which the Bank gives close consideration is the transition of automotives to electrification and in the medium term perhaps also to hydrogen. The Bank has multiple exposures to manufacturers of automotive parts, many of which appear to be power source-neutral; however, management continues to monitor this, and recognises that the automotive energy transition might lead to significant disruption of supply chains and production processes even for auto parts that appear power-source neutral. In the medium to long term, the shipping sector may also be subject to international emissions standards requiring changes to shipping fleets. Evaluation of impact on the firm is based upon size of exposure to specific sectors, forecasts of changes in those sectors, and estimation of the risks to businesses in light of those forecasts. At present, most of the information available for this evaluation is qualitative, but management will monitor the changes in availability as more organisations are made subject to the TCFD recommendations and future international sustainability standards.

b) The Bank aims to balance its duty to support the development of the Korean economy with prudent, sustainable stewardship of the Bank's capital. The Bank recognises the risks and opportunities related to climate change and sets related goals in its annual business plan. This is supported by the objectives of its Parent Bank and ultimate owner, the government of the Republic of Korea, which have emphasised green and sustainable technologies as a strategically important sectors for the economy of the Republic of Korea. Under the lending policies of the group, loans to environmentally important sectors are often provided on preferential terms. The largest segment of the Bank's loan portfolio is in the environmental sectors including South Korean solar module producers, EV battery producers, and sewage treatment providers. The Bank no longer has any exposure to coal. Sectors that are currently undergoing energy transition, such as the automotives and auto parts sector, are reviewed in detail to identify climate risk and opportunity. Other exposures that may in future be subject to energy transition, such as shipbuilding and shipping, are also monitored.

c) The Bank's strategic commitment is to support companies in environmental industries (such as solar energy, EV battery technology and sewage treatment), representing 18.8% of the Bank's loans portfolio, is considered basically resilient to all climate change scenarios. The bank has exposure to automobile and auto parts sector (excluding EV battery technology) representing 11.7% of the Bank's exposures, a sector which is exposed to near-to-medium transition risk. However, the transition to electric vehicles is expected to occur over the next 10 or 15 years whereas the term of the Bank's lending is much shorter, typically 12 months with the possibility of being rolled over, giving a regular option to curtail lending to particular borrowers. The Bank also lends to the shipping sector (7%), a sector which has high-emissions but which is generally considered difficult to decarbonise in the near term. Over 90% of the Bank's lending to this sector matures by 2025, and over this time horizon transition risk is considered low. The Bank's exposure to the oil and gas sector is 5.4% of interest-bearing assets, of which around 3.2% mature by 2023. The other 2.2% matures in 2026 and is a Czech integrated energy company which is predominantly in natural gas. This exposure might be affected by a 2°C scenario in which Europe was taking radical measures to decarbonise throughout the 2020s. But given that the world's effort to wean itself off of oil and gas is a long and complex process within many sectors, and that European desire for non-Russian gas has increased since the invasion of Ukraine, the tenor of these oil and gas exposures is not considered to expose them excessively to transition risk.

Risk Management

a) In order to identify and assess climate-related risks within the Bank's portfolios, exposures are classified by sectors and sectors that are particularly vulnerable to physical or transition risk are identified. The exposures within this sector are then examined to attempt to evaluate their true risk exposure.

b) In order to manage climate-related risks, the exposures are then viewed collectively to assess the materiality overall sectoral exposure. Significant sectoral exposures are also reported to the Audit & Risk Committee which may recommend limits to exposures to particular risks.

c) The exposures to key sectors vulnerable to transition risk are reported in the monthly management reports to the Board on a monthly basis, and more detailed analysis is provided to the Audit and Risk Committee for each quarterly meeting where climate risk is a standing item on the agenda.

Metrics and Targets

a) The Bank monitors exposures to industries subject to transition risk. As a sector being subject to transition risk does not necessarily indicate that every company within that sector is subject to the same transition risk (as some businesses may be making the transition more successfully than others, and also as a sector may contain subsectors that are unaffected by transition), the Bank also tries to create sector subcategories of companies with different types of climate risk exposure. The Bank monitors the disclosures of its lenders with a view to establishing further metrics and targets.

Strategic report (continued)

The following represents the Bank's current key exposures to sectors subject to transition risk:

Industry	Percentage of total exposures	Average Tenor (years)	Average Credit Quality (CQS)
Auto parts and automotives - fuel based*	3.0%	0.6	4
Oil and Gas	5.4%	2.4	1
Shipbuilding and Shipping	6.8%	0.6	3
Total carbon-related assets	**15.2%**		

*Total auto parts and automotives are 11.7% of total exposures

b) The Bank has estimated its own operational Scope 1 and 2 emissions in 2021 to be 5.9 metric tonnes CO2e, consisting of company hybrid electric car use of 0.1 CO2e, office electricity use of 2.8 CO2e, and heating use of 3.0 CO2e. Regarding estimating the GHG emissions of the Bank's lending or the Bank's Scope 3 emissions, data is not currently available to enable the Bank to estimate the emissions of the Bank's lending and investment activities, but emissions have been estimated for staff travel. Business air travel is estimated to have produced 1.6 CO2e and daily commuting 1.5 CO2e. Both types of air travel and commuting were affected by the pandemic lockdown measures in force during the year and are therefore expected to be higher in future years.

Scope	Estimated Emissions (CO2e)		Details
	kg	metric tonnes	
Scope 1	70.4	0.1	Company car (hybrid electric)
Scope 2	5,757.9	5.8	Office electricity and heating consumption
Scope 3*	3,047.3	3.0	*Staff office commuting and business air travel only
Total	**8,875.5**	**8.9**	

c) In terms of metrics used to monitor climate opportunities and risks, the Bank's annual business plan sets targets for number of loans to green industries, and monitors exposures to sectors exposed to physical and transition climate change financial risk as described above. As a single office bank with 12 full-time staff, the Bank's emissions from operations are low as detailed above.

Principal risks and uncertainties

See note 28 to the financial statements.

Future business strategy

It has been the long-standing business philosophy of the Bank to adopt a prudent approach to its business, investing in high quality paper of, and lending to, well-known and highly respected corporate entities with sound credit ratings provided by the main credit rating agencies. The Bank has no plans to change that philosophy. Following this business approach, the Bank is seeking to maintain the approach to its portfolio of interest bearing assets and is also researching the marketplace to enhance its fee earning strategies.

S172 statement by the directors

S172 Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, taking into account, amongst other matters:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and

- need to act fairly between members of the company.

The Bank has a sole shareholder, the Export-Import Bank of Korea. The Parent Bank ensures that its interests are represented by appointing its employees to occupy senior management positions and proposing candidates for appointment to the Board as Executive Directors and Group Non-Executive Directors. The Bank maintains regular dialogue with the Parent Bank at both management and Board level, and engages in prior consultation with the Parent Bank in advance of all significant changes in strategic decisions and policies.

Regarding the long-term perspective of Board decision making, the Bank's deployment of its capital and decisions on lending and investing are guided by written three-year and annual business plans which are overseen and approved by the Board after consultation with the Parent Bank. Management reports to the Board its progress in implementing these plans whilst highlighting any changes in economic conditions. This long-term perspective is also embedded in the risk management framework set by the Audit and Risk Committee (a Committee of the Board's Non-Executive Directors). Prior to the capital injection, the Board approved a post-capital injection business plan for the expansion of the Bank's business over a three-year time horizon. This was revised in the 2021 Business Plan approved in December 2020, and during the year the Bank has utilised the capital injection to gradually increase the value of the commercial loans and investment securities on its balance sheet.

The Board has authority to approve or challenge potential changes in policies affecting employees' welfare, including compensation, workload, health and safety. Health and safety measures enacted during the COVID-19 pandemic have included various office safety measures, and improvements in systems for remote working which have been reported to the Board. Staff training is reported on a quarterly basis to the Board, which monitors and advises of any additional areas it identifies that may require further enhancement of staff learning.

Engagement with customers and suppliers is limited compared to other banks since the main forms of Bank's lending are through co-financing with the Parent Bank and participation in syndicated loans, and its investments are in private placement bonds and publicly traded interest-bearing securities. However, as part of the expansion of the Bank's business, the Bank plans to develop its network of relationships with partners in the UK, Europe and the Middle East who seek to develop opportunities with Korean companies. The Bank may play an agent role, using its geographical and time zone advantages to identify projects that may, at a later state, be co-financed with the Parent Bank. The Bank also maintains good long-term relationships with the institutions which lend to the Bank. The Bank maintains systems for timely payment of suppliers that provide goods or services to the Bank on credit terms.

To improve awareness of the impact of the Bank's loans and investments operations on the environment, the Bank is currently reporting to the Board's Audit and Risk Committee on a quarterly basis on its progress in developing a framework to manage climate change financial risk in accordance with UK regulatory expectations as reported elsewhere in this Strategic Report.

The Bank has a duty to observe the highest standards of business conduct as a subsidiary of a government policy bank and official export credit agency of the Republic of Korea and as a UK bank dual regulated by the FCA and PRA. As the Parent Bank's activities are subject to the scrutiny of audits by the National Assembly of Korea, the Board of Audit and Inspection of Korea and the Financial Supervisory Service, all Bank employees and directors are also required to follow the highest standards of the Parent Bank's conduct rules, not to mention the conduct rules of the PRA and FCA. The Board sets high standards for management to be transparent and cooperative with the UK regulatory authorities, and to be proactive in communications with the regulator regarding issues that may arise from time to time.

Strategic report (continued)

Approval

This report was approved by the Board of Directors on 9 May 2022 and signed on its behalf by:

J Yang
Managing Director
9 May 2022

Directors' report

The directors present their annual report together with the financial statements, directors' report and auditor's report for the year ended 31 December 2021.

Dividends

Dividends totalling GBP £39,764 were declared and paid during 2021 in relation to audited profits achieved in prior financial year (2020: nil).

Pillar 3 Disclosures

The regulatory disclosures made in order to comply with the EU Directive and Regulation implementing the Basel capital framework ('the Pillar 3 disclosures') are available on the Kexim Bank website at www.koreaexim.go.kr/site/uk.

Directors' indemnities

The Bank has made qualifying third party indemnity provisions for the benefit of its directors up to the maximum aggregate limit of liability of £500,000 during the year and they remain in force at the date of this report.

Capital structure

Details are given in note 25.

Events since the balance sheet date

Since the balance sheet date, increases in interest rates in response to global inflationary pressures including those related to the international response to the war in Ukraine, and the market expectation of further increases in future have given rise to an unrealised loss on securities held at Fair Value through Other Comprehensive Income during the four months to 30 April 2022 of £3.0 million. This position is still considered manageable as it is around 3.2% of total capital, and management recognises that the unrealised loss will reduce as the securities approach maturity.

With regards to Russia's invasion of Ukraine beginning in February 2022, the Bank has no exposures to Ukraine. The Bank has sub-participated in two loans to Korean companies' subsidaries in Russia with a combined value of US5.5 million; however, as the two loans are both guaranteed by parent companies which are established in Korea, the underlying risk related to these exposures is attributed to Korea not Russia. These sub-participation agreements both reach maturity in the third quarter of 2022, when the Bank will have the chance to discontinue its sub-participation.

There have been no other events that have occurred since the balance sheet date that require disclosure in these financial statements.

Going Concern Basis

In accordance with best principles of corporate governance it is incumbent upon the Management, the Audit and Risk Committee and the Board of Directors to review the status of the Bank as a "Going Concern" and to make a statement to that effect in this Report.

The directors have made an assessment of going concern, taking into account both current performance and outlook and the impact of the COVID-19 pandemic. From the directors' assessment of the Bank's business there are, in their opinion, five considerations which are the principal indicators of the Bank's ability to continue as a going concern. These are as follows:

a) The Bank's capital stress testing process, newly conducted from the balance sheet date, indicates that following the capital injection of the Parent Bank in 2020, the Bank's capital is sufficient in different stress scenarios without the need for management action. The Bank's capital resources also exceed the PRA requirements and are more than adequate for planned business activities;

b) The Bank's liquidity stress testing process, newly conducted from the balance sheet date, demonstrates that the Bank has adequate liquidity to fund ongoing lending activities and to satisfy regulatory requirements for the foreseeable future. The stress testing did not include the borrowing of additional funds from the Parent Bank, but, in practice, the Bank can also utilise the unused amount of the existing Parent Bank credit facilities (see the details of financing facilities in note 28);

c) The quality of the Bank's credit portfolio is such that the level of losses is unlikely to threaten the capital adequacy of the Bank;

d) The directors are satisfied with the ability of the Bank to conduct its business and generate sufficient revenues to support its business, even in the current difficult market conditions and economic outlook post COVID-19. The cumulative revenue impact of current developments is likely to be limited due to the diversification and high credit quality of the loan and securities portfolios; and

e) In a process overseen by the IT Committee and reported to the Board on a regular basis, the operational resilience of the Bank's operations and IT infrastructure has been enhanced due to the various IT system developments undertaken in response to the COVID-19 pandemic, regulatory expectations on operational resilience, and the transition from LIBOR to Risk Free Rates.

Taking into consideration the continuous support from the Parent Bank, as evidenced by the significant capital injection in 2020, the sufficiency of Bank's capital adequacy ratios and the Board's assessment of principal risks, further prospects and going concern, the directors have a reasonable expectation that the Bank will be able to continue its operation and meet its obligations as they fall due over the period of 12 months from the signing date. As a result of this assessment, the Board considers that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Financial risk management objectives and policies

The activities of the Bank expose it to a number of financial risks including credit risk, liquidity risk, market risk and operational risk. The use of financial derivatives is governed by the Bank's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Bank does not use derivative financial instruments for speculative purposes.

Details of the financial risk management objectives and policies of the Bank are given in the notes to the financial statements.

Liquidity risk

The Bank measures and manages its cash flow commitments on a daily basis and maintains a diversified portfolio of high quality liquid and marketable assets.

The Bank uses various methods, including predictions of future daily liquidity positions, to monitor and manage its liquidity risk and to avoid undue concentration of funding requirements at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal risk policy limits.

Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Bank. Credit risk arises principally from lending but also from transactions involving both cash and derivative instruments. The most important step in managing this risk is the initial decision whether or not to extend credit. The Bank's strong credit culture extends to the management of resultant exposures to individual and connected group counterparties, concentration limits and the monitoring of counterparty creditworthiness as described below.

The day-to-day management of the credit risk function is performed by designated members of the management team who perform regular appraisals of counterparty credit quality for consideration by the Credit Committee.

Directors' report (continued)

Market risk

Market risk is the risk that changes in the level of interest rates, the levels of exchange rates between currencies or the price of securities and other financial contracts could have an adverse impact on profits. The main market risks within the Bank's activities are interest rate and currency risk. The assets of the Bank are largely funded in the same currency, therefore negating most of this risk.

From time to time, the Bank also undertakes hedging transactions to manage its interest rate or exchange rate risk. The swap transactions are valued on an equivalent basis to the assets, liabilities or the positions, which they are hedging. All profits or losses in the swaps are recognised at the same time as any profit or loss arising from the assets, liabilities and positions that they are hedging. As of the end of 2021, there were no hedging transactions in place.

Operational risk

The primary operational risk arises from the potential for a cyber-security attack or other computer system breakdown and the need for the rapid recovery of operational data. Other operational risks include front and back office errors, fraud, breaches in internal controls and external events resulting in financial loss or reputational damage. The Bank manages these risks through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and contractual business continuity arrangements.

Directors

The information of the directors who served during the year and up to the date of signing, except as noted, is provided on page 1.

Political and charitable contributions

There were no political and charitable donations made during the year (2020: nil).

Representation to the auditor

Each person, who is a director at the date of approval of this report, confirms that:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Appointment of the auditor

Deloitte LLP will not continue as the Bank's auditors and are expected to be replaced by BDO LLP, who have expressed their willingness to act as auditor.

This report was approved by the Board of Directors on 9 May 2022 and signed on its behalf by:

Managing Director
J Yang
9 May 2022

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.
- This responsibility statement was approved by the Board of Directors on 9 May 2022 and is signed on its behalf by:

Managing Director
J Yang
9 May 2022

Independent auditor's report to the members of Kexim Bank (UK) Limited

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Kexim Bank (UK) Limited (the 'company' or the 'bank'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Assessment of credit ratings: loan loss provisions Within this report, key audit matters are identified as follows:

	Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £1,205,000 which was determined on the basis of 1.25% of the Net Assets balance (2020: £1,022,000 which was 3% of net assets balance).
Scoping	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There are no significant changes in our audit approach compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the company's existing access to sources of financing;
- Carrying out the following on the forecasts provided by management:
  - Testing the arithmetic accuracy and integrity of the model used for preparation of the forecasts;
  - Assessing whether the cash flows included in the forecast were in line with relevant agreements and
  - Assessing the other key inputs and assumptions in the forecasts for reasonableness and consistency with prior years;
- Evaluating the forecasts prepared by management to assess whether they are in line with actual results in current year;
- Evaluating the completeness and accuracy of the internal liquidity adequacy report prepared by management to evidence compliance with regulatory requirements; and
- Evaluating management's assessment of the impact of Brexit and Covid-19 on the operations of the company and its regulatory and liquidity requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor’s report to the members of Kexim Bank (UK) Limited (continued)

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Assessment of credit ratings: loan loss provisions

<table>
<tr><td>Key audit matter description</td><td>Kexim Bank (UK) Limited determines loan loss provisions as per the guidance of IFRS 9: Financial Instruments. The bank recorded an allowance for expected credit losses of £93,556 for the year ended 31 December 2021 (2020: 101,951). The accounting policies in relation to expected credit losses are presented in note 2 of the financial statements. Further details in respect of critical judgements and sources of estimation uncertainty is in note 3. The quantitative disclosure on expected credit losses are included in note 9 and note 28.
The bank is required to classify each financial exposure in an appropriate stage in accordance with IFRS 9, which determines the Expected Credit Loss (‘’ECL’’) of the exposure. Staging is dependent on the assessment of significant increase in credit risk (“SICR”), which is reliant on the primary indicator i.e., movement in credit rating. Staging determines how ECL is calculated and is classified as follows:
Stage 1 assets are performing;
Stage 2 assets are underperforming (there has been a SICR since the time they were originally recognised); and
Stage 3 assets are non-performing and therefore impaired.
Different metrics are applied to the different stages, with Stage 1 (“good book”) attracting the lowest ECL and Stage 3 (“defaulted”) generally attracting the highest ECL (subject to adjustment for individual assessments e.g., guarantors).
The outbreak of Covid-19 has impacted global financial markets with the pandemic causing extensive disruptions to businesses and economic activities. The uncertainties created have increased the judgement around staging and uncertainty over credit ratings impacting the valuation of the loan portfolio at the balance sheet date.
There has been a strain on markets as a result of the Covid-19 pandemic resulting in us focusing more time and effort on this area. This has meant both an increased challenge and focus on audit of investments and loan valuations.
There is a significant risk that the bank has not analysed movements in credit ratings correctly, resulting in incorrect classification at the staging process and therefore increasing the risk of a material misstatement in the valuation of expected credit losses.</td></tr>
<tr><td>How the scope of our audit responded to the key audit matter</td><td>We obtained assurance over the assessment of credit ratings: loan loss provisions by performing the following procedures:
We obtained an understanding of the relevant controls around the credit risk assessment process including robustness of management’s challenges and review of the process;
With the involvement of our credit specialists:
Evaluated the bank’s expected credit loss policy and assessed its compliance with IFRS 9 and industry practice; and</td></tr>
</table>

	- challenged the bank's inputs and assumptions used by reference to market research and knowledge of the banking sector, current pandemic situation, political outlook from Brexit, and market sentiments; • On a sample basis we evaluated credit ratings used by the bank against independent sources; • We assessed whether management's determination of SICR is in line with the company's policy and SICR trigger indicators; • We tested if staging was in line with the credit ratings; and • We carried out the following additional testing on a sample of loans issued by the bank: - Inspected a sample of underlying loan agreements and assessed whether in instances where there are guarantees, that such guarantees actually exist and are legally enforceable; and - Independently assessed the credit ratings, financial performance and liquidity for a sample of the borrowers and their respective guarantors in instances where such exists. • We evaluated the impact of Covid-19 on the staging and the ECL calculation as determined by management.
Key observations	Based on our audit procedures performed we consider management's judgements in relation to the credit ratings to be appropriate and therefore the valuation of the loan loss provisions is not materially misstated.

6. Our application of materiality

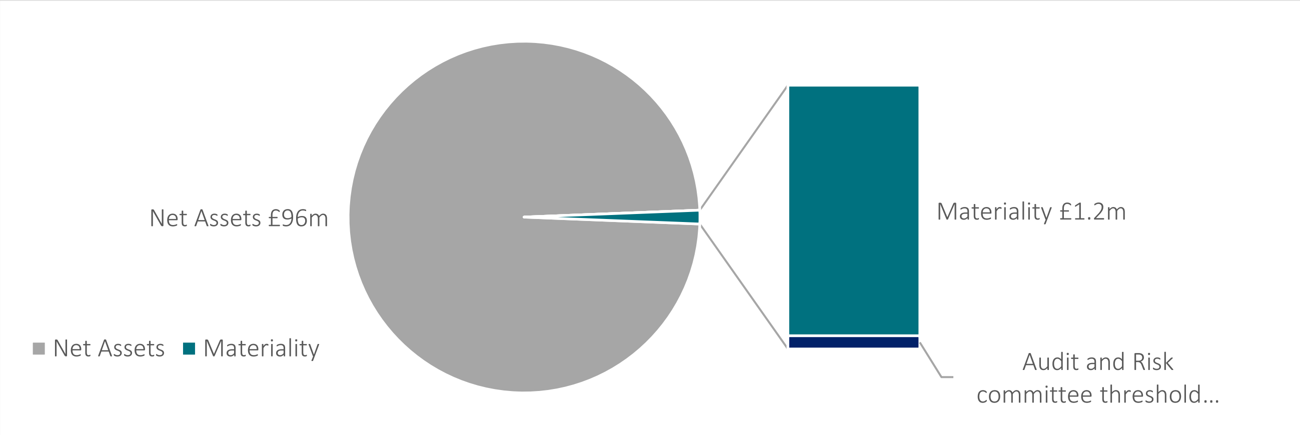
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£1,205,000 (2020: £1,022,000)
Basis for determining materiality	The materiality we determined in the year represents 1.25% of net assets balance (2020: 3% of net assets balance). We have adjusted the percentage applied down from 3% to 1.25% to take account of the impact of a significant capital injection at the end of the prior period which increased net assets.
Rationale for the benchmark applied	Net assets has been used as the basis for materiality to reflect what we believe to be the key external metric used by the users of the financial statements to evaluate the performance of the company.

Independent auditor's report to the members of Kexim Bank (UK) Limited (continued)



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%).

In determining performance materiality, we considered factors including:

- our risk assessment and assessment of the company's overall control environment; and
- our past experience of the audit and the low number of corrected and uncorrected misstatements identified in the prior periods.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £60,250 (2020: £51,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement were performed directly by the audit engagement team.

7.2 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its financial statements. The company continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on page 5.

As a part of our audit, we have held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the company's financial statements.

We performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions. We have also read the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of

Independent auditor's report to the members of Kexim Bank (UK) Limited (continued)

irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management Board of Directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and including relevant internal specialists, including tax, valuations, IT, and Credit specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the assessment of credit ratings relating to loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006 and Tax .

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. This included the company's compliance with Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).

11.2. Audit response to risks identified

As a result of performing the above, we identified the assessment of credit ratings: loan loss provisions as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- enquiring of management, the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Independent auditor's report to the members of Kexim Bank (UK) Limited (continued)

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit and risk committee, we were appointed by the Board of Directors of Kexim Bank (UK) Limited on 9 June 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ending 31 December 2009 to 31 December 2021.

14.2. Consistency of the audit report with the additional report to the audit and risk committee

Our audit opinion is consistent with the additional report to the audit and risk committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Roberts

(Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, England

9 May 2022

Profit and loss account

For the year ended 31 December 2021

	Notes	2021 £	2020 £
Interest income		4,905,429	6,112,363
Interest expense		(1,647,023)	(3,467,718)
Net interest income	4	3,258,406	2,644,645
Net (loss)/gain on financial assets designated at fair value through profit or loss ('FVTPL')		(10,063)	159,284
Net gain/(loss) on derivatives		812	(44,497)
Fees and commission income	5	1,148,928	809,386
Fees and commission expense		(9,309)	(3,392)
Other operating expense		(235,485)	(72,329)
Total operating income	6	4,153,289	3,493,097
Administrative expenses	8	(2,489,926)	(2,379,357)
Impairment charge on financial assets	9	(93,026)	(101,951)
Profit on ordinary activities before tax		1,570,337	1,011,789
Tax on profit on ordinary activities	10	(321,939)	(216,502)
Profit on ordinary activities after tax		1,248,398	795,287

All activities of the Bank are considered to relate to continuing operations.

Statement of comprehensive income

For the year ended 31 December 2021

	Notes	2021 £	2020 £
Profit for the year		1,248,398	795,287
Items that may be reclassified subsequently to profit or loss:			
Assets at fair value through other comprehensive income			
(Loss)/gain arising during the year		(1,772,331)	871,327
Changes in allowance for expected credit losses during the year - FVOCI	9	(26,432)	63,903
Debit/(credit) to deferred tax	24	356,148	(172,515)
Other comprehensive (loss)/income for the year net of tax		(1,442,615)	762,715
Total comprehensive (loss)/income for the year attributable to Shareholders		(194,217)	1,558,002

The notes on pages 28 to 83 form part of these financial statements.

Kexim Bank (UK) Limited

Balance sheet

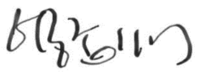
As at 31 December 2021

	Notes	2021 £	2020 £
Non-current assets			
Intangible assets	11	85,969	98,737
Tangible fixed assets	12	42,073	27,199
Loans and advances to banks	14	23,638,936	14,581,656
Loans and advances to customers	15	89,087,548	64,710,261
Debt securities: private placement bonds	16	54,154,130	26,162,489
Financial assets at FVTPL	17	-	-
Financial investments	18	111,613,497	88,538,619
'Right-of-use' asset	13	844,708	1,007,218
Deferred tax assets	24	876	-
Total non-current assets		279,467,737	195,126,179
Current assets			
Loans and advances to banks	14	11,057,274	2,194,380
Loans and advances to customers	15	73,236,882	67,646,671
Debt securities: private placement bonds	16	7,220,578	16,405,010
Financial assets at FVTPL	17	-	2,083,307
Financial investments	18	7,405,811	12,708,831
Prepayments and accrued income		1,839,029	1,318,499
Cash and cash equivalents	19	6,262,744	39,273,571
Total current assets		107,022,318	141,630,269
Total assets		386,490,055	336,756,448
Creditors: amounts falling due within one year			
Borrowings from credit institutions	22	(182,041,323)	(206,614,318)
Accruals and other liabilities	23	(3,103,150)	(2,369,832)
Corporation tax payable		(155,239)	(73,147)
Derivative liabilities	20	-	(100,345)
Lease Liabilities	21	(158,968)	(156,018)
Total current liabilities		(185,458,680)	(209,313,660)
Net current assets		(78,436,362)	(67,683,391)
Total assets less current liabilities		201,031,375	127,442,788
Creditors: amounts falling due after more than one year			
Borrowings from credit institutions	22	(103,634,614)	(29,285,793)
Deferred tax liabilities	24	-	(367,342)
Lease liabilities	21	(668,190)	(827,100)
Total non-current liabilities		(104,302,804)	(30,480,235)
Total liabilities		(289,761,484)	(239,793,895)
Net assets		96,728,571	96,962,553
Capital and reserves			
Called up share capital	25	81,283,897	81,283,897
Revaluation reserve	26	(341,980)	1,100,635
Profit and loss account		15,786,654	14,578,021
Total shareholders' funds		96,728,571	96,962,553

Balance sheet (continued)

As at 31 December 2021

These financial statements of Kexim Bank (UK) Limited, registration number 02693038, on pages 23 to 83 were approved and authorised for issue by the Board of Directors on 9 May 2022 and are signed on their behalf by:



Managing Director
J Yang

The notes on pages 28 to 83 form part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2021

	Notes	Share capital £	Profit and loss account £	Revaluation reserve £	Total £
Balance at 1 January 2020		20,000,000	13,782,734	337,920	34,120,654
Issuance of ordinary share capital	25	61,283,897	-	-	61,283,897
Profit for the year		-	795,287	-	795,287
Other comprehensive income for the year		-	-	762,715	762,715
Balance at 31 December 2020		81,283,897	14,578,021	1,100,635	96,962,553
Profit for the year		-	1,248,398	-	1,248,398
Dividends paid during the year		-	(39,764)	-	(39,764)
Other comprehensive loss for the year	26	-	-	(1,442,616)	(1,442,616)
Balance at 31 December 2021		81,283,897	15,786,655	(341,981)	96,728,571

1. General information

Kexim Bank (UK) Limited is a bank which is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 3 to 9.

These financial statements are presented in pound sterling because that is the currency of the primary economic environment in which the Bank operates.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, have not yet been adopted by the EU:

IFRS 17 *Insurance contracts*

IFRS 9 *Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

New and amended standards and interpretations

In these financial statements, the Bank has applied certain standards and amendments effective for annual periods beginning on or after 1 January 2021, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements, but may impact future periods should the Bank enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'. As permitted by FRS 101, the Bank has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, and related party transactions. The details of exemptions are as follows:

- A statement of cash flows for the period;
- Information relating to new IFRS standards which have been issued but which are not yet effective, including an assessment of the possible impact that it will have when it is adopted for the first time;
- Disclosure of key management personnel remuneration; and
- Disclosure of related party transactions entered between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The financial statements have been prepared on a historical cost basis and certain financial instruments are measured at fair values at the end of each reporting period as explained in the accounting policies below.

Where relevant, equivalent disclosures have been given in the group accounts of the Export-Import Bank of Korea. The group accounts are available to the public and can be obtained as set out in note 29.

Going concern

The Bank's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report pages 3 to 9.

The Bank is expected to continue to generate positive cash flows on its own account for the foreseeable future. On the basis of their assessment of the Bank's financial position and of the enquiries made of the directors of the Bank's Parent Bank, the Export-Import Bank of Korea, the Bank's directors have a reasonable expectation that the Bank will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Recognition of interest income and expense

Under IFRS 9, interest income and interest expense are recorded using the effective interest rate ('EIR') method for all financial instruments measured at amortised cost ('AC'). Interest income on interest bearing financial assets measured at fair value through other comprehensive income ('FVOCI') under IFRS 9 is recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by considering any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

2. Significant accounting policies (continued)

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest income in the income statement.

Interest income

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on financial assets mandatorily required to be measured at FVTPL is recognised using the contractual interest rate in net gains/(losses) on financial assets designated at FVTPL respectively.

Income and expense denominated in foreign currencies is translated into sterling at the closing rate on the day of the transaction.

Cash and cash equivalents

Cash and cash equivalent include amounts due from banks on demand or with an original maturity of three months or less.

Employee benefits

Salaries and social security costs are recognised over the period in which the employees provide the related services. Variable compensation is satisfied by cash and included within wages and salaries. Contributions to defined contribution pension schemes are recognised in profit and or loss when payable.

Fees and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include management services, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

Fees and commission income from providing services where performance obligations are satisfied at a point in time

2. Significant accounting policies (continued)

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as participating in the negotiation of terms and conditions of the Parent Bank's facility arrangements or supporting the documentation of relevant finance documents.

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Foreign currencies

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Bank operates (its functional currency).

Transactions in foreign currencies (other than sterling, the Bank's functional currency) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in other operating (expense)/income in profit or loss in the period in which they arise.

2. Significant accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income ('OCI'), in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets of the Bank include software measured at cost less accumulated amortisation and any impairment in value.

2. Significant accounting policies (continued)

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software is three years or the licence term whichever is the lower.

Tangible fixed assets

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values by equal instalments over the estimated useful lives as follows:

Fixtures and fittings	-	period of lease
Office equipment	-	3 years
Including		
Computer hardware	-	*3 years*
Computer hardware — mainframe	-	*5 years*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income. Computer hardware is considered as office equipment in note 12.

Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- AC;
- FVOCI; or
- FVTPL.

2. Significant accounting policies (continued)

The Bank classifies and measures its derivative designated at FVTPL. The Bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial assets and liabilities

Loans and advances to banks, Loans and advances to customers, Financial investments (at amortised cost) and Debt securities

The Bank only measures Loans and advances to banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

2. Significant accounting policies (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties which include foreign exchange and interest rate swap contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in note 20. Changes in the fair value of derivatives are included in the *Net gain/(loss) on derivatives* line of the income statement.

A derivative is presented as an asset due after one year or a creditor due after more than one year if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Debt instruments at FVOCI

The Bank applies the category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

2. Significant accounting policies (continued)

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. Interest income calculated using the effective interest method are recognised in profit or loss.

Letters of credit

The Bank provides letter of credit confirmations for its Parent Bank as well as other Korean commercial banks. Letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer and these contracts are in the scope of the ECL requirements.

For letters of credit where the loan agreed to be provided is on market terms, the nominal contractual values are not recorded in the balance sheet. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 28.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2021.

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased and originated credit-impaired ('POCI').

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in financial asset type;
- Rescheduling of troubled debt; and
- Extension of maturity.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also

2. Significant accounting policies (continued)

derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if it has transferred its contractual rights to receive cash flows from the financial asset. A transfer only qualifies for derecognition if either the Bank has transferred substantially all the risks and rewards of the asset or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

Overview of the ECL principles

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 28.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on an individual basis.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans are considered credit-impaired (as outlined in note 28). The Bank records an allowance for the LTECLs.

2. Significant accounting policies (continued)

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on a forward-looking approach to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

▪	PD	The ***Probability of Default*** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
▪	EAD	The ***Exposure at Default*** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
▪	LGD	The ***Loss Given Default*** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The above concepts of PD, EAD and LGD are further explained in note 28.

When estimating the ECLs, the Bank considers a macroeconomic overlay impact on the PD. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

▪	Stage 1	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities (adjusted for macroeconomic scenarios) are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
▪	Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
▪	Stage 3	For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

2. Significant accounting policies (continued)

Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the balance sheet, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as a memorandum allowance for ECL, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Forward looking information

In its ECL models, the Bank relies on forward looking information to understand the impact on PD used in the ECL computation. The below economic inputs are considered:

- Global economic growth rate; and
- Domestic economy growth rate.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in note 28.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Uncertainty in estimates and assumptions with significant risk that will result in material adjustment is impairment losses on financial assets. The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered to involve estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances; for financial assets should be measured on a LTECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between macroeconomic impacts, economic inputs, and the effect on PDs, EADs and LGDs.

The section of 'Analysis of inputs to the ECL model under multiple economic scenarios' in note 28 sets out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

There were no critical accounting judgements that were involved in the preparation of the financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2021

4. Net interest income

	2021 £	2020 £
Interest income		
Interest income from debt securities:		
Financial investments at amortised cost	400,827	290,128
Financial investments at FVOCI	1,118,367	1,421,088
Private placement bonds	538,931	718,480
Interest income from loans and advances to customers and banks:		
Loans and receivables	2,847,304	3,682,667
Total interest income	4,905,429	6,112,363
Interest expense		
Interest expense payable to Parent Bank:		
Intergroup borrowings	248,798	518,804
Subordinated loan	-	452,915
Interest expense payable to other companies:		
Borrowings from credit institutions	1,381,925	2,486,831
Interest expense on lease liabilities	16,300	9,168
Total interest expense	1,647,023	3,467,718
Net interest income	3,258,406	2,644,645

5. Fees and commission income

	2021 £	2020 £
Management fees	11,151	54,009
Front-End fees	28,734	31,236
Commitment fees	22,463	14,557
Participation fees	-	-
Arrangement fees	395,421	-
Prepayment fees	120	-
Fronting fees	-	2,850
Letter of credit fees	101,596	151,030
Agent fees	582,056	555,653
Other fees	7,387	51
Total fees and commission income	1,148,928	809,386

Notes to the financial statements (continued)

For the year ended 31 December 2021

6. Analysis of total operating income

	2021 £	2020 £
By activity		
Net Interest Income	3,258,406	2,644,645
Gain on financial assets designated at FVTPL	(10,063)	159,284
Net loss on derivative instruments	812	(44,497)
Fees and commissions income, net	1,139,619	805,994
Foreign exchange, net	18,577	(77,275)
Profit on disposal of debt securities	(254,062)	3,836
Interest on underpayment of corporate tax	-	(428)
Banking income	-	1,538
Total operating income	4,153,289	3,493,097

All of the Bank's operating income arose from activities in the UK.

7. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Notes	2021 £	2020 £
Depreciation	12, 13	175,863	144,543
Amortisation	11	54,240	49,560
Auditor's remuneration: auditing of financial statements (excluding VAT)		137,500	110,000
Profit on disposal of debt securities		254,062	(3,836)
Foreign exchange (gain)/loss		(18,577)	77,275

8. Administrative expenses

	Notes	2021 £	2020 £
Staff costs			
Wages and salaries		1,281,591	1,261,700
Social security costs		42,301	41,943
Other pension costs		31,294	25,948
Other staff costs		99,996	89,550
		1,455,182	1,419,141
Depreciation	7, 12, 13	175,863	144,543
Amortisation	7, 11	54,240	49,560
Other administrative expenses		804,641	766,113
		2,489,926	2,379,357

Notes to the financial statements (continued)

For the year ended 31 December 2021

8. Administrative expenses (continued)

The average monthly number of employees (including executive directors) is follows:

	2021	2020
Executive directors	2	2
Front office persons	2	2
Back and middle office persons	8	7
Local non-executive directors	2	2
Average monthly number of employees	14	13

	2021	2020
Directors' emoluments	£	£
Aggregate directors' emoluments	501,424	537,584
Highest paid director	251,313	221,157

No pension was paid in relation to the directors (2020: nil).

9. Credit loss expense

The table below shows the ECL charge/(credit) on financial instruments on for the year recorded in the income statement:

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
2021		£	£	£	£	£
Loans and advances to banks	14	32,117	-	-	-	32,117
Loans and advances to customers	15	112,454	-	-	-	112,454
Debt securities: private placement bonds	16	(29,633)	-	-	-	(29,633)
Financial investments – FVOCI	18	14,717	(41,149)	-	-	(26,432)
Financial investments – AC	18	13,858	-	-	-	13,858
Prepayments and accrued income		1,060	-	-	-	1,060
Cash and cash equivalents	19	-	-	-	-	-
Undrawn commitments and letters of credit	27	(10,398)	-	-	-	(10,398)
Total impairment loss		134,175	(41,149)	-	-	93,026

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
2020		£	£	£	£	£
Loans and advances to banks	14	30,902	-	-	-	30,902
Loans and advances to customers	15	(26,310)	-	-	-	(26,310)
Debt securities: private placement bonds	16	13,234	-	-	-	13,234
Financial investments – FVOCI	18	45,007	18,896	-	-	63,903
Financial investments – AC	18	10,952	-	-	-	10,952
Prepayments and accrued income		(661)	-	-	-	(661)
Cash and cash equivalents	19	-	-	-	-	-
Undrawn commitments and letters of credit	27	9,931	-	-	-	9,931
Total impairment loss		83,055	18,896	-	-	101,951

Notes to the financial statements (continued)

For the year ended 31 December 2021

10. Tax

	Note	2021 £	2020 £
Corporation tax:			
Current year		331,392	227,097
Adjustment for prior years		(211)	1,892
Foreign tax relief/other relief		(6,879)	(1,655)
Foreign tax suffered		6,879	1,655
Total current year tax charge		331,181	228,989
Deferred tax:	24		
Current year		(31,338)	(31,715)
Effect of changes in tax rate		22,096	19,228
Total current year tax credit		(9,242)	(12,487)
Tax charge per profit or loss account		321,939	216,502
Other comprehensive income items			
Deferred tax (credit)/charge in OCI for the period	24	(356,148)	172,515
		(356,148)	172,515

Deferred tax assets and liabilities have been recognised at a blended rate of 22.51% (i.e. the rate at which they are expected to unwind). This is an average rate for the years 2022 to 2024 which reflects the increase in corporation tax from 19.0% to 25% in April 2023 (as substantively enacted in May 2021 by the Finance Bill 2021).

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2021 £	2020 £
Profit on ordinary activities	1,570,337	1,011,789
Tax at the UK corporation tax rate of 19% (2020: 19%)	298,364	192,240
Effects of:		
Adjustments in respect of prior years	(211)	1,892
Expenses not deductible	1,690	3,142
Tax rate changes	22,096	19,228
Withholding tax	-	1,655
Double tax relief	-	(1,655)
Rounding	-	-
Tax charge for the period	321,939	216,502

Notes to the financial statements (continued)

For the year ended 31 December 2021

11. Intangible assets

	Software £
Cost	
At 1 January 2020	534,287
Additions	42,232
At 31 December 2020	576,519
Additions	41,472
At 31 December 2021	617,991
Accumulated amortisation	
At 1 January 2020	428,222
Charge for the year	49,560
At 31 December 2020	477,782
Charge for the year	54,240
At 31 December 2021	532,022
Carrying amount	
At 31 December 2020	98,737
At 31 December 2021	85,969

12. Tangible fixed assets

	Fixtures and Fittings £	Office Equipment £	Total £
Cost			
At 1 January 2020	93,970	168,803	262,773
Additions	-	24,421	24,421
At 31 December 2020	93,970	193,224	287,194
Additions	-	28,225	28,225
At 31 December 2021	93,970	221,449	315,419
Accumulated depreciation			
At 1 January 2020	86,721	160,962	247,683
Charge for the year	6,476	5,836	12,312
At 31 December 2020	93,197	166,798	259,995
Charge for the year	-	13,351	13,351
At 31 December 2021	93,197	180,149	273,346
Carrying amount			
At 31 December 2020	773	26,426	27,199
At 31 December 2021	773	41,300	42,073

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Right-of-use assets

	Land and buildings £	Motor vehicles £	Total £
Cost			
At 1 January 2020	157,294	-	157,294
Additions	1,057,103	29,915	1,087,018
At 31 December 2020	1,214,397	29,915	1,244,312
Additions	-	-	-
At 31 December 2021	1,214,397	29,915	1,244,312
Accumulated depreciation			
At 1 January 2020	104,863	-	104,863
Charge for the year	130,735	1,496	132,231
At 31 December 2020	235,598	1,496	237,094
Charge for the year	156,528	5,982	162,510
At 31 December 2021	392,126	7,478	399,604
Carrying amount			
At 31 December 2020	978,799	28,419	1,007,218
At 31 December 2021	822,271	22,437	844,708

Notes to the financial statements (continued)

For the year ended 31 December 2021

14. Loans and advances to banks

	Gross £	Provision £	Net of provision £
2021			
Between three months and one year	11,103,709	(46,435)	11,057,274
Between one year and five years	23,687,912	(48,976)	23,638,936
	34,791,621	(95,411)	34,696,210
2020			
Between three months and one year	2,196,434	(2,054)	2,194,380
Between one year and five years	14,642,896	(61,240)	14,581,656
	16,839,330	(63,294)	16,776,036

Impairment allowance for loans and advances to banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in note 29.

	2021			
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	3,701,236	-	-	3,701,236
Outstanding	23,687,913	-	-	23,687,913
Good	7,402,472	-	-	7,402,472
Below normal	-	-	-	-
	34,791,621	-	-	34,791,621

	2020			
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	2,196,434	-	-	2,196,434
Outstanding	7,321,448	-	-	7,321,448
Good	7,321,448	-	-	7,321,448
Below normal	-	-	-	-
	16,839,330	-	-	16,839,330

Notes to the financial statements (continued)

For the year ended 31 December 2021

14. Loans and advances to banks (continued)

An analysis of changes in the gross carrying amount is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2021	16,839,330	-	-	16,839,330
New assets originated or purchased	23,687,912	-	-	23,687,912
Assets derecognised or repaid	(5,857,158)	-	-	(5,857,158)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-			
Foreign exchange adjustments	121,537	-	-	121,537
As at 31 December 2021	34,791,621	-	-	34,791,621

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2020	18,016,679	-	-	18,016,679
New assets originated or purchased	7,321,448	-	-	7,321,448
Assets derecognised or repaid	(8,136,008)	-	-	(8,136,008)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(362,789)	-	-	(362,789)
As at 31 December 2020	16,839,330	-	-	16,839,330

Notes to the financial statements (continued)

For the year ended 31 December 2021

14. Loans and advances to banks (continued)

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2021	63,294	-	-	63,294
New assets originated or purchased	48,976	-	-	48,976
Assets derecognised or repaid	(17,308)	-	-	(17,308)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	448	-	-	448
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	95,410	-	-	95,410

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2020	32,392	-	-	32,392
New assets originated or purchased	41,398	-	-	41,398
Assets derecognised or repaid	5,968	-	-	5,968
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(16,464)	-	-	(16,464)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	63,294	-	-	63,294

Contractual amounts outstanding in relation to Loans and advances to banks that were still subject to enforcement activity, but otherwise has already been written off, were nil both at 31 December 2021 and 31 December 2020.

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Loans and advances to customers

	Gross £	Provision £	Net of provision £
2021			
Within three months	17,465,366	(56,321)	17,409,045
Between three months and one year	56,087,834	(259,997)	55,827,837
Up to one year	*73,553,200*	*(316,318)*	*73,236,882*
Between one year and five years	65,613,696	(225,687)	65,388,009
Over five years	23,753,274	(53,735)	23,699,539
Over one year	*89,366,970*	*(279,422)*	*89,087,548*
	162,920,170	**(595,740)**	**162,324,430**
2020			
Within three months	16,848,258	(55,894)	16,792,364
Between three months and one year	51,077,325	(223,018)	50,854,307
Up to one year	*67,925,583*	*(278,912)*	*67,646,671*
Between one year and five years	43,284,855	(151,961)	43,132,894
Over five years	21,629,780	(52,413)	21,577,367
Over one year	*64,914,635*	*(204,374)*	*64,710,261*
	132,840,218	(483,286)	132,356,932

Impairment allowance for loans and advances to customers

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2021			
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Best	5,450,420	-	-	5,450,420
Outstanding	115,697,738	-	-	115,697,738
Good	41,772,012	-	-	41,772,012
Below normal	-	-	-	-
	162,920,170	-	-	162,920,170

	2020			
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Best	6,869,131	-	-	6,869,131
Outstanding	91,221,576	-	-	91,221,576
Good	34,749,511	-	-	34,749,511
Below normal	-	-	-	-
	132,840,218	-	-	132,840,218

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Loans and advances to customers (continued)

An analysis of changes in the gross carrying amount is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Gross carrying amount as at 1 January 2021	132,840,218	-	-	132,840,218
New assets originated or purchased*	105,671,760	-	-	105,671,760
Assets derecognised or repaid	(76,671,435)	-	-	(76,671,435)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1,079,627	-	-	1,079,627
As at 31 December 2021	162,920,170	-	-	162,920,170

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Gross carrying amount as at 1 January 2020	137,434,339	-	-	137,434,339
New assets originated or purchased*	77,426,482	-	-	77,426,482
Assets derecognised or repaid	(81,648,802)	-	-	(81,648,802)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(371,801)	-	-	(371,801)
As at 31 December 2020	132,840,218	-	-	132,840,218

* New assets and assets derecognised include renewed assets.

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Loans and advances to customers (continued)

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
ECL allowance as at 1 January 2021	483,286	-	-	483,286
New assets originated or purchased*	191,257	-	-	191,257
Assets derecognised or repaid	(93,348)	-	-	(93,348)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	14,546	-	-	14,546
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	595,741	-	-	595,741

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
ECL allowance as at 1 January 2020	509,596	-	-	509,596
New assets originated or purchased*	113,303	-	-	113,303
Assets derecognised or repaid	(160,357)	-	-	(160,357)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	20,744	-	-	20,744
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	483,286	-	-	483,286

* New assets include renewed assets.

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was nil at 31 December 2021 (2020: nil).

16. Debt securities: private placement bonds

	Gross £	Provision £	Net of provision £
2021			
Within three months	-	-	-
Between three months and one year	7,228,123	(7,545)	7,220,578
Between one year and five years	54,177,159	(23,029)	54,154,130
	61,405,282	(30,574)	61,374,708
2020			
Within three months	8,390,210	(26,959)	8,363,251
Between three months and one year	8,052,631	(10,872)	8,041,759
Between one year and five years	26,184,865	(22,376)	26,162,489
	42,627,706	(60,207)	42,567,499

Impairment allowance for debt securities

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2021			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Best	53,435,854	-	-	53,435,854
Outstanding	7,969,428	-	-	7,969,428
Good	-	-	-	-
Below normal		-	-	
	61,405,282	-	-	61,405,282

	2020			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Best	26,190,019	-	-	26,190,019
Outstanding	14,973,397	-	-	14,973,397
Good	1,464,290	-	-	1,464,290
Below normal	-	-	-	-
	42,627,706	-	-	42,627,706

16. Debt securities: private placement bonds (continued)

An analysis of changes in the gross carrying amount is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Gross carrying amount as at 1 January 2021	42,627,706	-	-	42,627,706
New assets originated or purchased	35,277,670	-	-	35,277,670
Assets derecognised or repaid	(16,442,841)	-	-	(16,442,841)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(57,253)	-	-	(57,253)
As at 31 December 2021	61,405,282	-	-	61,405,282

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
Gross carrying amount as at 1 January 2020	36,905,066	-	-	36,905,066
New assets originated or purchased	21,450,964	-	-	21,450,964
Assets derecognised or repaid	(15,181,034)	-	-	(15,181,034)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(547,290)	-	-	(547,290)
As at 31 December 2020	42,627,706	-	-	42,627,706

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
ECL allowance as at 1 January 2021	60,207	-	-	60,207
New assets originated or purchased	12,951	-	-	12,951
Assets derecognised or repaid	(37,831)	-	-	(37,831)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(4,753)	-	-	(4,753)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	30,574	-	-	30,574

Notes to the financial statements (continued)

For the year ended 31 December 2021

16. Debt securities: private placement bonds (continued)

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 Individual £	Total £
ECL allowance as at 1 January 2020	46,973	-	-	46,973
New assets originated or purchased	23,854	-	-	23,854
Assets derecognised or repaid	(17,917)	-	-	(17,917)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	7,297	-	-	7,297
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	60,207	-	-	60,207

17. Financial assets designated at FVTPL

	2021 £	2020 £
Due within one year	-	2,083,307
Due one year and over	-	-
	-	2,083,307

As at 31 December 2021, there were no financial assets designated at FVTPL. As at 31 December 2020, all financial assets designated at FVTPL were listed securities in the amount of £2,083,307.

	2021 £	2020 £
Public ownership		
Issued by governments	-	-
Issued by other public sector bodies	-	-
Others		
Issued by banks	-	2,083,307
Issued by other issuers	-	-
	-	2,083,307

As of 31 December 2021, no investment securities (2020: £2.0 million) were pledged as collateral for swap transactions. The fair value of collateral is zero (2020: £2.1 million). The assets pledged at 31 December 2020 did not qualify for derecognition and were recognised in full, and the Bank was unable to use, sell or pledge the transferred assets, which remained exposed to the associated interest rate risk and credit risk for the duration of the transaction.

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial investments

2021	Due within one year £	Due one year and over £	Total £
Financial investments – measured at FVOCI			
Investment securities – fair value	7,405,811	78,926,128	86,331,939
Memorandum allowance for ECL	(29,918)	(123,764)	(153,682)
Net of provision	7,375,893	78,802,364	86,178,257
Financial investments – measured at amortised cost			
Investment securities – gross	-	32,744,775	32,744,775
Allowance for ECL	-	(57,406)	(57,406)
Net of provision	-	32,687,369	32,687,369
Total*	7,405,811	111,613,497	119,019,308

2020	Due within one year £	Due one year and over £	Total £
Financial investments – measured at FVOCI			
Investment securities – fair value	6,481,069	69,363,678	75,844,747
Memorandum allowance for ECL	(10,054)	(170,059)	(180,113)
Net of provision	6,471,015	69,193,619	75,664,634
Financial investments – measured at amortised cost			
Investment securities – gross	6,237,272	19,208,979	25,446,251
Allowance for ECL	(9,510)	(34,038)	(43,548)
Net of provision	6,227,762	19,174,941	25,402,703
Total*	12,708,831	88,538,619	101,247,450

* As at 31 December 2021, total of financial investments is the sum of the fair value of financial investments measured at FVOCI and the net of provision of those measured at amortised cost. Financial investments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'impairment charge' in the profit and loss account.

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial investments (continued)

Financial investments – measured at FVOCI by types of issuers	2021 £	2020 £
Public ownership		
Issued by governments	8,485,691	3,674,671
Issued by supranational organisations	1,575,881	5,287,594
Issued by other public sector bodies	4,432,311	6,725,787
Others		
Issued by banks	45,579,878	16,108,490
Issued by other issuers	26,258,178	44,048,205
	86,331,939	75,844,747

Financial investments – measured at amortised cost by types of issuers	2021 £	2020 £
Public ownership		
Issued by governments	-	-
Issued by supranational organisations	-	-
Issued by other public sector bodies	-	-
Others		
Issued by banks	18,540,831	17,060,889
Issued by other issuers	14,146,538	8,341,814
	32,687,369	25,402,703

Total financial investments other than those measured at FVTPL	119,019,308	101,247,450

Impairment losses on financial investments subject to impairment assessment

Financial investments measured at FVOCI

	2021 £	2020 £
Financial investments – FVOCI	86,331,939	75,844,747
Less: allowance for impairment losses	(153,682)	(180,113)
	86,178,257	75,664,634

The table below shows the fair value of the Bank's debt instruments measured at FVOCI by credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in note 28.

	2021			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	33,015,905	-	-	33,015,905
Outstanding	51,091,173	-	-	51,091,173
Good		2,224,861	-	2,224,861

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial investments (continued)

Below normal	-	-	-	-
	84,107,078	2,224,861	-	86,331,939

Financial investments measured at FVOCI (continued)

	2020			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	22,782,830	-	-	22,782,830
Outstanding	50,840,106	-	-	50,840,106
Good	-	2,221,811	-	2,221,811
Below normal	-	-	-	-
	73,622,936	2,221,811	-	75,844,747

An analysis of changes in the fair value of financial investments measured at FVOCI is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Fair value as at 1 January 2021	73,622,936	2,221,811	-	75,844,747
New assets originated or purchased	46,454,245	-	-	46,454,245
Assets derecognised or repaid	(35,745,832)	-	-	(35,745,832)
Change in fair value	(364,471)	30,851	-	(333,620)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	140,200	(27,801)	-	112,399
As at 31 December 2021	84,107,078	2,224,861	-	86,331,939

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Fair value as at 1 January 2020	52,227,450	2,261,133	-	54,488,583
New assets originated or purchased	30,468,598	-	-	30,468,598
Assets derecognised or repaid	(8,386,755)	-	-	(8,386,755)
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(686,357)	(39,322)	-	(725,679)
As at 31 December 2020	73,622,936	2,221,811	-	75,844,747

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial investments (continued)

Financial investments measured at FVOCI (continued)

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2021	111,760	49,457	-	161,217
New assets originated or purchased	79,083	-	-	79,083
Assets derecognised or repaid	(63,709)	-	-	(63,709)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(657)	(41,149)	-	(41,806)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	126,477	8,308	-	134,785

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2020	66,753	49,457	-	116,210
New assets originated or purchased	45,234	-	-	45,234
Assets derecognised or repaid	(5,001)	-	-	(5,001)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	4,774	18,896	-	23,670
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	111,760	68,353	-	180,113

Financial investments measured at amortised cost

	2021 £	2020 £
Financial investments – AC	32,744,775	25,446,251
Less: allowance for impairment losses	(57,406)	(43,548)
	32,687,369	25,402,703

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial investments (continued)

Financial investments measured at amortised cost (continued)

	2021			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	9,176,663	-	-	9,176,663
Outstanding	23,568,112	-	-	23,568,112
Good	-	-	-	-
Below normal	-	-	-	-
	32,744,775	-	-	32,744,775

	2020			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	13,694,397	-	-	13,694,397
Outstanding	11,751,854	-	-	11,751,854
Good	-	-	-	-
Below normal	-	-	-	-
	25,446,251	-	-	25,446,251

An analysis of changes in the gross carrying amount is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2021	25,446,251	-	-	25,446,251
New assets originated or purchased	13,664,668	-	-	13,664,668
Assets derecognised or repaid	(6,237,272)	-	-	(6,237,272)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(128,872)	-	-	(128,872)
As at 31 December 2021	32,744,775	-	-	32,744,775

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Financial investments (continued)

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2020	24,609,526	-	-	24,609,526
New assets originated or purchased	10,107,259	-	-	10,107,259
Assets derecognised or repaid	(9,007,133)	-	-	(9,007,133)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(263,401)	-	-	(263,401)
As at 31 December 2020	25,446,251	-	-	25,446,251

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2021	43,548	-	-	43,548
New assets originated or purchased	23,339	-	-	23,339
Assets derecognised or repaid	(9,511)	-	-	(9,511)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	30	-	-	30
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	57,406	-	-	57,406

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2020	32,596	-	-	32,596
New assets originated or purchased	18,595	-	-	18,595
Assets derecognised or repaid	(11,286)	-	-	(11,286)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	3,643	-	-	3,643
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	43,548	-	-	43,548

Notes to the financial statements (continued)

For the year ended 31 December 2021

19. Cash and cash equivalents

	2021 £	2020 £
Nostro accounts	1,608,556	8,909,667
Money market placement	4,612,159	30,322,292
Central counterparty clearing house margin account	42,029	41,612
	6,262,744	39,273,571

The Nostro accounts included no overnight investments at either 31 December 2021 or 31 December 2020. The money market placements are short term investments with an original maturity of two weeks or less by the Bank.

20. Derivative assets and liabilities

	2021 £	2020 £
Derivative liabilities		
Due within one year	-	100,345
Due one year and over	-	-
	-	100,345

	Notional	Derivative assets Trading	Derivative liabilities Trading
2021	£	£	£
Interest rate swaps	-	-	-
	-	-	-
2020			
Interest rate swaps	2,000,000	-	100,345
	2,000,000	-	100,345

21. Lease liabilities

	2021 £	2020 £
Within one year	158,968	156,018
Between five years and ten years	668,190	827,100
	827,158	983,118

Notes to the financial statements (continued)

For the year ended 31 December 2021

21. Lease liabilities (continued)

	£
As at 1 January 2020	82,567
Additions	1,016,995
Payments	(125,612)
Interest expense on lease liabilities	9,168
As at 31 December 2020	983,118
Additions	-
Payments	(172,259)
Interest expense on lease liabilities	16,300
As at 31 December 2021	827,159

The following are the amounts recognised in profit or loss:

	Note	2021 £	2020 £
Depreciation expense of right-of-use asset	13	162,510	132,231
Interest expense on lease liabilities	4	16,300	9,168
		178,810	141,399

The Bank had total cash outflows for leases of £172,259 (2020: £125,612). The Bank had no non-cash additions to right-of-use assets and lease liabilities (2020: £1,016,995).

22. Borrowings from credit institutions

	2021 £	2020 £
Parent and related companies	110,977,587	89,514,052
Other banks	174,698,350	146,386,059
	285,675,937	235,900,111
Repayable:		
Within three months	133,185,005	77,363,061
Between three months and one year	48,856,318	129,251,257
Up to one year	*182,041,323*	*206,614,318*
Between one year and five years	103,634,614	29,285,793
More than one year	*103,634,614*	*29,285,793*
	285,675,937	235,900,111

The Parent and related companies borrowings are the drawdown amount of the unsecured credit facilities in the sum of £110.98 million (2020: £89.51 million) from the Parent Bank. More details of the unsecured bank loan facilities with various maturity dates are provided in note 28.

23. Accruals and other liabilities

	Note	2021 £	2020 £
Accruals and deferred income		3,098,265	2,354,549
Provisions for off balance sheet items	27	4,885	15,283
		3,103,150	2,369,832

24. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Bank and movements thereon during the current and prior reporting period.

	Note	Accelerated tax depreciation	Temporary differences trading	Total
		£	£	£
At 1 January 2020		(6,375)	212,099	205,724
Charge/(credit) to profit or loss		3,349	(14,246)	(10,897)
Deferred tax charge in OCI for the period		-	172,515	172,515
At 31 December 2020		(3,026)	370,368	367,342
Charge/(credit) to profit or loss	10	4,744	(16,814)	(12,070)
Deferred tax charge in OCI for the period	10	-	(356,148)	(356,148)
At 31 December 2021		1,718	(2,594)	(876)

Deferred tax assets and liabilities are offset where the Bank has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021	2020
	£	£
Deferred tax assets/(liabilities)	876	(367,342)

25. Share capital

	2021	2020
	£	£
Authorised:		
Ordinary shares of £1 each	81,283,897	81,283,897

	Number of shares	£
Ordinary shares		
Issued and fully paid:		
At 1 January 2020	20,000,000	20,000,000
Issued on 30 October 2020	61,283,897	61,283,897
At 31 December 2020	81,283,897	81,283,897
At 31 December 2021	81,283,897	81,283,897

The Bank has one class of ordinary shares which carry no right to fixed income.

During 2020, the Bank issued new 61,283,897 units of ordinary shares valued at £61,283,897 to the Export-Import Bank of Korea. No further ordinary share issuances have taken place in 2021. The Export-Import Bank of Korea holds 81,283,897 (2020: 81,283,897) or 100% (2020: 100%) of the ordinary shares issued.

26. Revaluation reserve

	Notes	Revaluation reserve £
Balance under IFRS 9 at 1 January 2020		337,920
Changes in allowance for expected credit losses	9	63,903
Increase in fair value of financial assets measured at FVOCI		871,327
Related income tax on fair value movements of financial assets measured at FVOCI	24	(172,515)
Balance under IFRS 9 at 31 December 2020		1,100,635
Changes in allowance for expected credit losses	9	(26,432)
Decrease in fair value of financial assets measured at FVOCI		(1,772,331)
Related income tax on fair value movements of financial assets measured at FVOCI	24	356,148
Balance at 31 December 2021		(341,980)

27. Contingent liabilities and undrawn lending commitments

	2021 £	2020 £
L/C confirmation (transaction)	27,042,177	23,935,793
Undrawn commercial lending commitments	-	6,809,679
	27,042,177	30,745,472

Impairment losses on contingent liabilities and undrawn lending commitments

Letters of credit

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

	2021			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	27,042,177	-	-	27,042,177
Outstanding	-	-	-	-
Good	-	-	-	-
Below normal	-	-	-	-
	27,042,177	-	-	27,042,177

27. Contingent liabilities and undrawn lending commitments (continued)

Letters of credit (continued)

	2020			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	23,935,793	-	-	23,935,793
Outstanding	-	-	-	-
Good	-	-	-	-
Below normal	-	-	-	-
	23,935,793	-	-	23,935,793

An analysis of changes in the outstanding exposure is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2021	23,935,793	-	-	23,935,793
New exposures	27,042,177	-	-	27,042,177
Exposure derecognised or matured	(23,935,793)	-	-	(23,935,793)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	27,042,177	-	-	27,042,177

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2020	15,122,131	-	-	15,122,131
New exposures	23,935,793	-	-	23,935,793
Exposure derecognised or matured	(15,122,131)	-	-	(15,122,131)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	23,935,793	-	-	23,935,793

Notes to the financial statements (continued)

For the year ended 31 December 2021

27. Contingent liabilities and undrawn lending commitments (continued)

Letters of credit (continued)

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2021	3,781	-	-	3,781
New exposures	1,265	-	-	1,265
Exposures derecognised or matured	(208)	-	-	(208)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	47	-	-	47
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	4,885	-	-	4,885

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2020	4,013	-	-	4,013
New exposures	1,601	-	-	1,601
Exposures derecognised or matured	(208)	-	-	(208)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(1,625)	-	-	(1,625)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2020	3,781	-	-	3,781

Notes to the financial statements (continued)

For the year ended 31 December 2021

27. Contingent liabilities and undrawn lending commitments (continued)

Undrawn lending commitment

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification.

	2021			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	-	-	-	-
Outstanding	-	-	-	-
Good	-	-	-	-
Below normal	-	-	-	-
	-	-	-	-

	2020			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	3,660,724	-	-	3,660,724
Outstanding	-	-	-	-
Good	3,148,955	-	-	3,148,955
Below normal	-	-	-	-
	6,809,679	-	-	6,809,679

An analysis of changes in the outstanding exposure is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2021	6,809,679	-	-	6,809,679
New exposures	-	-	-	0
Exposure derecognised or matured/lapsed	(6,809,679)	-	-	(6,809,679)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	-	-	-	-

27. Contingent liabilities and undrawn lending commitments (continued)

Undrawn lending commitment (continued)

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2020	3,040,207	-	-	3,040,207
New exposures	3,148,955	-	-	3,148,955
Exposure derecognised or matured/lapsed	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	620,517	-	-	620,517
As at 31 December 2020	6,809,679	-	-	6,809,679

An analysis of changes in the corresponding to the ECL allowance is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2021	11,502	-	-	11,502
New exposures	-	-	-	-
Exposures derecognised or matured	(11,502)	-	-	(11,502)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2021	-	-	-	-

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2020	1,339	-	-	1,339
New exposures	9,883	-	-	9,883
Exposures derecognised or matured	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	280	-	-	280
As at 31 December 2020	11,502	-	-	11,502

28. Financial Instruments

Categories of financial instruments

	2021 £	2020 £
Financial assets		
Financial assets measured at amortised cost		
Cash and cash equivalents	6,262,744	39,273,571
Loans and advances to banks	34,696,210	16,776,036
Loans and advances to customers	162,324,430	132,356,932
Debt securities: private placement bonds	61,374,708	42,567,499
Financial investments	32,687,369	25,402,703
Financial assets measured at FVOCI	86,331,939	75,844,747
Financial assets measured at FVTPL	-	2,083,307
	383,677,400	**334,304,795**
Financial liabilities		
Financial liabilities at amortised cost		
Deposits by banks	285,675,937	235,900,111
Subordinated loans	-	-
Lease liabilities	827,158	983,118
Derivative financial liabilities	-	100,345
	286,503,095	**236,983,573**

Financial risk management objectives

The Bank monitors and manages the financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Bank seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Bank does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Categories of financial instruments

Market risk

The Bank's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The Bank enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- interest rate swaps to mitigate the risk of rising interest rates; and
- cross currency swaps to hedge exchange rate risk.

Market risk exposures are measured using value-at-risk ('VaR') analysis supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which these risks are managed and measured.

28. Financial instruments (continued)

Value-at-risk analysis

The VaR measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

VaR*	Average		Minimum		Maximum		Year end	
by risk type	2021	2020	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Foreign exchange	452	214	365	101	506	318	506	318
Interest rate	5,537	2,664	4,950	2,009	6,077	4,203	6,077	3,772
Total VaR exposure	5,989	2,878	5,315	2,110	6,583	4,521	6,583	4,090

* Historical VaR (99%, one-day)

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

Interest rate risk management

Interest rate risk is managed by measuring interest rate Earnings at Risk ('EaR') and interest rate VaR. The Bank simulates analysis reflecting market environment, product features and the Bank's strategies.

The Bank is exposed to interest rate risk as the Bank lends at floating and fixed interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year.

28. Financial instruments (continued)

A 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	Average		Minimum		Maximum		Year end	
	2021	2020	2021	2020	2021	2020	2021	2020
EaR	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate EaR	105	257	12	39	316	587	235	587

Interest rate swap contracts

Under interest rate swap contracts, the Bank agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Bank to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank only transacts with entities that are rated the equivalent of average and above. This information is supplied by independent rating agencies where available, and if not available, the Bank uses other publicly available financial information and its own trading records to rate its major customers. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The day-to-day management of the credit risk function is performed by designated members of the management team who perform regular appraisals of counterparty credit quality for consideration by the Credit Committee.

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk. The Bank recognises impairment loss on loans with carrying amount at amortised cost when there is any objective indication of impairment. Impairment loss is based on losses incurred at the end of the reporting period and the Bank does not recognise expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and receivables and presents it in the financial statements through the use of an allowances account which is charged against the related financial assets.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

Impairment assessment

Significant increase in credit risk

The Bank continuously monitors all assets subject to impairment. In order to determine whether an instrument is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk

28. Financial instruments (continued)

when there is a large change in rating grades since initial recognition. Required changes in rating differ by the exposure's initial rating grade.

The Bank also applies secondary qualitative criteria for triggering a significant increase in credit risk such as customers who are considered 'precautionary' based on the Bank's asset soundness classification process. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The Bank calculates ECL on an individual exposure basis for all type of assets.

Definition of default and credit impaired assets

The Bank considers a financial instrument defaulted in all cases when the borrower becomes 90 days past due on its contractual payments.

The Bank also considers a variety of qualitative instances that indicate that a facility is considered in "default". Such events include:

- The facility is 90 Days Past Due ('DPD');
- It is deemed as non-performing (as defined by the Korean regulator);
- One of several loans to the counterparty has been sold at loss, other loans are also deemed to be in default;
- It cannot be recovered due to credit deterioration;
- The debtor or creditors file for bankruptcy at court;
- The debtor applies for the rehabilitation process;
- There has been a downgrade in the internal credit ratings to an S, D or F;
- The Korea Federation of Banks registers the counterparty on the credit watch list;
- The Korea Financial Telecommunications & Clearing Institute suspends current account transactions; and
- The entity is regarded as one of the following categories as defined by Financial Supervisory Service of Korea: Substandard, Doubtful or Estimated Loss.

The Bank defines a financial instrument as credit impaired and therefore Stage 3 for ECL calculations, when it meets one or more of the following criteria:

- The counterparty meets the definition of default as described above;
- The counterparty attains an audit opinion of 'adverse' or 'disclaimed'; and
- The counterparty is subject to capital impairments.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the credit impaired and default criteria have been present and that there is an evidence of a significant reduction in credit risk. The Bank does not apply a 'cure' period for a financial instrument to be re-classified out of Stage 3.

The Bank's internal rating and PD estimation process

The Bank applies internal rating models for its portfolios. The Bank also analyses publicly available information such as other external rating grades issued by rating agencies.

12 month PDs are inferred from these ratings via the Bank's Master Scale. The Master Scale is a credit rating system which categorises the same credit ratings to the same assigned risk levels, providing consistency amongst all credit ratings, regardless of their portfolio distinctions. The Master Scale uses the lower limit value (Minimum PD) and the upper limit value (Maximum PD) to quantify for each credit rating.

Lifetime PDs are determined through the application of a survival function on the 12 month Master Scale PD. PDs are Point-in-time and adjusted for forward looking information for computation of the ECL.

28. Financial instruments (continued)

The Bank's internal credit rating grades and mapping of external ratings are set out below:

Internal rating grade	Internal rating description
P1 ~ P2	Best
P3+ ~ P3-	Outstanding
P4+ ~ P4-, P5+ ~ P5-, P6	Good
Below P6	Below normal

Internal rating grade	External rating (when applicable)
P1	Equal and above AA- (Aa3)
P2	Equal and above A- (A3)
P3+	BBB+ (Baa1)
P3 ~ P3-	Equal and above BBB- (Baa3)
P4+	BB+ (Ba1)
P4 ~ P4-	Equal and above BB- (Ba3)
P5+	B+ (B1)
P5 ~ P5-	B (B2)
P6	B- (B3)
SM	CCC (Caa)
S+	CC (Ca)

Exposure at default

The exposure at default ('EAD') represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

For fully drawn commitments, the Bank considers EAD as the balance due at the reporting date net of any repayments/cash inflows.

For committed but undrawn exposures, the Bank utilises a one-year cash conversion factor ('CCF') as prescribed by the Basel accords.

Loss given default

The Bank's exposures are unsecured. The LGD for these exposures are based on a 'pure credit LGD', taking into consideration historical defaults and recoveries.

For exposures not in default, an LGD is assigned to each exposure based on the discount rate (effective interest rate) of that exposure. The Bank utilises internal default information in such calibration.

For exposures in default, the Best Estimation of Expected Loss ('BEEL') is utilised as an LGD. This is intended to accommodate the change in recovery rates observed during the default life of an asset.

Analysis of inputs to the ECL model under multiple economic scenarios

The Bank considers the impacts of changing economic scenarios on the resulting expected credit loss calculations. A methodology has been developed for the application of forward economic guidance into the calculation of ECL by incorporating forward looking information into the estimation of the term structure of probability of default. The Bank considers the correlation of forward looking economic guidance to default rates for a particular industry. This guidance incorporates both market and economic indicators.

28. Financial instruments (continued)

To achieve this, the counterparties' PD is revised through an adjustment approach:

- The industry specific risk of the counterparty considering market indicators and economic indicators is assessed and an appropriate macroeconomic impact score identified by the internal Overseas Economic Institute of the Parent Bank. (Industry Risk Index Evaluation: ranging from +2 to -2)

- Based on the macroeconomic impact score assigned and the credit rating at reporting date, an adjusted PD is assigned. Adverse conditions increase the PD in increments of 5% (of the PD value) at each level of index whilst optimistic conditions decrease the PD in the same manner.

Risk Index	Definition	Adjusted PD
-2	Downturn PD	110%
-1	Negative PD	105%
0	Neutral PD	100%
1	Positive PD	95%
2	Upturn PD	90%

The forward-looking macro-economic information used in the Industry Risk Index Evaluation is set out below:

	2021 analysis		2020 analysis	
	2020 actual	2021 forecast	2019 actual	2020 forecast
Stable economic growth rate	-3.1%	5.9% (IMF forecast)	2.8%	-4.4% (IMF forecast)
Korean economy growth downturn rate	-0.9%	4.0% (Bank of Korea forecast)	2.0%	-1.1% (Bank of Korea forecast)

Set out below are the changes to the ECL in profit and loss as at 31 December 2021 that would result from reasonably possible changes in these parameters (all industries have either Risk Index '-1' with Negative PD or Risk Index '1' with Positive PD) from the actual assumptions used in the Bank's economic variable assumptions:

		Factor: Industry Risk Index		
		-5%	No change	+5%
		£	£	£
GBP	Provision Movement in 2021	34,153	93,026	109,609

Modified loans

The Bank sometimes modifies the terms of loans provided to customer due to commercial renegotiations, or for distresses loans, with a view to maximising recovery. Such restructuring activities include change in the financial asset tenor, interest rate and frequency of payments. The risk of default of modified financial assets is assessed at the reporting date and compared with the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the asset is moved from Stage 3 or Stage 2 to Stage 1. The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets applying the same quantitative, qualitative or backstop criteria. As of 31 December 2021, the Bank holds one modified loan, modified in 2019, and the gross carrying amount of this asset is £3,054,703.

28. Financial instruments (continued)

Modified gain (loss)

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the period:

	Loans and advance to customers £
Net modification gain	371,924
Modification gain	371,924
Modification loss	-

Deterioration of modified assets

During the period, there was no gross carrying amount of modified assets reverting from Stage 1 (12-month ECL) to Stage 2, as deterioration of the loan value by the modification has not occurred.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Bank has at its disposal to further reduce liquidity risk are set out below.

Liquidity and interest risk tables

The following tables detail the Bank's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank could be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

	Weighted average effective interest rate %	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2021							
Non-interest bearing	0.02	-	-	-	22,751	804,408	827,159
Variable interest rate instrument	0.59	47,561,304	85,623,700	48,856,318	103,634,614	-	285,675,936
		47,561,304	85,623,700	48,856,318	103,657,365	804,408	286,503,095

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial instruments (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2020							
Non-interest bearing	0.02	37,263	38,739	80,016	652,412	174,688	983,118
Variable interest rate instrument	0.74	2,196,434	75,166,627	129,294,161	29,285,793	-	235,943,015
		2,233,697	75,205,366	129,374,177	29,938,205	174,688	236,926,133

The following table details the Bank's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Bank's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2021						
Non-interest bearing	1,650,585	-	7,381	-	-	1,657,966
Variable interest rate instrument	4,612,159	19,633,905	71,148,277	144,678,172	23,699,540	263,772,053
Fixed interest rate instruments	-	-	8,130,980	109,866,480	-	117,997,460
	6,262,744	19,633,905	79,286,638	254,544,652	23,699,540	383,427,479

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the reporting date.

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial instruments (continued)

Liquidity and interest risk tables (continued)

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2020						
Non-interest bearing	8,909,667	-	-	-	-	8,909,667
Variable interest rate instrument	4,427,924	22,963,683	63,798,017	111,797,285	21,577,367	224,564,276
Fixed interest rate instruments	30,322,292	-	9,853,062	52,661,404	7,333,287	100,170,045
	43,659,883	22,963,683	73,651,079	164,458,689	28,910,654	333,643,988

The Bank has access to financing facilities as described below, of which £141.8 million was unused at the balance sheet date (2019: £134.4 million). The Bank expects to meet its other obligations from operating cash flows and the proceeds of maturing financial assets.

The following table details the Bank's liquidity analysis for its derivative financial instruments based on contractual maturities. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2021						
Net settled:						
Interest rate swaps	-	-	-	-	-	-
Gross Settled:						
Currency swaps	-	-	-	-	-	-
	-	-	-	-	-	-
2020						
Net settled:						
Interest rate swaps	-	-	2,000,000	-	-	2,000,000
Gross Settled:						
Currency swaps	-	-	-	-	-	-
	-	-	2,000,000	-	-	2,000,000

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial instruments (continued)

Financing facilities

	2021 £	2020 £
Unsecured bank loan facilities (Parent Bank) with various maturity dates which may be extended by mutual agreement:		
- amount used	110,977,587	89,514,052
- amount unused	145,103,264	141,817,577
	256,080,852	231,331,629
Unsecured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	174,698,349	146,386,059
- amount unused	-	-
	174,698,349	146,386,059
Total amount used	285,675,937	235,900,111
Total amount unused	145,103,264	141,817,577

Fair value measurements

The information set out below provides information about how the Bank determines the fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used). The method also captures where the fair values of loans, financial assets at amortised cost and borrowings from credit institutions which are not measured at fair value are required for disclosure.

28. Financial instruments (continued)

Financial instruments	Method of measuring fair value
Loans	As demand deposits and transferable deposits do not have maturity dates and are readily convertible to cash, the carrying amounts of these deposits are regarded as the nearest amounts to fair values. The fair values of other deposits are determined by a discounted cash flow model ('DCF model'). The DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows by appropriate discount rates.
Investment securities	Trading financial assets and liabilities, FVOCI and FVTPL financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using valuation techniques.
Derivatives	For over the counter ('OTC') derivatives, fair value is determined using valuation techniques. The OTC derivatives are valued using the results of independent pricing services. The adjustment for credit risk is reflected in cash flow, and the bank's credit risk is considered in the discount rate.
Borrowings from credit institutions	Fair value is determined using a DCF model discounting contractual future cash flows by appropriate discount rates. The adjustment for credit risk is reflected in cash flow, and the bank's credit risk is considered in the discount rate.

Fair value of financial assets and financial liabilities that are not measured at fair value

	Carrying amount		Fair value	
	2021	2020	2021	2020
	£	£	£	£
Financial assets				
Debt securities: private placement bonds	61,374,708	42,567,499	58,432,817	39,828,211
Financial investments:				
Financial investments measured at amortised cost	32,687,369	25,402,703	32,558,145	25,926,017

The carrying amounts of cash, loans and advances to banks and customers and borrowings from other credit institutions are a close approximation of their fair values (level 3).

Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value

	Fair value hierarchy as at 31 December 2021	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	58,432,817	58,432,817
Financial investments:		
Financial investments measured at amortised cost	32,558,145	32,558,145
Total	90,990,962	90,990,962

Notes to the financial statements (continued)

For the year ended 31 December 2021

28. Financial instruments (continued)

Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value (continued)

	Fair value hierarchy as at 31 December 2020	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	39,828,211	39,828,211
Financial investments:		
Financial investments measured at amortised cost	25,926,017	25,926,017
Total	65,754,228	65,754,228

Fair value measurements recognised in the balance sheet

	Level 2	Total
	£	£
31 December 2021		
Financial assets at FVTPL		
Debt securities	-	-
Financial investments measured at FVOCI		
Debt securities	86,331,939	86,331,939
Total	86,331,939	86,331,939
Financial liabilities at FVTPL		
Derivative financial liabilities	-	-
Total	-	-
31 December 2020		
Financial assets at FVTPL		
Debt securities	2,083,307	2,083,307
Financial investments measured at FVOCI		
Debt securities	75,844,747	75,844,747
Total	77,928,054	77,928,054
Financial liabilities at FVTPL		
Derivative financial liabilities	100,345	100,345
Total	100,345	100,345

29. Parent and subsidiary relationships

The ultimate parent undertaking is the Export-Import Bank of Korea which is registered in South Korea and for which group financial statements are prepared. The largest and smallest parent bank preparing group financial statements is the ultimate parent undertaking. The Bank is a wholly-owned subsidiary of the Parent Bank. Copies of its group financial statements can be obtained from the registered office as follows:

The Export-Import Bank of Korea
38 Eunhaeng-ro
Yeongdeungpo-gu
Seoul 07242
Republic of Korea
www.koreaexim.go.kr

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Capital risk management (unaudited)

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Bank consists of subordinated loans disclosed in note 24, equity of the Bank's parent, and retained earnings as disclosed on the balance sheet.

The Bank is subject to the PRA and capital requirements and was in compliance with the regulations during 2021 and 2020.

Capital, leverage and Risk Weighted Assets ('RWA')	Limit %	2021 %	2020 %
CET1 ratio	4.5	30.0	36.4
T1 capital ratio	6	30.0	36.4
Total capital ratio	8	30.0	36.4
Leverage ratio		23.0	26.3
RWA (£)		316,997,557	266,186,264

The Bank's capital ratios are all above the PRA current requirement.