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 2016

Contents

Officers and professional advisers

Directors

C P J Fitzgibbon	Chairman and Independent Non-Executive Director
H J Kim	Managing Director
B S Cha	Executive Director
D I Gibb	Independent Non-Executive Director
J H Ahn	Non-Executive Director
J Y Koh	Non-Executive Director

Registered Office
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Company Registration No. 2693038

Auditor
Deloitte LLP
Chartered Accountants
Hill House
1 Little New Street
London
EC4A 3TR

Chairman's statement

Overview of 2016

2016 was a challenging year not only for Kexim Bank (UK) Limited ('the Bank' or 'the company') but for all financial institutions. Financial markets have been volatile and the downward path of global long-term interest trend has accelerated following the UK referendum on EU membership. Other factors have contributed to global uncertainty including the slowdown in China, the prospect of European elections, and the recent US presidential election. The evolving regulatory environment for banks added additional challenges.

Despite the uncertainty caused by the political and economic events, the Bank has continued to identify new investment opportunities while maintaining its prudent management of loans and risk. The Bank's financial performance in 2016 reflects an improvement on 2015.

2017 will also be a challenging year for the Bank. But the Board is committed to taking the steps necessary to deliver value for the Export-Import Bank of Korea. ("the Parent Bank")

Governance and Board change

The Board reviewed its effectiveness in 2015 and has implemented a number of recommendations including those relating to the training of directors and the appointment of an independent non-executive director.

During the year, the Bank appointed Mr. Dominic Gibb as its second independent non-executive director and as Chairman of its audit and risk committee. There were also a number of other Board changes during the year. Mr.Joongyul Koh became a Non-Executive Directors on 23 September 2016 and Mr. Hoseob Jeoung and Mr. Jeonghoon Kim retired as directors. The Board is very grateful to them for their contribution to the Bank's governance.

Christopher Fitzgibbon

Christopher Fitzgibbon
Chairman

Strategic report

Principal activities

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 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.

Review of the business

2016 was another eventful year for the Bank. At the beginning of the year, a fear for the slowdown in China led to a sharp decline in global interest rates. In June, the UK referendum vote to leave the EU provoked not just an increase of volatility in financial markets but also a steep decline in Sterling to a level which has not been witnessed in the last three decades. The year ended with the result of US president election, resulting in the rise of market interest rates which were attributed to the anticipation of increased infrastructure capital investment in the US and expectations of increased inflation. Turning attention to Korea, its key exporting industries from shipbuilding to overseas constructions have undergone severe restructuring processes throughout the year, adversely impacting the parent bank's asset quality and capital adequacy as large companies in those fields have been major recipients of the parent bank's financing.

As the exact schedule and aftermath of Brexit are not yet clear, its long-term impact on operations of the Bank remains difficult to forecast. The impact might be limited because the Bank's business is not concentrated in the EU but diversified around the globe. Nevertheless, an immediate impact was felt due to the weakening of Sterling in 2016. While three-quarters of the Bank's capital is in GBP, 90% of the assets are in USD, meaning downward pressure on the Bank's capital ratio unless the assets grow more than the decreased value of Sterling. The Bank closely monitored its capital ratio, and took reasonable actions such as credit mitigation and total asset control to secure a reasonable buffer in managing the capital adequacy ratio. In spite of the difficult environment, however, the Bank achieved its target for total asset volume (USD 420 million) and capital ratio of 11.10%, compared to 10.67% in 2015.

As for the operational result of the Bank in 2016, it recorded a net profit of GBP 1.3 million, overcoming continued low interest rates and tightened credit spreads for investment grade names. A noteworthy source of improvement is in fee income which increased by 278% to £271,104 in 2016 (2015: £97,569).

The Bank has maintained a zero non-performing loan ratio all year. Considering the fact that 85% of the Bank's outstanding loans are based on co-financing with the parent bank which has been heavily exposed to the struggling sectors of Korea, the Bank's NPL management has been successful. The Bank will aim to carefully manage its exposure to heavy industries related to shipping, oil refinery and commodities over the next few years.

As the challenging market environment is expected to continue in 2017, the Bank will keep up its prudent management of loans and risk. Furthermore, the more details are available in terms of regulatory change due to Brexit, the more focus can be given to necessary measures to strengthen the Bank's profitability and sustainability.

Strategic report (continued)

Approved by the Board of Directors
and signed on behalf of the Board

강희준

H J Kim
Managing Director
03 APRIL 2017

Directors' report

The directors present their annual report together with the financial statements and auditor's report for the year ended 31 December 2016.

Future developments

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

Directors' indemnities

The Bank has made qualifying third party indemnity provisions for the benefit of its directors during the year and they remain in force at the date of this report.

Results and dividends

The Bank, herewith, reports a profit for the year amounting to £1,201,678 (2015: -£104,414 loss) as shown on page 12 of the Financial Statements.

At this time no dividend has been declared or paid for 2016 (2015: £Nil).

Viability statement

In accordance with the 2014 UK Corporate Governance Code the Board assessed the perspectives of the Bank over a longer period than the 12 months required by the Going Concern statement given in Director's report.

This assessment included a review and revision of the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') document and evaluation of the bank's principal risks and uncertainties stated in the Strategic Report, including those that would threaten its operational performance and liquidity coverage. On a regular basis, the Bank conducts stress tests as part of the ICAAP and ILAAP required by the Prudential Regulation Authority ('PRA'). It is the Board's responsibility to evaluate the effectiveness of any management actions that may be taken to mitigate the impact of the stress events.

The Board considered that the viability statement should cover a period of three years. Whilst the Board have no reason to believe that the Bank will not be viable over a longer period, a three year period has been chosen because a three year time horizon has a much greater degree of certainty and provides an appropriate longer-term outlook.

Taking into consideration the continuous support from the parent bank and the Board's assessment of principal risks and further prospects, 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 a period of at least three years.

Board Effectiveness Review

The Board conducted an effectiveness review in 2015, and has implemented recommendations to enhance the Board's overall effectiveness.

Directors' report (continued)

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.
From the directors' assessment of the Bank's business there are, in their opinion, four considerations which are the principal indicators of the Bank's ability to continue as a going concern. These are:

a) The Bank's capital resources exceed the PRA guidelines and are more than adequate for planned business activities.
b) Having conducted stress testing, the directors are satisfied 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 parent bank has provided notice to the Board of Directors that if the Bank was short of funds, it would act as the Bank's lender of last resort.
c) The Bank maintains a credit portfolio of sufficient quality 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.

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.

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 cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal risk policy limits.

Credit risk

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

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

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 and with similar interest rate resetting periods.

Directors' report (continued)

The Bank undertakes hedging transactions (Packaged Asset Swaps) 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 profit 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.

Operational risk

The primary operational risk arises from the potential for 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.

Events since the balance sheet date

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

The directors believe that the Bank is a viable business and that it is appropriate to draw up the financial statements on the going concern basis.

Directors

The directors who served during the year, except as noted, were as follows:

C P J Fitzgibbon	Independent Non-Executive Director	Appointed as Chairman 1 January 2016
H J Kim	Managing Director	Appointed on 28 March 2017
S S Ryoo	Managing Director	Resigned 3 January 2017
B S Cha	Executive Director	
D I Gibb	Independent Non-Executive Director	Appointed 1 July 2016
J H Ahn	Group Non-Executive Director	Appointed 3 January 2017
J Y Koh	Group Non-Executive Director	Appointed 23 September 2016

Political and charitable contributions

There were no political and charitable donations made during the year (2015: £nil).

Principal risks and uncertainties

See note 24 to the Financial Statements.

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.

Reappointment of the auditor

Deloitte LLP have expressed their willingness to continue in office as auditor.

Directors' report (continued)

Approved by the Board of Directors
and signed on behalf of the Board

H J Kim
Managing Director
03 APRIL 2017

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 Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the financial statements of Kexim Bank (UK) Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion on 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 2016 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters upon which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Tom Millar (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

03 April 2017

Profit and loss account

For the year ended 31 December 2016

	Notes	2016 £	2015 £ Restated*
Interest income		8,936,983	8,110,288
Interest expense		(3,857,788)	(2,721,882)
Net interest income	5	5,079,195	5,388,406
Net loss on financial assets at FVTPL		(677,251)	(3,009,646)
Net loss on derivatives		(1,076,736)	(1,198,354)
Fees and commission income		271,104	97,569
Fees and commission expense		(99,078)	(55,446)
Other operating (expense)/income		(19,445)	740,803
Total operating income	4	3,477,789	1,963,332
Administrative expenses	8	(1,817,744)	(1,738,555)
(Loss)/gain from movement in provisions		(90,760)	42,734
Profit on ordinary activities before tax		1,569,285	267,511
Tax on profit on ordinary activities	9	(367,607)	(371,925)
Profit/(loss) on ordinary activities after tax		**1,201,678**	**(104,414)**

* The comparative figures are restated and details of the restatement can be founded in Note 25 of the financial statement.

Statement of comprehensive income

For the year ended 31 December 2016

	2016 £	2015 £ Restated*
Profit/(loss) for the year	1,201,678	(104,414)
Items that may be reclassified subsequently to profit or loss:		
Available for sale financial assets		
Reclassified to profit and loss	8,742	-
Loss arising during the period	(34,033)	(8,742)
Credit to deferred tax	5,478	1,770
Other comprehensive income/(loss) for the year net of tax	(19,813)	(6,972)
Total comprehensive income/(loss) for the year attributable to the Owners of the Company	1,181,865	(111,386)

*The comparative figures are restated and details of the restatement can be founded in Note 25 of the financial statement.

Balance sheet
As at 31 December 2016

	Notes	2016 £	2015 £ Restated*
Fixed assets			
Tangible fixed assets	10	73,280	108,270
Loans and advances to banks	11,16	3,756,955	-
Loans and advances to customers	12, 16	61,620,280	60,326,638
Debt securities: private placement bonds		26,853,693	23,664,680
Financial assets at fair value through profit or loss (FVTPL)	14	62,071,161	91,810,724
Financial investments	15	16,827,180	10,698,145
Derivative financial assets	16	595,151	401,709
		171,797,700	187,010,166
Current assets			
Loans and advances to banks (due within one year)	11, 16	6,267,676	15,322,069
Loans and advances to customers (due within one year)	12, 16	98,544,493	71,905,248
Debt securities: private placement bonds (due within one year)		5,686,203	6,069,633
Financial assets at FVTPL (due within one year)	14	44,706,490	15,050,726
Financial investments (due within one year)	15	24,019,396	10,787,084
Corporation tax receivable		-	109,082
Equity shares		-	38
Prepayments and accrued income		2,083,479	3,328,331
Cash at bank and in hand		11,339,055	3,246,838
Derivative financial assets	16	2,157	5,437
Total Assets		364,446,649	312,834,652
Creditors: amounts falling due within one year			
Deposits by banks		(220,463,463)	(202,844,084)
Securities sold under agreement to repurchase	18	-	(18,397,087)
Accruals and other liabilities		(7,997,239)	(326,075)
Corporation tax payable		(321,551)	-
Derivative liabilities		(969,985)	(301,770)
Net Current assets		(37,103,289)	(96,044,530)
Total assets less current liabilities		134,694,411	90,965,636
Creditors: amounts falling due after more than one year			
Deposits by banks	17	(81,231,469)	(40,373,718)
Subordinated loans	19	(17,058,608)	(14,165,261)
Derivative liabilities	16	(3,300,430)	(4,514,327)
Deferred tax liabilities	20	(271,159)	(262,149)
Total liabilities		(331,613,904)	(281,184,471)
Net Assets		32,832,745	31,650,181
Capital and reserves			
Called up share capital	21	20,000,000	20,000,000
Revaluation reserve	22	(26,785)	(6,972)
Profit and loss account		12,859,530	11,657,153
Total shareholders' funds		32,832,745	31,650,181

*The comparative figures are restated and details of the restatement can be founded in Note 25 of the financial statement.

Kexim Bank (UK) Limited

Balance sheet (continued)

As at 31 December 2016

The financial statements were approved by the board of directors and authorised for issue on 03 APRIL 2017. They were signed on its behalf by:

H J Kim
Managing Director
Company Registration No. 2693038

Statement of changes in equity

For the year ended 31 December 2016

	Share Capital	Profit and loss account	Revaluation reserve	Total
	£	£	£	£
Balance at 1 January 2015 (restated)*	20,000,000	11,759,533	-	31,759,533
Transitional adjustment: deferred tax	-	2,034	-	2,034
Total comprehensive income for the year (restated)*	-	(104,414)	(6,972)	(111,386)
Balance at 31 December 2015(restated)*	20,000,000	11,657,153	(6,972)	31,650,181
Balance at 1 January 2016	20,000,000	11,657,153	(6,972)	31,650,181
Transitional adjustment: corporation tax	-	699	-	699
Total comprehensive income for the year	-	1,201,678	(19,813)	1,181,865
Balance at 31 December 2016	20,000,000	12,859,530	(26,785)	32,832,745

*The comparative figures are restated and details of the restatement can be founded in Note 25 of the financial statement.

Notes to the financial statements
For the year ended 31 December 2016

1. General information

Kexim Bank (UK) Limited is a bank incorporated in the United Kingdom under the Companies Act 2006. 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 4.

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

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the company 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 9	*Financial Instruments.*
IAS 16	*Clarifications of Acceptable Methods of Depreciation.*
Annual Improvements	
to IFRSs: 2010-2012	Amendments to : IFRS 13 *Fair Value Measurement*, IAS 16 *Property, Plant and Equipment* and IAS *24 Related Party Disclosures.*
Annual Improvements	
to IFRSs: 2011-2013	Amendments to: IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 13 *Fair Value Measurement.*
Annual Improvements	
to IFRSs: 2012-2014 Cycle	Amendments to: IFRS 7 *Financial Instruments: Disclosures.*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with FRS 101 'Reduced disclosure Framework'. The financial statements have been prepared on a historical cost basis and financial instruments are measured at fair values at the end of each reporting period as explained in the accounting policies below.

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 4.

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.

Income recognition

Interest income is recognised in the profit and loss account as it accrues, other than interest of doubtful receipt, which is credited to a suspense account and excluded from interest income. The closing balance on the suspense account is netted in the balance sheet against accrued interest receivable or, as the case may be, the amount debited to the borrower. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Fees and commissions relating to advances are recognised on an accrual basis.

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

Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Foreign currencies

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

Transactions in currencies other than the company's functional currency (foreign currencies) 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 profit or loss in the period in which they arise.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

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 company'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, 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 company 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 Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

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

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:

Leasehold improvements	-	period of lease
Fixtures and fittings	-	period of lease
Office equipment	-	3 years
Computer hardware and software	-	3 years
Computer hardware — mainframe	-	5 years
Software licences	-	Period of licence
Motor vehicles	-	3 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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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. 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) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the profit and loss account. Fair value is determined in the manner described in note 25.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available for sale (AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as: (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. The Company also has investments in unlisted shares that are not traded in an active market but that are classified as AFS financial assets and stated at fair value (because the directors consider that fair value can be reliably measured). Fair value is determined in the manner described in note 25. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. .

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognised in profit or loss by category of financial assets.

1) Loans

If there is objective evidence that an impairment loss on loans carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The Company first assesses whether objective evidence of impairment exists individually for loans that are individually significant (individual evaluation of impairment), and individually or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment (collective evaluation of impairment).

① Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of borrower and fair value less cost to sell of any collateral held and the timing of anticipated receipts.

② Collective assessment of impairment

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of loans for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default (PD) on each loan (or pool of loans) and loss given default (LGD) by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2) AFS financial assets

When a decline in the fair value of an AFS financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) that had been recognised in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of an AFS debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss as part of other operating income and expenses. However, impairment losses recognised in profit or loss for an AFS equity instrument are not reversed through profit or loss.

3) Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment loss of held-to-maturity financial assets is directly deducted from the carrying amount. The amount of the loss is recognised in profit or loss as part of other operating income and expenses. In case of financial asset classified as held-to-maturity, if, in a subsequent period, the amount of the impairment loss is decreased and objectively related to the event occurring after the impairment is recognised, the previously recognised impairment loss is reversed to the extent of amortised cost at the date of recovery. The amount of reversal is recognised in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the profit and loss account. Fair value is determined in the manner described in note 25.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in notes 16 and 25.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

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

Notes to the financial statements (continued)
For the year ended 31 December 2016

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. Analysis of total operating income

	2016 £	2015 £ Restated
By activity		
Net Interest Income	5,079,195	5,388,406
Loss on financial assets at FVTPL	(677,251)	(3,009,646)
Loss on derivative instruments	(1,076,736)	(1,198,354)
Fees and commissions income, net	172,026	42,123
Foreign exchange, net	(19,445)	23,900
Profit on disposal of shares and loans	-	716,903
	3,477,789	1,963,332

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

Notes to the financial statements (continued)
For the year ended 31 December 2016

5. Net interest income

	2016 £	2015 £
Interest income		**Restated**
Interest income from debt securities:		
Held-to-maturity financial assets	284,254	887,340
Available-for-sale debt investments	142,652	6,437
Financial assets at FVTPL	4,314,739	3,981,105
Interest income from customer loans:		
Loans and receivables	4,195,338	3,235,406
Total interest income	8,936,983	8,110,288
Interest expense		
Interest expense payable to Parent Company:		
Money Market Deposits	814,472	630,895
Subordinated Loan	269,958	174,409
Interest expense payable to other companies:		
Term Deposits	1,703,793	951,782
Repos	86,261	131,499
Medium and Long-Term Funding	983,304	833,297
Total interest expense	3,857,788	2,721,882
Net interest income	5,079,195	5,388,406

6. Profit/(loss) for the year

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

	Notes	2016 £	2015 £
Depreciation		38,575	28,323
Auditor's remuneration			
- Audit		33,000	25,000
- Tax compliance services		7,650	5,525
- Other assurance services		-	13,000
Profit on disposal of debt securities		-	554
Foreign exchange gain		20,642	23,900
Operating lease rentals — office property	8	188,277	170,587

7. Operating lease arrangements

The company as lessee

	2016 £	2015 £
Lease payments under operating leases recognised as an expense in the year	188,277	170,587

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £	2015 £
Within one year	166,000	175,000
In the second to fifth years inclusive	411,134	608,425
	577,134	783,425

Operating lease payments represent rentals payable by the company for certain of its office properties.

8. Administrative expenses

Staff costs	**2016 £**	**2015 £**
Wages and salaries	991,667	961,250
Social security costs	22,304	22,797
Other pension costs	25,731	9,903
Other staff costs	24,781	21,468
	1,064,483	1,015,418
Depreciation	38,575	28,323
Other administrative expenses	714,686	694,814
	1,817,744	1,738,555

The average monthly number of employees (including executive directors) was 11 (2015: 10).

Directors' emoluments	2016 £	2015 £
Aggregate directors' emoluments	487,826	417,117
Highest paid director	234,811	214,196

Notes to the financial statements (continued)
For the year ended 31 December 2016

9. Tax

	Note	2016 £	2015 £ Restated
Corporation tax:			
Current year		361,427	102,458
Adjustment for prior years		(8,307)	(1,012)
Total current year tax charge		353,120	101,446
Deferred tax:	20		
Current year		12,777	(26,231)
Adjustments in respect of previous years		-	325,517
Effect of changes in tax rate		1,711	(28,808)
Total current year tax charge		14,488	270,478
Tax per profit or loss account		367,607	371,924
Other comprehensive income items:			
Current tax		699	(1,770)
Deferred tax		(5,478)	
		(4,779)	(1,770)

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated taxable profit for the year.

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

	2016 £	2015 £
Profit /(loss) on ordinary activities	1,569,285	267,511
Tax at the UK corporation tax rate of 20% (2015: 20.25%)	313,857	54,171
Effects of:		
Adjustments in respect of prior years	(8,307)	324,505
Expenses not deductible	6,451	15,294
Tax rate changes	1,711	(28,808)
Deferred tax adjustment	53,895	6,762
Tax charge for the period	367,607	371,924

Notes to the financial statements (continued)
For the year ended 31 December 2016

10. Tangible fixed assets

	Fixtures and Fittings £	Office Equipment £	Total £
Cost			
At 1 January 2015	92,242	512,776	605,018
Additions	1,728	34,663	36,391
At 31 December 2015	93,970	547,439	641,409
Additions	-	3,587	3,587
At 31 December 2016	93,970	551,024	644,994
Accumulated depreciation			
At 1 January 2015	38,904	465,912	504,816
Charge for the year	9,356	18,967	28,323
At 31 December 2015	48,260	484,879	533,139
Charge for the year	9,615	28,959	38,575
At 31 December 2016	57,875	513,838	571,713
Carrying amount			
At 31 December 2015	53,338	46,864	100,202
At 31 December 2016	36,095	37,185	73,280

11. Loans and advances to banks

	2016 £	2015 £
Repayable:		
- within three months	2,829,182	15,322,069
- between three months and one year	3,438,494	-
- between one year and five years	3,756,955	-
	10,024,631	15,322,069

12. Loans and advances to customers

	2016 £	2015 £
Repayable:		
- within three months	25,323,695	14,689,517
- between three months and one year	73,508,431	57,375,059
- between one year and five years	52,496,666	60,419,348
- over five years	9,240,254	-
	160,569,046	132,483,924
Provisions held	(404,273)	(252,038)
Net of provisions	160,164,773	132,231,886

13. Provisions for loans and advances to customers

Loans and advances to customers are stated net of the following provisions:

	2016 £	2015 £
At 1 January	252,038	1,514,139
Charge/(Reversal) for the year	152,235	(1,262,101)
At 31 December	404,273	252,038
of which:		
in respect of loans and advances to customers	404,273	252,038
	404,273	252,038

14. Financial assets at FVTPL

Financial assets at FVTPL	2016 £	2015 £
Due within one year	44,706,490	15,050,726
Due one year and over	62,071,161	91,810,724
	106,777,651	106,861,450
Listed Securities	106,777,651	106,861,450

Financial assets at FVTPL	2016 £	2015 £
Public ownership		
Issued by Government	1,856,252	1,600,496
Issued by other public sector bodies	1,738,890	4,851,337
Others		
Issued by banks	64,916,574	60,367,225
Issued by other issuers	38,265,934	40,042,393
	106,777,651	106,861,451

As of 31 December 2016, £8.9 million (2015 : £7.1million) of investment securities are pledged as collateral for swap transactions.

Notes to the financial statements (continued)
For the year ended 31 December 2016

15. Financial investments

	Due within 1 year 2016 £	Due within 1 year 2015 £	Due one year and over 2016 £	Due one year and over 2015 £
Available-for-sale				
Investment securities	24,019,396	4,713,012	4,183,411	-
Held to maturity				
Investment securities	-	6,074,073	12,643,769	10,698,145
Total	**24,019,396**	**10,787,084**	**16,827,180**	**10,698,145**

Financial investments by types of issuers	2016 £	2015 £
Public ownership		
Issued by Government	18,682,549	-
Issued by supranational organisations	-	4,713,012
Issued by other public sector bodies	3,249,259	2,698,145
Others		
Issued by banks	13,423,064	7,574,072
Issued by other issuers	5,491,704	6,500,000
	40,846,576	**21,485,229**

16. Derivative assets and liabilities

	2016 £	2015 £
Derivative assets		
Due within one year	2,157	5,437
Due one year and over	595,151	401,709
	597,308	**407,146**

	2016 £	2015 £
Derivative liabilities		
Due within one year	969,985	301,770
Due one year and over	3,300,430	4,514,327
	4,270,415	**4,816,097**

2016	Notional	Derivative assets Trading	Derivative liabilities Trading
		£	£
Interest rate swaps	98,270,136	63,544	3,686,432
Currency swaps	5,053,976	533,764	583,983
	103,324,112	**597,308**	**4,270,415**
2015			
Interest rate swaps	98,409,699	75,461	4,653,344
Currency swaps	4,518,707	331,685	162,753
	102,928,406	**407,146**	**4,816,097**

17. Deposits by banks

	2016	2015
	£	£
Parent and related companies	145,643,090	74,763,408
Other banks	156,051,842	168,454,394
	301,694,932	**243,217,802**
Repayable:		
- within three months	22,125,817	17,426,784
- between three months and one year	198,338,646	185,417,300
- between one year and five years	81,230,469	40,373,718
	301,694,932	**243,217,802**

Notes to the financial statements (continued)
For the year ended 31 December 2016

18. Securities sold under agreement to repurchase

	2016 £	2015 £
Other banks	-	18,397,087
Repayable:		
- between three months and one year	-	18,397,087
	-	18,397,087

19. Subordinated loans

	2016 £	2015 £
Repayable:		
- between one year and five years	12,184,720	10,118,044
- over five years	4,873,888	4,047,217
	17,058,608	14,165,261

The two subordinated loans are granted by the parent company, the Export-Import Bank of Korea, for an amount of US$15million and US$6million (2015: US$21millon) and will mature in 2019 and 2024 respectively (2015: 2019 and 2024). The interest is reset periodically on the basis of the London interbank rate plus 0.62% and 1.52% respectively (2015: 0.62% and 1.52%).

Under the terms of the loan agreement, in the event of the winding up of the Bank, the loan will be subordinated to the claims of depositors and all other creditors of the Bank.

Notes to the financial statements (continued)
For the year ended 31 December 2016

20. Deferred tax

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

	Accelerated tax depreciation	Temporary differences trading	Tax losses	Total
	£	£	£	£
At 1 January 2015	(8,330)	-	-	(8,330)
Prior year adjustment	-	326,315	(798)	325,517
Charge/(credit) to profit or loss	6,881	(61,999)	80	(55,038)
At 31 December 2015	(1,449)	264,316	(718)	262,149
At 1 January 2016	(1,449)	264,316	(718)	262,149
Charge/(credit) to profit or loss	(2,486)	16,966	8	14,488
Credit to equity	-	(5,478)	-	(5,478)
At 31 December 2016	(3,935)	275,804	(710)	271,159

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

	2016	2015
	£	£
Deferred tax liabilities	271,159	262,149
Deferred tax assets	-	-
	271,159	262,149

21. Share capital

	2016 £	2015 £
Authorised:		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000
Issued and fully paid:		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000

22. Revaluation reserve

	Available-for-sale revaluation reserve £
Balance at 1 January 2015	-
(Decrease) in fair value of available-for-sale investments	(8,742)
Related income tax on the fair value movements of available-for-sale investments	1,770
Balance at 1 January 2016	(6,972)
Reclassified to profit and loss	8,742
Increase in fair value of available-for-sale investments	(34,033)
Related income tax on the fair value movements of available-for-sale investments	5,478
Balance at 31 December 2016	(26,785)

23. Contingent liabilities and undrawn lending commitments

The followings are contingent liabilities and undrawn lending commitments of the bank:

	2016 £	2015 £
L/C confirmation (transaction)	8,947,013	5,652,625
Undrawn commercial lending commitments	2,030,787	-
	10,977,800	5,652,625

24. Financial Instruments

Capital risk management

The Company manages its capital to ensure that the Company 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 Company's overall strategy remains unchanged since 2015.

The capital structure of the Company consists of subordinated loans disclosed in note 19, equity of the company's parent, comprising issued capital and retained earnings as disclosed on the balance sheet.

Notes to the financial statements (continued)
For the year ended 31 December 2016

The Bank is subject to the PRA and EU CRD IV capital requirements and is in compliance with the regulations during 2016 and 2015.

Capital, leverage and Risk Weighted Assets (RWA)	Limit %	2016 %	2015 %
CET1 ratio	4.5	7.8	7.7
T1 capital ratio	6.0	7.8	7.7
Total capital ratio	8.0	11.1	10.7
Leverage ratio		8.49	9.91
RWA (£)		293,357,149	263,492,098

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

Categories of financial instruments

	2016 £	2015 £
Financial assets		
Loans and receivables		
Cash and bank balances	11,339,055	3,246,838
Loans and advances to banks	10,024,631	15,322,069
Loans and advances to customers	160,164,773	132,231,886
Debt securities: private placement bonds	32,539,896	29,734,313
Held-to-maturity financial asset	12,643,769	16,772,218
Available-for-sale	28,202,807	4,713,012
Financial assets at FVTPL	106,777,651	106,861,451
Derivative financial assets	597,308	407,146
Financial liabilities		
Financial liabilities at amortised cost		
Deposits by banks	301,694,932	243,217,802
Securities sold under agreement to repurchase	-	18,397,087
Subordinated loan	17,058,609	14,165,261
Derivative financial liabilities	4,270,415	4,816,097

Financial risk management objectives

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

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

Market risk

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The Company 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 Company's exposure to market risks or the manner in which these risks are managed and measured.

Value-at-risk (VaR) 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 per cent VaR number used by the Company reflects the 99 per cent 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	2016	2015	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Foreign exchange	164	54	13	1	352	147	352	113
Interest rate	708	728	485	116	1,307	1,300	750	507
Total VaR exposure	872	782	498	117	1,659	1,447	1,102	620

*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 Company to assess its market risk exposures.

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. A 2 per cent 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	
	2016	2015	2016	2015	2016	2015	2016	2015
EaR	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate EaR	320	478	12	129	528	1,353	199	480

Interest rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company 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 Company. The Company 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 Company 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 Company uses other publicly available financial information and its own trading records to rate its major customers. The Company'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.

Notes to the financial statements (continued)
For the year ended 31 December 2016

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

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

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 Company's short-, medium- and long-term funding and liquidity management requirements. The Company 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 Company 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 2016

Liquidity and interest risk tables

The following tables detail the Company'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 Company 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 Company 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 £
2016							
Variable interest rate instrument	1.49	-	18,820,449	198,338,646	93,416,189	4,873,887	315,449,171
Fixed interest rate instrument	0.01	-	3,438,494	-	-	-	3,438,494
	1.49	-	22,258,943	198,338,646	93,416,189	4,873,887	318,887,665
2015							
Variable interest rate instrument	1.14	87,688,670	158,586,709	28,515,130	-	-	274,780,150
Fixed interest rate instrument	-	989,640	-	-	-	-	989,640
	1.14	88,678,310	158,586,709	28,515,131	-	-	275,780,150

Notes to the financial statements (continued)
For the year ended 31 December 2016

The following table details the Company'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 Company'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 £
2016						
Non-interest bearing	-	-	-	1,826	12,895,707	12,897,533
Variable interest rate instrument	34,759,918	139,432,836	26,107,784	-	-	200,300,538
Fixed interest rate instruments	33,052,056	37,913,481	78,496,168	-	-	149,461,705
	67,811,975	177,436,317	104,513,951	1,826	12,895,707	362,659,776
2015						
Non-interest bearing	-	-	-	-	6,792,520	6,792,520
Variable interest rate instrument	47,969,743	155,700,327	87,175,597	11,369	-	290,857,036
Fixed interest rate instruments	2,674,584	3,348,737	8,020,676	735,915	38	14,777,950
	50,642,327	159,049,064	95,196,273	747,284	6,792,558	312,427,506

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.

The Company has access to financing facilities as described below, of which £160 million were unused at the balance sheet date (2015: £124.8million). The Company 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 2016

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

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5 + years £	Total £
2016						
Net settled:						
Interest rate swaps	9,097,925	11,437,778	21,526,339	56,208,095	-	98,270,137
Gross Settled:						
Currency swaps	-	1,898,134	-	3,155,843	-	5,053,976
	9,097,925	13,335,911	21,526,339	59,363,937	-	103,324,113
2015						
Net settled:						
Interest rate swaps	2,698,145	-	12,141,653	81,569,901	2,000,000	98,409,699
Gross Settled:						
Currency swaps	-	-	-	4,518,707	-	4,518,707
	2,698,145	-	12,141,653	86,088,608	2,000,000	102,928,406

Notes to the financial statements (continued)
For the year ended 31 December 2016

Financing facilities

	2016 £	2015 £
Unsecured bank loan facilities (Parent Bank) with various maturity dates which may be extended by mutual agreement:		
- amount used	51,988,140	84,991,568
- amount unused	200,641,729	124,789,207
	252,629,869	209,780,775
Unsecured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	56,862,028	121,416,526
- amount unused	-	-
	56,862,028	121,416,526
Secured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	163,409,114	47,217,538
- amount unused	-	-
	163,409,114	47,217,538
Total amount used	272,259,283	253,625,632
Total amount unused	200,614,729	124,789,207

Notes to the financial statements (continued)
For the year ended 31 December 2016

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 Company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Company'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).

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

Notes to the financial statements (continued)
For the year ended 31 December 2016

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

	Carrying amount		Fair value	
	2016	2015	2016	2015
	£	£	£	£
Financial assets				
Debt securities: private placement bonds	34,140,107	29,734,313	32,674,481	29,950,639
Financial investments:				
- held-to-maturity securities investments	11,249,259	16,772,218	10,698,145	18,397,087

The carrying amounts of loans and advances to banks, customers and deposits by parent bank and other banks are a close approximation of their fair values.

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

	Fair value hierarchy as at 31 December 2016	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	32,539,896	32,539,896
Financial investments:		
- held-to-maturity securities investments	12,643,769	12,643,769
Total	45,183,665	45,183,665

	Fair value hierarchy as at 31 December 2015	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	29,734,313	29,734,313
Financial investments:		
- held-to-maturity securities investments	16,777,218	16,777,218
Total	46,506,531	46,506,531

Fair value measurements recognised in the statement of financial position

31 December 2016	Level 2	Total
	£	£
Financial assets at FVTPL	106,777,651	106,777,651
Available-for-sale financial investments	28,202,807	28,202,807
Derivative financial assets	597,308	597,308
Total	135,577,766	135,577,766
Financial liabilities at FVTPL		
Derivative financial liabilities	4,270,415	4,270,415
Total	4,270,415	4,270,415

31 December 2015	Level 2	Total
	£	£
Financial assets at FVTPL	106,861,451	106,861,451
Available-for-sale financial assets	4,713,012	4,713,012
Derivative financial assets	407,146	407,146
Total	111,981,609	111,981,609
Financial liabilities at FVTPL		
Derivative financial liabilities	4,816,097	4,816,097
Total	4,816,097	4,816,097

There were no transfers between Level 1 and 2 during the current or prior year.

25. Restatement of comparative figures

The comparative figures are restated and the following table presents the figures before and after the restatement.

	2015	Adjustment 1	Adjustment 2	2015
	£	£	£	£
	(Before restatement)			(Restated)
Balance Sheet				
Prepayment and accrued income	3,673,117	(344,786)	-	3,328,331
Accruals and other liabilities	(1,316,807)	990,732	-	(326,075)
Corporation tax receivable	179,023	(69,941)	-	109,082
Profit and loss account				
Interest income	10,074,286	-	(1,963,999)	8,110,287
Interest expense	(7,118,026)	-	4,396,144	(2,721,882)
Gain/(loss) on derivatives	921,798	311,993	(2,432,145)	(1,198,354)
Tax on profit on ordinary activities	(301,984)	(69,941)	-	(371,925)

Adjustment to the earliest prior period in statement of change in equity

	Profit and loss account
	£
As at 1 January 2015	11,425,580
Adjustment 1	333,953
Restated opening balance	11,759,533

Adjustment 1 relates to correction of an error in the valuation of derivatives in 2014 and 2015. The accrued interest element in the interest swap derivative was accounted twice in the valuation at year end. Therefore, an adjustment of £333,953 relating to 2014 was adjusted to the equity in the statement of change in equity and a net balance of £311,993 was adjusted in the profit or loss in 2015. The related tax impact of £69,941 was included in the profit or loss in 2015.

Adjustment 2 relates to an enhancement to the presentation of the profit and loss account where interest income and expense relating to interest rate swap derivative instruments have been reclassified to gain or loss on derivative.

26. Controlling party

The ultimate parent undertaking is the Export-Import Bank of Korea which is registered in South Korea. Copies of its group financial statements can be obtained from:

The Export-Import Bank of Korea
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