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 2018

Registered number: 02693038

Kexim Bank (UK) Limited

Contents

Company information

Directors

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

C P J Fitzgibbon	Independent Non-Executive Director	Appointed on 17 March 2014
H Kim	Managing Director	Appointed on 28 March 2017
J M Hong	Executive Director	Resigned on 23 July 2018
C I Lim	Executive Director	Appointed on 9 October 2018
D Gibb	Independent Non-Executive Director	Resigned on 30 June 2018
C Edwards	Independent Non-Executive Director	Appointed on 7 November 2018
J H Ahn	Group Non-Executive Director	Resigned on 22 February 2018
J Y Koh	Group Non-Executive Director	Resigned on 23 July 2018
D W Jung	Group Non-Executive Director	Appointed on 22 February 2018 Resigned on 14 March 2019
J R Lee	Group Non-Executive Director	Appointed on 17 August 2018 Resigned on 14 March 2019
S Hong	Group Non-Executive Director	Appointed on 14 March 2019
J Y Gu	Group Non-Executive Director	Appointed on 14 March 2019

Registered office

3rd Floor
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Registered number

02693038

Auditor

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

Chairman's statement

Overview of 2018

The banking industry in Europe experienced persistent profitability challenges during the year owing to an uncertain economic outlook and a highly competitive environment. Uncertainties around the United Kingdom's withdrawal from the European Union ('EU') also persisted throughout the year. Kexim Bank (UK) Limited ('the Bank') has established contingency plans, for either a 'no-deal' or a 'hard' Brexit and has concluded that Brexit will not have a material impact on it owing to its diversified securities portfolio and concentration on Korean corporate lending.

Despite the uncertainty caused by political and economic events, the Bank continues to identify new investment opportunities while maintaining its prudent management of loans and risks. 2019 will be a challenging year for the Bank due to rising interest rates and the evolving regulatory environment for subsidiaries of foreign banks in the UK. However, the Board is committed to taking the steps necessary to meet all of its regulatory obligations and to delivering value for the Export-Import Bank of Korea (its 'Parent Bank') and is grateful for the Parent Bank's continuing support.

Governance and Board changes

During 2018, the Bank appointed Mr C I Lim as its new Deputy Managing Director, following the return of his predecessor, Mr J M Hong, to the Parent Bank after completing his secondment to the UK. Mr Chris Edwards was appointed as an independent non-executive director ('NED') and Chair of the Audit and Risk Committee ('ARC') following the resignation of Mr Dominic Gibb. Moreover, Mr S Hong and Ms J Y Gu were appointed as new group NEDs, as Mr D W Jung and Mr J R Lee resigned due to internal movement at the Parent Bank. The Board is very grateful for the contribution which Mr Hong, Mr Gibb, Mr Jung and Mr Lee made to the Bank during their time as directors, as well as Mr J H Ahn and Mr R Y Koh who also served and resigned during the year.

The Board held four meetings during the year and continues to keep its effectiveness under review. At its meeting in December 2018, it invited BDO, an external consulting firm, to present an update on regulatory and compliance developments in the UK. It also approved the engagement of an external consultant to assist Management with a review of the Bank's risk management framework. The results of that review were presented to the Board in the first quarter of 2019.

C P J Fitzgibbon
Chairman

Strategic report

The directors present their Strategic report for Kexim Bank (UK) Limited for the year ended 31 December 2018.

Principal activities

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

Regulation

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

A fair review of the business

The key challenges for the Bank in 2018 were the continuing uncertainty surrounding Brexit, which resulted in downward pressure on Sterling, interest rate hike and new regulatory requirements. The Bank's key performance indicators were asset size, profit and Non-Performing Loan ('NPL') ratio.

Firstly, as concerns about a 'no-deal' Brexit increased, the Pound/US Dollar exchange rate fell from 1.3504 at the end of 2017 to 1.2737 at the end of 2018. This weakness caused a direct impact on the Bank's capital ratios as most of the Bank's assets are in US Dollars, and the share capital is held and reported in Sterling.

In response to the reduction in capital ratios, the Bank decreased its interest earning asset size from £305million (equivalent of US$412million) as at end of 2017 to £282million (equivalent of US$359million) as at the end of 2018, while the target was £306million (equivalent of US$390million). The Bank has been monitoring the progress of Brexit negotiations very closely in 2019, and will look to maintain the optimal asset size enabling it to comfortably absorb the impact of a variety of scenarios that could happen as a result of the Brexit negotiations and eventual outcome. It will also, within these constraints, continue to try to achieve a level of profitability.

Analysing our current business activities in the EU, we have evaluated that the impact of Brexit is likely to be limited, considering the nature of our business. Almost 80% of our loans are acquired through sub-participation in the Parent Bank's loans, under which we have no direct contractual relationships with the borrowers. The remaining loans are sourced by syndication or privately placed notes, which are open to international banks. All the bonds that the Bank is holding are issued in Global, Euro MTN or the Euro-dollar market, which are easily traded with any international investors.

Secondly, last year, global monetary policy was beginning to change. The US Fed raised the benchmark interest rate four times in 2018. The Bank of England, all be it at a slower pace, raised the base rate from 0.50% to 0.75% which was the highest level since March 2009. As a result of this, the volatility of profit increased affecting the Bank's overall profit for the year negatively.

Despite the tightening and rate hikes we saw in 2018, liquidity was still abundant in the loan markets, mainly due to the still, extremely low interest environment and the continuing worries over western economies and world growth. The credit spread, especially for above investment grade (BBB-) continuously tightened throughout the year.

As a result of operating in these difficult conditions the Bank also experienced a decline of net interest income and net loss on fair valuation of financial instruments. However, the Bank was still able to achieve a net profit for the year, by increasing non-interest income, such as fee income for various financial services and reducing general expenses. The Bank reports a profit for the year amounting to £164,055 (2017: £514,708) as shown on page 17.

In the meantime, the Bank maintained the status as a clean bank with 0 % of NPL ratio.

Strategic report (continued)

Lastly, in terms of the new regulatory landscape, the Bank has implemented a number of new initiatives to allow it to fully comply with new regulatory requirements. With regard to liquidity, since the 1 January 2018 it has been holding well in excess of its minimum total of 100% of its required Liquidity Coverage Ratio which is calculated by dividing liquid buffer by net liquidity outflow within a 30 day window. It has also fully incorporated the Net Stable Funding Ratio and maintains this ratio well above its 100% requirement. In order to fully meet this requirement the Bank adjusted its borrowing portfolio's profile to contain more longer-term liabilities.

The new accounting standard IFRS 9 was successfully implemented with the help of external consultants from a reputable accounting firm.

Finally, the Bank fully complies with the General Data Protection Regulation which came into force in May 2018.

Principal risks and uncertainties

See note 27 to the Financial Statements.

Future business strategy

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

Longer term viability statement

The Board has assessed the prospects of the Bank over a period of three years, longer than the 12 months required for the Going Concern statement given in the Directors' Report. The Directors' assessment has reviewed risks which affect longer term viability such as solvency, liquidity, risk management and viability.

This assessment included a review and revision of the Bank's Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process ('ILAAP') and Recovery and Resolution Plan (RRP) 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, ILAAP and RRP required by the PRA. It is the Board's responsibility to evaluate the effectiveness of any management actions that may be taken to mitigate the impact of the stress events.

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

This report was approved by the Board of Directors on 18 April 2019 and signed on its behalf by:

Managing Director
H Kim
18 April 2019

Directors' report

The directors present their annual report together with the financial statements, directors' report and auditor's report for the year ended 31 December 2018.

Dividends

No dividend has been declared or paid for 2018 (2017: nil).

Pillar 3 Disclosures

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

Directors' indemnities

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

Capital structure

See note 24 on page 56.

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; and
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.

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

Liquidity risk

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

Directors' report (continued)

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

Credit risk

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

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

Market risk

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

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

In its assessment of events after the balance sheet date, the Bank considered the events related to the process of the UK's withdrawal from the European Union that occurred between 31 December 2018 and the date when the financial statements were approved, and concluded that no adjustments to the financial statements were required.

Directors

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

Political and charitable contributions

There were no political and charitable donations made during the year (2017: nil).

Representation to the auditor

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

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

Kexim Bank (UK) Limited

Directors' report (continued)

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.

This report was approved by the Board of Directors on 18 April 2019 and signed on its behalf by:

Managing Director
H Kim
18 April 2019

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.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 18 April 2019 and is signed on its behalf by:

By order of the Board
Managing Director
H Kim
18 April 2019

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Kexim Bank (UK) Limited (the 'Company'):

- **give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 31.

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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that 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: • Adoption of IFRS 9 Loan loss provisions; and • Derivative accounting treatment. Within this report, any new key audit matters are identified with ⮝ and any key audit matters which are the same as the prior year identified with ⮞.

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

Materiality	The materiality that we used in the current year was £977k, which was determined on the basis of Net Assets balance.
Scoping	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	None noted.

Conclusions relating to going concern

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.

We have nothing to report in respect of these matters.

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.

Adoption of IFRS 9 Loan loss provisions	
Key audit matter description	The implementation of IFRS 9: Financial Instruments which came into effect from 1 January 2018 had a significant impact on the way the bank determines the loan loss provision. Expected Credit Loss ('ECL') of each exposure is dependent on its staging and staging is dependent on whether there has been a significant increase in credit risk ('SICR'), which is reliant on the primary indicator i.e. movement in credit rating. We identified a key audit matter related to the risk that the Bank has not analysed movements in credit rating correctly, resulting in incorrect classification at the staging process, and therefore a material misstatement in the valuation of expected credit loss provisions. The Bank determines probability of default ('PD') ratios on the basis of master scales obtained from the parent bank with adjustment made for local

	exposures as deemed appropriate. This is also dependent on the credit rating of each exposure. Incorrect credit ratings can also impact PDs values. The Company has recorded total provision of £89.8k for the year ended 31 December 2018 (2017: £42.7k). The accounting policies in relation to SICR is presented in note 27. Further detail in respect of the judgement is set out in the Critical accounting judgement section in note 3. The quantitative disclosures on expected credit losses are included in note 10. Management has assessed the impact of 'no-deal' Brexit on its lending products and related ECL on page 3.
How the scope of our audit responded to the key audit matter	We have performed walkthrough to understand IFRS 9 processes. We evaluated the design and implementation of relevant controls relating to loan loss provisioning. We involved our credit specialists to review the Bank's impairment policies and to assess for compliance with IFRS 9, and industry practice. For a sample of loans we performed the following: • Inspected credit ratings from independent sources; • Assessed whether there had been a SICR with reference to the credit rating; • Assessed consistency of the SICR with the staging classification; and • Assessed management's determination of SICR against their policy. We performed sensitivity analysis as part of our risk assessment. We performed audit procedures including sensitivity assessment and FX volatility testing to evaluate the Company's assessment regarding the impact of Brexit on the Company.
Key observations	Based on the audit procedures performed, the Company has assessed staging of the exposures properly. We found the methodology used to be compliant with requirements of IFRS 9.

Derivatives accounting treatment	
Key audit matter description	The Company uses interest rate swaps and cross currency swaps to hedge interest rate and foreign exchange risk. The derivatives used are classified as fair value through profit or loss ("FVTPL") under IFRS 9 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 hold derivatives financial assets of £98k (2017: £288k) and derivatives financial liabilities of £952k (2017: £1,975k) as shown in note 20. The Company has also recorded a gain of £35k (2017: £391k) on the revaluation of derivatives financial instruments at year-end as shown in the profit and loss account.

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

	We have considered application of accounting policy for derivatives as Key audit matter as there is a significant risk of material misstatement.
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 IFRS 9 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 IFRS 9. For a sample of derivatives, we performed independent valuation of derivatives 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 gain on the revaluation of derivatives at year end to assess whether the gains recognised by the Company are free from material misstatement. For a sample of interest income and expense items recognised during the year, we recalculated the income and expense based on the derivative contract to assess whether the income and expense is recognised accurately and in the correct period.
Key observations	Based on our audit procedures performed we have concluded that the application of accounting policies in relation to derivative asset and liabilities is appropriate.

Our application of materiality

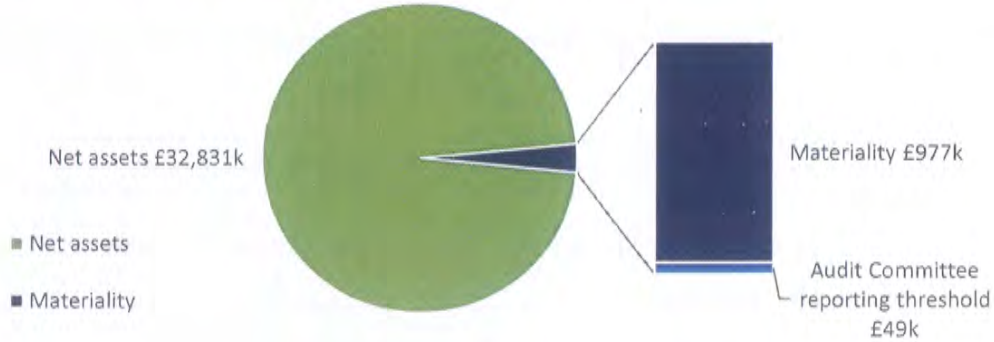
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

Materiality	£977k (2017: £998k)
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 balance.

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

Rationale for the benchmark applied	Net assets has been used as the basis for materiality to reflect what we believe to be the key external metric; regulatory capital, which is proxied by the net assets balance.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £49k (2017: £50k), 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

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.

We have nothing to report in respect of these matters.

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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, Board of Directors and the audit and risk committee, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and

  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, IT and credit specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in Adoption of IFRS 9 Loan loss provisions; and
- obtaining an understanding of the legal and regulatory framework that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation. In addition, compliance with terms of the Company's regulatory solvency requirements were fundamental to the Company's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified Adoption of IFRS 9 Loan loss provisions as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, Board of Directors and the audit and risk committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC/ PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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 10 years, covering the years ending 31 December 2009 to 31 December 2018.

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).

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.

Tom Millar (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
18 April 2019

Profit and loss account

For the year ended 31 December 2018

	Notes	2018 £	2017 £
Interest income		8,355,333	5,951,822
Interest expense		(7,694,552)	(5,113,679)
Net interest income	5	660,781	838,143
Net gain on financial assets designated at FVTPL		843,569	1,540,614
Net gain on derivatives		35,484	391,312
Fees and commission income		614,663	227,538
Fees and commission expense		(4,095)	(8,447)
Other operating income/(expense)		224,406	(282,587)
Total operating income	6	2,374,808	2,706,573
Administrative expenses	9	(2,089,043)	(2,014,996)
Loss from movement in provisions		-	(42,717)
Impairment charge		(89,795)	-
Profit on ordinary activities before tax		195,970	648,860
Tax on profit on ordinary activities	11	(31,915)	(134,152)
Profit on ordinary activities after tax		164,055	514,708

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

Statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 £	2017 £
Profit for the year		164,055	514,708
Items that may be reclassified subsequently to profit or loss:			
Available for sale financial assets			
Loss arising during the year		-	(135,889)
Credit to deferred tax		-	11,441
Assets at fair value through other comprehensive income			
Loss arising during the year		(611,909)	-
Changes in allowance for expected credit losses during the year	10	355	-
Prior year adjustment	11, 23	12,980	-
Credit to deferred tax	23	103,067	-
Other comprehensive income for the year net of tax		(495,507)	(124,448)
Total comprehensive (loss)/income for the year attributable to the Owners of the Company		(331,452)	390,260

The notes on pages 22 to 72 form part of these financial statements.

Balance sheet

As at 31 December 2018

	Notes	2018 £	2017 £
Non-current assets			
Intangible assets	12, 28	41,667	10,001
Tangible fixed assets	13, 28	20,788	33,371
Loans and advances to banks	14	13,322,348	4,796,284
Loans and advances to customers	15	44,679,293	58,519,866
Debt securities: private placement bonds	16	38,273,854	25,432,610
Financial assets at fair value through profit or loss (FVTPL)	17	14,073,377	35,807,939
Financial investments	18	57,722,715	57,875,474
Derivative financial assets	20	79,802	50,628
Total non-current assets		168,213,844	182,526,173
Current assets			
Loans and advances to banks	14	2,744,495	10,818,584
Loans and advances to customers	15	70,702,225	80,674,018
Debt securities: private placement bonds	16	7,066,815	4,440,705
Financial assets at FVTPL	17	22,049,067	20,922,547
Financial investments	18	11,590,449	6,198,618
Corporation tax receivable		35,596	-
Prepayments and accrued income		2,119,027	1,726,979
Cash and cash equivalents	19	12,335,799	9,256,845
Derivative financial assets	20	18,391	237,370
Total current assets		128,661,864	134,275,666
Total assets		296,875,708	316,801,839
Creditors: amounts falling due within one year			
Borrowings from credit institutions	21	(118,017,395)	(139,314,366)
Accruals and other liabilities		(1,050,856)	(765,437)
Corporation tax payable		-	(177,483)
Derivative liabilities	20	(497,096)	(90,727)
Total current liabilities		(119,565,347)	(140,348,013)
Net current assets		9,096,517	(6,072,347)
Total assets less current liabilities		177,310,361	176,453,826
Creditors: amounts falling due after more than one year			
Borrowings from credit institutions	21	(124,345,430)	(125,633,500)
Subordinated loans	22	(19,627,085)	(15,550,948)
Derivative liabilities	20	(455,485)	(1,884,599)
Deferred tax liabilities	23	(67,090)	(223,659)
Total non-current liabilities		(144,495,090)	(143,292,706)
Total liabilities		(264,060,437)	(283,640,719)
Net assets		32,815,271	33,161,120
Capital and reserves			
Called up share capital	24	20,000,000	20,000,000
Revaluation reserve	25	(594,269)	(151,233)
Profit and loss account		13,409,540	13,312,353
Total shareholders' funds		32,815,271	33,161,120

* The comparative figures are reclassified and details of the reclassification can be found in note 28 of the financial statement.

Balance sheet (continued)

As at 31 December 2018

These financial statements of Kexim Bank (UK) Limited, registration number 02693038, on pages 17 to 72 were approved and authorised for issue by the directors on 18 April 2019 and are signed on their behalf by:

Managing Director
H Kim

The notes on pages 22 to 72 form part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2018

	Notes	Share capital £	Profit and loss account £	Revaluation reserve £	Total £
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
Profit for the year		-	514,708	-	514,708
Other comprehensive loss for the year		-	-	(124,448)	(124,448)
Balance at 31 December 2017		20,000,000	13,312,353	(151,233)	33,161,120
Impact of adopting IFRS 9: impairment allowance	4	-	(80,564)	63,219	(17,345)
Impact of adopting IFRS 9: deferred tax	4, 23, 25	-	13,696	(10,748)	2,948
Restated opening balance under IFRS 9 at 1 January 2018		20,000,000	13,245,485	(98,762)	33,146,723
Profit for the year		-	164,055	-	164,055
Other comprehensive loss for the year	25	-	-	(495,507)	(495,507)
Balance at 31 December 2018		20,000,000	13,409,540	(594,269)	32,815,271

Notes to the financial statements

For the year ended 31 December 2018

1. General information

Kexim Bank (UK) Limited is a bank which is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 3 to 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 16	*Leases*
IAS 12	*Income Taxes*
IAS 23	*Borrowing Costs*
Amendments to IAS 19	*Employee Benefits*
	Plan Amendment, Curtailment or Settlement
IFRIC 23	*Uncertainty over Income Tax Treatment*

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.

IFRS 16 *Leases*

IFRS 16, which has been endorsed by the EU, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

1. General information (continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Bank expects to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying it is recognised as an adjustment to the opening balance of retained earnings and comparatives are not stated. The implementation is expected to increase assets and financial liabilities by approximately £1.08million and £1.12million respectively with the effect of approximately £40,000 on retained earnings.

New and amended standards and interpretations

In these financial statements, the Bank has applied IFRS 15, IFRS 9 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 15 *Revenue from Contracts with Customers*

The core principle under IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduces a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and, 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard replaces IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The amendments were effective for annual periods beginning on or after 1 January 2018.

In its IFRS 15 assessment, the Bank has determined which revenue streams are within the scope of IFRS 15 and excluded transactions governed by IFRS 9 to assess the impact of IFRS 15. The Bank has concluded that IFRS 15 does not have a material impact on the financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in note 4.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss ('FVTPL'), available for sale ('AFS'), held-to-maturity ('HTM') and amortised cost ('AC')) have been replaced by:

- Financial assets at FVTPL
- Debt instruments at fair value through other comprehensive income ('FVOCI'), with gains or losses recycled to profit or loss on derecognition

1. General information (continued)

- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on derecognition
- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost

The accounting for financial liabilities remains largely the same as it was under 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 are presented in other comprehensive income ('OCI') with no subsequent reclassification to the income statement.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Bank does not have any equity instruments and embedded derivatives in 2018 (2017: nil).

The Bank's classification of its financial assets and liabilities is explained in note 2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 4.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ('ECL') approach. IFRS 9 requires the Bank to record an allowance for ECLs 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 the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired ('POCI'), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition.

Details of the Bank's impairment method are disclosed in note 27. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 4.

IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 *Financial Instruments: Disclosures* was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 27.

Reconciliations from opening to closing ECL allowances are presented in notes 14, 15, 16, 18 and 26.

Changes in 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

2. Significant accounting policies (continued)

standard in relation to capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, and related party transactions. The 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. The assessment of Brexit is provided in the Strategic Report on pages 3 and 4.

Recognition of interest income and expense

Under both IFRS 9 and IAS 39, interest income and interest expense are recorded using the effective interest rate ('EIR') method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held-to-maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

Interest income

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

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

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

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 income on a straight‑line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight‑line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

2. Significant accounting policies (continued)

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

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

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

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

Current tax and deferred tax for the year

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

Intangible assets

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

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

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

Tangible fixed assets

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage

2. Significant accounting policies (continued)

of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income. Computer hardware is considered as office equipment in note 13.

Financial instruments – initial recognition

Date of recognition

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

Initial measurement of financial instruments

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

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVTPL

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

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), available-for-sale (amortised cost), held-to-maturity (amortised cost) and financial assets designated at FVTPL.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL for derivative instruments.

Financial assets and liabilities

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

Before 1 January 2018, Loans and advances to banks and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term.
- That the Bank, upon initial recognition, designated as at FVTPL or as available-for-sale.
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

2. Significant accounting policies (continued)

From 1 January 2018, the Bank only measures Loans and advances to banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The Solely Payments of Principal and Interest (SPPI) test

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

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

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

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

2. Significant accounting policies (continued)

Effective interest method

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

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

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

Derivatives recorded at fair value through profit or loss

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

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

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

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

Debt instruments at FVOCI (Policy applicable from 1 January 2018)

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

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

2. Significant accounting policies (continued)

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

Letters of credit

The Bank provides letter of credit confirmations for its Parent Bank as well as other Korean commercial banks. Letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of letters of credit where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in note 26.

Financial investments – available for sale (Policy applicable before 1 January 2018)

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 27. 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.

Financial investments – held to maturity (Policy applicable before 1 January 2018)

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.

Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2018.

2. Significant accounting policies (continued)

Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

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

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

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

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

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

Financial liabilities

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

Impairment of financial assets (Policy applicable from 1 January 2018)

Overview of the ECL principles

As described above, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets

2. Significant accounting policies (continued)

not held at FVTPL, together with loan commitments in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 27.

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

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

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

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in note 27).The Bank records an allowance for the LTECLs.

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

The calculation of ECLs

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

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

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

2. Significant accounting policies (continued)

The above concepts of PD, EAD and LGD are further explained in note 27.

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

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

The mechanics of the ECL method are summarised below:

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

Debt instruments measured at fair value through OCI

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

Forward looking information

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

- Global economic growth rate
- Domestic economy growth rate

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in note 27.

Write-offs

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to

2. Significant accounting policies (continued)

be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Impairment of financial assets (policy applicable before 1 January 2018)

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

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

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

1) Loans

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

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

① Individual assessment of impairment
Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of borrower and fair value less cost to sell of any collateral held and the timing of anticipated receipts.

② Collective assessment of impairment
The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of loans for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default (PD) on each loan (or pool of loans) and loss given default (LGD) by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2) AFS financial assets

When a decline in the fair value of an AFS financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the

2. Significant accounting policies (continued)

acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) that had been recognised in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

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

3) Held-to-maturity financial assets

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

1) Fair value of financial instrument

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.

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

As described in the significant accounting policies in note 27 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) Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

3) Provision of impairment losses on financial assets under IAS 39 [before 1 January 2018] (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.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

4) Brexit assessment

The outcome of the Brexit withdrawal agreement and future trade agreements remain uncertain. Thus, the Bank continues to base its contingency planning around a 'no deal' withdrawal and 'hard Brexit'.

Based on our current analysis, we do not anticipate a material impact to the financial position of the company. There is one loan exposure to a UK company which is also guaranteed by the Parent Bank. Most of our loans are for Korea related companies and thus the impact of Brexit will be immaterial. Based on the location of loan exposures and diversification of securities portfolio, we have no reason to anticipate that we will experience a higher level of loan impairments as a result of Brexit.

Kexim Bank does not have branches or subsidiaries, neither does the Parent Bank in the EU.

To date, there are no employees from the EU except the UK.

4. Transition disclosures

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Classification of financial assets and financial liabilities at date of initial application

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

		IAS 39		IFRS 9		
	Ref	Category	Amount £	Impairment allowance under IFRS 9 £	Amount £	Category
Financial assets						
Loans and advances to banks		L&R*	15,614,868	(563)	15,614,305	AC
Loans and advances to customers		L&R	139,193,884	(14,317)	139,179,567	AC
Debt securities: private placement bonds		L&R	29,873,315	(966)	29,872,349	AC
Financial assets designated at FVTPL		FVTPL	56,730,486	-	56,730,486	FVTPL
Financial investments	A	AFS	43,320,601	63,219	43,383,820	FVOCI
Financial investments	B	HTM	20,753,491	31,576	20,785,067	AC
Prepayments and accrued income		L&R	1,726,979	1,909	1,728,888	AC
Cash and cash equivalents		L&R	9,256,845	-	9,256,845	AC
Derivative financial assets		FVTPL	287,998	-	287,998	FVTPL
Financial liabilities						
Borrowings from credit institutions		AC	264,947,866	-	264,947,866	AC
Subordinated loans		AC	15,550,948	-	15,550,948	AC
Accruals and other liabilities		AC	765,437	-	765,437	AC
Corporation tax payable		AC	177,483	-	177,483	AC
Derivative liabilities		FVTPL	1,975,326	-	1,975,326	FVTPL

* Loans and receivables

The Bank did not reclassify any of its financial assets or liabilities during the year.

A As of 1 January 2018, the Bank has assessed its financial investments which have been previously classified as available-for-sale investments with a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.

B As of 1 January 2018, the Bank has assessed its financial investments which have been previously classified as held-to-maturity with a business model of collecting contractual cash flows. Accordingly, the Bank has classified these investments as debt instruments measured at amortised cost.

Notes to the financial statements (continued)

For the year ended 31 December 2018

4. Transition disclosures (continued)

Reconciliation of impairment allowance balance from IAS 39 to IFRS

The following table reconciles aggregate opening loan loss provision allowance under IAS 39 and provisions for loan commitments in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Loan loss allowance under IAS 39	Re-measurement	ECLs under IFRS 9 at 1 January 2018
	£	£	£
Impairment allowance for:			
Loans and advances to banks	25,822	(563)	25,259
Loans and advances to customers	352,483	(14,317)	338,166
Debt securities: private placement bonds	38,071	(966)	37,105
Financial investments - AFS per IAS 39/ Financial investments at FVOCI under IFRS 9	-	63,219	63,219
Financial investments - HTM per IAS 39/ Financial investments at amortised cost under IFRS 9	-	31,576	31,576
Prepayments and accrued income	-	1,909	1,909
Cash and cash equivalents	-	-	-
	416,376	80,858	497,234
Undrawn commitment and letters of credit	3,835	(293)	3,542
Total	420,211	80,565	500,776

Impact on reserves and retained earnings

The impact of transition to IFRS 9 on reserves and retained earnings at 1 January 2018 is as follows:

	Reserves and retained earnings
	£
Revaluation reserve:	
Closing balance under IAS 39 (31 December 2017)	(151,233)
Reclassification from AFS reserve to OCI reserve	-
Recognition of IFRS 9 ECLs	63,219
Deferred tax in relation to the above	(10,748)
Opening balance under IFRS 9 (1 January 2018)	(98,762)
Retained earnings:	
Closing balance under IAS 39 (31 December 2017)	13,312,353
Recognition of IFRS 9 ECLs including those measured at FVOCI	(80,564)
Deferred tax in relation to the above	13,696
Opening balance under IFRS 9 (1 January 2018)	13,245,485
Total change in equity due to adopting IFRS 9	(14,397)

Notes to the financial statements (continued)

For the year ended 31 December 2018

5. Net interest income

	2018 £	2017 £
Interest income		
Interest income from debt securities:		
Held-to-maturity financial assets	-	456,875
Available-for-sale debt investments	-	418,858
Financial investments at amortised cost	128,797	-
Financial investments at FVOCI	1,548,050	-
Interest income from loans and advances to customers and banks:		
Loans and receivables	6,678,486	5,076,089
Total interest income	8,355,333	5,951,822
Interest expense		
Interest expense payable to Parent Bank:		
Intergroup borrowings	1,291,774	719,286
Subordinated loan	691,950	365,357
Interest expense payable to other companies:		
Borrowings from credit institutions	5,710,828	3,686,357
Medium and long-term funding	-	342,679
Total interest expense	7,694,552	5,113,679
Net interest income	660,781	838,143

6. Analysis of total operating income

	2018 £	2017 £
By activity		
Net Interest Income	660,781	838,143
Gain on financial assets designated at FVTPL	843,569	1,540,614
Net gain/(loss) on derivative instruments	35,484	391,312
Fees and commissions income, net	610,568	219,090
Foreign exchange, net	199,466	(305,295)
Profit on disposal of shares and loans	12,955	17,285
Interest on overpayment of corporate tax	33	-
Other operating expense	(2,882)	-
Banking income	14,834	5,424
Total operating income	2,374,808	2,706,573

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

7. Profit for the year

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

	Notes	2018 £	2017 £
Depreciation	13, 28	12,583	12,511
Amortisation	12, 28	18,334	20,722
Auditor's remuneration: auditing of financial statements		96,000	84,000
Profit on disposal of debt securities		(12,954)	(17,285)
Foreign exchange (gain)/loss		(199,466)	305,295
Operating lease rentals — office property	8	165,546	165,546
Operating lease rentals — company car	8	5,898	5,898

Notes to the financial statements (continued)

For the year ended 31 December 2018

8. Operating lease arrangements

The company as lessee

	2018 £	2017 £
Lease payments under operating leases recognised as an expense in the year	171,444	171,444

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:

	2018 £	2017 £
Within one year	167,475	171,898
In the second to fifth years inclusive	79,134	252,507
	246,609	424,405

Operating lease payments represent rentals payable by the company for its office premise and company car.

9. Administrative expenses

	Notes	2018 £	2017 £
Staff costs			
Wages and salaries		1,064,542	979,302
Social security costs		29,970	25,215
Other pension costs		20,943	20,478
Other staff costs		34,289	36,773
		1,149,744	1,061,768
Depreciation	7, 28	12,583	12,511
Amortisation	7, 28	18,334	20,722
Other administrative expenses		908,382	919,995
		2,089,043	2,014,996

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

	2018	2017
Executive directors	2	2
Front office persons	2	2
Back and middle office persons	5	5
Local non-executive directors	2	2
Average monthly number of employees	11	11

Directors' emoluments	2018 £	2017 £
Aggregate directors' emoluments	491,444	450,736
Highest paid director	239,006	180,403

No pension was paid in relation to the directors.

Notes to the financial statements (continued)

For the year ended 31 December 2018

10. Credit loss expense

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

2018

	Notes	Stage 1 £	Stage 2 £	Stage 3 £	POCI £	Total £
Loans and advances to banks	14	2,108	-	-	-	2,108
Loans and advances to customers	15	30,885	22,261	-	-	53,146
Debt securities: private placement bonds	16	27,453	-	-	-	27,453
Financial investments – FVOCI	18	355	-	-	-	355
Financial investments – AC	18	1,089	-	-	-	1,089
Prepayments and accrued income		1,100	-	-	-	1,100
Cash and cash equivalents		-	-	-	-	-
Undrawn commitment and letters of credit	26	4,543	-	-	-	4,543
Total impairment loss		67,533	22,261	-	-	89,794

2017

	Specific £	Collective £	Total £
Loans and advances to banks	10,500	-	10,500
Loans and advances to customers	17,429	-	17,429
Debt securities: private placement bonds	14,788	-	14,788
Financial investments – AFS	-	-	-
Financial investments – HTM	-	-	-
Prepayments and accrued income	-	-	-
Cash and cash equivalents	-	-	-
Undrawn commitment and letters of credit	-	-	-
Total impairment loss	42,717	-	42,717

Notes to the financial statements (continued)

For the year ended 31 December 2018

11. Tax

	Note	2018 £	2017 £
Corporation tax:			
Current year		69,489	169,314
Adjustment for prior years		-	895
Total current year tax charge		69,489	170,209
Deferred tax:	23		
Current year		(29,513)	(40,281)
Effect of changes in tax rate		(8,061)	4,224
Total current year tax charge		(37,574)	(36,057)
Tax per profit or loss account		31,915	134,152
Other comprehensive income items			
Current tax		(415)	421
Loss on financial assets measured at FVOCI		(116,263)	-
Effect of changes in tax rate		13,611	-
Deferred tax charge in OCI for the period	23	(103,067)	421
Prior year adjustment	23	(12,980)	(11,441)
		(116,047)	(11,020)

A reduction in the rate of corporation tax was substantively enacted on 26 October 2015. The rate has been reduced from 20% and reduced further to 19% from 1 April 2017 and will reduce to 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% 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:

	2018 £	2017 £
Profit on ordinary activities	190,991	648,860
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	36,288	124,883
Effects of:		
Adjustments in respect of prior years	-	895
Expenses not deductible	3,686	4,150
Tax rate changes	(8,061)	4,224
Rounding	2	1
Tax charge for the period	31,915	134,152

Notes to the financial statements (continued)

For the year ended 31 December 2018

12. Intangible assets

	Software £
Cost	
At 1 January 2017	392,000
Additions	-
At 31 December 2017	392,000
Additions	50,000
At 31 December 2018	442,000
Accumulated amortisation	
At 1 January 2017	361,277
Charge for the year	20,722
At 31 December 2017	381,999
Charge for the year	18,334
At 31 December 2018	400,333
Carrying amount	
At 31 December 2017	10,001
At 31 December 2018	41,667

13. Tangible fixed assets

	Fixtures and Fittings £	Office Equipment £	Total £
Cost			
At 1 January 2017	93,970	159,024	252,994
Additions	-	3,324	3,324
At 31 December 2017	93,970	162,348	256,318
Additions	-	-	-
At 31 December 2018	93,970	162,348	256,318
Accumulated depreciation			
At 1 January 2017	57,875	152,561	210,436
Charge for the year	9,616	2,895	12,511
At 31 December 2017	67,491	155,456	222,947
Charge for the year	9,615	2,968	12,583
At 31 December 2018	77,106	158,424	235,530
Carrying amount			
At 31 December 2017	26,479	6,892	33,371
At 31 December 2018	16,864	3,924	20,788

Notes to the financial statements (continued)

For the year ended 31 December 2018

14. Loans and advances to banks

	Gross £	Provision £	Net of provision £
2018			
Between three months and one year	2,747,792	(3,297)	2,744,495
Between one year and five years	13,346,418	(24,070)	13,322,348
	16,094,210	(27,367)	16,066,843
2017			
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

Impairment allowance for loans and advances to banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in note 27.

	2018				2017
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £	Total £
Best	2,355,250	-	-	2,355,250	10,386,695
Outstanding	13,738,960	-	-	13,738,960	5,253,995
Good	-	-	-	-	-
Below normal	-	-	-	-	-
	16,094,210	-	-	16,094,210	15,640,690

An analysis of changes in the gross carrying amount and the corresponding ECL allowance is, as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2018	15,640,690	-	-	15,640,690
New assets originated or purchased	13,346,418	-	-	13,346,418
Assets derecognised or repaid	(13,048,865)	-	-	(13,048,865)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	155,967	-	-	155,967
As at 31 December 2018	16,094,210	-	-	16,094,210

Notes to the financial statements (continued)

For the year ended 31 December 2018

14. Loans and advances to banks (continued)

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2018	25,259	-	-	25,259
New assets originated or purchased	24,070	-	-	24,070
Assets derecognised or repaid	(11,513)	-	-	(11,513)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(10,449)	-	-	(10,449)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	27,367	-	-	27,367

Contractual amounts outstanding in relation to Loans and advances to banks that were still subject to enforcement activity, but otherwise has already been written off, were nil both at 31 December 2018 and 31 December 2017.

15. Loans and advances to customers

	Gross £	Provision £	Net of provision £
2018			
Within three months	20,851,815	(53,343)	20,798,472
Between three months and one year	50,134,214	(230,461)	49,903,753
Between one year and five years	38,065,129	(87,294)	37,977,835
Over five years	6,721,672	(20,214)	6,701,458
	115,772,830	(391,312)	115,381,518
2017			
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

Impairment allowance for loans and advances to customers

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

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Loans and advances to customers (continued)

	2018				2017
Internal rating grade	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
	£	£	£	£	£
Best	26,902,429	-	-	26,902,429	27,023,745
Outstanding	52,479,968	-	-	52,479,968	83,715,306
Good	32,465,016	3,925,417	-	36,390,433	28,807,316
Below normal	-	-	-	-	-
	111,847,413	3,925,417	-	115,772,830	139,546,367

An analysis of changes in the gross carrying amount and the corresponding ECL allowance is, as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 1 January 2018	139,546,367	-	-	139,546,367
New assets originated or purchased*	61,768,209	-	-	61,768,209
Assets derecognised or repaid	(80,905,656)	-	-	(80,905,656)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(3,925,417)	3,925,417	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(4,636,090)	-	-	(4,636,090)
As at 31 December 2018	111,847,413	3,925,417	-	115,772,830

* New assets include renewed assets.

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	£	£	£	£
ECL allowance as at 1 January 2018	338,166	-	-	338,166
New assets originated or purchased*	271,140	-	-	271,140
Assets derecognised or repaid	(218,181)	-	-	(218,181)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(17,093)	22,261	-	5,168
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(4,981)	-	-	(4,981)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	369,051	22,261	-	391,312

* New assets include renewed assets.

The contractual amount outstanding on loans that have been written, but were still subject to enforcement activity was nil at 31 December 2018 (2017: nil).

Notes to the financial statements (continued)

16. Debt securities: private placement bonds

	Gross	Provision	Net of provision
	£	£	£
2018			
Between three months and one year	7,073,015	(6,200)	7,066,815
Between one year and five years	38,332,212	(58,358)	38,273,854
	45,405,227	(64,558)	45,340,669
2017			
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

Impairment allowance for debt securities

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

	2018				2017
	Stage 1 Individual	Stage 2 Individual	Stage 3	Total	Total
	£	£	£	£	£
Best	24,502,676	-	-	24,502,676	28,430,343
Outstanding	20,902,551	-	-	20,902,551	1,481,043
Good	-	-	-	-	-
Below normal	-	-	-	-	-
	45,405,227	-	-	45,405,227	29,911,386

An analysis of changes in the gross carrying amount and the corresponding ECL allowance is, as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 1 January 2018	29,911,386	-	-	29,911,386
New assets originated or purchased	18,842,860	-	-	18,842,860
Assets derecognised or repaid	(4,446,316)	-	-	(4,446,316)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1,097,297	-	-	1,097,297
As at 31 December 2018	45,405,227	-	-	45,405,227

16. Debt securities: private placement bonds (continued)

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2018	37,105	-	-	37,105
New assets originated or purchased	30,838	-	-	30,838
Assets derecognised or repaid	(5,392)	-	-	(5,392)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	2,007	-	-	2,007
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	64,558	-	-	64,558

17. Financial assets designated at FVTPL

Financial assets designated at FVTPL	2018 £	2017 £
Due within one year	22,049,067	20,922,547
Due one year and over	14,073,377	35,807,939
	36,122,444	56,730,486

As at 31 December 2018 and 2017, all of the financial assets designated at FVTPL were listed securities in the amount of 36,122,444 and 56,730,486 respectively.

Financial assets designated at FVTPL	2018 £	2017 £
Public ownership		
Issued by governments	1,643,556	1,638,581
Issued by other public sector bodies	1,546,952	1,479,114
Others		
Issued by banks	18,810,980	27,387,807
Issued by other issuers	14,120,956	26,224,984
	36,122,444	56,730,486

As of 31 December 2018, £3.9million (2017: £5.9million) of investment securities are pledged as collateral for swap transactions. The fair value of the collateral is £4.0million (2017: £6.1million). The assets pledged do not qualify for derecognition and continue to be recognised in full. The Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction, and remains exposed to interest rate risk and credit risk on these pledged assets.

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial investments

2018	Due within one year £	Due one year and over £	Total £
Financial investments – measured at FVOCI			
Investment securities – fair value	897,864	44,783,505	45,681,369
Memorandum allowance for ECL	(768)	(62,806)	(63,574)
Net of provision	897,096	44,720,699	45,617,795
Financial investments – measured at amortised cost			
Investment securities – gross	10,708,828	12,955,632	23,664,460
Allowance for ECL	(16,243)	(16,422)	(32,665)
Net of provision	10,692,585	12,939,210	23,631,795
Total*	11,590,449	57,722,715	69,313,164

2017	Due within one year £	Due one year and over £	Total £
Available for sale			
Investment securities	3,697,414	39,623,187	43,320,601
Held to maturity			
Investment securities	2,501,204	18,252,287	20,753,491
Total	6,198,618	57,875,474	64,074,092

* As at 31 December 2018, total of financial investments is the sum of the fair value of financial investments measured at FVOCI and the net of provision of those measured at amortised cost. Financial investments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'impairment charge' in the profit and loss account.

Financial investments – AFS and HTM by types of issuers	2018 £	2017 £
Public ownership		
Issued by supranational organisations	-	7,440,021
Issued by other public sector bodies	-	7,760,957
Others		
Issued by banks	-	18,167,478
Issued by other issuers	-	30,705,636
	-	64,074,092

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial investments (continued)

Financial investments – measured at FVOCI by types of issuers	2018 £	2017 £
Public ownership		
Issued by supranational organisations	7,256,792	-
Issued by other public sector bodies	4,681,610	-
Others		
Issued by banks	11,333,429	-
Issued by other issuers	22,409,538	-
	45,681,369	-

Financial investments – measured at amortised cost by types of issuers	2018 £	2017 £
Public ownership		
Issued by supranational organisations	3,136,275	-
Issued by other public sector bodies	3,178,855	-
Others		
Issued by banks	1,701,259	-
Issued by other issuers	15,615,406	-
	23,631,795	-

Total financial investments other than those measured at FVTPL	69,313,164	-

Impairment losses on financial investments subject to impairment assessment

Financial investments measured at FVOCI

	2018 £
Financial investments – FVOCI	45,681,369
Less: allowance for impairment losses	(63,574)
	45,617,795

The table below shows the fair value of the Bank's debt instruments measured at FVOCI by credit risk based on the Bank's internal credit rating system and year-end stage classification. Details of the Bank's internal grading system are explained in note 27.

	2018			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	21,039,766	-	-	21,039,766
Outstanding	24,641,603	-	-	24,641,603
Good	-	-	-	-
Below normal	-	-	-	-
	45,681,369	-	-	45,681,369

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial investments (continued)

Financial investments measured at FVOCI (continued)

An analysis of changes in the fair value and the corresponding ECLs is, as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Fair value as at 1 January 2018	43,320,601	-	-	43,320,601
New assets originated or purchased	9,637,233	-	-	9,637,233
Assets derecognised or repaid	(8,176,175)	-	-	(8,176,175)
Change in fair value	(623,350)	-	-	(623,350)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1,523,060	-	-	1,523,060
As at 31 December 2018	45,681,369	-	-	45,681,369

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2018	63,219	-	-	63,219
New assets originated or purchased	3,563	-	-	3,563
Assets derecognised or repaid	(271)	-	-	(271)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(2,937)	-	-	(2,937)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	63,574	-	-	63,574

Financial investments measured at amortised cost

	2018 £
Financial investments – AC	23,664,460
Less: allowance for impairment losses	(32,665)
	23,631,795

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

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial investments (continued)

Financial investments measured at amortised cost (continued)

	2018			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	11,098,830	-	-	11,098,830
Outstanding	12,565,630	-	-	12,565,630
Good	-	-	-	-
Below normal	-	-	-	-
	23,664,460	-	-	23,664,460

An analysis of changes in the gross carrying amount and the corresponding ECL allowance is, as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2018	20,753,491	-	-	20,753,491
New assets originated or purchased	5,604,870	-	-	5,604,870
Assets derecognised or repaid	(2,500,000)	-	-	(2,500,000)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(193,901)	-	-	(193,901)
As at 31 December 2018	23,664,460	-	-	23,664,460

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2018	31,576	-	-	31,576
New assets originated or purchased	891	-	-	891
Assets derecognised or repaid	(1,490)	-	-	(1,490)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	1,688	-	-	1,688
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	32,665	-	-	32,665

Notes to the financial statements (continued)

For the year ended 31 December 2018

19. Cash and cash equivalents

	2018 £	2017 £
Cash in hand	65	65
Nostro accounts	12,292,236	9,247,885
Central counterparty clearing house margin account	43,498	8,895
	12,335,799	9,256,845

The Nostro accounts include an overnight investment by the counterparty bank for an amount of $9.8million which is equivalent of £7.7million (2017: $3.5million, equivalent of £2.6million).

20. Derivative assets and liabilities

	2018 £	2017 £
Derivative assets		
Due within one year	18,391	237,370
Due one year and over	79,802	50,628
	98,193	287,998
Derivative liabilities		
Due within one year	497,096	90,727
Due one year and over	455,485	1,884,599
	952,581	1,975,326

	Notional	Derivative assets Trading	Derivative liabilities Trading
2018		£	£
Interest rate swaps	35,477,920	98,193	952,581
	35,477,920	98,193	952,581
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

21. Borrowings from credit institutions

	2018 £	2017 £
Parent and related companies	85,469,077	79,508,142
Other banks	156,893,748	185,439,724
	242,362,825	264,947,866
Repayable:		
Within three months	329,466	27,549,488
Between three months and one year	117,687,929	111,764,878
Between one year and five years	124,345,430	125,633,500
	242,362,825	264,947,866

Notes to the financial statements (continued)

For the year ended 31 December 2018

21. Borrowings from credit institutions (continued)

The Parent and related companies borrowings are the drawdown amount of the unsecured credit facilities in sum £85.14million (2017: £79.20million) from the Parent Bank and the deposit of £0.33million (2017: £0.31million) from the Parent Bank's wholly owned subsidiary, Kexim Asia Limited in Hong Kong. More details of the unsecured bank loan facilities with various maturity dates are provided in note 27.

22. Subordinated loans

	2018 £	2017 £
Repayable:		
Between one year and five years	-	11,107,820
Over five years	19,627,085	4,443,128
	19,627,085	15,550,948

The two subordinated loans are granted by the parent company, the Export-Import Bank of Korea, for an amount of USD 19million and USD 6million (2017: USD 15million and USD 6million) and will mature in 2028 and 2024 respectively (2017: 2019 and 2024). The interest is reset periodically on the basis of the Libor plus 1.62% and 1.52% respectively (2017: 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.

23. 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.

	Notes	Accelerated tax depreciation £	Temporary differences trading £	Total £
At 1 January 2017		(3,935)	275,094	271,159
Charge/(credit) to profit or loss		(2,278)	(33,781)	(36,059)
Credit to OCI	11	-	(11,441)	(11,441)
At 31 December 2017		(6,213)	229,872	223,659
IFRS 9 transition adjustment: deferred tax - changes to opening reserves	4	-	(2,948)	(2,948)
Opening balance under IFRS 9 at 1 January 2018		(6,213)	226,924	220,711
Prior year adjustment	11	-	(12,980)	(12,980)
Charge/(credit) to profit or loss	11	5,928	(43,502)	(37,574)
Deferred tax charge in OCI for the period	11	-	(103,067)	(103,067)
At 31 December 2018		(285)	67,375	67,090

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:

	2018 £	2017 £
Deferred tax liabilities	67,090	223,659

Notes to the financial statements (continued)

For the year ended 31 December 2018

24. Share capital

	2018 £	2017 £
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

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

25. Revaluation reserve

	Notes	Revaluation reserve £
Balance at 1 January 2017		(26,785)
Reclassified to profit and loss		
Decrease in fair value of AFS		(135,889)
Related income tax on the fair value movements of AFS		11,441
Balance at 1 January 2018		(151,233)
Recognition of IFRS 9 ECLs		63,219
Deferred tax in relation to the above		(10,748)
Opening balance under IFRS 9 at 1 January 2018	4	(98,762)
Reclassified to profit and loss		
Changes in allowance for expected credit losses	10	355
Decrease in fair value of financial assets measured at FVOCI		(611,909)
Related prior year adjustment on income tax	23	12,980
Related income tax on fair value movements of financial assets measured at FVOCI	23	103,067
Balance at 31 December 2018		(594,269)

26. Contingent liabilities and undrawn lending commitments

	2018 £	2017 £
L/C confirmation (transaction)	14,986,261	9,637,308
Undrawn commercial lending commitments	4,687,387	7,232,425
	19,673,648	16,869,733

Impairment losses on contingent liabilities and undrawn lending commitments

Letters of credit

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

	2018			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	13,416,094	-	-	13,416,094
Outstanding	1,570,167	-	-	1,570,167
Good	-	-	-	-
Below normal	-	-	-	-
	14,986,261	-	-	14,986,261

Notes to the financial statements (continued)

For the year ended 31 December 2018

26. Contingent liabilities and undrawn lending commitments (continued)

Letters of credit (continued)

An analysis of changes in the outstanding exposure and the corresponding ECL allowance is, as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2018	9,637,308	-	-	9,637,308
New exposures	13,358,732	-	-	13,358,732
Exposure derecognised or matured	(8,102,159)	-	-	(8,102,159)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	92,380	-	-	92,380
As at 31 December 2018	14,986,261	-	-	14,986,261

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2018	2,242	-	-	2,242
New exposures	2,368	-	-	2,368
Exposures derecognised or matured	(804)	-	-	(804)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	147	-	-	147
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	3,953	-	-	3,953

Undrawn lending commitment

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

	2018			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	2,308,145	-	-	2,308,145
Outstanding	2,379,242	-	-	2,379,242
Good	-	-	-	-
Below normal	-	-	-	-
	4,687,387	-	-	4,687,387

Notes to the financial statements (continued)

For the year ended 31 December 2018

26. Contingent liabilities and undrawn lending commitments (continued)

Undrawn lending commitment (continued)

An analysis of changes in the outstanding exposure and the corresponding ECL allowance is, as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2018	7,232,425	-	-	7,232,425
New exposures	2,379,242	-	-	2,379,242
Exposure derecognised or matured/lapsed	(5,035,685)	-	-	(5,035,685)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	111,405	-	-	111,405
As at 31 December 2018	4,687,387	-	-	4,687,387

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2018	1,300	-	-	1,300
New exposures	3,590	-	-	3,590
Exposures derecognised or matured	(851)	-	-	(851)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	95	-	-	95
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2018	4,134	-	-	4,134

Provision arising from letters of credit and undrawn lending commitment

An analysis of changes in the provisions arising from letters of credit and undrawn lending commitment under IAS 39 and IAS 37 is, as follows:

	Letters of credit £	Undrawn lending commitment £	Total £
As at 1 January 2018	2,242	1,300	3,542
Charge for the year	1,709	2,834	4,543
Recoveries	-	-	-
Amounts written off	-	-	-
As at 31 December 2018	3,951	4,134	8,085

27. Financial Instruments

Categories of financial instruments

	2018 £	2017 £
Financial assets		
Loans and receivables		
Cash and cash equivalents	12,301,732	9,256,845
Loans and advances to banks	16,066,843	15,614,868
Loans and advances to customers	115,381,518	139,193,884
Debt securities: private placement bonds	45,340,669	29,873,315
Held-to-maturity financial assets	23,631,795	20,753,491
Available for sale financial assets	45,681,369	43,320,601
Financial assets at FVTPL	36,122,444	56,730,486
Derivative financial assets	98,193	287,998
Financial liabilities		
Financial liabilities at amortised cost		
Deposits by banks	242,362,825	264,947,866
Subordinated loans	19,627,085	15,550,948
Derivative financial liabilities	952,581	1,975,326

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 2018

27. 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% VaR number used by the Company reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

VaR*	Average		Minimum		Maximum		Year end	
by risk type	2018	2017	2018	2017	2018	2017	2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Foreign exchange	70	185	28	134	133	298	86	170
Interest rate	1,949	2,205	1,372	1,023	2,441	2,882	1,372	2,435
Total VaR exposure	2,019	2,390	1,400	1,157	2,574	3,180	1,458	2,605

* 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.

27. Financial instruments (continued)

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

	Average		Minimum		Maximum		Year end	
	2018	2017	2018	2017	2018	2017	2018	2017
EaR	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate EaR	172	209	5	0	342	397	46	248

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.

Impairment assessment (Policy applicable from 1 January 2018)

Significant increase in credit risk

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

27. Financial instruments (continued)

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

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

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

Definition of default and credit impaired assets

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

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

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

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

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

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

The Bank's internal rating and PD estimation process

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

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

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

27. Financial instruments (continued)

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

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

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

Exposure at default

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

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

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

Loss given default

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

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

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

Analysis of inputs to the ECL model under multiple economic scenarios

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

27. Financial instruments (continued)

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

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

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

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

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

	2018 analysis		2017 analysis	
	2017 actual	2018 forecast	2016 actual	2017 forecast
Stable economic growth rate	3.7%	3.7% (IMF forecast)	3.2%	3.6% (IMF forecast)
Korean economy growth downturn rate	3.1%	2.7% (Bank of Korea forecast)	2.8%	3.0% (Bank of Korea forecast)

Set out below are the changes to the ECL in profit and loss as at 31 December 2018 that would result from reasonably possible changes in these parameters (all industries have either Risk Index '-1' with Negative PD or Risk Index '1' with Positive PD) from the actual assumptions used in the Bank's economic variable assumptions:

		Factor: Industry Risk Index		
		-5%	No change	+5%
		£	£	£
GBP	No change	61,108	89,795	120,262

Modified loans

The Bank sometimes modifies the terms of loans provided to customer due to commercial renegotiations, or for distresses loans, with a view to maximising recovery. Such restructuring activities include change in the financial asset tenor, interest rate and frequency of payments. The risk of default of modified financial assets is assessed at the reporting date and compared with the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the asset is moved from Stage 3 or Stage 2 to Stage 1. The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets applying the same quantitative, qualitative or backstop criteria. The gross carrying amount of such assets held as at 31 December 2018 is £5,050,417.

27. Financial instruments (continued)

Modified gain (loss)

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

	Loans and advance to customers £
Amortised cost before modification	28,393
Net modification gain	5,130
Modification gain	5,804
Modification loss	(674)

Deterioration of modified assets

During the period, the gross carrying amount of modified assets reverting from Stage 1 (12-month ECL) to Stage 2 was £3,925,417. However, the reason for this stage change was because the credit rating of the guarantor was downgraded by 5 notches, other than deterioration of the loan value by the modification.

The table below shows the gross carrying amount of the modified loan for which loss allowance has changed from "12month ECL" to "lifetime ECL" during the period:

31 December 2018	Post modification		Pre-modification	
	Gross carrying amount £	Corresponding ECL £	Gross carrying amount £	Corresponding ECL £
Facilities that have cured since modification and are now measured using 12m ECLs (Stage 1)	-	-	-	-
Facilities that reverted to (Stage 2/3) LTECLs having once cured	3,925,417	22,261	3,925,417	22,255

Liquidity risk management

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

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.

Notes to the financial statements (continued)

For the year ended 31 December 2018

27. Financial instruments (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	5+ years	Total
	%	£	£	£	£	£	£
2018							
Non-interest bearing	-	329,466	-	-	-	-	329,466
Variable interest rate instrument	3.17	66,732,090	155,797,118	39,179,587	(48,351)	-	261,660,444
	3.17	67,061,556	155,797,118	39,179,587	(48,351)	-	261,989,910
2017							
Non-interest bearing	-	309,442	-	-	-	-	309,422
Variable interest rate instrument	2.02	-	27,240,066	111,781,658	136,996,446	4,443,128	280,461,298
	2.02	309,422	27,240,066	111,781,658	136,996,446	4,443,128	280,770,720

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

	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	5+ years	Total
	£	£	£	£	£	£
2018						
Non-interest bearing	12,297,771	-	-	-	-	12,297,771
Variable interest rate instrument	48,157,319	143,747,257	10,083,600	293,233	-	202,281,409
Fixed interest rate instruments	11,340,264	29,940,117	37,854,089	812,719	-	79,947,189
	71,795,354	173,687,374	47,937,689	1,105,952	-	294,526,369

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.

27. 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 Company has access to financing facilities as described below, of which £140.3million were unused at the balance sheet date (2017: £140.0million). 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.

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
2018						
Net settled:						
Interest rate swaps	-	2,000,000	19,701,668	13,776,251	-	35,477,919
Gross Settled:						
Currency swaps	-	-	-	-	-	-
	-	2,000,000	19,701,668	13,776,251	-	35,477,919
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

27. Financial instruments (continued)

Financing facilities

	2018 £	2017 £
Unsecured bank loan facilities (Parent Bank) with various maturity dates which may be extended by mutual agreement:		
- amount used	104,766,696	94,749,668
- amount unused	140,320,937	139,958,530
	245,087,633	234,708,198
Unsecured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	156,893,748	185,439,724
- amount unused	-	-
	156,893,748	185,439,724
Total amount used	261,660,444	280,189,392
Total amount unused	140,320,937	139,958,530

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.

27. Financial instruments (continued)

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 from credit institutions	Fair value is determined using a DCF model discounting contractual future cash flows by appropriate discount rates. The adjustment for credit risk is reflected in cash flow, and the bank's credit risk is considered in the discount rate.

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

	Carrying amount		Fair value	
	2018	2017	2018	2017
	£	£	£	£
Financial assets				
Debt securities: private placement bonds	45,340,669	29,873,315	45,085,480	29,785,832
Financial investments:				
Financial investments measured at amortised cost	23,631,795	20,753,491	23,618,436	21,099,569

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 2018	
	Level 2	Total
	£	£
Financial assets		
Debt securities: private placement bonds	45,085,480	45,085,480
Financial investments:		
Financial investments measured at amortised cost	23,618,436	23,618,436
Total	68,703,917	68,703,917

	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

27. Financial instruments (continued)

Fair value measurements recognised in the balance sheet

	Level 2 £	Total £
31 December 2018		
Financial assets at FVTPL		
Debt securities	36,122,444	36,122,444
Derivative financial assets	98,193	98,193
Financial investments measured at FVOCI		
Debt securities	45,681,369	45,681,369
Total	81,902,006	81,902,006
Financial liabilities at FVTPL		
Derivative financial liabilities	952,581	952,581
Total	952,581	952,581

31 December 2017		
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

28. Reclassification and comparative figures

The reclassification of intangible assets and tangible fixed assets has been made to the prior year's financial statements to enhance comparability with the current year's financial statements. The prior year's intangible assets were classified as tangible assets. As a result, the amounts of intangible assets and tangible fixed assets have been amended in the balance sheet and the related notes to the financial statements: notes 12 and 13. Correspondingly, the amounts of depreciation and amortisation have also been amended in the profit and loss account and the related notes: notes 7 and 9. Comparative figures have been adjusted to conform to the current year's presentation. The following table presents the figures before and after the reclassification:

	2017 £	Adjustment £	2017 £
Balance sheet	(Before reclassification)		(Reclassified)
Intangible assets	-	10,001	10,001
Tangible fixed assets	43,372	(10,001)	33,371

	2017 £	Adjustment £	2017 £
Profit and loss account	(Before reclassification)		(Reclassified)
Amortisation	-	12,511	12,511
Depreciation	33,233	(12,511)	20,722

Notes to the financial statements (continued)

For the year ended 31 December 2018

29. Events after the balance sheet date

In its assessment of events after the balance sheet date, the Bank considered the events related to the process of the UK's withdrawal from the European Union that occurred between 31 December 2018 and the date when the financial statements were approved, and concluded that no adjustments to the financial statements were required.

30. Parent and subsidiary relationships

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

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

31. 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 22, 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 2018 and 2017.

Capital, leverage and Risk Weighted Assets (RWA)	Limit %	2018 %	2017 %
CET1 ratio	4.5	14.1	12.9
T1 capital ratio	6.0	14.1	12.9
Total capital ratio	8.0	18.8	16.5
Leverage ratio	5.0	10.4	9.9
RWA (£)		233,139,707	257,039,075

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