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 2022

### Registered number: 02693038

**Kexim Bank (UK) Limited**

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**Kexim Bank (UK) Limited**

# 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 | |
| DC Ha | Managing Director | Appointed 31 March 2023 |
| J Yang | Managing Director | Resigned on 18 January 2023 |
| J H Cho | Executive Director | |
| C P Edwards | Independent Non-Executive Director | |
| H W Ko | Group Non-Executive Director | Resigned 3 February 2023 |
| D H Lee | Group Non-Executive Director | Appointed 3 March 2022 |
| S H Lee | Group Non-Executive Director | Appointed 10 March 2023 |
| K S Lim | Group Non-Executive Director | Resigned on 28 January 2022 |

### Company Secretary

M V Bates Company Secretary

### Registered office

3rd Floor
Moorgate Hall
155 Moorgate
London
EC2M 6XB

### Registered number

02693038

### Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU
United Kingdom

# Chair's statement

**Overview of 2022**

The past year has seen further challenges and uncertainty in the global economy as the ongoing war in Ukraine, China's lockdown and the recalibration of the international trade relations that govern global supply chains have all contributed to supply-driven inflation, to which central banks have responded by increasing base rates several times during the past year. Despite the challenges posed by this rapid change after over a decade of low global interest rates, the Bank managed to meet its key goals for the year.

During the year, the Bank has continued to expand its lending activities to support companies and projects that strengthen the international position of the Korean economy, in line with the 3-year business plan for deployment of the GBP 61.3 million capital injection received from its parent the Export-Import Bank of Korea in late 2020. 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 represent the largest portion of the Bank's lending portfolio.

**Governance and Board changes**

The Board met five times during 2022. It continues to focus on effective risk management, regulatory compliance and the Bank's relationship with the UK regulatory authorities. In January 2023, Mr JB Yang completed his 3-year term as Managing Director of the Bank. His successor, Mr DC Ha, was appointed to the Board on 31 March 2023. The Board has also been joined by two new Non-Executive Directors, Mr DH Lee who replaced Mr KS Lim in March 2022, and Mr SH Lee who replaced Mr HW Ko in March 2023. We thank Mr Yang, Mr Lim and Mr Ko for their service to the Board.

P Canziani
Chair

# Strategic report

The directors present their Strategic report for Kexim Bank (UK) Limited for the year ended 31 December 2022.

**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**

During 2022, the Bank continued to deploy its increased lending capacity during the year in accordance with the rolling 3-year business plan that had been approved by the Board in December 2021 and its business plan for the year. As a result, total interest-bearing assets (consisting of loans and advances, debt securities and financial investments) increased 32% to £496 million (equivalent of US$597 million) at year end from £377 million (equivalent of US$509 million) as at the end of 2021.

The Bank's net profit increased by 102% from £1,248 thousand (equivalent to US$1,686 thousand) in 2021 to £2,517 thousand (equivalent to US$3,029 thousand) in 2022. The progressive increase in interest rates that characterised 2022 affected both the Bank's interest income and borrowing costs; but on average across the year, the overall effect was to increase net income. Although the Bank has had no non-performing loans during the year, the higher interest rate environment is assumed to have increased credit risk, which is reflected in an impairment charge of £241 thousand (2021: £93 thousand).

With these results, the Bank met its key financial KPI targets for the year in terms of interest bearing assets of approximately US$585 million and non-performing loan ratio below 1%.

The Bank also met non-financial KPIs by continuing to expand lending to environmental or ESG sectors, including US$35 million of new loans to firms producing solar modules and rechargeable batteries; by increasing loans to emerging markets such as Africa and the Middle East; and by undertaking co-manager roles to support the Parent Bank's funding activities.

During 2022, 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.

The Bank's Common Equity Tier 1 and total capital adequacy ratios, has reduced to 22.5% at the end of 2022 (2021: 30%), as the Bank progressively deploys its increased borrowing capacity following the 2020 capital injection.

Regarding the Bank's portfolio of investments in fixed and floating rate securities held at Fair Value through Other Comprehensive Income, as a result of actual and expected of higher interest rates, the unrealised loss on these FVOCI securities increased, resulting in an unrealised loss for the year before tax of £5.64 million (2021: unrealised loss before tax of £2.03 million). The change in market valuation was particularly pronounced in Sterling denominated fixed rate instruments maturing in 2025 and 2026, where the effect was not mitigated by the appreciation of other currencies relative to Sterling. This position has begun to recover since late 2022 and during the early part of 2023 as inflationary fears and interest rate expectations have reduced.

### A fair review of the business (continued)

In addition to supporting environmental or ESG sectors, the Bank has continued to monitor its exposure to climate change financial risk. For further details, please see the Bank's TCFD disclosures later in this strategic report.

### Economic outlook

Russia's war in Ukraine, and China's Covid-19 lockdown and deteriorating trade relations have both exacerbated supply-side driven inflation, leading central banks to raise interest rates. Although the initial shock of these inflation driver should disappear from the 12-month look back period of inflation measures in the early part of 2023, a number of risks could give a renewed impetus to the supply squeeze. Key risks include a significant escalation of the war in Ukraine, whilst tighter global financing conditions would worsen debt distress and could trigger volatility in financial markets.

International Monetary Fund ('IMF')'s latest (January 2023) World Economic Outlook forecasted that global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023 and 3.1 percent in 2024, with higher growth expectations for emerging and developing economies (4.0 percent in 2023 increasing to 4.2 percent in 2024) than for advanced economies (1.2 percent in 2023, rising to 1.4 percent in 2024).

In the UK, where the Bank is incorporated, managed and regulated, GB Sterling being the Bank's reporting currency and the denomination of its capital and the second largest share of its securities portfolio, inflation has been in the range of 9 to 11 percent since April 2022, forcing the Bank of England (BoE) to tighten financial conditions by increasing its interest rate. In order to guide monetary policy to meet its 2% inflation target in the medium term, the BoE's Monetary Policy Committee (MPC) has increased its base rate from 0.25% at the beginning of 2022 to 4.25% on 23 February 2023. The IMF has estimated that the UK's real GDP grew 4.1 percent during 2022, but will decrease by -0.6 percent in 2023, before increasing 0.9 percent in 2024, reflecting tighter fiscal and monetary policies, financial conditions and relatively still-high energy prices weighing on household budgets.

In the Republic of Korea, the country of the majority of the Bank's borrowers, the Bank of Korea estimated inflation (Consumer Price Index) for 2022 at 5.1 percent, which it forecast to recede to 3.6 percent in 2023 and 2.5 percent in 2024. Rising inflation has triggered the Bank of Korea to increase its base rate by 25bps to 3.5 percent in January 2023. The IMF and Bank of Korea both forecast that Korea's GDP growth rate will fall from an estimated 2.6 percent in 2022 to 1.7 percent in 2023, with growth in 2024 forecasted to recover to 2.3 percent (Bank of Korea) or 2.6 percent (IMF). The GDP growth trajectory estimate reflects expectations of a decrease in global demand for imports, easing of monetary policy tightening in major economies, and continued high energy prices.

In the United States, in whose currency the majority of the Bank's lending is denominated, the Federal Reserve raised its interest rate to 5.0 percent in March 2023 in order to bring down inflation towards its 2 percent target, even though the inflation rate was estimated to have slowed from 6.5 percent in December 2022 to 6.2 percent in January 2023. The rising base rate will impact the Bank's cost of borrowing; but will be partially offset by the effect on the Bank's floating rate exposures. The IMF estimates that growth will fall from an estimated 2.0 percent in 2022 to 1.4 percent in 2023 and 1.0 percent in 2024.

In the year ahead, it is expected that many central banks in advanced economies have explicitly stated they will require to keep rates higher and to tighten monetary policy, for longer period of time to bring down the inflation as a result of slowing aggregate demand and margins. These would have an adverse direct impacts on the Bank's borrowing costs, although this would be partly offset by higher returns on the Bank's existing floating-rate interest-bearing assets and on new loans and investment opportunities as the Bank continues to gradually expand its business.

***Climate change financial risk – TCFD disclosures***

The Taskforce for Climate-related Financial Disclosures (TCFD) has issued 4 recommendations and 11 supporting recommended disclosures (with associated general and sector-specific guidance) for the form in which firms should explain their approach to managing climate change financial risk. The TCFD framework is also being used as the initial template as the IFRS Foundation's International Sustainability Standards Board develops its forthcoming IFRS climate-related disclosure standard. In accordance with the TCFD's recommendations, the Bank provides the following disclosures regarding its approach to climate change financial risk.

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.

The Bank's strategic commitment is to support companies in environmental industries (such as solar energy, EV battery technology and sewage treatment), representing 22.5% 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 7.0% 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 (5.5%), a sector which has high-emissions but which is generally considered difficult to decarbonise in the near term. Over 85% 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 4.7% of interest-bearing assets, of which around 3.1% matures by 2026 and the other 1.6% matures by 2035. The latter exposure is closely monitored, but reflects the competing policy objectives of supporting energy transition and energy security.

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.

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

As at 31 December 2022

| Industry | Percentage of total exposures | Average Tenor (years) | Average Credit Quality (CQS) |
|---|---|---|---|
| Auto parts and automotives - fuel based* | 2.3% | 1.4 | 3 |
| Oil and Gas | 4.7% | 3.7 | 3 |
| Shipbuilding and Shipping | 5.5% | 5.4 | 4 |
| Aviation | 0.6% | 1.3 | 2 |
| **Total carbon-related assets** | **13.1%** | | |

*Total auto parts and automotives are 7% of total exposures

As at 31 December 2021

| 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 2022 to be 5.4 metric tonnes CO2e, consisting of company hybrid electric car use of 0.1 CO2e, office electricity use of 2.0 CO2e, and heating and air conditioning use of 3.3 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 0.8 CO2e and daily commuting 2.4 CO2e.

| **Scope** | **Description** | **2022** | | **2021** | |
|---|---|---|---|---|---|
| | | Emissions (CO2e)* | | Emissions (CO2e)* | |
| | | kg | metric tonnes | kg | metric tonnes |
| Scope 1 | Company car (hybrid electric) | 61.4 | 0.1 | 70.4 | 0.1 |
| Scope 2** | Office electricity and heating consumption | 5,323.0 | 5.3 | 5,757.9 | 5.8 |
| Scope 3*** | *Staff office commuting and business air travel only | 3,155.3 | 3.2 | 3,047.3 | 3.0 |
| **Total** | | **8,539.7** | **8.6** | **8,875.6** | **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.

# Strategic report (continued)

**Principal risks and uncertainties**

The Bank's principal risks and uncertainties include financial risks and non-financial risks. Financial risks include credit risk, liquidity risk, market risk (which includes currency and interest rate risk) and operational risk. Further details on the Bank's financial risks and measures to mitigate those risks are described in the Directors Report, section Financial risk management objectives and policies; and further in note 26 to the financial statements.

Compared to the prior year, the most significant change in financial risk has been the effect of the increase in interest rates on credit risk, liquidity risk and market risk.

Non-financial risks which could affect the Bank include legal risk and conduct risk.

*Conduct Risk*

This may be defined as an action by the Bank or an individual that leads to customer detriment or poses a risk to the reputation of Kexim Bank UK or its Parent Bank or has an adverse effect on market stability and competition. Conduct risks that the Bank may be exposed to includes conflicts of interest and insider dealing. By setting the tone from the top, the Bank seeks to promote good behavior across all aspects of its business (including corporate governance) to ensure that there is no room for misconduct. The Bank maintains a Whistleblowing Policy wherein employees are encouraged to make disclosures as appropriate.

*Legal Risk*

Legal risk includes contract and litigation risk, and regulatory risk resulting from lack of awareness, misunderstanding or reckless indifference to the way UK, EU and international law and regulation apply to Kexim Bank. Contract and litigation risks may include issues arising from customer and vendor transactions and Kexim Bank tax positions. The Bank's potential regulatory risks include failure to adhere to regulatory expectations in relation to the risk of financial crime and fraud, cyber security and data breaches, diversity and inclusion, climate risk and sustainability. The Bank has various policies, procedures and other controls across the lines of defence that identifies and mitigates regulatory risks.

Compared to the prior year, the most significant change in non-financial risk has been the introduction of new KYC software and new policies for anti-money laundering, data protection and operational resilience which are considered to have reduced the Bank's susceptibility to these risks.

**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 the £61.3 million capital injection received from the Parent Bank in late 2020, the Bank established a 3-year business plan to gradually deploy its increased financial capacity to increase its interest bearing assets. This strategy is reviewed at least once a year in formulating the annual business plan for the year ahead, and in view of the interest rate risk associated with inflationary economic environment, the Bank is interpreting the strategy with a reduced risk appetite, but still intends to expand its Bank lending and support for Korean corporates over the medium term. In terms of sectors, the Bank will continue to aim to increase loans to green and high-tech industries. The Bank also aims to expand its role as a facilitator, and to arrange more of its borrowing and lending independently of the Parent Bank.

# Strategic report (continued)

**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 2022 Business Plan approved in December 2021, 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 included various office safety measures, and improvements in systems for remote working which have been reported to the Board. Staff training is reported on an annual 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 arranger or facilitator 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 acts as an agent for long-term loan projects in which the Parent Bank is a major lender. 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.

# Strategic report (continued)

**S172 statement by the directors (continued)**

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.

**Approval**

This report was approved by the Board of Directors on 11 May 2023 and signed on its behalf by:

D Ha
Managing Director
11 May 2023

# 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 2022.

**Dividends**

No dividends were declared or paid during 2022 (paid in 2021 in relation to financial year 2020: GBP £39,764).

**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 28.

**Future developments of the business of the company**

Please see the section Future business strategy in the Strategic report.

**Emissions and energy consumption**

Although the Bank rents a serviced office inclusive of electricity and heating, and has no reliable meter of its consumption, on a best efforts basis using plug-in meter readings and assumptions based on publicly available data, the Bank makes the following estimates of annual energy consumed from activities for which the company is responsible:

| | Energy consumption (kWh) | Description | Emissions within UK? |
|---|---:|---|---|
| Scope 1 | 254 | Company car (hybrid electric) | Yes |
| Scope 2 | 28,540 | Office electricity, heating and cooling | Yes |
| Scope 3 | 3,177 | Business travel only | No, international air travel from UK |
| **Total** | **31,971** | | |

The Bank is unable to make disclosures relating to its loans and investments as very few of its counterparties currently make such disclosures. This is expected to change in the future.

For estimated emissions, please see the Strategic report, section Climate change financial risk – TCFD disclosures, subsection Metrics and Targets, b).

Estimated emissions of 8,540 kg $CO_2e$ divided by the Bank's average of 16 employees for the year equate to 534kg $CO_2e$ emissions per employee.

**Events since the balance sheet date**

There have been no 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 the economic outlook. 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 after moderate 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 26);
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. 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.

# Directors' report (continued)

**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.

**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 2022, there were no hedging transactions in place.

**Operational risk**

The primary operational risks include 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 (2021: 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**

BDO LLP have expressed their willingness to continue to act as auditor. The appointment of auditor for financial year 2023 will be finalised following the Bank's Annual General Meeting.

**Kexim Bank (UK) Limited**

# Directors' report (continued)

This report was approved by the Board of Directors on 11 May 2023 and signed on its behalf by:

D Ha
Managing Director
11 May 2023

# 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 11 May 2023 and is signed on its behalf by:

Managing Director
D Ha
11 May 2023

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

**Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kexim Bank (UK) Limited (the 'Bank' or the 'Company') for the year ended 31 December 2022 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. 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).

**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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

*Independence*

Following the recommendation of the Audit Committee, we were appointed by the board of Directors on 12 April 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 December 2022 . We remain independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Bank.

**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 Bank's ability to continue to adopt the going concern basis of accounting included:

- Obtaining and evaluating the Directors assessment of going concern, challenging this in light of our understanding of the Bank's strategy, forecasts, capital adequacy and liquidity positions and current assessment of the impact of various stress scenarios. Further, we have used publicly available information to challenge and assess the reasonableness of certain assumptions used to derive the forecasts and stress tests applied.
- In understanding the capital and liquidity of the Bank, we have reviewed the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and capital adequacy ratio with the help of our regulatory experts. We have used this understanding to assess the Bank's capital and liquidity position and their ability to remain compliant with the required regulatory requirements.

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

- Enquiring with the Directors and assessing the continued economic impact of Russia's invasion of Ukraine, the UK economic environment and rising cost of living on the business and whether the impact thereof has been adequately factored into the Directors assessment of going concern. Assessing the forecast used to support the going concern assessment for arithmetical accuracy.

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 Bank'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.

**Overview**

| | | |
|---|---|---|
| **Coverage** | *100% of profit before tax*<br>*100% of revenue*<br>*100% of total assets* | |
| **Key audit matter** | Loan loss provisioning | 2022<br>√ |
| **Materiality** | *financial statements*<br><br>£702,000m based on 0.75% of Net Assets | |

**An overview of the scope of our audit**

Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

*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, including 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. This matter was 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 this matter.

| **Key audit matter** | | **How the scope of our audit addressed the key audit matter** |
|---|---|---|
| **Loan loss provisioning**<br><br>Note 2 (Accounting policy : Pages 38 to 40) and Note 14 Loans and advances to bank | The provision for impairment losses on loans and advances to banks and customers is £220,956 (2021:£144,854). | Our procedures included the following:<br>• We have tested the completeness and accuracy of the key inputs used in Expected Credit Loss calculation i.e., Probability of Default, Loss Given Default, Exposure At Default |

| | | |
|---|---|---|
| and Note 15 Loans and advances to customers | The principal activity of the Bank is the provision of credit services (loans and advances) to corporates and banks.<br><br>Under IFRS 9, the Bank is required to assess the recoverability of all facilities.. Therefore, the Bank needs to assess the Expected Credit Loss (ECL) provision for the loan book as a whole, taking into account macroeconomic factors (including Probability of Default, Loss Given Default and Exposure at Default) along with the staging, to ensure compliance with IFRS 9.<br><br>Estimating the loan loss provision requires significant management judgement and estimate in determining the value and timing of expected future cash flows as well as collateral held. In the case for this Bank, all exposures are uncollateralised.<br><br>The Bank is reliant on its parent for providing the key inputs deriving the ECL charge as the methodology is driven by the parent. The Bank has adopted parent's ECL methodology which includes determination of PD's, LGD's and application of multiple economic scenarios.<br><br>Given the current market situation in which rises in interest rates and the cost of living has resulted a strain in the market because of which we allocated significant audit effort on assessing the reasonability of the loan loss | and Multiple economic Scenarios used in the calculation of the loan loss provision to the impairment policy by performing the following procedures:<br>i. On a sample basis, we traced the credit rating of each borrower to the credit rating source ie, (rating assigned by parent) and External Rating Agency Report (External Credit Rating)<br>ii. On a sample basis, we traced the EAD amount to the Loan Agreement.<br>iii. For the loan portfolio, we have tested the PD, LGD and MES inputs are in accordance to the Bank's Impairment Policy.<br>• Assessed the appropriateness of the ECL model by reference to internal and external information to establish if it is in accordance with requirements of IFRS 9.<br>• We have tested the appropriateness of the Bank's assigned staging for the loans is in accordance with management's definition of SICR in the Impairment Policy by performing the following procedures on sample basis :<br>i. Recalculated the number of days past due of the latest interest payment, to ascertain that there is no payment past due 30 days.<br>ii. Enquired with Parent Bank on the list of precautionary borrowers to ensure that none of the borrowers are included in the precautionary list.<br>iii. checked the movement in notched to ascertain if it meets the SICR criteria.<br><br>• With the involvement of our internal Economics expert : |

| | | |
|---|---|---|
| | provision calculated by the bank and the accuracy of the parameters used.<br><br>For these reasons we considered this to be a key audit matter. | i. Evaluated the bank's expected credit loss policy and assessed its compliance with IFRS 9 and industry practice.<br>ii. Evaluated the selection and source of the information used by the Bank in terms of PD's, LGD's and EAD's against the requirements of IFRS 9.<br>iii. We have performed sensitivity analysis to assess the impact of change in key inputs on ECL.<br><br>• Assessed the logic and arithmetic accuracy of the calculation of the ECL.<br><br>***Key observations:***<br>Based on our audit work performed, we consider the estimates made by the Bank in the calculation of the ECL provision to be reasonable, and in line with the requirements of IFRS 9 |

**Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

| | Financial statements |
|---|---|
| | 2022<br>£ |
| **Materiality** | 702,000 |
| **Basis for determining materiality** | Net Assets |
| **Rationale for the benchmark applied** | We determine net assets to be the key metric used by the user of the financial statements to evaluate the performance of the Bank. |
| **Performance materiality** | 421,000 |
| **Basis for determining performance materiality** | 60% |
| **Rationale for the percentage applied for performance materiality** | 60% of materiality, determined on the basis of our risk assessment together with our assessment of the overall control environment. |

**Other information**

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

**Other Companies Act 2006 reporting**

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| **Strategic report and Directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>• 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<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br><br>In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report. |
| **Matters on which we are required to** | We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: |

| | |
|---|---|
| **report by exception** | • adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or<br>• the financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• we have not received all the information and explanations we require for our audit. |

**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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

**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.

*Extent to which the audit was 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 irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

*Non-compliance with laws and regulations*

Based on:

- our understanding of the Bank and the industry in which it operates;
- discussion with management and the Board of Directors; and
- obtaining and understanding of the Banks's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 Reduced Disclosure Framework, Companies Act, 2006, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations and relevant tax legislation.

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

Our procedures in respect of the above included:

- review of minutes of meeting of Board of Directors and audit committee for any instances of non-compliance with laws and regulations;
- review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- review of financial statement disclosures and agreeing to supporting documentation; and
- involvement of tax specialists in the audit.

*Fraud*

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiry with Board of Directors and Audit Committee, regarding any known or suspected instances of fraud;
- review of minutes of meeting of Board of Directors and Audit committee for any known or suspected instances of fraud; and
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls.

Our procedures in respect of the above included:

- testing a sample of journal entries throughout the year, which met a defined risk criterion, by agreeing to supporting documentation;
- assessing significant estimates made by management for loan loss provisioning as set out in key audit matters section above; and
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

**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.

DocuSigned by:
Stefan Beyers
CE728DA8A36C4A1...

[*Signature*]

Stefan Beyers (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
*London, UK*
*11 May 2023*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Kexim Bank (UK) Limited**

# Profit and loss account

## For the year ended 31 December 2022

| | Notes | 2022<br>£ | 2021<br>£ |
|---|---|---|---|
| Interest income | | 11,556,877 | 4,905,429 |
| Interest expense | | (7,253,595) | (1,647,023) |
| **Net interest income** | 4 | 4,303,282 | 3,258,406 |
| Net loss on financial assets designated at fair value through profit or loss ('FVTPL') | | - | (10,063) |
| Net gain on derivatives | | - | 812 |
| Fees and commission income | 5 | 1,456,092 | 1,148,928 |
| Fees and commission expense | | (2,908) | (9,309) |
| Other operating income/(loss) | | 400,171 | (235,485) |
| **Total operating income** | 6 | 6,156,637 | 4,153,289 |
| Administrative expenses | 8 | (2,806,180) | (2,489,926) |
| Impairment charge on financial assets | 9 | (241,383) | (93,026) |
| **Profit on ordinary activities before tax** | | 3,109,074 | 1,570,337 |
| Tax on profit on ordinary activities | 10 | (591,640) | (321,939) |
| **Profit on ordinary activities after tax** | | 2,517,434 | 1,248,398 |

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

# Statement of comprehensive income

For the year ended 31 December 2022

| | Notes | 2022<br>£ | 2021*<br>£ |
|---|---|---|---|
| **Profit for the year** | | 2,517,434 | 1,248,398 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Assets at fair value through other comprehensive loss | | | |
| Reclassified to profit and loss | | (447) | 254,062 |
| Loss arising during the year | | (5,640,570) | (2,026,393) |
| Changes in allowance for expected credit losses during the year - FVOCI | 9 | 9,305 | (26,432) |
| Credit to deferred tax – current year | | 1,385,670 | 356,147 |
| Debit to deferred tax - prior year | 22 | (16,110) | - |
| **Other comprehensive loss for the year net of tax** | | (4,262,152) | (1,442,616) |
| **Total comprehensive loss for the year attributable to Shareholders** | | (1,744,718) | (194,218) |

*Restated.

The notes on pages 29 to 84 form part of these financial statements.

# Balance sheet

## As at 31 December 2022

| | Notes | 2022<br>£ | 2021*<br>£ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 18 | 19,199,889 | 6,262,744 |
| Financial investments | 17 | 143,109,644 | 120,163,575 |
| Debt securities: private placement bonds | 16 | 72,526,543 | 61,518,069 |
| Loans and advances to banks | 14 | 64,280,786 | 34,733,458 |
| Loans and advances to customers | 15 | 219,863,026 | 162,640,645 |
| Prepayments and other receivables | | 43,913 | 197,938 |
| Intangible assets | 11 | 61,980 | 85,969 |
| Tangible fixed assets | 12 | 28,945 | 42,073 |
| ‘Right-of-use’ asset | 13 | 682,036 | 844,708 |
| Deferred tax assets | 22 | 1,407,543 | 876 |
| **Total assets** | | 521,204,305 | 386,490,055 |
| **Liabilities** | | | |
| Borrowings from credit institutions | 20 | (406,105,536) | (285,815,854) |
| Accruals and other liabilities | 21 | (19,163,045) | (2,958,348) |
| Provisions for off-balance sheet items | 25 | (3,997) | (4,885) |
| Corporation tax payable | | (274,868) | (155,239) |
| Lease Liabilities | 19 | (668,190) | (827,158) |
| **Total liabilities** | | (426,215,636) | (289,761,484) |
| **Net assets** | | 94,988,669 | 96,728,571 |
| **Capital and reserves** | | | |
| Called up share capital | 23 | 81,283,897 | 81,283,897 |
| Revaluation reserve | 24 | (4,604,133) | (341,981) |
| Profit and loss account | | 18,308,905 | 15,786,655 |
| **Total shareholders’ funds** | | 94,988,669 | 96,728,571 |

*Restated.

# Balance sheet (continued)

## As at 31 December 2022

These financial statements of Kexim Bank (UK) Limited, registration number 02693038, on pages 29 to 84 were approved and authorised for issue by the Board of Directors on 11 May 2023 and are signed on their behalf by:

DC Ha
Managing Director

The notes on pages 29 to 84 form part of these financial statements.

## Kexim Bank (UK) Limited

# Statement of changes in equity

For the year ended 31 December 2022

| | Notes | Share capital £ | Profit and loss account £ | Revaluation reserve £ | Total £ |
|---|---|---|---|---|---|
| **Balance at 1 January 2021** | | 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 | | | | (1,442,616) | (1,442,616) |
| **Balance at 31 December 2021** | | 81,283,897 | 15,786,655 | (341,981) | 96,728,571 |
| Prior year adjustment (corporation tax) | | | 4,816 | | 4,816 |
| Profit for the year | | | 2,517,434 | | 2,517,434 |
| Other comprehensive loss for the year | 24 | | | (4,262,152) | (4,262,152) |
| **Balance at 31 December 2022** | | 81,283,897 | 18,308,905 | (4,604,133) | 94,988,669 |

## 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 10.

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 27.

**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 10.

The going concern assessment has considered the potential impact on capital adequacy and liquidity of stress scenarios at the firm specific, market wide and combined (both firm specific and market) levels, including in the event of a financial crisis with particular impact on South Korea and the Kexim group. For capital stress testing, the firm specific test envisaged a US$100,000 operational loss and a 20% increase in administrative expenses to address the event; the market wide scenario envisaged a 2-notch downgrade in its exposures and a 20% decrease in interest income with no corresponding decrease in interest expense; and the combined scenario included all of these elements together, with additional iterations considering if the Bank only increased its lending and investing by 5% per year; and replacing the 20% decrease in interest income with a 50% increase in interest expense with no corresponding increase in interest income. The Bank maintained its capital surplus after management action in all scenarios. For liquidity stress testing, the most challenging combined test assumed that the Parent Bank credit facility would be inaccessible for one year; that other credit institutions withdrew upon maturity 100% of funding maturing with 30 days and 80% of funding maturing within one year; that LC confirmations were drawn down 50% on day one and fully drawn down after 3 month, with no recovery of funds recognised in the stress period; and that securities have haircuts of up to 40% depending upon credit quality. The Bank was able to maintain its liquidity ratios after management action to liquidate securities, with peak refinancing requirement of £43.1 million occurring during the first three months.

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

## 2. Significant accounting policies (continued)

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).

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 equivalents include amounts due from banks on demand or with an original maturity of three months or less, including time deposits.

**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.

## 2. Significant accounting policies (continued)

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***

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).

## 2. Significant accounting policies (continued)

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.

**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.

## 2. Significant accounting policies (continued)

***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.

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, and except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

## 2. Significant accounting policies (continued)

***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.

The Bank classifies and measures its derivatives 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, debt securities 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.

## 2. Significant accounting policies (continued)

'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.

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.

***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:

- 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.

## 2. Significant accounting policies (continued)

***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 25.

**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 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.

## 2. Significant accounting policies (continued)

*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 26.

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 26). The Bank records an allowance for the LTECLs.

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:

## 2. Significant accounting policies (continued)

| | | |
|---|---|---|
| ▪ | 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 26.

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%. |

***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

## 2. Significant accounting policies (continued)

- 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 26.

***Write-offs***

Financial assets are written off either partially or in their entirety when the Bank has no reasonable expectations of recovering the financial asset. 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.

***Prior Year Restatements***

The 2022 financial statements include five prior year restatements, in which one of them is change in presentation and the other four are changes made to align the presentation/disclosure as required by IFRS.

In prior years, balance sheet assets and liabilities were divided by maturity into current and non-current. However, in view of IAS1.63, which states that for financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non current presentation, and in view of industry practice, we have reclassified the balance sheet in decreasing order of liquidity. For further details, please see the table at the end of this section.

In prior years, accrued interest receivable was included on the balance sheet as part of prepayments and accrued income, whilst accrued interest payable appeared as part of accruals and other liabilities. During the audit of these financial statements, management have been advised that to rather than presenting the accrued interest receivable and payable as above, IFRS 9 requires the reallocation of accrued interest to the carrying value of the class of financial assets or financial liabilities. Management have reclassified accordingly. This has resulted in a total reclassification of £1,641,089 being reduced from 'Prepayments and accrued income' (now renamed 'Prepayments and other receivables') and added in respective asset balances and £81,274 being reallocated from 'Accruals and other liabilities' to 'Borrowings from credit institutions'. For further details, please see the table below.

In accordance with IFRS 7.20(a)(viii), in the Statement of Other Comprehensive Income, '(loss)/gain arising during the year' and amounts 'reclassified to profit and loss' are now disclosed separately. Rather than disclosing it separately, they were previously disclosed together as the single line item '(loss)/gain arising during the year' of (£1,772,331). This has been restated as (£2,026,393) for '(loss)/gain arising during the year' and £254,062 for 'reclassified to profit and loss' in relation to 2021.

Regarding maximum exposure to credit risk, in prior years the Bank has disclosed a table of gross carrying amounts. The Bank also disclosed a table of analysis of changes in expected credit loss allowances. IFRS 7.B9 specifies that Paragraphs 35K(a) and 36(a) require disclosure of the amount that best represents the entity's maximum exposure to credit risk net of: any amounts offset in accordance with IAS 32; and any loss allowance recognised in accordance with IFRS 9. Therefore the maximum exposure to credit risk table has been restated to show maximum exposure to credit risk in a table of values net of expected credit loss allowances.

In addition, provisions for off-balance sheet items, have been disclosed as a separate line item on the balance sheet as required by IAS 1.54 (l). Rather than presenting as a separate line item per IAS 1, this was previously

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 2. Significant accounting policies (continued)

included in 'Accruals and other liabilities' and shown separately within the notes. The amount now shown separately on the 2021 balance sheet as £4,885.

There was no impact on profit, total equity and total net assets due to the above restatements.

| **Reclassification/Revised Presentation of Balance Sheet as at 31 December 2021** | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2021 Financial Statements | | **Reclassification/Revised Presentation** | | | 2021 Financial Statements | | |
| **Description** | **Amount** | Aggregate current and non-current to single account | Reallocate accrued interest to related class of financial instruments | Reallocate provisions for off-balance sheet items to separate line item | **Amount** | **Description** | **Notes** |
| **ASSETS** | | | | | | | |
| **Financial investments** | | | | | | | |
| Non-current | **111,613,497** | (111,613,497) | | | | | |
| Current | **7,405,811** | (7,405,811) | | | | | |
| | | 119,019,308 | 1,144,267 | | **120,163,575** | **Financial investments** | **17, 26** |
| **Debt securities: private placement bonds** | | | | | | | |
| Non-current | **54,154,130** | (54,154,130) | | | | | |
| Current | **7,220,578** | (7,220,578) | | | | | |
| | | 61,374,708 | 143,361 | | **61,518,069** | **Debt securities: private placement bonds** | **16, 26** |
| **Loans and advances to banks** | | | | | | | |
| Non-current | **23,638,936** | (23,638,936) | | | | | |
| Current | **11,057,274** | (11,057,274) | | | | | |
| | | 34,696,210 | 37,248 | | **34,733,458** | **Loans and advances to banks** | **14, 26** |
| **Loans and advances to customers** | | | | | | | |
| Non-current | **89,087,548** | (89,087,548) | | | | | |
| Current | **73,236,882** | (73,236,882) | | | | | |
| | | 162,324,430 | 316,215 | | **162,640,645** | **Loans and advances to customers** | **15, 26** |
| **LIABILITIES** | | | | | | | |
| **Prepayments and accrued income** | **1,839,029** | | (1,641,091) | | **197,938** | **Prepayments and other receivables** | |
| **Borrowings from credit institutions** | | | | | | | |
| Non-current | **(103,634,614)** | 103,634,614 | | | | | |
| Current | **(182,041,323)** | 182,041,323 | | | | | |
| | | (285,675,937) | (81,274) | | **(285,757,210)** | **Borrowings from credit institutions** | **20** |
| **Accruals and other liabilities** | | | | | | | |
| Current | **(3,103,150)** | | 81,274 | 4,885 | **(3,016,991)** | **Accruals and other liabilities** | **21** |
| | | | | (4,885) | **(4,885)** | **Provisions for off-balance sheet items** | |

## 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.

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; and
- determination of associations between macroeconomic impacts, economic inputs, and the effect on PDs, EADs and LGDs.

Elements of the ECL models that are considered to involve judgements include:

- 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; and
- development of ECL models, including the various formulas and the choice of inputs.

The section of 'Analysis of inputs to the ECL model under multiple economic scenarios' in note 26 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 2022

## 4. Net interest income

| | 2022 £ | 2021 £ |
|---|---|---|
| Interest income | | |
| Interest income from debt securities: | | |
| Financial investments at amortised cost | 682,512 | 400,827 |
| Financial investments at FVOCI | 2,000,445 | 1,118,367 |
| Private placement bonds | 1,416,798 | 538,931 |
| Interest income from loans and advances to customers and banks: | | |
| Loans and receivables | 7,457,122 | 2,847,304 |
| Total interest income | 11,556,877 | 4,905,429 |
| Interest expense | | |
| Interest expense payable to Parent Bank: | | |
| Intergroup borrowings | 2,839,748 | 248,798 |
| Interest expense payable to other companies: | | |
| Borrowings from credit institutions | 4,400,557 | 1,381,925 |
| Interest expense on lease liabilities | 13,290 | 16,300 |
| Total interest expense | 7,253,595 | 1,647,023 |
| Net interest income | 4,303,282 | 3,258,406 |

## 5. Fees and commission income

| | 2022 £ | 2021 £ |
|---|---|---|
| Management fees | 49,902 | 11,151 |
| Front-End fees | - | 28,734 |
| Commitment fees | 7,156 | 22,463 |
| Arrangement fees | 356,770 | 395,421 |
| Prepayment fees | - | 120 |
| Fronting fees | 16,992 | - |
| Letter of credit fees | 143,276 | 101,596 |
| Agent fees | 869,269 | 582,056 |
| Other fees | 12,727 | 7,387 |
| Total fees and commission income | 1,456,092 | 1,148,928 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 6. Analysis of total operating income

| | 2022 £ | 2021 £ |
|---|---|---|
| *By activity* | | |
| Net Interest Income | 4,303,282 | 3,258,406 |
| Gain/(loss) on financial assets designated at FVTPL | - | (10,063) |
| Net gain on derivative instruments | - | 812 |
| Fees and commissions income, net | 1,453,184 | 1,139,619 |
| Foreign exchange, net | 399,724 | 18,577 |
| Profit/(loss) on disposal of debt securities | 447 | (254,062) |
| Total operating income | 6,156,637 | 4,153,289 |

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 | 2022 £ | 2021 £ |
|---|---|---|---|
| Depreciation | 12, 13 | 181,865 | 175,863 |
| Amortisation | 11 | 47,917 | 54,240 |
| Auditor's remuneration: auditing of financial statements (excluding VAT) | | 175,000 | 137,500 |
| (Profit)/loss on disposal of debt securities | | (448) | 254,062 |
| Foreign exchange (gain) | | (399,724) | (18,577) |

## 8. Administrative expenses

| | Notes | 2022 £ | 2021 £ |
|---|---|---|---|
| Staff costs | | | |
| Wages and salaries | | 1,484,936 | 1,281,591 |
| Social security costs | | 47,795 | 42,301 |
| Other pension costs | | 43,734 | 31,294 |
| Other staff costs | | 80,972 | 99,996 |
| | | 1,657,437 | 1,455,182 |
| Depreciation | 7, 12, 13 | 181,865 | 175,863 |
| Amortisation | 7, 11 | 47,917 | 54,240 |
| Other administrative expenses | | 918,961 | 804,641 |
| | | 2,806,180 | 2,489,926 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 8. Administrative expenses (continued)

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

| | 2022 | 2021 |
|---|---|---|
| Executive directors | 2 | 2 |
| Front office persons | 4 | 2 |
| Back and middle office persons | 8 | 8 |
| Local non-executive directors | 2 | 2 |
| Average monthly number of employees | 16 | 14 |

| Directors' emoluments | 2022 £ | 2021 £ |
|---|---|---|
| Aggregate directors' emoluments | 556,052 | 501,424 |
| Highest paid director | 269,123 | 251,313 |

No pension was paid in relation to the directors (2021: 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:

| 2022 | Notes | Stage 1 £ | Stage 2 £ | Stage 3 £ | POCI £ | Total £ |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 14 | 30,913 | - | - | - | 30,913 |
| Loans and advances to customers | 15 | 190,043 | - | - | - | 190,043 |
| Debt securities: private placement bonds | 16 | (8,825) | - | - | - | (8,825) |
| Financial investments – FVOCI | 17 | 35,423 | (27,204) | - | - | 8,219 |
| Financial investments – AC | 17 | 21,921 | - | - | - | 21,921 |
| Undrawn commitments and letters of credit | 25 | (888) | - | - | - | (888) |
| Total impairment loss | | 268,587 | (27,204) | - | - | 241,383 |

| 2021 | Notes | Stage 1 £ | Stage 2 £ | Stage 3 £ | POCI £ | Total £ |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 14 | 32,170 | - | - | - | 32,170 |
| Loans and advances to customers | 15 | 112,684 | - | - | - | 112,684 |
| Debt securities: private placement bonds | 16 | (29,777) | - | - | - | (29,777) |
| Financial investments – FVOCI | 17 | 14,974 | (41,149) | - | - | (26,175) |
| Financial investments – AC | 17 | 14,522 | - | - | - | 14,522 |
| Undrawn commitments and letters of credit | 25 | (10,398) | - | - | - | (10,398) |
| Total impairment loss | | 134,175 | (41,149) | - | - | 93,026 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 10. Tax

| | Note | 2022<br>£ | 2021<br>£ |
|---|---|---|---|
| Corporation tax: | | | |
| Current year | | 629,704 | 331,392 |
| Adjustment for prior years | | (960) | (211) |
| Foreign tax relief/other relief | | - | (6,879) |
| Foreign tax suffered | | - | 6,879 |
| Total current year tax charge | | 628,744 | 331,181 |
| Deferred tax: | 22 | | |
| Current year | | (37,099) | (31,338) |
| Adjustment for prior years | | (207) | - |
| Effect of changes in tax rate | | 202 | 22,096 |
| Total deferred tax credited for the current year | | (37,104) | (9,242) |
| | | | |
| Tax charge per profit or loss account | | 591,640 | 321,939 |
| | | | |
| Other comprehensive loss items | | | |
| Deferred tax (credit) in OCI for the period | 22 | (1,385,670) | (356,148) |
| Prior year adjustment | | 16,110 | - |
| | | (1,369,560) | (356,148) |

Deferred tax assets and liabilities have been recognised at a rate of 24.51% (i.e. the rate at which they are expected to unwind). This is an average rate for the years 2023 to 2025 which incorporates the increase in corporation tax from 19.0% to 25.0% from 01 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:

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| Profit on ordinary activities | 3,109,074 | 1,570,337 |
| | | |
| Tax at the UK corporation tax rate of 19% (2021: 19%) | 590,724 | 298,364 |
| Effects of: | | |
| Adjustments in respect of prior years | (1,167) | (211) |
| Expenses not deductible | 2,641 | 1,690 |
| Income not taxable | (762) | - |
| Tax rate changes | 202 | 22,096 |
| Rounding | 2 | - |
| Tax charge for the period | 591,640 | 321,939 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 11. Intangible assets

| | Software £ |
|---|---|
| Cost | |
| At 1 January 2021 | 576,519 |
| Additions | 41,472 |
| At 31 December 2021 | 617,991 |
| Additions | 23,928 |
| At 31 December 2022 | 641,919 |
| | |
| Accumulated amortisation | |
| At 1 January 2021 | 477,782 |
| Charge for the year | 54,240 |
| At 31 December 2021 | 532,022 |
| Charge for the year | 47,917 |
| At 31 December 2022 | 579,939 |
| | |
| Carrying amount | |
| At 31 December 2021 | 85,969 |
| At 31 December 2022 | 61,980 |

## 12. Tangible fixed assets

| | Fixtures and Fittings £ | Office Equipment £ | Total £ |
|---|---|---|---|
| Cost | | | |
| At 1 January 2021 | 93,970 | 193,224 | 287,194 |
| Additions | - | 28,225 | 28,225 |
| At 31 December 2021 | 93,970 | 221,449 | 315,419 |
| Additions | - | 6,068 | 6,068 |
| At 31 December 2022 | 93,970 | 227,517 | 321,487 |
| | | | |
| Accumulated depreciation | | | |
| At 1 January 2021 | 93,197 | 166,798 | 259,995 |
| Charge for the year | - | 13,351 | 13,351 |
| At 31 December 2021 | 93,197 | 180,149 | 273,346 |
| Charge for the year | 773 | 18,423 | 19,196 |
| At 31 December 2022 | 93,970 | 198,572 | 292,542 |
| | | | |
| Carrying amount | | | |
| At 31 December 2021 | 773 | 41,300 | 42,073 |
| At 31 December 2022 | - | 28,945 | 28,945 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 13. Right-of-use assets

| | Land and buildings £ | Motor vehicles £ | Total £ |
|---|---|---|---|
| Cost | | | |
| At 1 January 2021 | 1,214,397 | 29,915 | 1,244,312 |
| Additions | - | - | - |
| At 31 December 2021 | 1,214,397 | 29,915 | 1,244,312 |
| Additions | - | - | - |
| At 31 December 2022 | 1,214,397 | 29,915 | 1,244,312 |
| | | | |
| Accumulated depreciation | | | |
| At 1 January 2021 | 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 |
| Charge for the year | 156,688 | 5,984 | 162,672 |
| At 31 December 2022 | 548,814 | 13,462 | 562,276 |
| | | | |
| Carrying amount | | | |
| At 31 December 2021 | 822,271 | 22,437 | 844,708 |
| At 31 December 2022 | 665,583 | 16,453 | 682,036 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 14. Loans and advances to banks

| 2022 | Gross £ | Provision £ | Net of provision £ |
|---|---|---|---|
| Within three months | 405,875 | (837) | 405,038 |
| Between three months and one year | 4,155,932 | (13,094) | 4,142,838 |
| Between one year and five years | 59,845,399 | (112,489) | 59,732,910 |
| | 64,407,206 | (126,420) | 64,280,786 |
| 2021 (restated) | | | |
| Within three months | 24,008 | (52) | 23,956 |
| Between three months and one year | 11,117,044 | (46,478) | 11,070,566 |
| Between one year and five years | 23,687,912 | (48,976) | 23,638,936 |
| | 34,828,964 | (95,506) | 34,733,458 |

### 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 net of impairment allowances. Details of the Bank's internal grading system are explained in note 26.

| | 2022 | | | |
|---|---|---|---|---|
| Internal rating grade | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Best | 25,066,381 | - | - | 25,066,381 |
| Outstanding | 30,886,568 | - | - | 30,886,568 |
| Good | 8,327,837 | - | - | 8,327,837 |
| | 64,280,786 | - | - | 64,280,786 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| Internal rating grade | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Best | 3,704,922 | - | - | 3,704,922 |
| Outstanding | 23,664,073 | - | - | 23,664,073 |
| Good | 7,364,463 | - | - | 7,364,463 |
| | 34,733,458 | - | - | 34,733,458 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 14. Loans and advances to banks (continued)

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

| 2022 | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2022 | 34,828,964 | - | - | 34,828,964 |
| New assets originated or purchased | 37,403,375 | - | - | 37,403,375 |
| Assets derecognised or repaid | (11,103,709) | - | - | (11,103,709) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Change in accrued interest receivable | 368,531 | - | - | 368,531 |
| Foreign exchange adjustments | 2,910,044 | - | - | 2,910,044 |
| As at 31 December 2022 | 64,407,205 | - | - | 64,407,205 |

| 2021 (restated) | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2021 | 16,854,741 | - | - | 16,854,741 |
| 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 | - | - | - | - |
| Change in accrued interest receivable | 21,932 | - | - | 21,932 |
| Foreign exchange adjustments | 121,537 | - | - | 121,537 |
| As at 31 December 2021 | 34,828,964 | - | - | 34,828,964 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 14. Loans and advances to banks (continued)

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

| 2022 | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2022 | 95,506 | - | - | 95,506 |
| New assets originated or purchased | 82,568 | - | - | 82,568 |
| Assets derecognised or repaid | (46,435) | - | - | (46,435) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes in accrued interest receivable | 741 | - | - | 741 |
| Changes to inputs used for ECL calculation | (5,961) | - | - | (5,961) |
| As at 31 December 2022 | 126,419 | - | - | 126,419 |

| 2021 (restated) | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2021 | 63,336 | - | - | 63,336 |
| New assets originated or purchased | 48,976 | - | - | 48,976 |
| Assets derecognised or repaid | (17,335) | - | - | (17,335) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes to inputs used for ECL calculation | 475 | - | - | 475 |
| Change in accrued interest receivable | 54 | - | - | 54 |
| As at 31 December 2021 | 95,506 | - | - | 95,506 |

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 2022 and 31 December 2021.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 15. Loans and advances to customers

| | Gross<br>£ | Provision<br>£ | Net of provision<br>£ |
|---|---|---|---|
| 2022 | | | |
| Within three months | 21,164,160 | (98,736) | 21,065,424 |
| Between three months and one year | 87,976,657 | (388,477) | 87,588,180 |
| *Up to one year* | 109,140,817 | (487,213) | 108,653,604 |
| Between one year and five years | 80,213,191 | (248,534) | 79,964,657 |
| Over five years | 31,295,988 | (51,223) | 31,244,765 |
| *Over one year* | 111,509,179 | (299,757) | 111,209,422 |
| | **220,649,996** | **(786,970)** | **219,863,026** |
| 2021 (restated) | | | |
| Within three months | 17,764,665 | (57,465) | 17,707,200 |
| Between three months and one year | 56,105,937 | (260,039) | 55,845,898 |
| *Up to one year* | 73,870,602 | (317,504) | 73,553,098 |
| Between one year and five years | 65,613,696 | (225,687) | 65,388,009 |
| Over five years | 23,753,274 | (53,736) | 23,699,538 |
| *Over one year* | 89,366,970 | (279,423) | 89,087,547 |
| | **163,237,572** | **(596,927)** | **162,640,645** |

**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 net of impairment allowances.

| | 2022 | | | |
|---|---|---|---|---|
| Internal rating grade | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
| Best | 15,832,498 | - | - | 15,832,498 |
| Outstanding | 152,154,322 | - | - | 152,154,322 |
| Good | 51,876,206 | - | - | 51,876,206 |
| | 219,863,026 | - | - | 219,863,026 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| Internal rating grade | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
| Best | 5,451,198 | - | - | 5,451,198 |
| Outstanding | 115,628,098 | - | - | 115,628,098 |
| Good | 41,561,349 | - | - | 41,561,349 |
| | 162,640,645 | - | - | 162,640,645 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 15. Loans and advances to customers (continued)

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

| 2022 | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2022 | 163,237,571 | - | - | 163,237,571 |
| New assets originated or purchased | 80,700,053 | - | - | 80,700,053 |
| Assets derecognised or repaid | (31,011,450) | - | - | (31,011,450) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Change in accrued interest receivable | 911,557 | - | - | 911,557 |
| Foreign exchange adjustments | 6,812,265 | - | - | 6,812,265 |
| As at 31 December 2022 | 220,649,996 | - | - | 220,649,996 |

| 2021 (restated) | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| 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 | - | - | - | - |
| Change in accrued interest receivable | 317,401 | - | - | 317,401 |
| Foreign exchange adjustments | 1,079,628 | - | - | 1,079,628 |
| As at 31 December 2021 | 163,237,572 | - | - | 163,237,572 |

To provide a better understanding of the movement of assets, 'New assets originated or purchased' and 'Assets derecognised or repaid' have excluded assets renewed in the current year. The prior year is also restated for comparability. Assets renewed during 2022 had a gross carrying value of GBP 60.3 million excluding interest at the end of 2022. Assets renewed of GBP 44.2 million during 2021 had been excluded in both 'New assets originated or purchased' and 'Assets derecognised or repaid'.

## 15. Loans and advances to customers (continued)

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

| 2022 | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2022 | 596,927 | - | - | 596,927 |
| New assets originated or purchased | 272,984 | - | - | 272,984 |
| Assets derecognised or repaid | (107,818) | - | - | (107,818) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | | | | |
| Change in accrued interest receivable | 3,133 | - | - | 3,133 |
| Changes to inputs used for ECL calculation | 21,744 | - | - | 21,744 |
| As at 31 December 2022 | 786,970 | - | - | 786,970 |

| 2021 (restated) | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2021 | 484,243 | - | - | 484,243 |
| New assets originated or purchased | 191,257 | - | - | 191,257 |
| Assets derecognised or repaid | (75,745) | - | - | (75,745) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Change in accrued interest receivable | (3,057) | - | - | (3,057) |
| Changes to inputs used for ECL calculation | 229 | - | - | 229 |
| As at 31 December 2021 | 596,927 | - | - | 596,927 |

To provide a better understanding of the movement of assets, ECL allowances on ‘New assets originated or purchased’ and ‘Assets derecognised or repaid’ have excluded ECL allowances on assets renewed during the year. The prior year is also restated for comparability. ECL allowances on assets renewed during the year were 247,879 at the end of 2022 and 211,099 at the end of 2021.

The contractual amount outstanding on loans that have been written off but were still subject to enforcement activity was nil at 31 December 2022 (2021: nil).

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 16. Debt securities: private placement bonds

| | Gross £ | Provision £ | Net of provision £ |
|---|---|---|---|
| 2022 | | | |
| Within three months | 4,042,630 | (1,054) | 4,041,576 |
| Between three months and one year | 25,853,865 | (11,750) | 25,842,115 |
| Between one year and five years | 42,651,945 | (9,093) | 42,642,852 |
| | 72,548,440 | (21,897) | 72,526,543 |
| | | | |
| 2021 (restated) | | | |
| Within three months | 97,913 | (92) | 97,821 |
| Between three months and one year | 7,273,720 | (7,602) | 7,266,118 |
| Between one year and five years | 54,177,159 | (23,029) | 54,154,130 |
| | 61,548,792 | (30,723) | 61,518,069 |

**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 net of impairment allowances.

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Best | 69,122,642 | - | - | 69,122,642 |
| Outstanding | 3,403,901 | - | - | 3,403,901 |
| | 72,526,543 | - | - | 72,526,543 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Best | 53,495,709 | - | - | 53,495,709 |
| Outstanding | 8,022,360 | - | - | 8,022,360 |
| | 61,518,069 | - | - | 61,518,069 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 16. Debt securities: private placement bonds (continued)

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

| 2022 | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2022 | 61,548,792 | - | - | 61,548,792 |
| New assets originated or purchased | 12,467,792 | - | - | 12,467,792 |
| Assets derecognised or repaid | (7,228,124) | - | - | (7,228,124) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Change in accrued income receivable | 442,945 | - | - | 442,945 |
| Foreign exchange adjustments | 5,317,035 | | | 5,317,035 |
| As at 31 December 2022 | 72,548,440 | - | - | 72,548,440 |

| 2021 (restated) | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Gross carrying amount as at 1 January 2021 | 42,627,707 | - | - | 42,627,707 |
| 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 | - | - | - | - |
| Change in accrued income receivable | 143,510 | | | 143,510 |
| Foreign exchange adjustments | (57,253) | - | - | (57,253) |
| As at 31 December 2021 | 61,548,793 | - | - | 61,548,793 |

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

| 2022 | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2022 | 30,724 | - | - | 30,724 |
| New assets originated or purchased | 2,605 | - | - | 2,605 |
| Assets derecognised or repaid | (7,545) | - | - | (7,545) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes to inputs used for ECL calculation | (4,022) | - | - | (4,022) |
| Change in accrued income receivable | 135 | - | - | 135 |
| As at 31 December 2022 | 21,897 | - | - | 21,897 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 16. Debt securities: private placement bonds (continued)

| 2021 (restated) | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2021 | 60,501 | - | - | 60,501 |
| 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 inputs used for ECL calculation | (4,753) | - | - | (4,753) |
| Changes in accrued interest receivable | (144) | - | - | (144) |
| As at 31 December 2021 | 30,724 | - | - | 30,724 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 17. Financial investments

| 2022 | Due within one year £ | Due one year and over £ | Total £ |
|---|---|---|---|
| Financial investments – measured at FVOCI | | | |
| Investment securities – fair value | 18,404,717 | 78,873,300 | 97,278,017 |
| Memorandum allowance for ECL | (20,318) | (142,669) | (162,987) |
| Net of provision | 18,384,399 | 78,730,631 | 97,115,030 |
| | | | |
| Financial investments – measured at amortised cost | | | |
| Investment securities – gross | 5,710,119 | 40,201,935 | 45,912,054 |
| Allowance for ECL | (7,254) | (73,173) | (80,427) |
| Net of provision | 5,702,865 | 40,128,762 | 45,831,627 |
| | | | |
| Total* | 24,107,582 | 119,002,062 | 143,109,644 |

| 2021 (restated) | Due within one year £ | Due one year and over £ | Total £ |
|---|---|---|---|
| Financial investments – measured at FVOCI | | | |
| Investment securities – fair value | 7,967,644 | 78,926,128 | 86,893,772 |
| Memorandum allowance for ECL | (31,004) | (123,764) | (154,768) |
| Net of provision | 7,936,640 | 78,802,364 | 86,739,004 |
| | | | |
| Financial investments – measured at amortised cost | | | |
| Investment securities – gross | 583,534 | 32,744,774 | 33,328,308 |
| Allowance for ECL | (1,099) | (57,406) | (58,505) |
| Net of provision | 582,435 | 32,687,368 | 33,269,803 |
| | | | |
| Total* | 8,550,079 | 111,613,496 | 120,163,575 |

*As at 31 December 2022 and 31 December 2021, total of financial investments is the sum of the fair value of financial investments measured at FVOCI and the value 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.

*Restated.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 17. Financial investments (continued)

| Financial investments – measured at amortised cost by types of issuers | 2022<br>£ | 2021*<br>£ |
|---|---|---|
| Public ownership | - | - |
| Others | | |
| Issued by banks | 29,701,522 | 18,736,082 |
| Issued by other issuers | 16,130,105 | 14,533,721 |
| | 45,831,627 | 33,269,803 |

| | | |
|---|---|---|
| Total financial investments other than those measured at FVTPL | 143,109,644 | 120,163,575 |

**Impairment losses on financial investments subject to impairment assessment**

***Financial investments measured at FVOCI***

| | 2022<br>£ | 2021*<br>£ |
|---|---|---|
| Financial investments – FVOCI | 97,278,017 | 86,893,772 |
| Less: allowance for impairment losses | (162,987) | (154,768) |
| | 97,115,030 | 86,739,004 |

*Restated.

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 26.

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
| Best | 39,795,179 | - | - | 39,795, 179 |
| Outstanding | 57,482,838 | - | - | 57,482,838 |
| Good | - | - | - | - |
| | 97,278,017 | - | - | 97,278,017 |

### 17. Financial investments (continued)

***Financial investments measured at FVOCI (continued)***

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Best | 33,098,614 | - | - | 33,098,614 |
| Outstanding | 51,565,841 | - | - | 51,565,841 |
| Good | | 2,229,317 | - | 2,229,317 |
| | 84,664,455 | 2,229,317 | - | 86,893,772 |

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

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Fair value as at 1 January 2022 | 84,664,455 | 2,229,317 | - | 86,893,772 |
| New assets originated or purchased* | 20,113,657 | - | - | 20,113,657 |
| Assets derecognised or repaid** | (7,484,923) | (2,229,317) | - | (9,714,240) |
| Change in fair value | (5,551,878) | - | - | (5,551,878) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Change in accrued interest receivable | 231,052 | - | - | 231,052 |
| Foreign exchange adjustments | 5,305,654 | - | - | 5,305,654 |
| As at 31 December 2022 | 97,278,017 | - | - | 97,278,017 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Fair value as at 1 January 2021 | 74,032,746 | 2,226,691 | - | 76,259,437 |
| 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 | - | - | - | - |
| Change in accrued interest receivable | 147,848 | (449) | - | 147,399 |
| Foreign exchange adjustments | 139,919 | (27,776) | - | 112,143 |
| As at 31 December 2021 | 84,664,455 | 2,229,317 | - | 86,893,772 |

*New assets originated or purchased are shown at their values at the end of the period.

**Amounts derecognised or repaid are shown at their values at the beginning of the period.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 17. Financial investments (continued)

***Financial investments measured at FVOCI (continued)***

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

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| ECL allowance as at 1 January 2022 | 127,564 | 27,204 | - | 154,768 |
| New assets originated or purchased* | 35,278 | - | - | 35,278 |
| Assets derecognised or repaid** | (5,972) | (27,204) | - | (33,176) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes to inputs used for ECL calculation | 5,801 | - | - | 5,801 |
| Change in accrued interest receivable | 316 | - | - | 316 |
| As at 31 December 2022 | 162,987 | - | - | 162,987 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| ECL allowance as at 1 January 2021 | 112,511 | 68,432*** | - | 180,943 |
| 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 inputs used for ECL calculation | (603) | (41,202) | - | (41,805) |
| Change in accrued interest receivable | 280 | (24) | - | 256 |
| As at 31 December 2021 | 127,564 | 27,204 | - | 154,768 |

*New assets originated or purchased are shown at their values at the end of the period.

**Amounts derecognised or repaid are shown at their values at the beginning of the period.

***Restated. The 2021 financial statements listed the 2021 opening balance as 49,457.

***Financial investments measured at amortised cost***

| | 2022 | 2021* |
|---|---|---|
| | £ | £ |
| Financial investments – AC | 45,912,053 | 33,328,308 |
| Less: allowance for impairment losses | (80,427) | (58,505) |
| | 45,831,626 | 33,269,803 |

*Restated.

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 net of impairment allowances.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 17. Financial investments (continued)

***Financial investments measured at amortised cost (continued)***

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Best | 13,898,901 | - | - | 13,898,901 |
| Outstanding | 31,932,725 | - | - | 31,932,725 |
| | 45,831,626 | - | - | 45,831,626 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Best | 8,969,202 | - | - | 8,969,202 |
| Outstanding | 24,300,601 | - | - | 24,300,601 |
| | 33,269,803 | - | - | 33,269,803 |

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

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Gross carrying amount as at 1 January 2022 | 33,328,309 | - | - | 33,328,309 |
| New assets originated or purchased* | 12,750,747 | - | - | 12,750,747 |
| Assets derecognised or repaid** | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes in accrued interest receivable | 96,720 | - | - | 96,720 |
| Foreign exchange adjustments | (263,724) | | | (263,724) |
| As at 31 December 2022 | 45,912,052 | | | 45,912,052 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| Gross carrying amount as at 1 January 2021 | 25,671,964 | - | - | 25,671,964 |
| New assets originated or purchased* | 13,664,667 | - | - | 13,664,667 |
| Assets derecognised or repaid** | (6,237,272) | - | - | (6,237,272) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes in accrued interest receivable | 357,821 | - | - | 357,821 |
| Foreign exchange adjustments | (128,872) | - | - | (128,872) |
| As at 31 December 2021 | 33,328,308 | - | - | 33,328,308 |

*New assets originated or purchased are shown at their values at the end of the period.

**Amounts derecognised or repaid are shown at their values at the beginning of the period.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 17. Financial investments (continued)

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

| | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| ECL allowance as at 1 January 2022 | 58,505 | - | - | 58,505 |
| New assets originated or purchased* | 21,236 | - | - | 21,236 |
| Assets derecognised or repaid** | - | - | - | - |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| Changes to inputs used for ECL calculation | 530 | - | - | 530 |
| Change in accrued interest receivable | 155 | - | - | 155 |
| As at 31 December 2022 | 80,426 | - | - | 80,426 |

| | 2021 (restated) | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | £ | £ | £ | £ |
| ECL allowance as at 1 January 2021 | 43,983 | - | - | 43,983 |
| 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 inputs used for ECL calculation | 30 | - | - | 30 |
| Change in accrued interest receivable | 664 | | | 664 |
| As at 31 December 2021 | 58,505 | - | - | 58,505 |

*New assets originated or purchased are shown at their values at the end of the period.

**Amounts derecognised or repaid are shown at their values at the beginning of the period.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 18. Cash and cash equivalents

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| Nostro accounts | 18,152,698 | 1,608,556 |
| Time deposit | 1,000,000 | 4,612,159 |
| Central counterparty clearing house margin account | 47,191 | 42,029 |
| | 19,199,889 | 6,262,744 |

The Nostro accounts included no overnight investments at either 31 December 2022 or 31 December 2021. The time deposits are short term investments with an original maturity of two weeks or less.

## 19. Lease liabilities

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| Within one year | 161,856 | 158,968 |
| Between one and five years | 506,333 | 668,190 |
| | 668,189 | 827,158 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 19. Lease liabilities (continued)

| | £ |
|---|---|
| As at 1 January 2021 | 983,118 |
| Payments | (172,259) |
| Interest expense on lease liabilities | 16,300 |
| As at 31 December 2021 | 827,159 |
| Payments | (172,260) |
| Interest expense on lease liabilities | 13,290 |
| As at 31 December 2022 | 668,189 |

The following are the amounts recognised in profit or loss:

| | Note | 2022 | 2021 |
|---|---|---|---|
| | | £ | £ |
| Depreciation expense of right-of-use asset | 13 | 162,671 | 162,510 |
| Interest expense on lease liabilities | 4 | 13,290 | 16,300 |
| | | 175,961 | 178,810 |

The Bank had total cash outflows for leases of £172,260 (2021: £172,259). The Bank had no non-cash additions to right-of-use assets and lease liabilities (2021: none).

## 20. Borrowings from credit institutions

| | 2022 | 2021* |
|---|---|---|
| | £ | £ |
| Export-Import Bank of Korea | 164,208,832 | 111,001,447 |
| Other banks | 241,896,704 | 174,814,407 |
| | 406,105,536 | 285,815,854 |
| Repayable: | | |
| Within three months | 209,793,607 | 133,304,933 |
| Between three months and one year | 129,817,041 | 48,876,307 |
| *Up to one year* | 339,610,648 | 182,181,240 |
| Between one year and five years | 66,494,888 | 103,634,614 |
| *More than one year* | 66,494,888 | 103,634,614 |
| | 406,105,536 | 285,815,854 |

*Restated.

The Parent and related companies borrowings are the drawdown amount of the unsecured credit facilities in the sum of £163.74 million (2021: £110.98 million) from the Parent Bank plus associated accrued interest. More details of the unsecured bank loan facilities with various maturity dates are provided in note 26.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 21. Accruals and other liabilities

| | 2022 £ | 2021* £ |
|---|---|---|
| Accrued expenses | 252,062 | 432,876 |
| Deferred Income | 3,181,737 | 2,481,844 |
| Funds held as agent | 15,669,319 | - |
| Other | 59,927 | 43,628 |
| | 19,163,045 | 2,958,348 |

*Restated.

## 22. 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 2021 | | (3,026) | 370,368 | 367,342 |
| Charge/(credit) to profit or loss | | 4,744 | (16,814) | (12,070) |
| Deferred tax credit in OCI for the period | | - | (356,148) | (356,148) |
| At 31 December 2021 | | 1,718 | (2,594) | (876) |
| Adjustment in respect of prior years (IS) | | - | (207) | (207) |
| Deferred tax credited to profit or loss | 10 | - | (36,900) | (36,900) |
| Adjustment in respect of prior years (OCI) | | | 16,110 | 16,110 |
| Deferred tax credit in OCI for the period | 10 | - | (1,385,670) | (1,385,670) |
| At 31 December 2022 | | 1,718 | (1,409,261) | (1,407,543) |

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:

| | 2022 £ | 2021 £ |
|---|---|---|
| Deferred tax assets | 1,407,543 | 876 |

## 23. Share capital

| | 2022 £ | 2021 £ |
|---|---|---|
| Authorised: | | |
| Ordinary shares of £1 each | 81,283,897 | 81,283,897 |

| | Number of shares | £ |
|---|---|---|
| Ordinary shares | | |
| Issued and fully paid: | | |
| At 1 January 2021 | 81,283,897 | 81,283,897 |
| At 31 December 2021 | 81,283,897 | 81,283,897 |
| At 31 December 2022 | 81,283,897 | 81,283,897 |

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

No ordinary share issuances have taken place in 2022 (nor in 2021). The Export-Import Bank of Korea holds 81,283,897 (2021: 81,283,897) or 100% (2021: 100%) of the ordinary shares issued.

## 24. Revaluation reserve

| | Notes | Revaluation reserve £ |
|---|---|---|
| Balance under IFRS 9 at 1 January 2021 | | 1,100,635 |
| Changes in allowance for expected credit losses | 9 | (26,432) |
| Assets at FVOCI reclassified to profit and loss | | 254,062 |
| Decrease in fair value of financial assets measured at FVOCI | | (2,026,393) |
| Related income tax on fair value movements of financial assets measured at FVOCI | 22 | 356,147 |
| Balance under IFRS 9 at 31 December 2021 | | (341,981) |
| Changes in allowance for expected credit losses | 9 | 9,305 |
| Assets at FVOCI reclassified to profit and loss | | (447) |
| Decrease in fair value of financial assets measured at FVOCI | | (5,640,570) |
| Related income tax on fair value movements of financial assets measured at FVOCI | 22 | 1,385,670 |
| Charge to deferred tax – prior year | | (16,110) |
| Balance at 31 December 2022 | | (4,604,133) |

## 25. Contingent liabilities and undrawn lending commitments

| | 2022 £ | 2021 £ |
|---|---|---|
| L/C confirmation (transaction) | 25,071,877 | 27,042,177 |
| Undrawn commercial lending commitments | 18,815 | - |
| | 25,090,692 | 27,042,177 |

**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.

| | 2022 | | | |
|---|---|---|---|---|
| Outstanding exposure | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Best | 25,071,877 | - | - | 25,071,877 |
| | 25,071,877 | - | - | 25,071,877 |

| | 2021 | | | |
|---|---|---|---|---|
| Outstanding exposure | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Best | 27,042,177 | - | - | 27,042,177 |
| | 27,042,177 | - | - | 27,042,177 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 25. Contingent liabilities and undrawn lending commitments (continued)

***Letters of credit (continued)***

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

| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Outstanding exposure as at 1 January 2022 | 27,042,177 | - | - | 27,042,177 |
| New exposures | 25,071,877 | - | - | 25,071,877 |
| Exposure derecognised or matured | (27,042,177) | - | - | (27,042,177) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| As at 31 December 2022 | 25,071,877 | - | - | 25,071,877 |

| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| 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 | - | - | - | - |
| As at 31 December 2021 | 27,042,177 | - | - | 27,042,177 |

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

| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2022 | 4,885 | - | - | 4,885 |
| New exposures | 3,997 | - | - | 3,997 |
| Exposures derecognised or matured | (4,885) | - | - | (4,885) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| As at 31 December 2022 | 3,997 | - | - | 3,997 |

## 25. Contingent liabilities and undrawn lending commitments (continued)

***Letters of credit (continued)***

| | Stage 1 £ | Stage 2 £ | 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 inputs used for ECL calculation | 47 | - | - | 47 |
| As at 31 December 2021 | 4,885 | - | - | 4,885 |

***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.

| | 2022 | | | |
|---|---|---|---|---|
| Outstanding exposure | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Outstanding | 18,815 | - | - | 18,815 |
| | 18,815 | - | - | 18,815 |

| | 2021 | | | |
|---|---|---|---|---|
| Outstanding exposure | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
| Outstanding | - | - | - | - |
| | - | - | - | - |

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

| | Stage 1 £ | Stage 2 £ | Stage 3 £ | Total £ |
|---|---|---|---|---|
| Outstanding exposure as at 1 January 2022 | - | - | - | - |
| New exposures | 18,815 | - | - | 18,815 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| As at 31 December 2022 | 18,815 | - | - | 18,815 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 25. Contingent liabilities and undrawn lending commitments (continued)

***Undrawn lending commitment (continued)***

| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Outstanding exposure as at 1 January 2021 | 6,809,679 | - | - | 6,809,679 |
| Exposure derecognised or matured/lapsed | (6,809,679) | - | - | (6,809,679) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| As at 31 December 2021 | - | - | - | - |

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

| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2022 | - | - | - | - |
| New exposures | 12 | - | - | 12 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| As at 31 December 2022 | 12 | - | - | 12 |

| | Stage 1<br>£ | Stage 2<br>£ | Stage 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| ECL allowance as at 1 January 2021 | 11,502 | - | - | 11,502 |
| Exposures derecognised or matured | (11,502) | - | - | (11,502) |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | - | - | - |
| Transfers to Stage 3 | - | - | - | - |
| As at 31 December 2021 | - | - | - | - |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. Financial Instruments

**Categories of financial instruments**

| | 2022<br>£ | 2021*<br>£ |
|---|---|---|
| **Financial assets** | | |
| Financial assets measured at amortised cost | | |
| Cash and cash equivalents | 19,199,889 | 6,262,744 |
| Loans and advances to banks | 64,280,786 | 34,733,458 |
| Loans and advances to customers | 219,863,026 | 162,640,645 |
| Debt securities: private placement bonds | 72,526,543 | 61,518,069 |
| Financial investments | 45,831,626 | 33,269,804 |
| Financial assets measured at FVOCI | | |
| Financial investments | 97,278,017 | 86,893,772 |
| | **518,981,259** | **385,318,492** |
| | | |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | | |
| Deposits by banks | 406,105,536 | 285,815,854 |
| Funds held as agent | 15,669,312 | - |
| Lease liabilities | 274,868 | 827,158 |
| | **422,049,716** | **286,643,012** |

*Restated

**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 and interest rate 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.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. 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 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Foreign exchange | 357 | 452 | 28 | 365 | 498 | 506 | 82 | 506 |
| Interest rate | 4,531 | 5,537 | 3,616 | 4,950 | 5,814 | 6,077 | 3,694 | 6,077 |
| Total VaR exposure | 4,888 | 5,989 | 3,644 | 5,315 | 6,312 | 6,583 | 3,776 | 6,583 |

* 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.

## 26. 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| EaR | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest rate EaR | 139 | 105 | 30 | 12 | 257 | 316 | 121 | 235 |

**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 based on expected losses estimated at the end of the reporting period. The Bank measures the expected credit losses and presents it in the financial statements through the use of an allowances account which is charged against the related financial assets (in the case of financial assets held at amortised cost) or against equity (in the case of financial assets held at FVOCI).

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

## 26. 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.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. 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) |

One of the Bank criteria's for recognising Significant Increase in Credit Risk (SICR) is when a financial asset is downgraded by a certain number of notches from its rating at origination. The relevant number of notches is dependent upon credit rating as detailed in the table below:

<table>
<tr><th>Origination rating</th><th>SICR Trigger</th></tr>
<tr><td>P1</td><td rowspan="5">5 or more notch movement</td></tr>
<tr><td>P2</td></tr>
<tr><td>P3+</td></tr>
<tr><td>P3°</td></tr>
<tr><td>P3-</td></tr>
<tr><td>P4+</td><td rowspan="3">4 or more notch movement</td></tr>
<tr><td>P4°</td></tr>
<tr><td>P4-</td></tr>
<tr><td>P5+</td><td rowspan="4">1 or more notch movement</td></tr>
<tr><td>P5°</td></tr>
<tr><td>P5-</td></tr>
<tr><td>P6</td></tr>
<tr><td>SM</td><td rowspan="2">0 movement<br>(Stage 2 minimum)</td></tr>
<tr><td>S+</td></tr>
<tr><td>D</td><td rowspan="3"></td></tr>
<tr><td>F</td></tr>
<tr><td>S</td></tr>
</table>

## 26. Financial instruments (continued)

***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.

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% |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. Financial instruments (continued)

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

| | 2022 analysis | | 2021 analysis | |
|---|---|---|---|---|
| | 2021 actual | 2022 forecast | 2020 actual | 2021 forecast |
| Stable economic growth rate | 3.2% | 2.7% (IMF forecast) | -3.1% | 5.9% (IMF forecast) |
| Korean economy growth downturn rate | 2.6% | 1.7% (Bank of Korea forecast) | -0.9% | 4.0% (Bank of Korea forecast) |

Set out below are the changes to the ECL in profit and loss as at 31 December 2022 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 2022 | 182,938 | 241,383 | 297,359 |
| GBP | Impact on pre-tax profit | (58,445) | 0 | 55,976 |

***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 2022, the Bank holds one modified loan, modified in 2019, and the gross carrying amount of this asset is £3,353,453.

***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.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. Financial instruments (continued)

**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 £ |
|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | |
| Non-interest bearing | 0.02 | 27,429,141 | 47,769,787 | 69,819,633 | 33,247,444 | 979,871 | 179,245,876 |
| Variable interest rate instrument | 4.21 | 23,649,781 | 109,663,885 | 59,954,663 | 33,247,444 | | 226,515,773 |
| | | 51,078,922 | 157,433,672 | 129,774,296 | 66,494,888 | 979,871 | 405,761,649 |

| | 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 |

## 26. Financial instruments (continued)

**Liquidity and interest risk tables (continued)**

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 £ |
|---|---|---|---|---|---|---|
| **2022** | | | | | | |
| Non-interest bearing | 18,199,889 | - | - | - | - | 18,199,889 |
| Variable interest rate instrument | 5,938,416 | 22,748,981 | 106,798,372 | 198,317,482 | 39,206,104 | 373,009,355 |
| Fixed interest rate instruments | - | 3,030,022 | 25,989,226 | 95,063,659 | - | 124,082,907 |
| | 24,138,305 | 25,779,003 | 132,787,598 | 293,381,141 | 39,206,104 | 515,292,151 |

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.

| | 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 Bank has access to financing facilities as described below, of which £152.0 million was unused at the balance sheet date (2021: £145.1 million). The Bank expects to meet its other obligations from operating cash flows and the proceeds of maturing financial assets.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. Financial instruments (continued)

**Financing facilities**

| | 2022 £ | 2021 £ |
|---|---|---|
| Unsecured bank loan facilities (Parent Bank) with various maturity dates which may be extended by mutual agreement: | | |
| - amount used | 163,737,809 | 110,977,587 |
| - amount unused | 151,995,842 | 145,103,264 |
| | 315,733,651 | 256,080,851 |
| Unsecured bank loan facilities with various maturity dates which may be extended by mutual agreement: | | |
| - amount used | 241,032,132 | 174,698,349 |
| - amount unused | - | - |
| | 241,032,132 | 174,698,349 |
| Total amount used | 404,769,941 | 285,675,936 |
| Total amount unused | 151,995,842 | 145,103,264 |

**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.

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. 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').<br>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 (such as financial investments and private placement bonds), 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.<br>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.<br>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 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £ | £ | £ | £ |
| *Financial assets* | | | | |
| Debt securities: private placement bonds | 72,526,542 | 61,374,708 | 71,740,020 | 58,541,835 |
| Financial investments: | | | | |
| Financial investments measured at amortised cost | 45,574,062 | 32,687,369 | 43,661,383 | 33,140,579 |

The carrying amounts of cash, loans and advances to banks and customers, borrowings from other credit institutions, funds held as agent and lease liabilities 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 2022 | |
|---|---|---|
| | Level 2 | Total |
| | £ | £ |
| *Financial assets* | | |
| Debt securities: private placement bonds | 71,740,020 | 71,740,020 |
| Financial investments: | | |
| Financial investments measured at amortised cost | 43,661,383 | 43,661,383 |
| Total | 115,401,403 | 115,401,403 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 26. 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 2021 | |
|---|---|---|
| | Level 2 | Total |
| | £ | £ |
| *Financial assets* | | |
| Debt securities: private placement bonds | 58,541,835 | 58,541,835 |
| Financial investments: | | |
| Financial investments measured at amortised cost | 33,140,579 | 33,140,579 |
| Total | 91,682,414 | 91,682,414 |

***Fair value measurements recognised in the balance sheet***

| | Level 2 | Total |
|---|---|---|
| | £ | £ |
| 31 December 2022 | | |
| Financial investments measured at FVOCI | | |
| Debt securities | 96,485,132 | 96,485,132 |
| Total | 96,485,132 | 96,485,132 |
| | | |
| 31 December 2021 | | |
| Financial investments measured at FVOCI | | |
| Debt securities | 86,331,939 | 86,331,939 |
| Total | 86,331,939 | 86,331,939 |

# Notes to the financial statements (continued)

For the year ended 31 December 2022

## 27. 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 2022

## 28. 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 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 2022 and 2021.

| Capital, leverage and Risk Weighted Assets ('RWA') | Limit % | 2022 % | 2021 % |
|---|---|---|---|
| CET1 ratio | 4.5 | 22.5% | 30.0 |
| T1 capital ratio | 6 | 22.5% | 30.0 |
| Total capital ratio | 8 | 22.5% | 30.0 |
| Leverage ratio | | 16.7% | 23.0 |
| RWA (£) | | 405,644,306 | 316,997,557 |

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