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 2017

Contents

Officers and professional advisers 1
Chairman's statement 2
Strategic report 3
Directors' report 5
Directors' responsibilities statement 8
Independent auditor's report to the members of Kexim Bank (UK) Limited 9
Profit and loss account 16
Statement of comprehensive income 17
Balance sheet 18
Statement of changes in equity 20
Notes to the financial statements .... 21 to 51

Officers and professional advisers

Directors

C P J Fitzgibbon	Chairman and Independent Non-Executive Director
H Kim	Managing Director
J M Hong	Executive Director
D Gibb	Independent Non-Executive Director
J H Ahn	Non-Executive Director
J Y Koh	Non-Executive Director

Registered Office

3rd Floor
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Company Registration No. 02693038

Auditor

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

Chairman's statement

Overview of 2017

2017 was a relatively stable year for most financial institutions including Kexim Bank (UK) Limited (the "Bank" or the "company"). Financial markets have had a sustained period of low volatility, and yet uncertainties arose from the increasing geopolitical tensions and the ambiguous predictions following the Brexit vote and the trigger of Article 50 of the Lisbon Treaty. Other factors have contributed to global uncertainty including the inflationary impacts of weaker Sterling, the economic data showing a slowdown period in China and the sequence of events following the 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 risks. 2018 will also be a challenging year for the Bank. However, 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

In early 2017, the Bank appointed Mr H Kim as its new Managing Director, as his predecessor Mr S S Ryoo returned to the Parent Bank after completing his secondment in the UK. Mr B Cha's secondment also came to an end during the year. The Board is very grateful for the contribution which Mr Ryoo and Mr Cha made to the Bank during their time as directors. The Board also appointed Mr J H Ahn as a new Group Non-Executive Director (NED) and Mr J M Hong as an Executive Director.

C. P. J. Fitzgibbon.

C P J 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

While the world economy delivered a consistently high growth rate over the past five years, major central banks only moderately tightened monetary policies in 2017. Although this gradually lifted short-term interest rate and yield of debt instruments, overall, 2017 was a relatively stable year for most financial firms around the world.

Despite an improving backdrop in the financial world, the loan market saw relatively tough trading conditions in the year. Credit institutions with abundant liquidity competed to lend to a limited number of corporates with strong credit profiles. As a result, the corporate loan market has tightened credit margin throughout the year.

The Bank achieved the target for the two key performance indicators. Firstly, the Bank achieved the target of total interest earning assets of £296 million (equivalent of USD400million; 2016: £341million, equivalent of USD420million). Secondly, it maintained the Non-Performing Loans (NPL) ratio at 0% over the year. As for the operational result of the Bank in 2017, it recorded a profit after tax of £514,708. Compliance with new regulatory requirements and changes in accounting standards including IFRS 9 have driven higher than budgeted expenditure including external consulting fees. In order to comply with Net Stable Funding Ratio (NSFR) from 1 January 2018, the Bank has increased the average term of its debts. Rising market interest rates and the poor performance of Korean paper due to geopolitical tension reduced the fair value of the debt securities holding.

Mitigating these variances, the Bank continued to generate solid fee income by conducting agent roles such as acting as processing agent, arranging bank for inviting covered lenders and co-manager in issuing global bonds, and providing letter of credit confirmations for the Parent Bank as well as Korean commercial banks.

Due to rapid changes in the regulatory environment, it has been an unusually eventful year for the Bank. A significant amount of time and resource had to be invested in a number of projects. IFRS 9 implementation has been successfully delivered with the assistance of an external accounting firm, resulting in a revised approach on impairment, classification and measurement. The Bank has set up a model based provision calculation tool and made revisions to its accounting system. Additionally, the Bank's UK tax strategy has been published in accordance with HMRC's guideline.

Viability statement

The board has assessed the prospects of the Bank over a period longer than the 12 months required for the Going Concern statement given in the Directors' Report. The Directors have made their assessment having regard to the 2016 UK Corporate Governance Code. The Bank is not required to comply with and does not assert compliance with the 2016 UK Corporate Governance Code.

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.

Strategic report (continued)

The Board considered that the viability statement should cover a period of three years. Whilst the Board has 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.

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

H Kim
Managing Director
23 April 2018

Directors' report

The directors present their annual report together with the financial statements and auditor's report for the year ended 31 December 2017.

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 maintain the approach to 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 £514,708 (2016: £1,201,678) as shown on page 16 of the Financial Statements.

At this time no dividend has been declared or paid for 2017 (2016: £Nil).

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.

Directors' report (continued)

Credit risk

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

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

Market risk

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

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 profits or losses in the swaps are recognised at the same time as any profit or loss arising from the assets, liabilities and positions that they are hedging.

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 sheet 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	
H Kim	Managing Director	Appointed on 28 March 2017
S S Ryoo	Managing Director	Resigned on 2 January 2017
J M Hong	Executive Director	Appointed on 18 September 2017
B Cha	Executive Director	Resigned on 3 July 2017
D Gibb	Independent Non-Executive Director	
J H Ahn	Group Non-Executive Director	Appointed on 18 January 2017
J Y Koh	Group Non-Executive Director	

Political and charitable contributions

There were no political and charitable donations made during the year (2016: £nil).

Principal risks and uncertainties

See note 24 to the Financial Statements.

Directors' report (continued)

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.

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

H Kim
Managing Director
23 April 2018

Directors' responsibilities statement

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

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

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

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

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

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

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Kexim Bank (UK) Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; 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, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan impairment provisions; and • Derivatives accounting treatment.
Materiality	The materiality that we used in the current year was £998k which was determined on the basis of Net Assets.
Scoping	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

<table>
<tr>
<td>
We are required by ISAs (UK) to report in respect of the following matters where:

the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

</td>
<td>We have nothing to report in respect of these matters.</td>
</tr>
</table>

Key audit matters

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

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

<table>
<tr><th colspan="2">Loan Impairment Provisions</th></tr>
<tr>
<td>Key audit matter description</td>
<td>
As at 31 December 2017, the company held £139,546k (2016: £160,569k) of loans to customers, £15,641k (2016: £10,025k) of loans to banks and £29,911k (2016: £32,540k) of private placement bonds as shown in notes 11, 12 and 13, and on the balance sheet. Loan impairment provisioning involves critical accounting judgements as disclosed in note 2 and note 3. Management have not recognised any specific provisions against loans, but have an IBNR (incurred but not reported) provision of £420k (2016: £404k) against these loan portfolios as shown in note 14.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, management are required to assess whether there is any indication that an asset may be impaired at the end of each reporting period.

There is a risk that the specific provision within the loans and receivables balance is understated because:

the impairment triggers are not identified in accordance with Accounting Standards, such as non-payment of interest and decline in credit rating of the counterparty;
the assumptions and judgements made by management in the impairment models, including future cash flows, are not appropriate.

IBNR is an estimate of the liability for loss events that have taken place but have not yet been reported. We have identified as a key audit matter the risk that impairment is not recognised on a timely basis and the IBNR provision is insufficient. Given the judgements involved, we have determined that there was a potential for fraud through possible manipulation of this balance.
</td>
</tr>
</table>

How the scope of our audit responded to the key audit matter	We performed front-to-back walkthroughs of the processes for generating, recording and monitoring loans in the company's lending business process. The purpose of this was to identify the internal controls that mitigate the risks of material misstatement. We assessed the design and implementation of controls relevant to the audit. This allowed us to evaluate management's use of historic data to inform assumptions and make judgements as to the future behaviour of their borrowers. We challenged the strength of the analysis of: • the 'good book' and of the control process for identifying impaired, underperforming and forborne exposures in a timely manner. • the identified problem loans, past due loans and impaired cases under the bank's "Over-due report". There were no individual loans for which provision had been made. Therefore, we reviewed the loans where no impairment triggers were identified by management and we performed an independent assessment to determine whether there is any indication of impairment based on the underlying evidence. We evaluated whether the methodology applied by the company for IBNR impairment provision for all portfolios is compliant with the requirements of IAS 39 and then checked mathematical integrity of the workings. Finally, given the inherent susceptibility to misstatements in estimates, we considered evidence which supports or contradicts management's judgements for indicators of management bias.
Key observations	No key observations were noted.

Derivatives accounting treatment	
Key audit matter description	The bank uses interest rate swaps and cross currency swaps to economically hedge interest rate and foreign exchange risk. The derivatives used are classified as fair value through profit or loss ("FVTPL") under IAS 39 and should therefore be measured at fair value at the year end with gains or losses recognised in the profit and loss statement which is consistent with the company's accounting policy as disclosed in note 2. The company held derivative financial assets of £288k (2016: £597k) and derivative financial liabilities of £1,975k (2016: £4,270k) as shown in note 17. The company has recorded a gain of £391k (2016: loss of £1,077k) on the revaluation of derivative financial instruments at year-end as shown in the profit and loss account. We identified a significant risk of material misstatement from the inconsistent application of IAS 39: Financial instruments Recognition and Measurement on derivatives. Therefore, we have identified a key audit matter in the application of the accounting policy for derivatives.

How the scope of our audit responded to the key audit matter	We performed a walkthrough for the derivatives business process to understand how the accounting policy is applied for the initial recognition of derivatives and the subsequent measurement at period-end. This allowed us to identify internal controls that are in place to mitigate risks of material misstatements. We assessed the design and implementation of the controls to determine whether the management's application of the IAS 39 is appropriate. We considered all types of balances recorded in relation to derivatives and assessed the accounting policy adopted for each type of the balance to assess whether it is in compliance with IAS 39. For a sample of derivatives, we performed independent valuation of derivative financial assets and liabilities as per the methodology adopted by the company to assess whether the valuation recorded by the company in balance sheet is appropriate. We recalculated the gains on the revaluation of derivatives at year end to assess whether the gains recognised by the company are free from material misstatement.
Key observations	No key observations were noted.

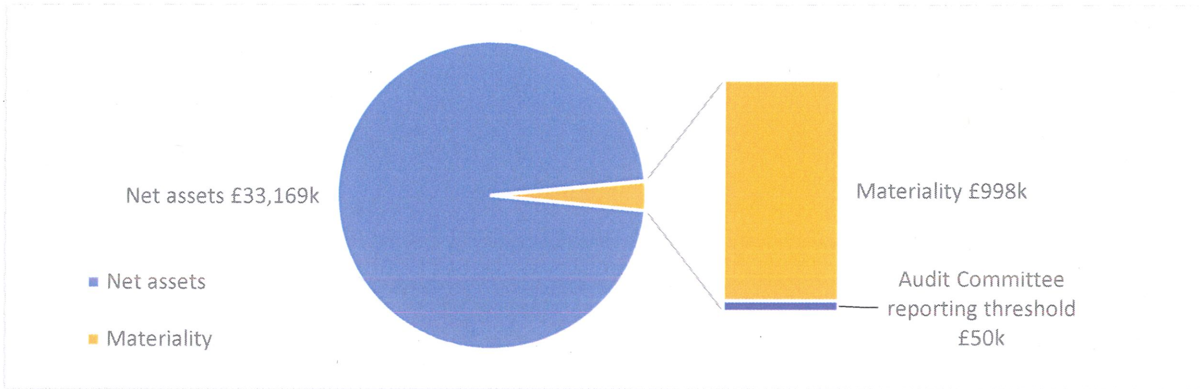
Our application of materiality

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

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

Materiality	£998k (2016: £985k)
Basis for determining materiality	In determining materiality we considered both asset and performance benchmarks. The materiality we determined in the year represents 3% of net assets.
Rationale for the benchmark applied	Net assets or equity has been used as the basis for materiality to reflect what we believe to be the key external metric; regulatory capital, which is proxied by the equity balance.

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



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £50k (2016: 49k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Other information

We have nothing to report in respect of these matters.

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

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

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors of Kexim Bank (UK) Limited on 9 June 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2009 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

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

Tom Millar (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 April 2018

Profit and loss account

For the year ended 31 December 2017

	Notes	2017 £	2016 £ Restated*
Interest income		5,951,822	4,622,244
Interest expense		(5,113,679)	(3,857,788)
Net interest income	5	838,143	764,456
Net gain on financial assets at FVTPL		1,540,614	3,637,488
Net gain/(loss) on derivatives		391,312	(1,076,736)
Fees and commission income		227,538	271,104
Fees and commission expense		(8,447)	(99,078)
Other operating expense		(282,587)	(19,445)
Total operating income	4	2,706,573	3,477,789
Administrative expenses	8	(2,014,996)	(1,817,744)
(Loss)/gain from movement in provisions		(42,717)	(90,760)
Profit on ordinary activities before tax		648,860	1,569,285
Tax on profit on ordinary activities	9	(134,152)	(367,607)
Profit/(loss) on ordinary activities after tax		514,708	1,201,678

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

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

Kexim Bank (UK) Limited

Statement of comprehensive income

For the year ended 31 December 2017

	2017 £	2016 £
Profit/(loss) for the year	514,708	1,201,678
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 year	(135,889)	(34,033)
Credit to deferred tax	11,441	5,478
Other comprehensive income/(loss) for the year net of tax	(124,448)	(19,813)
Total comprehensive income/(loss) for the year attributable to the Owners of the Company	390,260	1,181,865

Kexim Bank (UK) Limited

Balance sheet

As at 31 December 2017

	Notes	2017 £	2016 £
Non-current assets			
Tangible fixed assets	10	43,372	73,280
Loans and advances to banks	11	4,796,284	3,750,255
Loans and advances to customers	12	58,519,866	61,630,064
Debt securities: private placement bonds	13	25,432,610	5,684,043
Financial assets at fair value through profit or loss (FVTPL)	15	35,807,939	62,071,161
Financial investments	16	57,875,474	16,827,180
Derivative financial assets	17	50,628	595,151
		182,526,173	150,631,134
Current assets			
Loans and advances to banks (due within one year)	11	10,818,584	6,264,723
Loans and advances to customers (due within one year)	12	80,674,018	98,559,658
Debt securities: private placement bonds (due within one year)	13	4,440,705	26,840,556
Financial assets at FVTPL (due within one year)	15	20,922,547	44,706,490
Financial investments (due within one year)	16	6,198,618	24,019,396
Prepayments and accrued income		1,726,979	2,083,479
Cash and cash equivalents		9,256,845	11,339,055
Derivative financial assets	17	237,370	2,157
Total Assets		316,801,839	364,446,648
Creditors: amounts falling due within one year			
Borrowings from credit institutions	18	(139,314,366)	(220,498,292)
Accruals and other liabilities		(765,437)	(7,997,238)
Corporation tax payable		(177,483)	(321,551)
Derivative liabilities	17	(90,727)	(969,985)
Net current assets		(6,072,347)	(15,971,552)
Total assets less current liabilities		176,453,826	134,659,582
Creditors: amounts falling due after more than one year			
Borrowings from credit institutions	18	(125,633,500)	(81,196,640)
Subordinated loans	19	(15,550,948)	(17,058,608)
Derivative liabilities	17	(1,884,599)	(3,300,430)
Deferred tax liabilities	20	(223,659)	(271,159)
Total liabilities		(283,640,719)	(331,613,903)
Net assets		33,161,120	32,832,745
Capital and reserves			
Called up share capital	21	20,000,000	20,000,000
Revaluation reserve	22	(151,233)	(26,785)
Profit and loss account		13,312,353	12,859,530
Total shareholders' funds		33,161,120	32,832,745

Kexim Bank (UK) Limited

Balance sheet (continued)

As at 31 December 2017

The financial statements were approved by the Board of Directors and authorised for issue on 23 April 2018. They were signed on its behalf by:

H Kim
Managing Director
Company Registration No. 02693038

Kexim Bank (UK) Limited

Statement of changes in equity

For the year ended 31 December 2017

	Share capital £	Profit and loss account £	Available for sale reserve £	Total £
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
Balance at 1 January 2017	20,000,000	12,859,530	(26,785)	32,832,745
Adjustments related to financial instruments	-	(62,306)	-	(62,306)
Transitional adjustment: corporation tax	-	421	-	421
Total comprehensive income for the year	-	514,708	(124,448)	390,260
Balance at 31 December 2017	20,000,000	13,312,353	(151,233)	33,161,120

Notes to the financial statements

For the year ended 31 December 2017

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.*
IFRS 15	*Revenue from Contracts with Customers*
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*.

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.

IFRS 9 Financial Instruments

<u>Introduction</u>

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments (IFRS 9, or the standard), bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

<u>Classification and Measurement</u>

From a classification and measurement perspective, the new standard requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model assessment (BMA) and a contractual cash flow characteristics test to determine if payments are solely payment of principal and interest (SPPI). The result of the two assessments will determine the classification of financial assets into one of three categories:

- amortised cost,
- fair value through other comprehensive income (FVOCI), and
- fair value through profit or loss (FVTPL)

1. General information (continued)

IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Having completed its assessment as at 31 December 2017, the Bank has concluded that:

- All of loans and advances to banks, loans and advances to customers, private placement corporate bonds and cash balances that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- Investment securities of £20.7 million classified as held to maturity under IAS 39 will be classified at amortised cost because of the business model within which these are held
- Investment securities of £43.3 million classified as available for sale under IAS 39 will be classified at FVOCI, also because of the business model within which these are held
- For investment securities of £56.7 million which the Bank designated at FVTPL under IAS 39, the Bank will continue to elect the fair value option in order to be treated consistently with the fluctuation of profit and loss resulting from fair-valuation of derivatives
- Financial liabilities classification will remain the same as under IAS 39

Impairment

IFRS 9 also fundamentally changes the loan loss impairment methodology. The standard replaces IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the probability of default over the life of the asset.

The Bank group its loans and debt securities into 3 stages, based on the applied impairment methodology, as described below:

- Stage 1 - No significant changes in credit quality of exposure since initial recognition. The Bank recognises an allowance based on 12-month expected credit losses.
- Stage 2 - The credit risk of the exposure has increased significantly since initial recognition. The Bank records an allowance for the lifetime expected credit loss.
- Stage 3 - The credit risk of the exposure has increased significantly since initial recognition and there is objective evidence of impairment. The Bank recognises the lifetime expected credit losses for these loans.

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. General information (continued)

The Bank will record impairment for FVOCI assets, depending on whether they are classified as stage 1, 2 or 3 as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the balance sheet, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as accumulated impairment amount, with a corresponding charge to profit or loss.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 after other elements of IFRS 9 became mandatory on 1 January 2018. The Bank does not apply hedge accounting, and therefore this will not have an impact to the Bank.

2. Significant accounting policies

Basis of accounting

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

Notes to the financial statements (continued)

For the year ended 31 December 2017

2. Significant accounting policies (continued)

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.

<u>Current tax</u>

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.

<u>Deferred tax</u>

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.

2. Significant accounting policies (continued)

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.

<u>Current tax and deferred tax for the year</u>

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.

2. Significant accounting policies (continued)

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

2. Significant accounting policies (continued)

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 24.

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 interest rate.

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 24. 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.

2. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

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 24.

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 23.

2. Significant accounting policies (continued)

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.

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.

Uncertainty in estimates and assumptions with significant risk that will result in material adjustment are as follows:

1) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Financial instruments that are not actively traded in the market and with less transparent market price, will have less objective fair value and will require broad judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks.

As described in the significant accounting policies in Note 24 Financial Instruments, diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model to internally developed valuation model that incorporates various types of assumptions and variables.

2) Provision of credit losses (allowances for loan losses, provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments)

The Company determines and recognises allowances for loan losses through impairment testing and recognises provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments. The amount of provisions of credit losses is determined by the methodology and used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Analysis of total operating income

	2017 £	2016 £
		Restated
By activity		
Net Interest Income	838,143	764,456
Gain on financial assets at FVTPL	1,540,614	3,637,488
Net gain/(loss) on derivative instruments	391,312	(1,076,736)
Fees and commissions income, net	219,090	172,026
Foreign exchange, net	(305,295)	(20,642)
Profit on disposal of shares and loans	17,285	830
Banking income	5,424	367
Total operating income	2,706,573	3,477,789

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

5. Net interest income

	2017 £	2016 £
Interest income		
Interest income from debt securities:		
Held-to-maturity financial assets	456,875	284,254
Available-for-sale debt investments	418,858	142,652
Interest income from customer loans:		
Loans and receivables	5,076,089	4,195,338
Total interest income	5,951,822	4,622,244
Interest expense		
Interest expense payable to Parent Bank:		
Intergroup borrowings	719,286	814,472
Subordinated loan	365,357	269,958
Interest expense payable to other companies:		
Borrowings from credit institutions	3,686,357	1,703,793
Securities sold under agreement to repurchase	-	86,261
Medium and long-term funding	342,679	983,304
Total interest expense	5,113,679	3,857,788
Net interest income	838,143	764,456

6. Profit for the year

Profit for the year has been arrived at after charging:

	Note	2017 £	2016 £
Depreciation		33,233	38,575
Auditor's remuneration			
- Audit		40,000	33,000
- Tax compliance services		-	7,650
Profit on disposal of debt securities		17,285	830
Foreign exchange gain		5,076	20,642
Operating lease rentals — office property	7	165,546	188,277

Notes to the financial statements (continued)

For the year ended 31 December 2017

7. Operating lease arrangements

The company as lessee

	2017 £	2016 £
Lease payments under operating leases recognised as an expense in the year	165,546	188,277

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

	2017 £	2016 £
Within one year	166,000	166,000
In the second to fifth years inclusive	245,134	411,134
	411,134	577,134

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

8. Administrative expenses

Staff costs	2017 £	2016 £
Wages and salaries	979,302	991,667
Social security costs	25,215	22,304
Other pension costs	20,478	25,731
Other staff costs	36,773	24,781
	1,061,768	1,064,483
Depreciation	33,233	38,575
Other administrative expenses	919,995	714,686
	2,014,996	1,817,744

The average monthly number of employees (including executive directors) was 11 (2016: 11).

Directors' emoluments	2017 £	2016 £
Aggregate directors' emoluments	450,736	487,826
Highest paid director	180,403	234,811

Notes to the financial statements (continued)

For the year ended 31 December 2017

9. Tax

	Note	2017 £	2016 £
Corporation tax:			
Current year		169,314	361,427
Adjustment for prior years		895	(8,307)
Total current year tax charge		170,209	353,120
Deferred tax:	20		
Current year		(40,281)	12,777
Adjustments in respect of previous years		-	-
Effect of changes in tax rate		4,224	1,710
Total current year tax charge		(36,057)	14,487
Tax per profit or loss account		134,152	367,607
Other comprehensive income items:			
Current tax		421	699
Deferred tax		(11,441)	(5,478)
		(11,022)	(4,779)

A reduction in the rate of corporation tax was substantively enacted on 26 October 2015. The rate has been reduced from 20% and will reduce to 19% from 1 April 2017 and 17% from 1 April 2020 respectively. For the purposes of deferred tax, closing deferred tax assets and liabilities have been recognised at a blended rate of 17.83% as it is expected that this is the rate at which they will unwind. The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2017 £	2016 £
Profit on ordinary activities	648,860	1,569,285
Tax at the UK corporation tax rate of 19.25% (2016: 20%)	124,884	313,857
Effects of:		
Adjustments in respect of prior years	895	(8,307)
Expenses not deductible	4,150	6,451
Tax rate changes	4,223	1,711
Deferred tax adjustment	-	53,895
Tax charge for the period	134,152	367,607

Notes to the financial statements (continued)

For the year ended 31 December 2017

10. Tangible fixed assets

	Fixtures and Fittings £	Office Equipment £	Total £
Cost			
At 1 January 2016	93,970	547,439	641,409
Additions	-	3,584	3,584
At 31 December 2016	93,970	551,023	644,993
Additions	-	3,325	3,325
At 31 December 2017	93,970	554,348	648,318
Accumulated depreciation			
At 1 January 2016	48,260	484,879	533,139
Charge for the year	9,615	28,959	38,574
At 31 December 2016	57,875	513,838	571,713
Charge for the year	9,615	23,618	33,233
At 31 December 2017	67,490	537,456	604,946
Carrying amount			
At 31 December 2016	36,095	37,185	73,280
At 31 December 2017	26,480	16,892	43,372

11. Loans and advances to banks

2017	Gross £	Provision £	Net of provision £
Repayable:			
Within three months	6,664,692	(1,975)	6,662,717
Between three months and one year	4,162,610	(6,743)	4,155,867
Between one year and five years	4,813,388	(17,104)	4,796,284
	15,640,690	(25,822)	15,614,868
2016			-
Repayable:			
Within three months	2,829,182	-	2,829,182
Between three months and one year	3,438,494	(2,953)	3,435,541
Between one year and five years	3,756,955	(6,700)	3,750,255
	10,024,631	(9,653)	10,014,978

12. Loans and advances to customers

2017	Gross £	Provision £	Net of provision £
Repayable:			
Within three months	25,439,817	(65,241)	25,374,576
Between three months and one year	55,465,840	(166,398)	55,299,442
Between one year and five years	52,393,813	(107,486)	52,286,327
Over five years	6,246,898	(13,359)	6,233,539
	139,546,368	(352,484)	139,193,884

Notes to the financial statements (continued)

For the year ended 31 December 2017

12. Loans and advances to customers (continued)

	Gross £	Provision £	Net of provision £
2016			-
Repayable:			
Within three months	25,323,681	(54,542)	25,269,139
Between three months and one year	73,508,431	(217,912)	73,290,519
Between one year and five years	52,496,666	(103,008)	52,393,658
Over five years	9,240,254	(3,848)	9,236,406
	160,569,032	(379,310)	160,189,722

13. Private placement bonds

2017	Gross £	Provision £	Net of provision £
Repayable:			
Within three months	1,481,043	(4,438)	1,476,605
Between three months and one year	2,965,273	(1,173)	2,964,100
Between one year and five years	21,915,509	(30,314)	21,885,195
Over five years	3,549,561	(2,146)	3,547,415
	29,911,386	(38,071)	29,873,315
2016			-
Repayable:			
Within three months	13,044,344	(10,371)	13,033,973
Between three months and one year	13,809,350	(2,767)	13,806,583
Between one year and five years	5,686,203	(2,160)	5,684,043
	32,539,897	(15,298)	32,524,599

14. Provisions for loans and advances to customers

Loans and advances to banks and to customers, debt securities and off-balance sheet items are stated net of the following provisions:

	2017 £	2016 £
At 1 January	404,273	252,038
Charge for the year	42,717	90,760
Movements in foreign exchange rates	(26,779)	61,462
At 31 December	420,211	404,260
of which:		
in respect of loans and advances to banks	25,822	9,653
in respect of loans and advances to customers	352,483	379,309
In respect of private placement bonds	38,071	15,298
In respect of undrawn commitments and L/C confirmations	3,835	-
	420,211	404,260

Notes to the financial statements (continued)

For the year ended 31 December 2017

15. Financial assets at FVTPL

Financial assets at FVTPL	2017 £	2016 £
Due within one year	20,922,547	44,706,490
Due one year and over	35,807,939	62,071,161
	56,730,486	106,777,651
Listed Securities	56,730,486	106,777,651

Financial assets at FVTPL	2017 £	2016 £
Public ownership		
Issued by governments	1,638,581	1,856,252
Issued by other public sector bodies	1,479,114	1,738,890
Others		
Issued by banks	27,387,807	64,916,574
Issued by other issuers	26,224,984	38,265,935
	56,730,486	106,777,651

As of 31 December 2017, £5.9million (2016: £8.9million) of investment securities are pledged as collateral for swap transactions.

16. Financial investments

	Due within one year		Due one year and over	
	2017 £	2016 £	2017 £	2016 £
Available for sale Investment securities	3,697,414	24,019,396	39,623,187	4,183,411
Held to maturity Investment securities	2,501,204	-	18,252,287	12,643,769
Total	6,198,618	24,019,396	57,875,474	16,827,180

Financial investments by types of issuers	2017 £	2016 £
Public ownership		
Issued by governments	-	18,682,549
Issued by supranational organisations	7,440,021	-
Issued by other public sector bodies	7,760,957	3,249,259
Others		
Issued by banks	18,167,478	13,423,064
Issued by other issuers	30,705,636	5,491,704
	64,074,092	40,846,576

Notes to the financial statements (continued)

For the year ended 31 December 2017

17. Derivative assets and liabilities

	2017 £	2016 £
Derivative assets		
Due within one year	237,370	2,157
Due one year and over	50,628	595,151
	287,998	597,308
Derivative liabilities		
Due within one year	90,727	969,985
Due one year and over	1,884,599	3,300,430
	1,975,326	4,270,415

	Notional	Derivative assets Trading	Derivative liabilities Trading
2017		£	£
Interest rate swaps	52,079,977	97,099	1,975,326
Currency swaps	2,876,925	190,899	-
	54,956,902	287,998	1,975,326
2016			
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

18. Borrowings from credit institutions

	2017 £	2016 £
Parent and related companies	79,508,142	81,557,915
Other banks	185,439,724	220,137,017
	264,947,866	301,694,932
Repayable:		
Within three months	27,549,488	22,255,458
Between three months and one year	111,764,878	198,242,834
Between one year and five years	125,633,500	81,196,640
	264,947,866	301,694,932

Notes to the financial statements (continued)

For the year ended 31 December 2017

19. Subordinated loans

	2017 £	2016 £
Repayable:		
Between one year and five years	11,107,820	12,184,720
Over five years	4,443,128	4,873,888
	15,550,948	17,058,608

The two subordinated loans are granted by the parent company, the Export-Import Bank of Korea, for an amount of USD15million and USD6million (2016: USD15million and USD6million) and will mature in 2019 and 2024 respectively (2016: 2019 and 2024). The interest is reset periodically on the basis of the Libor plus 0.62% and 1.52% respectively (2016: 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.

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 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
At 1 January 2017	(3,935)	275,804	(710)	271,159
Charge/(credit) to profit or loss	(2,278)	(33,785)	4	(36,059)
Credit to equity	-	(11,441)	-	(11,441)
At 31 December 2017	(6,213)	230,578	(706)	223,659

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:

	2017 £	2016 £
Deferred tax liabilities	223,659	271,159
Deferred tax assets	-	-
	223,659	271,159

Notes to the financial statements (continued)

For the year ended 31 December 2017

21. Share capital

	2017 £	2016 £
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 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 1 January 2017	(26,785)
Increase in fair value of available-for-sale investments	(135,889)
Related income tax on the fair value movements of available-for-sale investments	11,441
Balance at 31 December 2017	(151,233)

23. Contingent liabilities and undrawn lending commitments

	2017 £	2016 £
L/C confirmation (transaction)	9,637,308	8,947,013
Undrawn commercial lending commitments	7,232,425	2,030,787
	16,869,733	10,977,800

24. Financial Instruments

Categories of financial instruments

	2017 £	2016 £
Financial assets		
Loans and receivables		
Cash and cash equivalents	9,256,845	11,339,055
Loans and advances to banks	15,614,868	10,014,978
Loans and advances to customers	139,193,884	160,189,722
Debt securities: private placement bonds	29,873,315	32,524,599
Held-to-maturity financial assets	20,753,491	12,240,963
Available for sale financial assets	43,320,601	28,605,613
Financial assets at FVTPL	56,730,486	106,777,651
Derivative financial assets	287,998	597,308
Financial liabilities		
Financial liabilities at amortised cost		
Borrowings from credit institutions	264,947,866	301,694,932
Subordinated loans	15,550,948	17,058,608
Derivative financial liabilities	1,975,326	4,270,415

Financial risk management objectives

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

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

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.

Notes to the financial statements (continued)

For the year ended 31 December 2017

24. Financial Instruments (continued)

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	2017	2016	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Foreign exchange	185	177	134	13	298	410	170	410
Interest rate	2,205	767	1,023	496	2,882	1,539	2,435	874
Total VaR exposure	2,390	944	1,157	509	3,180	1,949	2,605	1,284

* 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.

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

Interest rate risk management

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

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

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

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

24. Financial Instruments (continued)

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	
	2017	2016	2017	2016	2017	2016	2017	2016
EaR	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate EaR	209	335	-	14	397	528	248	232

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.

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

24. Financial Instruments (continued)

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.

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 £
2017							
Variable interest rate instrument	2.02	-	27,240,066	111,781,658	136,996,446	4,443,128	280,461,298
Fixed interest rate instrument	-	309,422	-	-	-	-	309,422
	2.02	309,422	27,240,066	111,781,658	136,996,446	4,443,128	280,770,720
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

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.

24. Financial Instruments (continued)

Liquidity and interest risk tables (continued)

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2017						
Non-interest bearing	9,255,536	-	-	-	-	9,255,536
Variable interest rate instrument	38,334,646	141,782,502	22,556,188	-	-	202,673,336
Fixed interest rate instruments	10,305,955	29,022,565	63,464,578	-	-	102,793,098
	57,896,137	170,805,067	86,020,766	-	-	314,721,970

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

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
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
	67,811,974	177,346,317	104,603,952	1,826	12,895,707	362,659,776

The Company has access to financing facilities as described below, of which £140.0 million were unused at the balance sheet date (2016: £200.6million). The Company expects to meet its other obligations from operating cash flows and the proceeds of maturing financial assets.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2017

24. Financial Instruments (continued)

Liquidity and interest risk tables (continued)

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2017						
Net settled:						
Interest rate swaps		2,221,564	15,940,166	33,918,246	-	52,079,976
Gross Settled:						
Currency swaps	-	-	3,447,511	-	-	3,447,511
	-	2,221,564	19,387,677	33,918,246	-	55,527,487
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	-	5,053,977
	9,097,925	13,335,912	21,526,339	59,363,938	-	103,324,114

Financing facilities

	2017 £	2016 £
Unsecured bank loan facilities (Parent Bank) with various maturity dates which may be extended by mutual agreement:		
- amount used	94,749,668	51,988,140
- amount unused	139,958,530	200,641,729
	234,708,198	252,629,869
Unsecured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	185,439,724	204,024,849
- amount unused	-	-
	185,439,724	204,024,849
Secured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	-	16,246,294
- amount unused	-	-
	-	16,246,294
Total amount used	280,189,392	272,259,283
Total amount unused	139,958,530	200,614,729

24. Financial Instruments (continued)

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 2017

24. Financial Instruments (continued)

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

	Carrying amount		Fair value	
	2017	2016	2017	2016
	£	£	£	£
Financial assets				
Debt securities: private placement bonds	29,873,315	32,539,896	29,785,832	32,524,599
Financial investments:				
Held-to-maturity securities investments	20,731,971	12,240,963	21,099,569	12,643,769

The carrying amounts of loans and advances to banks and customers and borrowings from other credit institutions 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 2017	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	29,785,832	29,785,832
Financial investments:		
Held-to-maturity securities investments	21,099,569	21,099,569
Total	50,885,401	50,885,401

	Fair value hierarchy as at 31 December 2016	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	32,524,599	32,524,599
Financial investments:		
Held-to-maturity securities investments	12,643,769	12,643,769
Total	45,168,368	45,168,368

Notes to the financial statements (continued)

For the year ended 31 December 2017

24. Financial Instruments (continued)

Fair value measurements recognised in the balance sheet

31 December 2017	Level 2 £	Total £
Financial assets at FVTPL		
Debt securities	56,730,486	56,730,486
Derivative financial assets	287,998	287,998
Available-for-sale financial assets		
Debt securities	43,320,601	43,320,601
Total	100,339,085	100,339,085
Financial liabilities at FVTPL		
Derivative financial liabilities	1,975,326	1,975,326
Total	1,975,326	1,975,326

31 December 2016	Level 2 £	Total £
Financial assets at FVTPL		
Debt securities	106,777,651	106,777,651
Derivative financial assets	597,308	597,308
Available-for-sale financial assets		
Debt securities	28,202,807	28,202,807
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

Notes to the financial statements (continued)

For the year ended 31 December 2017

25. Restatement of comparative figures

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

	2016 £	Adjustment £	2016 £
	(Before restatement)		(Restated)
Profit and loss account			
Interest income	8,936,983	(4,314,739)	4,622,244
Net gain/(loss) on financial assets at FVTPL	(677,251)	4,314,739	(3,857,788)

The adjustment relates to an enhancement to the presentation of the profit and loss account where interest income relating to financial assets at fair value through profit and loss instruments has been reclassified to gain or loss on financial assets at FVTPL.

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
38 Eunhaeng-ro
Yeongdeungpo-gu
Seoul 07242
Republic of Korea

www.koreaexim.go.kr

27. Capital risk management (unaudited)

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, and retained earnings as disclosed on the balance sheet.

The Bank is subject to the PRA and capital requirements and is in compliance with the regulations during 2017 and 2016.

Capital, leverage and Risk Weighted Assets (RWA)	Limit %	2017 %	2016 %
CET1 ratio	4.5	8.9	8.3
T1 capital ratio	6.0	8.9	8.3
Total capital ratio	8.0	11.4	11.5
Leverage ratio		9.8	8.7
RWA (£)		261,170,200	277,901,818

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