

# **Kexim Bank (UK) Limited**

**Annual Report and Financial Statements  
for the year ended 31 December 2019**

**Registered number: 02693038**

# Kexim Bank (UK) Limited

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# Kexim Bank (UK) Limited

## Company information

### Directors

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

C P J Fitzgibbon	Independent Non-Executive Director	
H Kim	Managing Director	Resigned on 15 January 2020
J Yang	Managing Director	Appointed on 3 April 2020
C I Lim	Executive Director	
C Edwards	Independent Non-Executive Director	
D W Jung	Group Non-Executive Director	Resigned on 14 March 2019
J R Lee	Group Non-Executive Director	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

3<sup>rd</sup> 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

# Kexim Bank (UK) Limited

## Chairman's statement

### Overview of 2019 and outlook for 2020

The United Kingdom (the 'UK') banking industry experienced persistent challenges on profitability during the year owing to continuing uncertainty in the current political and economic environment, modest economic growth and volatile exchange rates. The uncertainty around the UK's withdrawal from the European Union (the 'EU') also persisted throughout most of the year. The UK left the EU on 31 January 2020, and yet the UK's longer-term relationship with the EU needs to be negotiated in the transition period, and thus some degree of uncertainty still remains. However, Kexim Bank (UK) Limited (the 'Bank') continues to consider that Brexit will not have a material impact on it owing to its well-diversified portfolio in terms of products and regions.

Despite the uncertainty caused by political and economic events in 2019, the Bank continued to identify new investment opportunities during the year while maintaining its prudent management of loans and risks. The Bank remains conservative in its outlook, and 2020 will be a challenging year for the Bank due to political and economic uncertainty caused by the global outbreaks of the coronavirus ('Covid-19'). The impact of the Covid-19 pandemic on the global economy is unprecedented and the situation is still evolving. Nevertheless, the Bank has full support of the Export-Import Bank of Korea ('Parent Bank') with its capital and liquidity, and is committed to delivering value for the Parent Bank. The Bank is also grateful for its Parent Bank's continuing support with its operations, compliance and IT security.

### Governance and Board changes

The Board met four times in 2019 and during the year the Prudential Regulatory Authority ('PRA') conducted a review of its effectiveness. The outcome of this review was positive. The PRA concluded that the Board had a good understanding of the UK regulatory framework and the necessary skills to manage the Bank's risks.

In January 2020, Mr H Kim resigned as Managing Director and returned to the Parent Bank after successfully completing his tenure in the UK. The Bank has appointed Mr J Yang as its new Managing Director. The rest of the Board's composition remains unchanged since March 2019, and it continues to focus on its effectiveness, succession planning and the Bank's relationship with the UK regulatory authorities.



C P J Fitzgibbon  
Chairman

# Kexim Bank (UK) Limited

## Strategic report

The directors present their Strategic report for Kexim Bank (UK) Limited for the year ended 31 December 2019.

### Principal activities

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

### Regulation

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

### A fair review of the business

Despite the ongoing uncertainty of Brexit throughout the year, the Bank has managed to increase its overall asset size and profitability whilst also consolidating its role of facilitating the Parent Bank's international business.

As the Bank is a 100% owned subsidiary of the Export-Import Bank of Korea, one of our key objectives as an export credit agency is to contribute to Korea's economy through the provision of financial support for overseas investment projects. In 2019, we enhanced our agency role of administering loans, approved by the Parent Bank to overseas borrowers, mostly located in Europe, by signing a number of new agency agreements with the Parent Bank. The Bank has provided a number of services including a preliminary review of financial statements of borrowers to confirm compliance of financial covenants. This gives added assurance that our strategies to generate more stable fee income in the longer term are firmly on track.

The Bank increased its interest earning assets to £283million as at the end of 2019 (equivalent of US\$372million; 2018: £282million, equivalent of US\$359million) achieving the target of US\$370million set by the Board and the Parent Bank. Another key performance indicator of the Bank is net income. In 2019, the Bank recorded a net profit of £431,523, compared to £164,055 in 2018. The positive contributors were an increase in fee income and a reduction in interest expense of borrowings due to the decrease in benchmark interest rates. However, this increase in income was offset by an increase in administration cost due to the strengthening of local staff and impairment charge due to the increase in the asset size.

While the asset size and net profit increased, the Non-Performing Loans ('NPL') ratio maintained at 0%.

The Bank also made significant improvements in its IT system, strengthening its overall operational resilience. The new data server was introduced to meet the growth of data volume and accordingly, the banking and accounting systems were upgraded. The Bank also provided extra IT security and compliance training to all staff.

The Bank's risk management framework underpins its commitment to ensuring that the Bank is able to meet its regulatory requirements. The capital ratio including Common Equity Tier 1 ('CET1') ratio (see note 32) was maintained well above the minimum requirement enabling it to comfortably absorb the impact of a range of stress scenarios and contingent situations as a result of the Brexit and Covid-19 developments. The liquidity ratios, such as Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR'), were kept above the minimum ratio of 100% throughout the year by monitoring cash flows, the regulatory liquidity buffers and funding requirements daily.

### Strategic report (continued)

#### Climate change

Risks related to climate change arise from two primary factors: physical and transition. Physical risks can arise from climate and weather-related events, such as heatwaves, droughts, floods, storms and sea level rise. Transition risks can arise from the process of adjustment towards a low-carbon economy. Physical risk factors are expected to have less impact on the Bank compared to the transition risk factors. Companies in the energy, transport, and agriculture sectors are considered most at risk. According to the survey by the PRA, a number of banks identified risks in the automotive sector, as well as the potential financial risks related to the coal industry. An analysis of sectors such as agriculture, transport and coal financing is provided in a monthly management report.

The Bank has an established governance framework to help ensure that financial risks associated with climate change are escalated to and discussed at the Audit and Risk Committee ('ARC') on a regular basis. At each meeting, the ARC is presented with a risk profile report with recent regulatory developments in relation to climate change. The initial plan outlining how we propose to meet this challenge has been submitted to the PRA during the year. The Bank has also, in line with regulatory requirements, assigned responsibility for identifying and managing financial risks from climate change to a relevant senior management function holder. In 2020, the Bank will conduct scenario analysis, using assumptions, tools, and scenarios provided by the regulator's publication.

#### Economic outlook post Covid-19

Since the year end, the Covid-19 pandemic has been affecting the global economy and therefore financial markets. The Bank has invoked its business continuity plans and contingency plans related to Covid-19, maintaining the safety and well-being of staff. The Bank is also closely monitoring that key operational functions remain resilient enabling business to continue as usual.

The impact of the Covid-19 pandemic on the global economy is unprecedented in modern times, and many countries, including the UK and Korea, have announced economic stimulus packages with the aim of easing the burden of the businesses and stimulating their respective economies. Even though the magnitude of the economic shock from Covid-19 remains uncertain, the impact of domestic containment measures and social distancing is most likely to result in a severe slowdown in global economic activity. Uncertainties exist around the effectiveness of the economic stimulus packages, especially to those customers that are export-dependent corporates in Korea, as a result of the deterioration of macroeconomic indicators, such as downturn in global consumer demand and economic growth.

In the UK, the Bank of England has cut the base rate to 0.1% in an emergency response to the coronavirus pandemic to stabilise markets. The impact of lowering of interest rates on the Bank is expected to be minimal in terms of interest income and expense, as the funding and lending are mostly based on floating interest rates, not the base rate. Furthermore, there is a limited amount of GBP assets and liabilities.

The International Monetary Fund ('IMF') recently revised and lowered South Korea's economic growth rate to negative 1.2 percent. It is well above the predicted global growth rate of negative 3 percent and also Korea's main trading partners: United Kingdom (-6.5%), Japan (-5.2%) and United States (-5.9%)<sup>1</sup>, as a result of Korea's pre-emptive approach in containing the Covid-19 outbreak and its quick economic policy response. Downturn in external demand on Korean suppliers, however, constrains its growth prospects.

The deterioration of macroeconomic indicators has been considered in the Bank's stress testing on capital and liquidity. Despite revisiting the stress tests with more severe assumptions and reduction in capital and liquidity, the Bank has sufficient capital and liquidity to operate through a plausible range of economic outcomes.

The annual budget approved by the Board at the beginning of the year remains unchanged despite the current development of Covid-19 due to a number of variables including a planned capital injection from the Parent

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<sup>1</sup> International Monetary Fund, World Economic Outlook April 2020, pages 20-22

## Kexim Bank (UK) Limited

### Strategic report (continued)

Bank and the current business model working effectively without significant issues. Nevertheless, if the current market volatility continues for an extensive period, the Bank will consider revising the annual budget in the second half of the year.

See the directors' report and note 30 for further assessment on the impact of Covid-19.

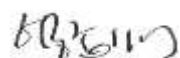
#### **Principal risks and uncertainties**

See note 29 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.

This report was approved by the Board of Directors on 6 May 2020 and signed on its behalf by:



Managing Director  
J Yang  
6 May 2020

# Kexim Bank (UK) Limited

## 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 2019.

### Dividends

No dividend has been declared or paid for 2019 (2018: 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](http://www.koreaexim.go.kr/site/uk).

### Directors' indemnities

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

### Capital structure

Details are given in note 26.

### Events since the balance sheet date

Overall, 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 and the Covid-19 pandemic developments that occurred between 31 December 2019 and the date when the financial statements were approved, and concluded that no adjustments to the financial statements were required.

The Bank considered the events related to the process of the UK's withdrawal from the EU and the impact of Brexit will be minimal due to the diversification of loan and securities portfolios. The Bank does not have branches or subsidiaries, neither does the Parent Bank in the EU. To date, there are no employees from the EU.

The Bank has also assessed the impact of Covid-19 including conducting stress testing, ability to maintain operational resilience and parental support. Details of the assessment are disclosed in note 30.

### Going Concern Basis

In accordance with best principles of corporate governance it is incumbent upon the Management, the Audit and Risk Committee and the Board of Directors to review the status of the Bank as a "Going Concern" and to make a statement to that effect in this Report.

The directors have made an assessment of going concern, taking into account both current performance and outlook and the impact of the Covid-19 pandemic. From the directors' assessment of the Bank's business there are, in their opinion, five considerations which are the principal indicators of the Bank's ability to continue as a going concern. These are as follows:

- a) The Bank's capital resources exceed the PRA requirements and are more than adequate for planned business activities at the end of the current reporting period. The Bank has also conducted capital stress testing shortly before signing the accounts covering a period of 12 months, and the results show that the Bank's capital is sufficient in different stress scenarios without taking management actions;



### Directors' report (continued)

- 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. The Bank can also utilise the unused amount of the existing Parent Bank credit facilities (See the details of financing facilities in note 29);
- 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. The Bank has also conducted stress testing in relation to an increase in impairment in the current period of uncertainty, and concluded that the Bank's capital resources are able to absorb the increase in provision;
- d) The directors are satisfied with the ability of the Bank to conduct its business and generate sufficient revenues to support its business, even in the current difficult market conditions and economic outlook post Covid-19. The cumulative revenue impact of current developments is likely to be limited due to the diversification and high credit quality of the loan and securities portfolios; and
- e) The Bank maintains the operational resilience of its operations and IT systems.

Taking into consideration the continuous support from the Parent Bank and the Board's assessment of principal risks, future prospects and going concern, the directors have a reasonable expectation that the Bank will be able to continue its operation and meet its obligations as they fall due over the period of 12 months from the signing date. As a result of this assessment, the Board considers that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

#### Financial risk management objectives and policies

The activities of the Bank expose it to a number of financial risks including credit risk, liquidity risk, market risk and operational risk. The use of financial derivatives is governed by the Bank's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Bank does not use derivative financial instruments for speculative purposes.

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

#### Liquidity risk

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

The Bank uses various methods, including predictions of future daily 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, with similar interest rate resetting periods, therefore negating most of this risk.

## Kexim Bank (UK) Limited

### Directors' report (continued)

The Bank also 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.

#### 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 (2018: nil).

#### Representation to the auditor

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

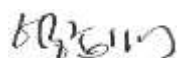
- so far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

#### 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 6 May 2020 and signed on its behalf by:



Managing Director  
J Yang  
6 May 2020

## 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 Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 Bank will continue in business.

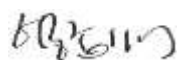
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank 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 Bank'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 Bank 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 Bank 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 Bank's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 6 May 2020 and is signed on its behalf by:



Managing Director  
J Yang  
6 May 2020

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

## Report on the audit of the financial statements

### 1. 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 2019 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).

### 2. 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.

### 3. Summary of our audit approach

<b>Key audit matter</b>	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"><li>• <i>Assessment of Credit ratings</i></li></ul>
<b>Materiality</b>	The materiality that we used in the current year was £1,008k which was determined on the basis of the Net Assets balance.

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

<b>Scoping</b>	All of the audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	We have concluded that 'Derivative accounting treatment' is not a Key audit matter for 2019 audit due to the quantum of the balance and as a result of our risk assessment process.

### 4. 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.

### 5. Key audit matter

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.

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

#### 5.1. Assessment of credit ratings

<b>Key audit matter description</b>	<p>The bank is required to classify each exposure in an appropriate stage, which determines Expected Credit Loss ("ECL") of the exposure. Staging is dependent on the assessment of significant increase in credit risk ("SICR"), which is reliant on the primary indicator i.e. movement in credit rating.</p> <p>We have identified a key audit matter that the bank might not analyse movements in credit rating correctly, resulting in incorrect classification at the staging process and therefore increasing the risk of a material misstatement in the valuation of expected credit loss provisions.</p> <p>The Bank determines probability of default ('PD') ratios on the basis of master scales obtained from the parent bank, dependent on the credit rating of each exposure. Credit ratings can therefore also impact PD values in management's impairment calculation.</p> <p>The Company has recorded a total impairment provision of £156k as at 31 December 2019 (2018: £84.6k).</p>
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## Independent auditor's report to the members of Kexim Bank (UK) Limited (continued)

	<p>The accounting policies in relation to SICR are presented in Note 29. Further detail in respect of the judgement is set out in the Critical accounting judgement section in 3. The quantitative disclosures on expected credit losses are included in note 9.</p> <p>Management has assessed the impact of COVID-19 and 'no-deal' Brexit on its lending products and related ECL on Page 3 and note 30.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We have performed a walk through to understand the Credit risk assessment process. We have obtained an understanding of relevant controls that are addressing our Key audit matter.</p> <p>We worked with our credit specialists to review the Bank's impairment policies and to assess for compliance with IFRS 9, and industry practice.</p> <p>We have performed following procedures to address our key audit matter:</p> <ul style="list-style-type: none"> <li>• Inspected credit ratings from independent sources;</li> <li>• Performed independent recalculation to check movements in credit ratings;</li> <li>• Tested if staging is in line with the movement in credit ratings; and</li> <li>• For a sample of loans, we assessed management's determination of SICR against their policy.</li> </ul> <p>We performed audit procedures including sensitivity assessment, and testing of macro-economic impact to test the Company's assessment regarding the impact of COVID-19 and Brexit on the Company.</p>
<b>Key observations</b>	<p>Based on our audit procedures performed we have concluded that company has assessed credit ratings of the exposures appropriately.</p>

### 6. Our application of materiality

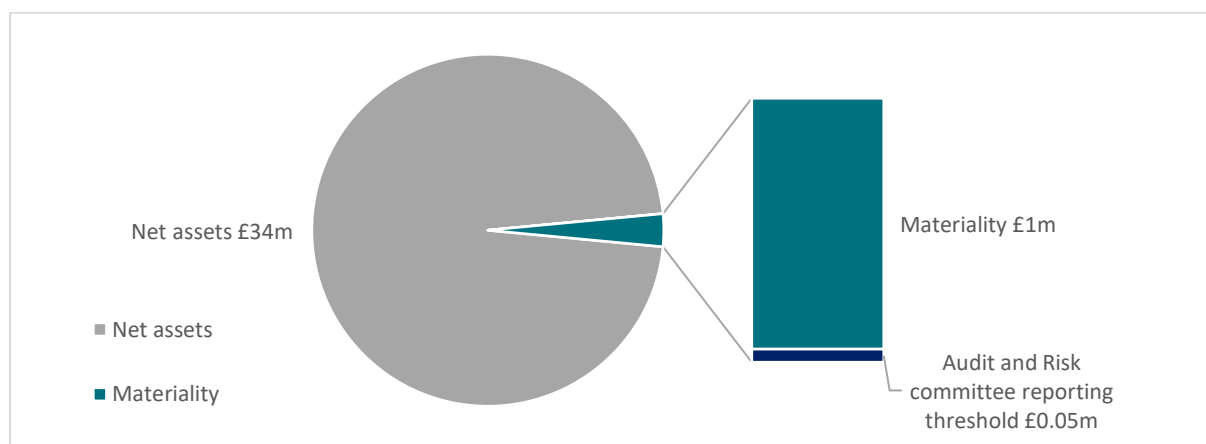
#### 6.1. Materiality

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:

<b>Materiality</b>	£1,008k (2018: £977k)
<b>Basis for determining materiality</b>	In determining materiality we considered both asset and performance benchmarks. The materiality we determined in the year represents 3% of net assets balance (2018: 3% of net assets balance).
<b>Rationale for the benchmark applied</b>	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.

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



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

### 6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £50k (2018: 49k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

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.

## 8. Other information

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

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

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

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

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.

We have nothing to report in respect of these matters.

### 9. 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.

### 10. 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 and non-compliance with laws and regulations 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 11. 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.

#### 11.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, board of directors and the audit and risk committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;



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

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit 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 a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: *Assessment of Credit ratings*. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. This included the company's compliance with the regulatory solvency requirements.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified Assessment of credit ratings as a key audit matter related to the potential risk of fraud. The key audit matter 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit and risk committee and external legal counsel 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 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.

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

## Report on other legal and regulatory requirements

### 12. 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.

### 13. Matters on which we are required to report by exception

#### 13.1. 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.

#### 13.2. 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.

### 14. Other matters

#### 14.1. Auditor tenure

Following the recommendation of the audit and Risk 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 11 years, covering the years ending 31 December 2009 to 31 December 2019.

#### 14.2. Consistency of the audit report with the additional report to the audit and risk committee

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

### 15. 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

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

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.

A handwritten signature in blue ink, appearing to read 'Tom Millar', with a small flourish at the end.

Tom Millar FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor

06 May 2020

## Kexim Bank (UK) Limited

### Profit and loss account

For the year ended 31 December 2019

	Notes	2019 £	2018 £
Interest income		8,187,151	8,355,333
Interest expense		(7,153,802)	(7,694,552)
<b>Net interest income</b>	4	1,033,349	660,781
Net gain on financial assets designated at FVTPL		918,574	843,569
Net (loss)/gain on derivatives		(118,777)	35,484
Fees and commission income	5	968,244	614,663
Fees and commission expense		(2,980)	(4,095)
Other operating income		49,990	224,406
<b>Total operating income</b>	6	2,848,400	2,374,808
Administrative expenses	8	(2,149,295)	(2,089,043)
Impairment charge	9	(155,769)	(89,795)
<b>Profit on ordinary activities before tax</b>		543,336	195,970
Tax on profit on ordinary activities	10	(111,813)	(31,915)
<b>Profit on ordinary activities after tax</b>		431,523	164,055

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

## Kexim Bank (UK) Limited

### Statement of comprehensive income

For the year ended 31 December 2019

	Notes	2019 £	2018 £
<b>Profit for the year</b>		431,523	164,055
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Assets at fair value through other comprehensive income			
Gain/(loss) arising during the year		1,059,524	(611,909)
Changes in allowance for expected credit losses during the year	9	52,636	355
Credit and debit to deferred tax	25	(179,971)	116,047
<b>Other comprehensive income/(loss) for the year net of tax</b>		932,189	(495,507)
<b>Total comprehensive income/(loss) for the year attributable to the Owners of the Bank</b>		1,363,712	(331,452)

The notes on pages 23 to 79 form part of these financial statements.

## Kexim Bank (UK) Limited

### Balance sheet

As at 31 December 2019

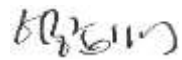
	Notes	2019 £	2018 £
<b>Non-current assets</b>			
Intangible assets	11	106,065	41,667
Tangible fixed assets	12	15,090	20,788
Loans and advances to banks	14	16,690,338	13,322,348
Loans and advances to customers	15	67,547,292	44,679,293
Debt securities: private placement bonds	16	21,679,082	38,273,854
Financial assets at FVTPL	17	2,167,933	14,073,377
Financial investments	18	62,355,577	57,722,715
Derivative financial assets	20	-	79,802
<b>Total non-current assets</b>		<b>170,561,377</b>	<b>168,213,844</b>
<b>Current assets</b>			
Loans and advances to banks	14	1,293,949	2,744,495
Loans and advances to customers	15	69,377,451	70,702,225
Debt securities: private placement bonds	16	15,179,011	7,066,815
Financial assets at FVTPL	17	11,475,102	22,049,067
Financial investments	18	16,709,936	11,590,449
Corporation tax receivable		-	35,596
Prepayments and accrued income		2,455,819	2,119,027
Cash and cash equivalents	19	11,963,187	12,335,799
Derivative financial assets	20	-	18,391
'Right-of-use' asset	13	52,431	-
<b>Total current assets</b>		<b>128,506,886</b>	<b>128,661,864</b>
<b>Total assets</b>		<b>299,068,263</b>	<b>296,875,708</b>
<b>Creditors: amounts falling due within one year</b>			
Borrowings from credit institutions	22	(52,633,024)	(118,017,395)
Accruals and other liabilities	23	(2,030,731)	(1,050,856)
Corporation tax payable		(103,970)	-
Derivative liabilities	20	(163,394)	(497,096)
Lease Liabilities	21	(82,567)	-
<b>Total current liabilities</b>		<b>(55,013,686)</b>	<b>(119,565,347)</b>
<b>Net current assets</b>		<b>73,493,200</b>	<b>9,096,517</b>
<b>Total assets less current liabilities</b>		<b>244,054,577</b>	<b>177,310,361</b>
<b>Creditors: amounts falling due after more than one year</b>			
Borrowings from credit institutions	22	(190,558,898)	(124,345,430)
Subordinated loans	24	(19,001,292)	(19,627,085)
Derivative liabilities	20	(168,010)	(455,485)
Deferred tax liabilities	25	(205,724)	(67,090)
<b>Total non-current liabilities</b>		<b>(209,933,924)</b>	<b>(144,495,090)</b>
<b>Total liabilities</b>		<b>(264,947,610)</b>	<b>(264,060,437)</b>
<b>Net assets</b>		<b>34,120,653</b>	<b>32,815,271</b>
<b>Capital and reserves</b>			
Called up share capital	26	20,000,000	20,000,000
Revaluation reserve	27	337,920	(594,269)
Profit and loss account		13,782,733	13,409,540
<b>Total shareholders' funds</b>		<b>34,120,653</b>	<b>32,815,271</b>

## Kexim Bank (UK) Limited

### Balance sheet (continued)

As at 31 December 2019

These financial statements of Kexim Bank (UK) Limited, registration number 02693038, on pages 18 to 79 were approved and authorised for issue by the Board of Directors on 6 May 2020 and are signed on their behalf by:



Managing Director  
J Yang

The notes on pages 23 to 79 form part of these financial statements.

## Kexim Bank (UK) Limited

### Statement of changes in equity

For the year ended 31 December 2019

	Notes	Share capital £	Profit and loss account £	Revaluation reserve £	Total £
<b>Opening balance under IFRS 9 at 1 January 2018</b>		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		-	-	(495,507)	(495,507)
<b>Balance at 31 December 2018</b>		20,000,000	13,409,540	(594,269)	32,815,271
Impact of adoption IFRS 16: right of use asset	1	-	(58,330)	-	(58,330)
<b>Opening balance under IFRS 9 at 1 January 2019</b>		20,000,000	13,351,210	(594,269)	32,756,941
Profit for the year		-	431,523	-	431,523
Other comprehensive income for the year	27	-	-	932,189	932,189
<b>Balance at 31 December 2019</b>		20,000,000	13,782,733	337,920	34,120,653



## Kexim Bank (UK) Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2019

#### 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 5.

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

#### **New and revised IFRSs in issue but not yet effective**

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, have not yet been adopted by the EU:

IFRS 17	<i>Insurance contracts</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

#### **New and amended standards and interpretations**

In these financial statements, the Bank has applied IFRS 16 effective for annual periods beginning on or after 1 January 2019, 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 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

#### ***Leases previously accounted for as operating leases***

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any initial direct costs. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **1. General information (continued)**

The Bank has an office lease contract. Before the adoption of IFRS 16, the Bank classified the lease (as lessee) at the inception date as an operating lease. The current office lease contract will expire in June 2020 and the renewal of the contract is in negotiations with the lessor and thus there is no lease not yet commenced to which the Bank is committed.

As at 1 January 2019, right-of-use assets of £157,294 and lease liabilities of £215,624 were recognised for the office lease contract and presented in the statement of financial position. There are no other right-of-use assets or lease liabilities. Thus, the adoption of IFRS 16 had impact on the Bank's retained earnings of £58,330 and this had no material impact on its CET1 ratio. The details of right-of-use assets and lease liabilities during 2019 are given in notes 13 and 21.

The Bank's office lease contract does not consist of exposure arising from the following elements:

- variable lease payments;
- extension options and termination options;
- residual value guarantees; and
- leases not yet commenced to which the lessee is committed.

There were no restrictions or covenants imposed by leases and no sale and leaseback transactions.

### **2. Significant accounting policies**

#### **Basis of accounting**

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

- A statement of cash flows for the period;
- Information relating to new IFRS standards which have been issued but which are not yet effective, including an assessment of the possible impact that it will have when it is adopted for the first time;
- Disclosure of key management personnel remuneration; and
- Disclosure of related party transactions entered between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The financial statements have been prepared on a historical cost basis and financial instruments are measured at fair values at the end of each reporting period as explained in the accounting policies below.

Where relevant, equivalent disclosures have been given in the group accounts of the Export-Import Bank of Korea. The group accounts are available to the public and can be obtained as set out in note 31.

#### **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 5.

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

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

to adopt the going concern basis of accounting in preparing the annual financial statements. The assessment of Covid-19 is provided in the Strategic Report on pages 3 to 5 and note 30.

#### **Recognition of interest income and expense**

Under IFRS 9, interest income and interest expense are recorded using the effective interest rate ('EIR') method for all financial instruments measured at amortised cost ('AC'). Interest income on interest bearing financial assets measured at fair value through other comprehensive income ('FVOCI') under IFRS 9 is recorded by using 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.

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

#### **Cash and cash equivalents**

Cash and cash equivalent include amounts due from banks on demand or with an original maturity of three months or less.

#### **Employee benefits**

Salaries and social security costs are recognised over the period in which the employees provide the related services. Variable compensation is satisfied by cash and included within wages and salaries. Contributions to defined contribution pension schemes are recognised in profit and or loss when payable.

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

#### **Fees and commission income**

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

#### ***Fees and commission income from services where performance obligations are satisfied over time***

Performance obligations satisfied over time include management services, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

#### ***Fees and commission income from providing services where performance obligations are satisfied at a point in time***

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as participating in the negotiation of terms and conditions of the Parent Bank's facility arrangements or supporting the documentation of relevant finance documents.

#### **Leases (policy applicable before 1 January 2019)**

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.

#### **Leases (policy applicable as of 1 January 2019)**

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

#### *Right-of-use assets*

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

#### *Lease liabilities*

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

#### **Foreign currencies**

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

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

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

#### **Taxation**

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

#### **Current tax**

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

#### **Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

#### ***Current tax and deferred tax for the year***

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

#### **Intangible assets**

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

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

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

#### **Tangible fixed assets**

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

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

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

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

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 scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income. Computer hardware is considered as office equipment in note 12.

#### **Financial instruments – initial recognition**

##### ***Date of recognition***

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

##### ***Initial measurement of financial instruments***

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, 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***

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

- AC
- FVOCI
- 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.

#### **Financial assets and liabilities**

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

The Bank only measures Loans and advances to banks, Loans and advances to customers 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.

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

#### *Business model assessment*

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

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

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

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

#### *The Solely Payments of Principal and Interest (SPPI) test*

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

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

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

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

#### *Effective interest method*

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

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the



## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

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***

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

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

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

#### ***Letters of credit***

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

The Bank provides letter of credit confirmations for its Parent Bank as well as other Korean commercial banks. Letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer and these contracts are in the scope of the ECL requirements.

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 28.

#### **Reclassification of financial assets and liabilities**

The Bank does not reclassify its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019.

#### **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***

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

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

#### **Impairment of financial assets**

##### ***Overview of the ECL principles***

The Bank records the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments in this section all referred to as 'financial instruments.' Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 29.

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

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

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

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans are considered credit-impaired (as outlined in note 29). 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:

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 2. Significant accounting policies (continued)

▪ PD	The <b>Probability of Default</b> 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 <b>Exposure at Default</b> 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 <b>Loss Given Default</b> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The above concepts of PD, EAD and LGD are further explained in note 29.

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

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **2. Significant accounting policies (continued)**

- Domestic economy growth rate

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in note 29.

#### ***Write-offs***

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

### **3. Critical accounting judgements and key sources of estimation uncertainty**

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

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

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

The section of 'Analysis of inputs to the ECL model under multiple economic scenarios' in note 29 sets out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 4. Net interest income

	2019 £	2018 £
Interest income		
Interest income from debt securities:		
Financial investments at amortised cost	99,290	128,797
Financial investments at FVOCI	1,799,478	1,548,050
Private placement bonds	1,413,719	1,233,499
Interest income from loans and advances to customers and banks:		
Loans and receivables	4,874,664	5,444,987
Total interest income	8,187,151	8,355,333
Interest expense		
Interest expense payable to Parent Bank:		
Intergroup borrowings	1,632,667	1,291,774
Subordinated loan	793,573	691,950
Interest expense payable to other companies:		
Borrowings from credit institutions	4,720,427	5,710,828
Interest expense on lease liabilities	7,135	-
Total interest expense	7,153,802	7,694,552
Net interest income	1,033,349	660,781

### 5. Fees and commission income

	2019 £	2018 £
Management Fees	80,475	175,073
Front-End Fees	28,951	21,907
Commitment Fees	16,845	11,597
Participation Fees	573	1,083
Arrangement Fees	171,738	151,873
Prepayment Fees	3,832	-
Fronting Fees	5,850	6,292
Letter of Credit Fees	68,419	75,193
Agent Fees	591,227	164,085
Other Fees	334	7,560
Total fees and commission income	968,244	614,663

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 6. Analysis of total operating income

	2019 £	2018 £
<i>By activity</i>		
Net Interest Income	1,033,349	660,781
Gain on financial assets designated at FVTPL	918,574	843,569
Net (loss)/gain on derivative instruments	(118,777)	35,484
Fees and commissions income, net	965,264	610,568
Foreign exchange, net	(14,285)	199,466
Profit on disposal of debt securities	27,620	12,955
Interest on overpayment of corporate tax	1,001	33
Other operating expense	11,396	(2,882)
Banking income	24,258	14,834
<b>Total operating income</b>	<b>2,848,400</b>	<b>2,374,808</b>

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	2019 £	2018 £
Depreciation	12, 13	117,016	12,583
Amortisation	11	27,889	18,334
Auditor's remuneration: auditing of financial statements (excluding VAT)		85,000	96,000
Profit on disposal of debt securities		(27,620)	(12,954)
Foreign exchange loss/(gain)		14,285	(199,466)

### 8. Administrative expenses

	Notes	2019 £	2018 £
<b>Staff costs</b>			
Wages and salaries		1,170,629	1,064,542
Social security costs		38,351	29,970
Other pension costs		25,025	20,943
Other staff costs		50,126	34,289
		<b>1,284,131</b>	<b>1,149,744</b>
Depreciation	7, 12, 13	117,016	12,583
Amortisation	7, 11	27,889	18,334
Other administrative expenses		720,259	908,382
		<b>2,149,295</b>	<b>2,089,043</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 8. Administrative expenses (continued)

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

	2019	2018
Executive directors	2	2
Front office persons	2	2
Back and middle office persons	6	5
Local non-executive directors	2	2
Average monthly number of employees	12	11

	2019	2018
Directors' emoluments	£	£
Aggregate directors' emoluments	519,602	491,444
Highest paid director	242,507	239,006

No pension was paid in relation to the directors.

### 9. Credit loss expense

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

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
2019		£	£	£	£	£
Loans and advances to banks	14	5,025	-	-	-	5,025
Loans and advances to customers	15	140,545	(22,261)	-	-	118,284
Debt securities: private placement bonds	16	(17,584)	-	-	-	(17,584)
Financial investments – FVOCI	18	3,179	49,457	-	-	52,636
Financial investments – AC	18	(69)	-	-	-	(69)
Prepayments and accrued income		210	-	-	-	210
Cash and cash equivalents	19	-	-	-	-	-
Undrawn commitment and letters of credit	28	(2,733)	-	-	-	(2,733)
Total impairment loss		128,573	27,196	-	-	155,769

	Stage 1	Stage 2	Stage 3	POCI	Total
2018	£	£	£	£	£
Loans and advances to banks	2,108	-	-	-	2,108
Loans and advances to customers	30,885	22,261	-	-	53,146
Debt securities: private placement bonds	27,453	-	-	-	27,453
Financial investments – FVOCI	355	-	-	-	355
Financial investments – AC	1,089	-	-	-	1,089
Prepayments and accrued income	1,101	-	-	-	1,101
Cash and cash equivalents	-	-	-	-	-
Undrawn commitment and letters of credit	4,543	-	-	-	4,543
Total impairment loss	67,534	22,261	-	-	89,795



## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 10. Tax

	Note	2019 £	2018 £
Corporation tax:			
Current year		140,536	69,489
Adjustment for prior years		9,410	-
Total current year tax charge		149,946	69,489
Deferred tax:	25		
Current year		(34,703)	(29,513)
Adjustments in respect of previous years		(7,084)	-
Effect of changes in tax rate		3,654	(8,061)
Total current year tax credit		(38,133)	(37,574)
Tax charge per profit or loss account		111,813	31,915
Other comprehensive income items			
Current tax		166	(415)
Profit/(loss) on financial assets measured at FVOCI		179,971	(116,263)
Effect of changes in tax rate		-	13,611
Deferred tax credit/(charge) in OCI for the period	25	180,137	(103,067)
Prior year adjustment	25	-	(12,980)
		180,137	(116,047)

A reduction in the rate of corporation tax was substantively enacted on 26 October 2015. As a result, the current tax rate of 19% is set to reduce to 17% from 1 April 2020. Therefore, deferred tax assets and liabilities have been recognised at 17% (i.e. the rate at which they are expected to unwind). The government has announced plans to reinstate the 19% rate of corporation tax. However, this has not yet been substantively enacted.

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

	2019 £	2018 £
Profit on ordinary activities	531,940	190,991
Tax at the UK corporation tax rate of 19% (2018: 19%)	101,069	36,288
Effects of:		
Adjustments in respect of prior years	2,326	-
Expenses not deductible	4,762	3,686
Tax rate changes	3,656	(8,059)
Tax charge for the period	111,813	31,915

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 11. Intangible assets

	Software £
Cost	
At 1 January 2018	392,000
Additions	50,000
At 31 December 2018	442,000
Additions	92,287
At 31 December 2019	534,287
Accumulated amortisation	
At 1 January 2018	381,999
Charge for the year	18,334
At 31 December 2018	400,333
Charge for the year	27,889
At 31 December 2019	428,222
Carrying amount	
At 31 December 2018	41,667
At 31 December 2019	106,065

### 12. Tangible fixed assets

	Fixtures and Fittings £	Office Equipment £	Total £
Cost			
At 1 January 2018	93,970	162,348	256,318
Additions	-	-	-
At 31 December 2018	93,970	162,348	256,318
Additions	-	6,455	6,455
At 31 December 2019	93,970	168,803	262,773
Accumulated depreciation			
At 1 January 2018	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
Charge for the year	9,615	2,538	12,153
At 31 December 2019	86,721	160,962	247,683
Carrying amount			
At 31 December 2018	16,864	3,924	20,788
At 31 December 2019	7,249	7,841	15,090

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **13. Right-of-use asset**

	Right-of-use asset £
Cost	
At 31 December 2018	-
Effect of adopting IFRS 16 as at 1 January 2019	157,294
Additions	-
At 31 December 2019	157,294
Accumulated depreciation	
At 31 December 2018	-
Charge for the year	104,863
At 31 December 2019	104,863
Carrying amount	
At 31 December 2019	52,431
At 31 December 2018	-

Right-of-use assets have been recognised from 1 January 2019 following the adoption of IFRS 16. Comparatives have not been restated. (See note 1)

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 14. Loans and advances to banks

	Gross £	Provision £	Net of provision £
2019			
Between three months and one year	1,295,543	(1,594)	1,293,949
Between one year and five years	16,721,136	(30,798)	16,690,338
	18,016,679	(32,392)	17,984,287
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

#### 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 29.

2019				
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	2,280,155	-	-	2,280,155
Outstanding	11,936,266	-	-	11,936,266
Good	3,800,258	-	-	3,800,258
Below normal	-	-	-	-
	18,016,679	-	-	18,016,679
2018				
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	2,355,250	-	-	2,355,250
Outstanding	13,738,960	-	-	13,738,960
Good	-	-	-	-
Below normal	-	-	-	-
	16,094,210	-	-	16,094,210

## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2019	16,094,210	-	-	16,094,210
New assets originated or purchased	7,600,517	-	-	7,600,517
Assets derecognised or repaid	(5,252,508)	-	-	(5,252,508)
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	(425,540)	-	-	(425,540)
As at 31 December 2019	18,016,679	-	-	18,016,679

	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 2019

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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2019	27,367	-	-	27,367
New assets originated or purchased	9,381	-	-	9,381
Assets derecognised or repaid	(6,406)	-	-	(6,406)
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	2,050	-	-	2,050
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	32,392	-	-	32,392

	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 2019 and 31 December 2018.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 15. Loans and advances to customers

	Gross £	Provision £	Net of provision £
2019			
Within three months	10,272,499	(23,151)	10,249,348
Between three months and one year	59,413,876	(285,773)	59,128,103
Between one year and five years	40,193,540	(134,161)	40,059,379
Over five years	27,554,424	(66,511)	27,487,913
	137,434,339	(509,596)	136,924,743
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

#### 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.

2019				
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	9,239,687	-	-	9,239,687
Outstanding	82,793,850	-	-	82,793,850
Good	45,400,802	-	-	45,400,802
Below normal	-	-	-	-
	137,434,339	-	-	137,434,339

2018				
Internal rating grade	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	26,902,429	-	-	26,902,429
Outstanding	52,479,968	-	-	52,479,968
Good	32,465,016	3,925,417	-	36,390,433
Below normal	-	-	-	-
	111,847,413	3,925,417	-	115,772,830

## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2019	111,847,413	3,925,417	-	115,772,830
New assets originated or purchased*	73,734,141	-	-	73,734,141
Assets derecognised or repaid	(50,637,608)	-	-	(50,637,608)
Transfers to Stage 1	3,800,258	(3,925,417)	-	(125,159)
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	(1,309,865)	-	-	(1,309,865)
As at 31 December 2019	137,434,339	-	-	137,434,339

	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.



## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2019	369,051	22,261	-	391,312
New assets originated or purchased*	248,793	-	-	248,793
Assets derecognised or repaid	(164,042)	-	-	(164,042)
Transfers to Stage 1	22,108	(22,261)	-	(153)
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	33,686	-	-	33,686
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	509,596	-	-	509,596

	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 2019 (2018: nil).

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 16. Debt securities: private placement bonds

	Gross £	Provision £	Net of provision £
2019			
Within three months	7,600,517	(5,366)	7,595,151
Between three months and one year	7,596,411	(12,551)	7,583,860
Between one year and five years	21,708,138	(29,056)	21,679,082
	36,905,066	(46,973)	36,858,093
2018			
Within three months	-	-	-
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

### 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.

	2019			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	17,923,774	-	-	17,923,774
Outstanding	1,520,103	-	-	1,520,103
Good	17,461,189	-	-	17,461,189
Below normal	-	-	-	-
	36,905,066	-	-	36,905,066
	2018			
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	24,502,676	-	-	24,502,676
Outstanding	20,902,551	-	-	20,902,551
Good	-	-	-	-
Below normal	-	-	-	-
	45,405,227	-	-	45,405,227

## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

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

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 1 January 2019	45,405,227	-	-	45,405,227
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid	(7,058,487)	-	-	(7,058,487)
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	(1,441,674)	-	-	(1,441,674)
As at 31 December 2019	36,905,066	-	-	36,905,066

	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

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

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	£	£	£	£
ECL allowance as at 1 January 2019	64,558	-	-	64,558
New assets originated or purchased	-	-	-	0
Assets derecognised or repaid	(6,200)	-	-	(6,200)
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	(11,385)	-	-	(11,385)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	46,973	-	-	46,973

## Notes to the financial statements (continued)

For the year ended 31 December 2019

## 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

	2019 £	2018 £
Due within one year	11,475,102	22,049,067
Due one year and over	2,167,933	14,073,377
	13,643,035	36,122,444

As at 31 December 2019 and 2018, all of the financial assets designated at FVTPL were listed securities in the amount of £13,643,035 and £36,122,444 respectively.

	2019 £	2018 £
Public ownership		
Issued by governments	1,530,486	1,643,556
Issued by other public sector bodies	-	1,546,952
Others		
Issued by banks	12,112,549	18,810,980
Issued by other issuers	-	14,120,956
	13,643,035	36,122,444

As of 31 December 2019, £2.0million (2018: £3.9million) of investment securities are pledged as collateral for swap transactions. The fair value of the collateral is £2.2 million (2018: £4.0million). 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 2019

## 18. Financial investments

2019	Due within one year £	Due one year and over £	Total £
Financial investments – measured at FVOCI			
Investment securities – fair value	7,714,089	46,774,494	54,488,583
Memorandum allowance for ECL	(5,001)	(111,209)	(116,210)
Net of provision	7,709,088	46,663,285	54,372,373
Financial investments – measured at amortised cost			
Investment securities – gross	9,007,133	15,602,393	24,609,526
Allowance for ECL	(11,286)	(21,310)	(32,596)
Net of provision	8,995,847	15,581,083	24,576,930
Total*	16,709,936	62,355,577	79,065,513
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

\* As at 31 December 2019, 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 18. Financial investments (continued)

	2019	2018
	£	£
Financial investments – measured at FVOCI by types of issuers		
Public ownership		
Issued by supranational organisations	8,760,185	7,256,792
Issued by other public sector bodies	7,072,781	4,681,610
Others		
Issued by banks	12,327,082	11,333,429
Issued by other issuers	26,328,535	22,409,538
	54,488,583	45,681,369
Financial investments – measured at amortised cost by types of issuers		
Public ownership		
Issued by supranational organisations	-	3,136,275
Issued by other public sector bodies	-	3,178,855
Others		
Issued by banks	8,103,932	1,701,259
Issued by other issuers	16,472,998	15,615,406
	24,576,930	23,631,795
Total financial investments other than those measured at FVTPL	79,065,513	69,313,164

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

#### Financial investments measured at FVOCI

	2019	2018
	£	£
Financial investments – FVOCI	54,488,583	45,681,369
Less: allowance for impairment losses	(116,210)	(63,574)
	54,372,373	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 29.

	2019			
	Stage 1	Stage 2	Stage 3	Total
	Individual	Individual		
	£	£	£	£
Best	19,782,720	-	-	19,782,720
Outstanding	32,327,074	-	-	32,327,074
Good	2,378,789	-	-	2,378,789
Below normal	-	-	-	-
	54,488,583	-	-	54,488,583

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 18. Financial investments (continued)

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

	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

An analysis of changes in the fair value is as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
	£	£	£	£
Fair value as at 1 January 2019	45,681,369	-	-	45,681,369
New assets originated or purchased	12,209,767	-	-	12,209,767
Assets derecognised or repaid	(3,230,625)	-	-	(3,230,625)
Change in fair value	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(2,261,133)	2,261,133	-	-
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(171,928)	-	-	(171,928)
As at 31 December 2019	52,227,450	2,261,133	-	54,488,583

	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

## Notes to the financial statements (continued)

For the year ended 31 December 2019

## 18. Financial investments (continued)

*Financial investments measured at FVOCI (continued)*

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2019	63,574	-	-	63,574
New assets originated or purchased	24,157	-	-	24,157
Assets derecognised or repaid	(8,879)	-	-	(8,879)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(7,198)	49,457	-	42,259
Transfers to Stage 3	-	-	-	-
Changes to contractual cash flows due to modification not resulting in derecognition	-	-	-	-
Changes to inputs used for ECL calculation	(4,901)	-	-	(4,901)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	66,753	49,457	-	116,210

	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*

	2019 £	2018 £
Financial investments – AC	24,609,526	23,664,460
Less: allowance for impairment losses	(32,596)	(32,665)
	24,576,930	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 2019

### 18. Financial investments (continued)

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

2019				
	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	11,143,864	-	-	11,143,864
Outstanding	13,465,662	-	-	13,465,662
Good	-	-	-	-
Below normal	-	-	-	-
	24,609,526	-	-	24,609,526

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 is as follows:

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Gross carrying amount as at 1 January 2019	23,664,460	-	-	23,664,460
New assets originated or purchased	14,312,907	-	-	14,312,907
Assets derecognised or repaid	(10,530,667)	-	-	(10,530,667)
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	(2,837,174)	-	-	(2,837,174)
As at 31 December 2019	24,609,526	-	-	24,609,526

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 18. Financial investments (continued)

	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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2019	32,665	-	-	32,665
New assets originated or purchased	19,725	-	-	19,725
Assets derecognised or repaid	(16,243)	-	-	(16,243)
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	(3,551)	-	-	(3,551)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	32,596	-	-	32,596

	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 2019

### 19. Cash and cash equivalents

	2019	2018
	£	£
Cash in hand	-	65
Nostro accounts	7,891,889	12,292,236
Money market placement	4,028,274	-
Central counterparty clearing house margin account	43,024	43,498
	11,963,187	12,335,799

The Nostro accounts include an overnight investment by the counterparty bank for an amount of \$0.97million which is equivalent of £0.73million (2018: \$9.8million, equivalent of £7.7million). The money market placement is an overnight investment by the Bank.

### 20. Derivative assets and liabilities

	2019	2018
	£	£
Derivative assets		
Due within one year	-	18,391
Due one year and over	-	79,802
	-	98,193
Derivative liabilities		
Due within one year	163,394	497,096
Due one year and over	168,010	455,485
	331,404	952,581

		Derivative assets	Derivative liabilities
	Notional	Trading	Trading
2019		£	£
Interest rate swaps	13,400,775	-	331,404
	13,400,775	-	331,404
2018			
Interest rate swaps	35,477,920	98,193	952,581
Currency swaps	-	-	-
	35,477,920	98,193	952,581

### 21. Lease liabilities

	2019
	£
Within one year	82,567
	82,567
Effect of adopting of IFRS 16 as at 1 January 2019	215,624
Payments	(140,192)
Interest expense on lease liabilities	7,135
As at 31 December 2019	82,567

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 22. Borrowings from credit institutions

	2019 £	2018 £
Parent and related companies	83,198,218	85,469,077
Other banks	159,993,704	156,893,748
	243,191,922	242,362,825
Repayable:		
Within three months	183,173	329,466
Between three months and one year	52,449,851	117,687,929
Between one year and five years	190,558,898	124,345,430
	243,191,922	242,362,825

The Parent and related companies borrowings are the drawdown amount of the unsecured credit facilities in sum £83.02million (2018: £85.14million) from the Parent Bank and the deposit of £0.18million (2018: £0.33million) 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 29.

### 23. Accruals and other liabilities

	Note	2019 £	2018 £
Accruals and deferred income		2,025,379	1,042,771
Provisions for off balance sheet items	28	5,352	8,085
		2,030,731	1,050,856

### 24. Subordinated loans

	2019 £	2018 £
Repayable:		
Between one year and five years	4,560,310	-
Over five years	14,440,982	19,627,085
	19,001,292	19,627,085

The two subordinated loans are granted by the parent bank, the Export-Import Bank of Korea, for an amount of USD 19million and USD 6million (2018: USD 19million and USD 6million) and will mature in 2028 and 2024 respectively (2018: 2028 and 2024). The interest is reset periodically on the basis of the Libor plus 1.62% and 1.52% respectively (2018: 1.62% 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.

## Kexim Bank (UK) Limited

### Notes to the financial statements (continued)

For the year ended 31 December 2019

#### 25. Deferred tax

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

	Note	Accelerated tax depreciation	Temporary differences trading	Total
		£	£	£
At 1 January 2018		(6,213)	226,924	220,711
Prior year adjustment		-	(12,980)	(12,980)
Charge/(credit) to profit or loss		5,928	(43,502)	(37,574)
Deferred tax charge in OCI for the period		-	(103,067)	(103,067)
At 31 December 2018		(285)	67,375	67,090
Prior year adjustment	10	(7,084)	(9,916)	(17,000)
Charge/(credit) to profit or loss	10	994	(25,331)	(24,337)
Deferred tax charge in OCI for the period	10	-	179,971	179,971
At 31 December 2019		(6,375)	212,099	205,724

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

	2019	2018
	£	£
Deferred tax liabilities	205,724	67,090

#### 26. Share capital

	2019	2018
	£	£
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 Bank has one class of ordinary shares which carry no right to fixed income.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

**27. Revaluation reserve**

	Notes	Revaluation reserve £
Opening balance under IFRS 9 at 1 January 2018		(98,762)
Reclassified to profit and loss		
Changes in allowance for expected credit losses	9	355
Decrease in fair value of financial assets measured at FVOCI		(611,909)
Related prior year adjustment on income tax	25	12,980
Related income tax on fair value movements of financial assets measured at FVOCI	25	103,067
Opening balance under IFRS 9 at 1 January 2019		(594,269)
Reclassified to profit and loss		
Changes in allowance for expected credit losses	9	52,636
Increase in fair value of financial assets measured at FVOCI		1,059,524
Related income tax on fair value movements of financial assets measured at FVOCI	25	(179,971)
Balance at 31 December 2019		337,920

**28. Contingent liabilities and undrawn lending commitments**

	2019 £	2018 £
L/C confirmation (transaction)	15,122,131	14,986,261
Undrawn commercial lending commitments	3,040,207	4,687,387
	18,162,338	19,673,648

**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.

	2019			
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	12,765,515	-	-	12,765,515
Outstanding	2,356,616	-	-	2,356,616
Good	-	-	-	-
Below normal	-	-	-	-
	15,122,131	-	-	15,122,131

## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

#### Letters of credit (continued)

	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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2019	14,986,261	-	-	14,986,261
New exposures	11,511,199	-	-	11,511,199
Exposure derecognised or matured	(12,086,105)	-	-	(12,086,105)
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	710,776	-	-	710,776
As at 31 December 2019	15,122,131	-	-	15,122,131

	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

## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2019*	3,951	-	-	3,951
New exposures	3,537	-	-	3,537
Exposures derecognised or matured	(3,162)	-	-	(3,162)
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	(313)	-	-	(313)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	4,013	-	-	4,013

\* A rounding error of £2 was adjusted.

	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



## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

#### *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.

2019				
Outstanding exposure	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Best	3,040,207	-	-	3,040,207
Outstanding	-	-	-	-
Good	-	-	-	-
Below normal	-	-	-	-
	3,040,207	-	-	3,040,207

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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
Outstanding exposure as at 1 January 2019	4,687,387	-	-	4,687,387
New exposures	3,040,207	-	-	3,040,207
Exposure derecognised or matured/lapsed	(4,687,387)	-	-	(4,687,387)
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	-	-	-	-
As at 31 December 2019	3,040,207	-	-	3,040,207

## Notes to the financial statements (continued)

For the year ended 31 December 2019

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

*Undrawn lending commitment (continued)*

	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

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

	Stage 1 Individual £	Stage 2 Individual £	Stage 3 £	Total £
ECL allowance as at 1 January 2019	4,134	-	-	4,134
New exposures	1,339	-	-	1,339
Exposures derecognised or matured	(4,134)	-	-	(4,134)
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	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
As at 31 December 2019	1,339	-	-	1,339

	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

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. Financial Instruments

#### Categories of financial instruments

	2019 £	2018 £
Financial assets		
Loans and receivables		
Cash and cash equivalents	11,963,187	12,301,732
Loans and advances to banks	17,984,287	16,066,843
Loans and advances to customers	136,924,743	115,381,518
Debt securities: private placement bonds	36,858,093	45,340,669
Financial assets measured at amortised cost	24,576,930	23,631,795
Financial assets measured at FVOCI	54,488,583	45,681,369
Financial assets measured at FVTPL	13,643,035	36,122,444
Derivative financial assets	-	98,193
Financial liabilities		
Financial liabilities at amortised cost		
Deposits by banks	243,191,922	242,362,825
Subordinated loans	19,001,292	19,627,085
Derivative financial liabilities	331,404	952,581

#### 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.

#### Categories of financial instruments

##### Market risk

The Bank's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The Bank enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- interest rate swaps to mitigate the risk of rising interest rates; and
- cross currency swaps to hedge exchange rate risk.

Market risk exposures are measured using value-at-risk (VaR) analysis supplemented by sensitivity analysis. There has been no change to the Bank's exposure to market risks or the manner in which these risks are managed and measured.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. 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 Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

VaR* by risk type	Average		Minimum		Maximum		Year end	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Foreign exchange	60	70	29	28	175	133	175	86
Interest rate	1,451	1,949	923	1,372	2,361	2,441	1,952	1,372
Total VaR exposure	1,511	2,019	952	1,400	2,536	2,574	2,127	1,458

\* Historical VaR (99%, one-day)

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures.

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

#### Interest rate risk management

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

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

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

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

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. 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	
	2019	2018	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate EaR	139	172	5	5	452	342	5	46

#### Interest rate swap contracts

Under interest rate swap contracts, the Bank agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Bank to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

#### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Bank only transacts with entities that are rated the equivalent of average and above. This information is supplied by independent rating agencies where available, and if not available, the Bank uses other publicly available financial information and its own trading records to rate its major customers. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The day-to-day management of the credit risk function is performed by designated members of the management team who perform regular appraisals of counterparty credit quality for consideration by the Credit Committee.

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk. The Bank recognises impairment loss on loans with carrying amount at amortised cost 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

##### *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

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **29. 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.

**Notes to the financial statements (continued)**

For the year ended 31 December 2019

**29. 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. 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:

	2019 analysis		2018 analysis	
	2018 actual	2019 forecast	2017 actual	2018 forecast
Stable economic growth rate	3.6%	3.0% (IMF forecast)	3.7%	3.7% (IMF forecast)
Korean economy growth downturn rate	2.7%	2.0% (Bank of Korea forecast)	3.1%	2.7% (Bank of Korea forecast)

Set out below are the changes to the ECL in profit and loss as at 31 December 2019 that would result from reasonably possible changes in these parameters (all industries have either Risk Index '-1' with Negative PD or Risk Index '1' with Positive PD) from the actual assumptions used in the Bank's economic variable assumptions:

		Factor: Industry Risk Index		
		-5%	No change	+5%
		£	£	£
GBP	Provision Movement in 2019	114,113	155,769	188,260

#### Modified loans

The Bank sometimes modifies the terms of loans provided to customer due to commercial renegotiations, or for distressed 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 Bank holds two modified loans as of 31 December 2019 (one modified in 2018 and the other modified in 2019), and the gross carrying amount of such assets is £3,986,521.



## Notes to the financial statements (continued)

For the year ended 31 December 2019

## 29. 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 £
Net modification gain	180,352
Modification gain	180,352
Modification loss	-

*Deterioration of modified assets*

During the period, there was no gross carrying amount of modified assets reverting from Stage 1 (12-month ECL) to Stage 2, as deterioration of the loan value by the modification has not occurred.

**Liquidity risk management**

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

**Liquidity and interest risk tables**

The following tables detail the Bank's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank could be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

	Weighted average effective interest rate %	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
<b>2019</b>							
Non-interest bearing	-	183,173	-	-	-	-	183,173
Variable interest rate instrument	2.25	-	52,449,850	195,119,208	14,440,982	-	262,010,040
	2.25	183,173	52,449,850	195,119,208	14,440,982	-	262,193,213

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. 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 £
<b>2018</b>							
Non-interest bearing	-	329,466	-	-	-	-	329,466
Variable interest rate instrument	3.17	-	-	117,687,929	124,345,430	19,627,085	261,660,444
	3.17	329,466	-	117,687,929	124,345,430	19,627,085	261,989,910

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

	Less than 1 month £	1 - 3 months £	3 months - 1 year £	1 - 5 years £	5+ years £	Total £
<b>2019</b>						
Non-interest bearing	7,891,889	-	3,970	-	-	7,895,859
Variable interest rate instrument	296,155	14,802,975	74,912,026	104,658,554	27,487,914	222,157,624
Fixed interest rate instruments	6,309,311	6,848,220	13,640,140	39,587,705	-	66,385,376
	14,497,355	21,651,195	88,556,136	144,246,259	27,487,914	296,438,859

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. 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 £
<b>2018</b>						
Non-interest bearing	12,292,301	-	5,470	-	-	12,297,771
Variable interest rate instrument	3,113,197	17,728,773	59,702,329	115,069,719	6,701,458	202,315,476
Fixed interest rate instruments	-	5,149,485	28,497,294	46,300,411	-	79,947,190
	15,405,498	22,878,258	88,205,093	161,370,130	6,701,458	294,560,437

The Bank has access to financing facilities as described below, of which £134.4million were unused at the balance sheet date (2018: £140.3million). The Bank expects to meet its other obligations from operating cash flows and the proceeds of maturing financial assets.

The following table details the Bank'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 £
<b>2019</b>						
Net settled:						
Interest rate swaps	-	3,800,258	7,600,517	2,000,000	-	13,400,775
Gross Settled:						
Currency swaps	-	-	-	-	-	-
	-	3,800,258	7,600,517	2,000,000	-	13,400,775
<b>2018</b>						
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

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. Financial instruments (continued)

#### Financing facilities

	2019 £	2018 £
Unsecured bank loan facilities (Parent Bank) with various maturity dates which may be extended by mutual agreement:		
- amount used	83,015,045	104,766,696
- amount unused	134,415,322	140,320,937
	217,430,367	245,087,633
Unsecured bank loan facilities with various maturity dates which may be extended by mutual agreement:		
- amount used	159,993,704	156,893,748
- amount unused	-	-
	159,993,704	156,893,748
Total amount used	243,008,749	261,660,444
Total amount unused	134,415,322	140,320,937

#### Fair value measurements

The information set out below provides information about how the Bank determines the fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

## Notes to the financial statements (continued)

For the year ended 31 December 2019

## 29. Financial instruments (continued)

Financial instruments	Method of measuring fair value
Loans	As demand deposits and transferable deposits do not have maturity dates and are readily convertible to cash, the carrying amounts of these deposits are regarded as the nearest amounts to fair values. The fair values of other deposits are determined by a discounted cash flow model ('DCF model'). The DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows by appropriate discount rates.
Investment securities	Trading financial assets and liabilities, AFS and FVTPL financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using valuation techniques.
Derivatives	For over the counter ('OTC') derivatives, fair value is determined using valuation techniques. The OTC derivatives are valued using the results of independent pricing services. The adjustment for credit risk is reflected in cash flow, and the bank's credit risk is considered in the discount rate.
Borrowings 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	
	2019	2018	2019	2018
	£	£	£	£
<b>Financial assets</b>				
Debt securities: private placement bonds	36,858,093	45,340,669	36,901,674	45,085,480
Financial investments:				
Financial investments measured at amortised cost	24,576,930	23,631,795	24,702,090	23,618,436

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 2019	
	Level 2	Total
	£	£
<b>Financial assets</b>		
Debt securities: private placement bonds	36,901,674	36,901,674
Financial investments:		
Financial investments measured at amortised cost	24,702,090	24,702,090
Total	61,603,764	61,603,764

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 29. Financial instruments (continued)

#### *Fair value hierarchy of financial assets and financial liabilities that are not measured at fair value (continued)*

	Fair value hierarchy as at 31 December 2018	
	Level 2	Total
	£	£
<i>Financial assets</i>		
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
<b>Total</b>	<b>68,703,916</b>	<b>68,703,916</b>

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

	Level 2	Total
	£	£
<b>31 December 2019</b>		
Financial assets at FVTPL		
Debt securities	13,643,035	13,643,035
Derivative financial assets	-	-
Financial investments measured at FVOCI		
Debt securities	54,488,583	54,488,583
<b>Total</b>	<b>68,131,618</b>	<b>68,131,618</b>
Financial liabilities at FVTPL		
Derivative financial liabilities	331,404	331,404
<b>Total</b>	<b>331,404</b>	<b>331,404</b>
<b>31 December 2018</b>		
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
<b>Total</b>	<b>81,902,006</b>	<b>81,902,006</b>
Financial liabilities at FVTPL		
Derivative financial liabilities	952,581	952,581
<b>Total</b>	<b>952,581</b>	<b>952,581</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2019

### 30. 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 and the Covid-19 pandemic developments that occurred between 31 December 2019 and the date when the financial statements were approved.

The Bank has assessed the impact of the current environment of uncertainty created by the Covid-19 pandemic post to the balance sheet date as part of the subsequent events assessment.

Assessment	Conclusion
a) Ability to continue business as usual by conducting capital and liquidity stress testing shortly before signing covering a period at least 12 months from the signing date	The Bank conducted capital and liquidity stress testing in March 2020. The assumptions of capital stress testing are a significant increase in impairment, depreciation of sterling against US dollar and combination of both factors. It was concluded that the Bank would continue to be sufficiently capitalised even in the combined scenario. The liquidity stress testing concludes that the Bank would be adequately liquid even in the combined scenario with management actions of realising the counterbalancing capacity.
b) Specific stress test on the ECL calculation considering the potential impact of significant movements into lifetime loss measurement	This stress test on the ECL calculation resulted in a potential loss which would reduce capital. Despite the capital reduction, the Bank would still be in compliance with the regulatory capital ratio and buffer requirements.
c) Consideration of the cumulative revenue impact of current developments such as stock market and oil price falls as well as the end of the Brexit transition period falling within the 12 month going concern assessment period	The diversification and high credit quality of the loan and securities portfolios would help to minimise negative impact of the current market volatility on the Bank's asset soundness. In addition, a planned capital injection of USD80m by the Parent Bank could be put in place in the second half of year, providing the Bank with more headroom for such an impact.
d) Operational resilience <ul style="list-style-type: none"> <li>i. Ability to operate effectively while work remotely for an extended period if required</li> <li>ii. Potential impact of social distancing measures</li> </ul>	The Bank's employees have been working remotely with enhanced IT and data protection security guidance, enabling it to carry out daily operations without significant operational issues. The impact of social distancing measures is minimal at the Bank, as its operations can be carried out remotely for an extended period if required.
e) Level of strength of evidence of parental intention to support	The Parent Bank has assured its continued support and commitment to the Bank in terms of capital, liquidity and operations.
f) Availability and extent of support through government support measures	This is not particularly relevant to the Bank, as the Bank's exposure to the UK is insignificant, and Korean government measures are not applicable.
g) Effective governance framework	The Board has maintained effective decision making through efficient and transparent communication with the Bank's management. The Bank has provided the Board with financial and risk reports on a regular basis.

## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

As a result of the above assessments, the Bank concluded that no adjustments to the financial statements were required.

### **31. Parent and subsidiary relationships**

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

The Export-Import Bank of Korea

38 Eunhaeng-ro

Yeongdeungpo-gu

Seoul 07242

Republic of Korea

[www.koreaexim.go.kr](http://www.koreaexim.go.kr)



## **Notes to the financial statements (continued)**

For the year ended 31 December 2019

### **32. Capital risk management (unaudited)**

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Bank consists of subordinated loans disclosed in note 24, equity of the Bank's parent, and retained earnings as disclosed on the balance sheet.

The Bank is subject to the PRA and capital requirements and was in compliance with the regulations during 2019 and 2018.

Capital, leverage and Risk Weighted Assets ('RWA')	Limit %	2019 %	2018 %
CET1 ratio	4.5	13.5	14.1
T1 capital ratio	6	13.5	14.1
Total capital ratio	8	18.0	18.8
Leverage ratio		10.7	10.4
RWA (£)		252,621,607	233,139,707

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