

Pillar 3 Disclosures

As at 31st December 2013

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1 EXECUTIVE SUMMARY

1.1 Introduction

This Disclosure document comprises Pillar 3 disclosures of Kexim Bank (UK) Limited (“KEXIM UK” or “the Bank”) on capital and risk management at 31 December 2013. The purposes of the document is to comply with the regulatory disclosure requirements under the Prudential Regulation Authority (“PRA”) set out in BIPRU, the Prudential Sourcebook for Banks, Building Societies and Investment Firms, Chapter 11 and to provide information on the capital and risk profile.

The EU's Capital Requirement Directive (“CRD”) puts into effect the Basel Committee’s proposals to standardise the measurement of capital across all European regulated firms other than Insurance Firms.

The CRD sets out a three pillar framework:

1. Pillar I sets rule-based minimum capital standards (quantification of credit risk, market risk and operational risk).
2. Pillar 2 establishes a supervisory review process for firms’ capital requirements.
3. Pillar 3 sets disclosure requirements intended to enhance market discipline.

1.2 Pillar 3 Disclosure Policy

The Bank’s Pillar 3 disclosure policy is as follows:

Frequency

Pillar 3 regulatory capital disclosures will be made on an annual basis using the Bank’s financial year-end date of 31 December. More frequent disclosures will be made if there is a material change in the nature of the Bank’s risk profile during any particular year.

Media and location

The Pillar 3 regulatory capital disclosures will be available on the Bank’s website. The annual report and accounts set out the latest financial statements in addition to a summary of the Bank’s risks together with the controls and procedure in place to mitigate the risks. The latest annual report and accounts are also published on the Bank’s website www.koreaexim.go.kr/uk.

Verification

The disclosures explain the basis of disclosure of certain capital requirements and provide information about the risk management and for no other purposes. In addition, the information contained in this document has not been subject to external auditors and does not constitute any form of financial statement and have been produced solely for the purposes of Pillar 3.

1.3 Overview

KEXIM UK is a wholly-owned subsidiary of The Export-Import Bank of Korea (“Korea Eximbank” or “Parent Bank”). The Parent Bank is 100% owned by the Government of Korea 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 Bank’s main focus is to promote trade and investment for Korean corporates and

their international subsidiaries. In line with this objective its main activities revolve around providing credit facilities such as loans and guarantees to corporates which have a Korean linkage. KEXIM UK is a wholesale bank with no trading book or retail customers.

1.4 Financial Position

Information on the principle activities and financial position of the Bank is available in the Annual report. Please visit www.koreaexim.go.kr/uk.

1.5 Governance Framework

Decision making responsibility at KEXIM UK rests ultimately with the Board of Directors. This is cascaded down through the organisation by delegation of responsibility to the main committees and through individuals' documented responsibilities. Although such delegation exists for some day-to-day activities, the Board maintains overall responsibility for the strategy of the Bank and its compliance with all laws and regulations.

The Board of directors

KEXIM UK is a UK-incorporated company and is governed by its Board of Directors. The Board currently comprises five directors: one is a locally-based independent non-executive; two are non-executives representing the Parent Bank and further two are executive directors, namely the Managing Director (MD) and Deputy Managing Director (DMD). Each member of the Bank's directorship contributes to the mix of relevant skills, shoulders specific individual duties and as a component part of the group, collectively shares responsibility for the control and governance of the Bank. The executive directors will be responsible not only for the day-to-day management of the Bank, but also their individual portfolios.

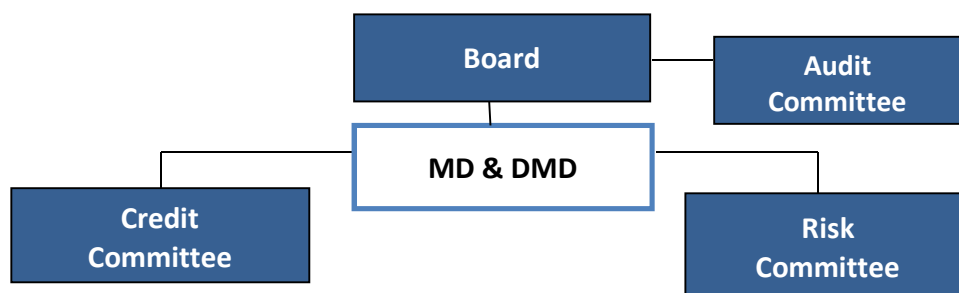
Management team

The MD is responsible for establishing a clear and appropriate apportionment and allocation of significant responsibilities amongst the directors and managers and to establish and maintain appropriate systems and controls such that the business can be adequately monitored and controlled by the directors, managers and the governing body. The core responsibilities for certain of the Bank's operations are as below:

Management team	Responsibilities
Managing Director	overall responsibility for the management of the Bank
Deputy Managing Director	responsible for risk management, strategic planning and personnel
Manager Credit	responsible for the quality and quantity of the lending book, including monitoring and control
Manager Securities & Treasury	responsible for managing liquidity, securities portfolio, wholesale funding and hedging of foreign exchange and interest rate risks
Manager Compliance & Risk Management	responsible for overseeing the finance function and regulatory reporting
Manager Operations & IT	responsible for all operations, back office, IT and administrative functions

Committee Structure

KEXIM UK operates three committees as stated in the chart below. The Board has delegated responsibility for the day-to-day management of the business to the MD and DMD. The Audit Committee is a sub-committee of the Board. The MD and DMD have delegated responsibility for certain risk processes and decision making to the two committees that they chair.



Committee	Responsibilities
Audit Committee	responsible for monitoring control systems and accounting policies/issues, ensuring compliance and adequate management of material risks and checking satisfactory implementation of internal audit recommendations
Credit Committee	responsible for overseeing lending, advising the Board on concentration risk and credit events and approving credit products and monitoring credit performance
Risk Committee	responsible for recommending risk management framework supportive of bank strategy and managing and reporting of risks

2 CAPITAL MANAGEMENT

The Bank prepares an Internal Capital Adequacy Assessment Process (ICAAP), based on experience gained in running KEXIM UK since its establishment in 1992 and also the business plan for the next three years. The rationale behind Pillar 2 calculations contained within the ICAAP is to allocate capital for the various risks well recognised in the type of business carried out by KEXIM UK, and also to acknowledge and ensure that the transactions carry appropriate risk mitigation measures and are executed and controlled with the requisite operational competence.

The Board has ultimate responsibility for the ICAAP and submission to the PRA. The MD and DMD in their joint role as the Bank's executive team continue to ensure that it is fully integrated with the day-to-day risk management processes of KEXIM UK.

KEXIM UK has considered a series of stress scenarios, identifying key vulnerabilities of the Bank and the mitigants that might be deployed to offset them. KEXIM UK has also conducted a reverse stress testing exercise. The stress tests received substantial input from the Bank's management team and include various extreme scenarios over a prolonged period.

3 CAPITAL STRUCTURE

3.1 Capital Resources

The Bank is required to report capital resources and risk-weighted assets to the PRA under the CRD. KEXIM UK's fully paid-up capital of KEXIM UK is £20million and retained earnings as of 31st December 2013 is £7.4million. The Parent Bank has also subscribed for a subordinated debt of £9.1million (\$15million) as of 31st December 2013.

The Bank has a strong tier 1 capital ratio of 13.9% and capital ratio of 19.1%

(£'000)	31 December 2013	31 December 2012
Share capital	20,000	20,000
Retained earnings	7,400	5,733
Tier 1 capital	27,400	25,733
Subordinated debt	9,068	9,278
General provision	1,158	1,179
Tier 2 capital	10,226	10,457
Total	37,626	36,190
Risk weighted assets	197,054	201,448
Tier 1 capital ratio	13.9%	12.8%
Capital ratio	19.1%	18.0%

3.2 Capital Required

As shown in the high level view of the capital figures below, the Bank has surplus capital to meet its capital requirements:

(£'000)	31 December 2013	31 December 2012
Credit Risk	15,764	16,116
Market Risk	80	80
Operational Risk	600	345
Pillar 1 requirement	16,444	16,541
Concentration Risk	6,111	6,018
Interest Rate Risk	535	236
Business Risk	2,873	2,824
Pillar 2 requirement	9,519	9,077
Total capital requirement (Pillar 1 + Pillar 2)	25,963	25,618

4 RISK MANAGEMENT

The Bank has robust risk management framework, policies and procedures to manage its risk profile.

The Board sets the overall risk appetite for the Bank and produces the risk appetite statement which incorporates its liquidity risk tolerance. The statement forms the foundation of the Bank's liquidity risk policies which are subject to review, challenge and approval by the Board.

The Board has ultimate responsibility for the ICAAP, Individual Liquidity Adequacy Assessment (ILAA) and Recovery Resolution Plan (RRP) and submission to the PRA. The MD and DMD in their joint role as the Bank's executive team continue to ensure that it is fully integrated with the day-to-day risk management processes of KEXIM UK.

4.1 Risk Identification

Credit, Market, Operational, Liquidity, Concentration, Interest Rate and Business Risk are the key risks to which KEXIM UK is exposed. The next section summarises the principal risks for which risk management policies have been implemented as outlined.

4.2 Principal Risks

Credit risk

Credit risk is the risk that counterparties to the Bank's financial assets may default.

The Bank assesses and measures credit risk based on the Standardised Approach, which most accurately reflects the Bank's risk weighted credit exposure relative to its size and the nature of its business. The credit risk capital requirement is calculated as 8% of the total risk weighted assets. The Bank has opted to nominate all three of Fitch, Moody's Investor Service and Standard & Poor's as External Credit Assessment Institutions (ECAIs), whose ratings are used for evaluating the appropriate risk weightings.

The Board formulates and approves the credit risk policies and procedures. Executive directors and relevant committees implement the policies formulated by the Board. Credit limits and an internal rating system are used to monitor exposures. A dedicated Manager Credit reports to the Credit Committee headed by the MD, reviewing the various credit aspects of KEXIM UK. The Credit Committee is involved in all new product approval. Moreover, the Audit Committee reviews the credit rating on a semi-annual basis.

Market risk

Market risk is the risk that movements in market risk factors including FX rates, interest rates and credit spreads will reduce or eliminate KEXIM UK's income or the value of its loan assets and investment portfolio.

KEXIM UK takes the Position Risk Requirement approach (PRR) to evaluate the market risk.

The Bank is exposed to market risk in relation to the reporting of exposures upon its US dollar assets in sterling (GBP). The Bank is subject to an Open Position limit which has been monitored on a daily basis. The position changes on a daily basis as the Bank converts its foreign currency net income (primarily US dollars) into sterling. It is the Bank's policy to "close" out any large open positions on a regular basis and in significantly good time prior to reaching 90% of the Open Position limit.

KEXIM UK does not have a trading book. The only market risk applicable to KEXIM UK is therefore foreign currency risk as calculated via the PRR. This is calculated by taking 8% of the foreign currency open position.

Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. It is inherent to every business organisation.

The capital allocation is based on the Basic Indicator Approach which is 15% of the three-year average of the sum of KEXIM UK's net interest income and net non-interest income.

KEXIM UK is a small-sized wholesale bank. The Bank operates a strict policy of segregation of duties, meaning that no member of the marketing side has access to any payment or data update process within the Bank. Equally, no member of the operations side of the organisation has any influence upon the terms and conditions of any business conducted by the marketing officers. KEXIM UK has a robust governance structure to reduce the risk of a failure in processes. Extensive training is conducted at all levels of KEXIM UK, and a detailed Disaster Recovery Plan where the mitigation and required action is outlined in the event of a disaster is in place.

Liquidity risk

Liquidity risk is the risk that the company's cash and committed facilities may be insufficient to meet its obligations as they fall due.

The Bank undertakes the Individual Liquidity Adequacy Assessment (ILAA) at least once a year and it is reviewed and approved by the Board. The Bank follows the PRA and FCA liquidity guidance and manages liquidity risk by tracking mismatches and holding high quality liquid asset buffer securities. The liquid asset buffer stock consists of only eligible securities that have a credit rating of AA- and above. KEXIM UK does not require any additional capital resources to mitigate the liquidity risk as the high quality liquid asset buffer, together with the availability of the Parent standby credit facility, provides the required cushion to manage liquidity in an adverse situation.

Liquidity is managed and tracked using the mismatch between the inflows and outflows and by calculating the liquid assets buffer required for a standard Individual Liquidity Adequacy Standards (ILAS) firm. The Manager Treasury & Securities ensures that a strong liquidity position is maintained in line with the risk appetite. Up-to-date liquidity positions, available at a granular level, are reported and circulated to management daily.

Concentration risk

Any single exposure or group of exposures, with potential to produce losses large enough, (relative to a bank's capital, total assets or overall risk level), to threaten the Bank's health or ability to maintain its core operations.

Exposures are grouped by a customer's group or country of domicile. Firstly, Group Risk is merely an extension of Credit Risk in Pillar I. The level of Capital Resources established to cover the individual companies within a group does not require duplication at the group level. A Concentration Ratio report is produced on a daily basis for the management team. Utilising individual exposure information, this report advises the level of exposures at group level and also analyses the how these exposures would change with an adverse movement in FX rates. Further, the report highlights large exposures that are greater than 20% of capital resources, thereby approaching the 25% limit.

KEXIM UK has a large percentage of its assets lodged with institutions of the same country of exposure as the Parent organisation, namely the Republic of Korea. Apart from Korea, it is clear that there is no significant concentration of the Bank's risk assets in any single country. The intent of the Bank is to ensure that credit exposures are held in economically stable regions whilst also ensuring that risks are minimised via a geographically even spread. For these other countries, there is no requirement for capital resources to be put in place.

Concentration risk is managed through the credit risk management and new product processes. Internal processes and limits are set up to monitor large exposures and concentration (including group exposures). The impact on exposure and concentration limits is assessed on a regular basis. The impact on exposure and concentration limits is assessed before each transaction is approved. The management team monitors large exposures and concentration risk reports on a daily basis.

Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the Bank's interest bearing financial assets and liabilities.

The Bank's interest bearing assets and liabilities are all linked to a margin above the London Interbank Offered Rate (LIBOR), therefore exposure to Interest Rate Risk is centred upon the resetting of interest rates on both its assets and liabilities. A majority of the Bank's investment assets are individually linked to separate 'interest rate swap' contracts where the funding and its interest rate resetting dates most often closely match that of the connected asset.

A schedule is provided on a monthly basis that informs the management team of the Bank's Interest Rate "Gaps" (net assets/liabilities subject to interest rate renewals within pre-defined periods). This facilitates the planning of strategies to take advantage of fluctuating interest rates. To complement this, the Bank trades in Sterling, US Dollars and Euros. Interest rate swap contracts are purchased to mitigate interest rate risk. Sensitivity analysis calculating the impact of a 200 bps movement in interest rates are done to evaluate an impact in interest rate movements.

Business risk

This is the risk that the business will fail to establish and sustain viability due to competition, lack of availability of business, pace of growth, inappropriate strategy and business plans, unrealistic targets or inability to recruit and retain professional staff.

KEXIM UK's main business segment is lending to corporates. Any significant impact on this business segment will impact the Bank. The Bank plans to make a capital allocation as a certain proportion of the loan book to cover the risk of deterioration in this business segment. The Bank maintains a flat cash position within its accounts based upon the expected delivery of funds from its counterparties, all of whom are major banking institutions. The Bank uses S.W.I.F.T. for electronic funds transfer and if the SWIFT system were to fail, almost every bank worldwide would be adversely affected. It is recognised, though, that there exists a small chance of a systemic failure leading to non-receipt of expected funds which could, in turn, lead to the Bank seeking temporary emergency funds. The Bank would expect full recovery of any costs involved in such an event, once the process of making the required claims has run its course. The Bank has allocated additional capital resources to cover incidental operational charges based upon the failure of others to make timely payments.

KEXIM UK's management team and Board view that the proposed business growth targets are achievable provided there is no significant deterioration in the macro-economic environment. The business risk is mitigated by the adequacy of capital relative to costs and risk profile; forecast of significant growth in core market niche; and provision of funding by the Parent. Budgets and financial forecasts are already very conservative and thus this is an additional protection. A specific allocation has been provided, though in practice there is an overlap with operational risk allocation. Taken together these represent a material allocation to cover unforeseen risks, including 'any other' i.e. unspecified risks.

Other risks

Risk	Mitigants
Insurance risk	<ul style="list-style-type: none"> KEXIM UK maintains adequate and independent insurance which is reviewed annually under advice from external brokers.
Residual risk	<ul style="list-style-type: none"> KEXIM UK believes it has put in place a robust governance structure. Taken together with the experience of the management team and the 'four eyes' principle, this risk is effectively managed. KEXIM UK has taken out insurance policies which comprehensively cover the risks that might arise due to incidents of fraud.
Securitisation risk	<ul style="list-style-type: none"> Securitisation risk is not applicable to KEXIM UK as it does not provide securitisation services or products.
Pension obligation risk	<ul style="list-style-type: none"> The Bank does not provide Pension related services nor does it operate a staff, final salary or personal pension scheme.
Regulatory risk	<ul style="list-style-type: none"> KEXIM UK follows all rules and regulations of the UK Regulatory bodies. KEXIM UK mitigates these risks by continuing to maintain a strong compliance ethos, a commitment to staff training in compliance and procedures and an experienced Compliance Manager.

5 REMUNERATION

The Bank is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Level. The Bank has remuneration policies that are consistent with and promote effective risk management and do not expose the Bank to excessive risk. The Bank also adopts a very conservative approach to risk taking especially in terms of remunerations. The Bank does not operate a performance-based remuneration scheme. Due to its relatively small size with the average number of employees of ten including directors, the Bank does not have a remuneration committee. Moreover, the remuneration of senior management expatriates from the Parent Bank is subject to the Parent Bank's policy on a group wide basis, and the remuneration of local staff is monitored by the Parent Bank.

The total remuneration paid in the financial year 2013 was GBP 1.1million which includes salaries, pension costs and other staff costs. The forms of remuneration are mainly limited to cash and cash-benefits.