KEXIM Bank (UK) Limited

Subsidiary of The Export-Import Bank of Korea

Pillar 3 Disclosures for the year ended 31 December 2018

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1 Introduction

Kexim Bank (UK) Limited ("KEXIM UK" or "the Bank") is a United Kingdom ("UK") bank authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA.

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

Purpose

This document comprises KEXIM UK's Pillar 3 disclosures on capital and risk management at 31 December 2018. It has two principal purposes:

- To meet the regulatory disclosure requirements under Capital Requirement Regulations & Directive, Part 8 – Disclosure by Institutions, and the rules the PRA set out in the PRA Rulebook, Part PB – Public Disclosure and as the PRA has otherwise directed, and including Remuneration Code disclosures; and
- To provide further useful information on the capital and risk profile of KEXIM UK.

Additional relevant information may be found in KEXIM UK's Annual Report and Financial Statements 2018.

Key metrics

Total Assets
£296.9 m
2017: £316.8 m

Profit after taxation
£0.16 m
2017: £0.52 m

Shareholders' funds
£32.8 m
2017: £33.2 m

Common equity tier 1 capital
£32.8 m
2017: £33.2 m

Tier 1 capital
£32.8 m
2017: £33.2 m

Total regulatory capital
£43.8 m
2017: £42.4 m

Common equity tier 1 ratio
14.1%
2017: 12.9%
(Minimum Pillar 1 requirement: 4.5%)

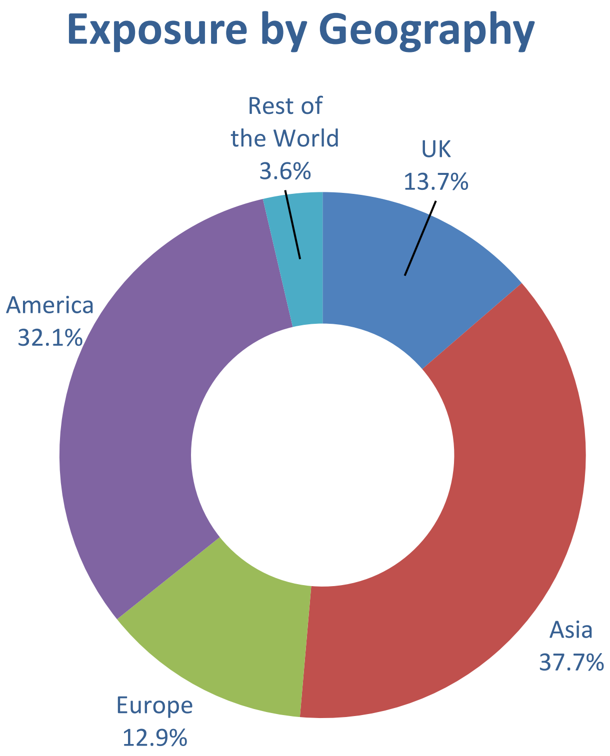
Tier 1 capital ratio
14.1%
2017: 12.9%
(Minimum Pillar 1 requirement: 6%)

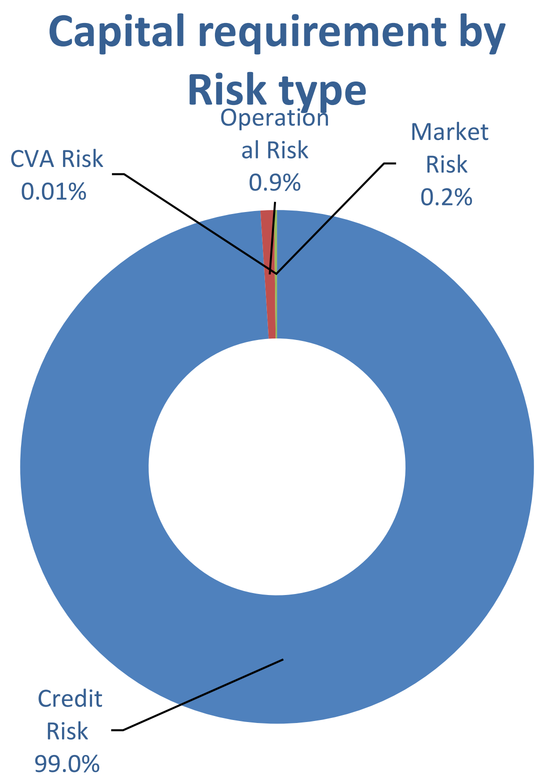
Total capital ratio
18.8%
2017: 16.5%
(Minimum Pillar 1 requirement: 8%)

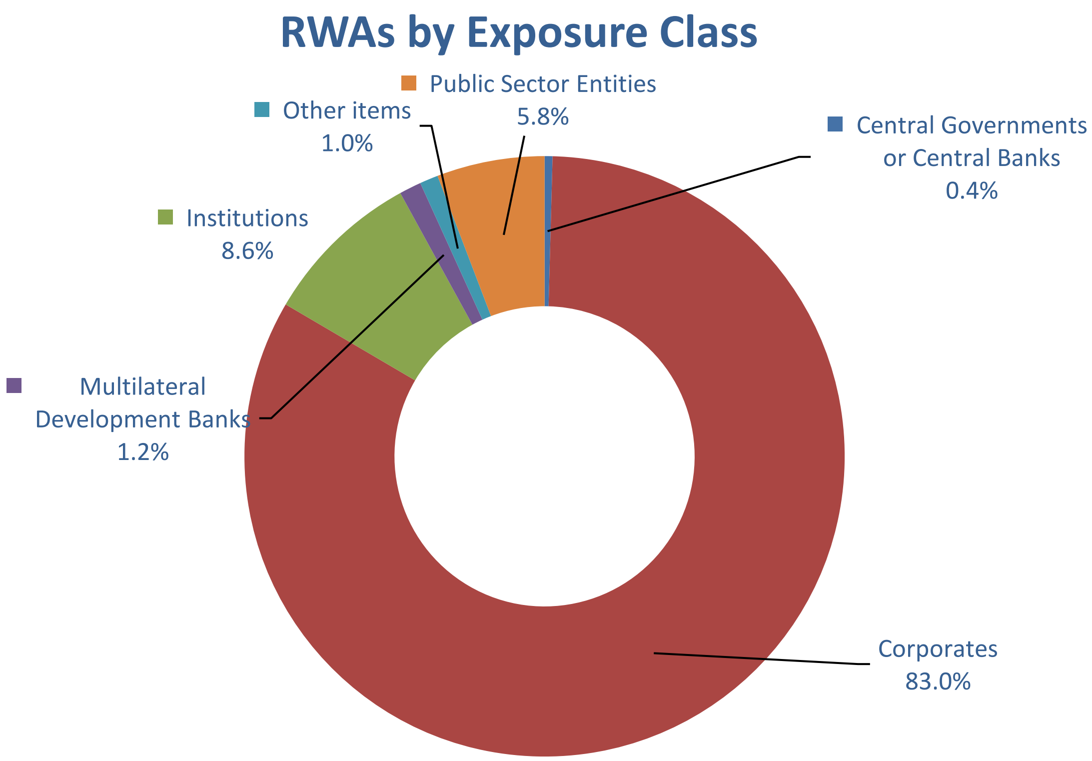
Total Risk Exposure Amount
£233.1 m
2017: £257.3 m

Liquid Coverage Ratio
2653%
2017: 1922%
(Minimum Pillar 1 requirement: 90%)

Leverage Ratio
10.4%
2017: 9.9%
(Minimum proposed requirement: 3%)


Exposure by Geography
Rest of the World 3.6%
UK 13.7%
America 32.1%
Asia 37.7%
Europe 12.9%


Capital requirement by Risk type
Operational Risk 0.9%
CVA Risk 0.01%
Market Risk 0.2%
Credit Risk 99.0%


RWAs by Exposure Class
Public Sector Entities 5.8%
Other items 1.0%
Central Governments or Central Banks 0.4%
Institutions 8.6%
Multilateral Development Banks 1.2%
Corporates 83.0%

1.2 Background

The European Union ("EU") Capital Requirements Directive ("CRD") and Capital Requirements Regulations ("CRR"), commonly known as the Capital Requirements Directive IV ("CRD IV"), came into effect on 1 January 2014. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel III Accord.

Basel III requirements were formally introduced in Part 8 of the EU Capital Requirements Regulation (CRR) No 575/2013 of the European Parliament, along with Directive 2013/36/EU of the European Parliament (CRD), commonly known as the CRD IV. The Pillar 3 disclosure requirements are contained in Articles 431–455 of the CRR. The Directives are enforced in the UK by the PRA.

The Basel framework comprises of three "pillars" which are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

• **Pillar 1** sets out the minimum capital requirements that firms are required to meet for credit and counterparty credit, market, operational and credit valuation adjustment risks.

• **Pillar 2** of the supervisory review process requires firms and supervisors to take a view on whether a firm should hold additional capital against those factors not taken into account by the Pillar 1 process (e.g. interest rate risk in the banking book, concentration, business and strategic risk); and factors external to the firm (e.g. business cycle effects). To comply, firms are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital requirements.

• **Pillar 3** aims to promote market discipline by developing a set of disclosure requirements which will provide market participants with key information on a firm's capital, risk exposures, risk assessment processes and the capital adequacy of the firm.

1.3 Disclosure policy: verification, medium, location & frequency

This document represents the Pillar 3 disclosures of KEXIM UK for the year ended 31 December 2018. These disclosures have been prepared purely for the purpose of explaining the basis on which the Bank has prepared and disclosed certain capital requirements; providing information about the management of risks relating to those requirements. The Bank is a single entity and no consolidation is performed.

This document has been prepared to satisfy the Pillar 3 disclosure requirements set out in the CRR. The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

Unless otherwise stated, all figures are as at 31 December 2018, the Bank's financial year-end. These disclosures, which are based on the Bank's regulatory returns having applied the relevant regulatory rules, may differ from similar information in the Annual Report and Financial Statements which are prepared in accordance with International Financial Reporting Standards ("IFRS").

The following sets out the Bank's Pillar 3 Disclosure Policy as applied by Basel III including the location of this information, verification, frequency and the Bank's principal activities.

1.3.1 Location

This report will be published via the KEXIM UK corporate website as part of the Bank's annual report (www.koreaexim.go.kr/site/uk).

1.3.2 Verification

The Bank's Pillar 3 disclosures have been primarily prepared to explain the capital requirements as well as the management's strategies on risks. This is not a financial statement and hence, has not been audited.

These disclosures have been subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the Bank's Audit and Risk Committee (ARC) and the Bank's Managing Director (MD) and Deputy Managing Director (DMD).

The Bank's Pillar 3 disclosure has been approved by the Board as of 8 August 2019.

The Bank's Pillar 3 and Remuneration Code disclosures have been approved by the Board. In addition, the Remuneration disclosures detailed in Section 9 of this document have also been reviewed by the Board.

1.3.3 Frequency

These disclosures are updated at least annually and in line with the publication of the financial statements, or more frequently in the event that significant changes are made to the risk profile or governance structure of the Bank.

1.3.4 Principal activities

Kexim UK is a wholesale bank, with the overall objective of supporting trade and investment for companies based in Korea. Accordingly, Kexim UK's key business segment is corporate lending. Kexim UK will continue to support and build its loan portfolio as part of its core business. It will also maintain a portfolio of marketable securities, within the limits set in the Bank's risk appetite and credit policies. It does not have a retail presence and does not manage client assets. KEXIM UK's main sources of funding are long-term funds from the Parent Bank and medium-term to long-term wholesale borrowings from other credit institutions.

2 Governance – Board & Committees

2.1 Shareholders

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.

2.2 The Board

The Board of directors has responsibility for the overall governance and risk management of the Bank. There are six members on the Board, comprising of 2 executive directors and 4 non-executive directors ("NEDs"), of which two are independent non-executive directors ("INEDs"). The Board of directors have the appropriate skills and experience to provide the necessary organisational governance and oversight.

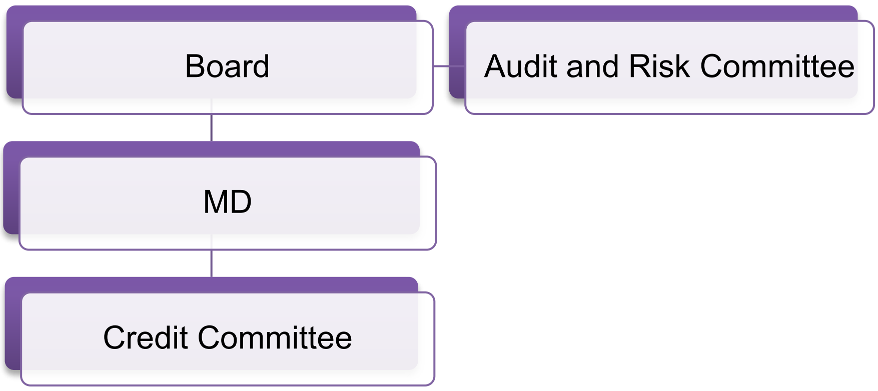
INEDs are selected by the board having reviewed the skills and experience of those already on the board. Executive Directors and Group NEDs are proposed by the Parent Bank and then a similar process is carried out by the board to assess their suitability based on group's recommendation. Their appointment is approved by the Bank's Board. Directors are recommended by the Parent Bank and selected according to their knowledge and experience and the needs of the Bank. The directors as at the date this report was published were:

Name	Appointed	Position with KEXIM UK	Directorships Executives (incl. KEXIM UK)	Directorships Non Executives (incl. KEXIM UK)
Christopher FITZGIBBON	17-Mar-2014	Chairman and Independent Non-Executive Director	0	2
Christopher EDWARDS	7-Nov-2018	Independent Non-Executive Director	0	1
Hojun KIM	28-Mar-2017	Managing Director ("MD")	1	0
Chun Il LIM	9-Oct-2018	Deputy Managing Director ("DMD")	1	0
Sunghoon HONG	14-Mar-2019	Group Non-Executive Director	0	1
Ja Young GU	14-Mar-2019	Group Non-Executive Director	0	1

The Board of Directors have overall responsibility for the establishment and oversight of the Bank's risk management framework and appetite.

2.3 Board & Committees

KEXIM UK operates two committees as stated in the chart below. The Board has delegated responsibility for the day-to-day management of the business to the MD and DMD. The Audit and Risk Committee is a sub-committee of the Board. The MD has delegated responsibility for certain risk processes and decision making to the Credit Committee that he chairs. The Board has established the Audit and Risk Committee whose responsibilities include monitoring compliance with the Bank's risk management policies and procedures, and reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The diagram below shows the various Board and Committees and their reporting lines:



The different committee constituents, roles and responsibilities can be summed up as follows:

Constitution and Responsibilities of Committees			
Committee	**Members**	**Responsibilities**	**Frequency of meetings**
Audit and Risk Committee	**Chaired by Independent Non-Exec. Director**; members are 3 NEDs	• Review and recommend for the approval of the Board overall strategies, policies, processes and systems for the effective identification, measurement, monitoring and control of the Bank's principal business risks; • Review and recommend for the approval of the Board the appropriate level of risk appetite for the Bank's principal business activities; • Review and recommend for the approval of the Board management's reports on the Bank's overall risk profile, including the ICAAP, ILAAP and RRP; • Monitor internal controls and governance and to report periodically to the Board; • Review the accounts and accounting policies of the Bank including the draft annual financial statements; • Consider and advise the Board on the appointment of the external auditor, the audit fee, the provision of any non-audit services by the external auditor and any questions of resignation or dismissal of the external auditor; • Consider the external audit opinion and any relevant issue raised in the external auditor's management letter and to confirm with the external auditors that the effectiveness of the internal control system has been reviewed, and to comment on this in its reports to the Board; • Review the planned activity for the external audit; to consider major findings of external audit investigations and to monitor management response; to discuss with the external auditor before the audit commences the nature and scope of the audit; to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary); to monitor	Quarterly or as work requires

		the performance and effectiveness of the external audit; • Oversee policy on fraud prevention, whistle-blowing processes and arrangements for special investigations; • Satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness; • Consider elements of the annual financial statements in the presence of the external auditor, including the auditor's formal opinion and any corporate governance statement; • Help ensure that the Committee implements best practice in all its deliberations	
MD & DMD	This is not a committee. However, the individual roles of the MD & DMD together form the function of the Executive Management Team, which in larger banks is located in the Executive Committee (EXCO).	• Run day-to-day business, approving new business and operational budgeting; • Key involvement in review and challenge of ICAAP and ILAAP documents; • Ensure business conduct of all units is in line with Board-approved strategy; • Consider Bank performance in the context of financial ratios, risk levels undertaken; • Report conduit to the Board; • Monitor and react to external shifts and trends amongst competitors and regulatory developments	As work requires
Credit Committee (CC)	**Chaired by MD**; members are DMD, Manager Credit and Manager Treasury & Securities	• Oversee lending and debt securities investment; • Advise Board on concentration risk and credit events; • Approve risk targets and credit limits; • Manage the Bank's own credit rating system; • Approve new credit products; • Review credit risk reports; • Take action and make provisions	As work requires

2.4 Diversity policy

KEXIM UK is committed to the principle of equal opportunity in employment.

Accordingly, management will ensure that recruitment, selection, training, development and promotion procedures result in no job applicant or a member of staff receiving less favourable treatment because of protected characteristics i.e. race, colour, nationality, ethnic or national origin, religion or belief, disability, trade union membership or non-membership, gender, sexual orientation, pregnancy and maternity, gender reassignment, marriage/civil partnership, age, or on the basis of being a part-time or fixed term worker. The Bank's objective is to ensure that individuals are selected, promoted and otherwise treated solely on the basis of their relevant aptitudes, skills, abilities and the needs of the organisation.

2.5 Board recruitment policy

Executive Directors and Group NEDs are nominated by the Parent Bank and appointed by the Board. Their appointment is approved by the PRA. Local Independent NEDs are recruited in the UK. The Board considers each nomination on the basis of the individual competence, skill and experience measured against identified objective criteria. The Board is keen to promote diversity when recruiting new directors. Regulatory approval is co-ordinated through the Company Secretary.

3 Risk Management & Risk Appetite

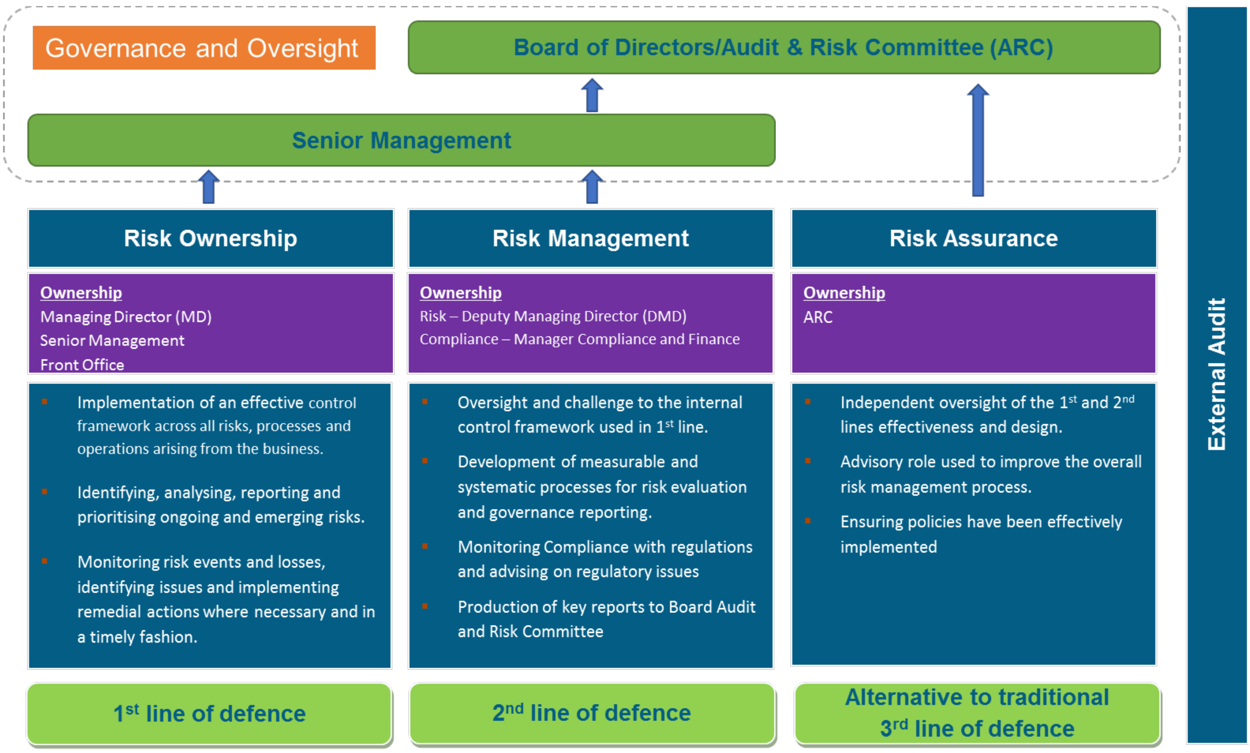
The Bank has a robust risk management framework, policies and procedures to manage its risk profile.

As part of the risk framework the Bank produces a Risk Management Framework and Risk Appetite Statement, Business Risk Policies & Procedures Statement, Annual Risk Management Plan and Interbank Counterparty Limits. These well-articulated policy documents outline the general procedures and limits, on how the Bank identifies, analyses and mitigates particular risks that are inherent to the Bank's business activities, including stress testing.

The Board sets the Bank's overall risk appetite, which is in line with business' objectives. The Bank's risk appetite thresholds and tolerances are recommended to the Board. The Board reviews these recommendations in line with the specific business activities and the Bank's objectives.

The MD and DMD in their joint role as the Bank's executive team continue to ensure that the risk management framework is fully integrated with the day-to-day risk management processes of KEXIM UK, ensuring all staff members have the role of ensuring potential risks are identified and escalated to executive managers.

The Board retains overall responsibility for the oversight of risk and risk management within the Bank and determines what types of risk are acceptable KEXIM's risk management framework is based on the 'three lines of defence model'. Under this model, responsibilities and accountabilities for risk management resides with all levels within the Bank, from the Board down to the lowest levels. The first line of defence consists of all business line functions with primary responsibilities for risk management, the second line of defence consists of functions with primary responsibilities for oversight and monitoring, and the third line of defence consists of the internal audit functions providing independent assurance. A simplified version of the three lines of defence model is shown below.



3.1 Risk reporting

3.1.1 General

Day-to-day risk exposures will be monitored against the defined appetites set out by the Board. New risks and changes in risks are reported at the appropriate management meetings with explanations and reasons. The results of this monitoring will be reported to the Board if required.

This will permit the Board to gain assurance that risks within KEXIM UK are being properly managed and reported. The reports will allow the Board to review and assess whether the defined risk appetite/tolerance remains appropriate, particularly as strategic objectives are progressed and the Bank's risk profile changes.

3.1.2 Incident reporting

All staff are responsible for reporting any incidents / potential incidents that could result in a loss for the Bank, with the MD and DMD holding direct responsibility.

Senior management are tasked with reviewing incidents that have occurred within their operational area and consider if it is a risk that has crystallised or if the risk is moderate. Such a risk will be escalated to the MD or DMD immediately.

Otherwise senior management will consider if the incident could recur and if mitigating action is appropriate. A report is submitted to the MD and DMD quarterly as part of a standardised periodic Management Information ("MI") pack. The MI is reviewed by the MD and DMD in each risk review session.

3.1.3 Business area risks

Managers monitor the risks within their business area. Where a risk crystalizes or becomes moderate it should be immediately escalated to the MD or DMD. Business Area Managers are also required to review their environment and report immediately to the MD or DMD any potential threats or changes to the risks to their business area or the Bank.

3.2 Risk crystallisation / new risks

Any new risk or a risk that has crystallised or through changes has become moderate will be reviewed by the MD in consultation with the DMD and the relevant member of the ARC as they arise. Immediate remedial action and / or mitigating action will be considered and implemented. Any new risks will be added to the relevant risk register.

3.3 Risk information flow

To ensure that the Board has effective assurance that the operations of the Bank are managed within the risk framework, and to ensure that risks are appropriately monitored and mitigated the Board and the executive management team will receive standardised periodic MI as well as ad-hoc information as necessary to support informed discussions and decision-making in each risk review session.

At the Board level, as and when required, it is the responsibility of the ARC to recommend changes to MI (granularity of data and/or coverage) and at the management level, this responsibility rests with the MD and DMD. The aim of the MI is to allow oversight and control of all risks facing the business, allow assessment of the adequacy of mitigation in place and to allow all issues identified to be tracked through to resolution.

This MI contains the following parameters:

- The nature of the risk;
- The source of the risk within each business line;
- The risk owner (in the 1st line of defence);
- Arrangements and measures for mitigating or managing the risk;
- The individual in the 2nd line of defence which the risk is monitored; and
- The executive or board committee responsible for oversight of the relevant framework and reference to relevant policies.

3.4 Risk appetite

A summarised version of the Bank's Risk Appetite statement is provided in Appendix IV. This has been approved by the Board and it describes the Risk Appetite and how this feeds into the Bank's overall objectives. The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures in conjunction with the long term planning process.

3.5 Principal risks

The Bank has identified seven principal risk types across its business model, which might adversely impact its ability to achieve its strategic objectives. The principal risks that the Bank is exposed to are as follows:

- Credit and Counterparty Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Interest Rate Risk
- Business Risk
- Other Risks (Insurance, Regulatory, Technological and Residual Risks)

A brief description of each principal risk and framework for managing them are provided below.

Senior management monitor the Principal risks and report on any changes to MD and DMD immediately. All the Principal Risks are reviewed by the senior management team and the results of that review is reported to the ARC. Senior Managers are also required to review their environment and report immediately to the MD and DMD any potential threats or changes to the risks to their business area or the Bank.

3.5.1 Credit and counterparty 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 securities investment 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.

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

The 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.

Credit Risk Mitigation:

- Adhering to the BRPPS which details the Bank's approach to credit risk.
- Implementing a conservative credit policy, which serves as a robust mitigant. KEXIM UK also intends to ensure that individual corporate and committed off-balance exposures are within the large exposure limits. This provides some diversification of the portfolio.
- The balance sheet is a mixture of high quality corporate bonds, bank placements and corporate lending (based on credit assessment). This reduces the credit risk and exposure.
- Co-financing the corporate lending services business with the Parent Bank providing enhanced assurance.
- Obtaining Guarantees from the Parent company of the borrower (subsidiary), and in some cases the Parent Bank.
- Conducting a review of the counterparty's credit rating ensuring that ratings of counterparties are average or above. This is completed by the Credit Committee on a semi-annual basis.

The table below shows the exposure and risk weighted exposure applicable for credit risk as at 31 December 2018[1]:

Total Credit Risk by Exposure Class 31 December 2018 £000s	Original Exposure Pre-Conversion Factors	Credit Risk Mitigation & Value Adjustments	Fully Adjusted Exposure Value (after adjustments & mitigation)	Risk Weighted Exposure
Central Governments or Central Banks	2,956	-	2,956	985
Public Sector Entities	24,193	1,397	25,590	13,389
Multilateral Development Banks	13,529	-	13,529	2,737
Institutions	47,398		47,398	19,788
Corporates	226,670	(1,397)	225,272	191,544
Equity	-	-	-	-
Other Items	2,288	-	2,288	2,288
Total	**317,033**	**0**	**317,033**	**230,731**

[1] Total minimum capital requirement for credit risk using the standardised approach is calculated by 8% of total risk weighted. For 31 December 2017 and 2016 the capital requirement are respectively £20.5 million (2017) and £21.4 million (2016).

Total Credit Risk by Exposure Class 31 December 2017 £000s	Original Exposure Pre-Conversion Factors	Credit Risk Mitigation & Value Adjustments	Fully Adjusted Exposure Value (after adjustments & mitigation)	Risk Weighted Exposure
Central Governments or Central Banks	3,230	-	3,230	1,919
Public Sector Entities	27,489	-	27,489	15,342
Multilateral Development Banks	12,324	-	12,324	4,521
Institutions	44,317	-	44,317	19,375
Corporates	244,662	2,799	241,863	207,805
Equity	-	-	-	-
Other Items	2,066	-	2,066	2,066
Total	**334,088**	**2,799**	**331,289**	**251,028**

3.5.1.1 Maturity Analysis of Credit Risk

The analysis below shows the cash flows on the Bank's financial assets on the contractual residual maturity by exposure class:

As at 31 Dec 2018 £000s	Undefined Maturity	Less than 1 month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Total
Central Governments or Central Banks	-	-	-	-	2,956	-	**2,956**
Public Sector Entities	-	-	2,512	12,635	10,443	-	**25,590**
Multilateral Development Banks	-	-	3,136	-	10,392	-	**13,528**
Institutions	12,336	-	-	6,469	28,593	-	**47,398**
Corporates	-	3,072	23,135	85,580	106,129	7,356	**225,272**
Other Items	425	495	1,014	355	-	-	**2,289**
Total	**12,761**	**3,567**	**29,797**	**105,039**	**158,513**	**7,356**	**317,033**

As at 31 Dec 2017 £000s	Undefined Maturity	Less than 1 month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Total
Central Governments or Central Banks	-	-	-	-	3,230	-	**3,230**
Public Sector Entities	-	-	2,370	11,393	16,525	-	**30,288**
Multilateral Development Banks	-	-	2,222	6,360	3,743	-	**12,324**
Institutions	9,257	-	-	1,560	27,523	5,955	**44,296**
Corporates	-	11,651	21,169	82,588	116,161	10,294	**241,863**
Other Items	-	834	881	350	-	22	**2,088**
Total	**9,257**	**12,485**	**26,642**	**102,252**	**167,182**	**16,271**	**334,088**

3.5.1.2 Credit Quality Step Analysis

Credit Quality Step Analysis 31 Dec 2018 £000s	CQS 1	CQS 2	CQS 3	CQS 4[2]	CQS 5	CQS 6 (UNRATED)	TOTAL
Rating scale	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-		
Central Governments or Central Banks	-	1,644	1,312	-	-	**-**	**2,956**
Public Sector Entities	9,989	5,671	9,930	-	-	**-**	**25,590**
Multilateral Development Banks	10,393	2,355	780	-	-	**-**	**13,528**
Institutions	712	19,528	27,158	-	-	**-**	**47,398**
Corporates	-	56,567	44,428	124,277	-	-	**225,272**
Other Items	-	-	-	2,289	-	-	**2,289**
Total	**21,094**	**85,765**	**83,608**	**126,566**	**-**	**-**	**317,033**

The Bank calculates credit risk using the standardised approach and uses 3 ECAI's (Fitch, Moody's Investor Service and Standard & Poor's), in order to evaluate the appropriate credit quality step. The credit ratings identified by the ECAI's are grouped together in different Credit Quality Steps ("CQS"), and the CQS determines the risk weighting. The CQS are categorised based on the credit quality of the risks, and are graded from CQS1 to CQS6, with CQS1 being of the highest quality and CQS6 being the lowest and subject to the highest risk weighting.

The following table illustrates exposure values associated with each credit quality step, as of 31 December 2018 and 2017:

[2] Unrated corporate exposures are allocated with CQS4. 'Other items' in CQS4 are other assets of Kexim Bank UK.

Credit Quality Step Analysis 31 Dec 2017 £000s	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6 (UNRATED)	TOTAL
Rating scale	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-		
Central Governments or Central Banks	-	1,639	-	-	1,592	-	3,230
Public Sector Entities	13,403	5,856	11,030	-	-	-	30,288
Multilateral Development Banks	7,440	2,222	2,662	-	-	-	12,324
Institutions	9	19,370	24,917	-	-	-	44,296
Corporates	4,912	52,746	40,983	143,221	-	-	241,863
Other Items	-	-	-	2,088	-	-	2,088
Total	**25,763**	**81,833**	**79,592**	**145,309**	**1,592**	**-**	**334,088**

3.5.1.3 Credit risk concentration by Geography

The Bank manages credit risk concentration by applying and managing total exposure limits to prevent excessive risk concentration to specific borrowers and geographies. The Bank analyses its exposures by country on a monthly basis. KEXIM UK has large proportion of assets being lodged with institutions of the same country of exposure as the Parent organisation, namely the Republic of Korea. The intent of the Bank is to ensure that credit exposures are held in economically stable regions whilst also ensuring that risks are minimised via a geographically even spread.

The table below summarises the geographical credit concentration risk for the Bank as of 31 December 2018 and 2017:

Concentration by Location 31 December 2018 £000s	UK	ASIA	EUROPE	AMERICAS	REST OF THE WORLD	TOTAL
Central Governments or Central Banks	-	1,312	1,644	-	-	2,956
Public Sector Entities	-	18,269	-	5,555	1,766	25,590
Multilateral Development Banks	-	-	4,139	2,357	7,032	13,528
Institutions	14,648	6,473	9,791	16,486	-	47,398
Corporates	26,357	93,537	25,301	77,316	2,761	225,272
Other Items	2,289	-	-	-	-	2,289
Total	**43,294**	**119,591**	**40,875**	**101,714**	**11,559**	**317,033**

Concentration by Location 31 December 2017 £000s	UK	ASIA	EUROPE	AMERICAS	REST OF THE WORLD	TOTAL
Central Governments or Central Banks	-	1,592	1,639	-	-	3,230
Public Sector Entities	-	22,618	-	5,560	2,110	30,288
Multilateral Development Banks	-	-	6,360	-	5,964	12,324
Institutions	13,619	8,777	10,466	11,434	-	44,296
Corporates	24,646	191,551	4,599	6,862	14,204	241,863
Other Items	2,088	-	-	-	-	2,088
Total	**40,353**	**224,538**	**23,063**	**28,856**	**22,279**	**334,088**

3.5.1.4 Counterparty credit risk

Counterparty Credit Risk ("CCR") can be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

KEXIM UK encounters counterparty credit risk from its derivative portfolio over the use of Over-the-Counter ("OTC") derivative (Interest rate swaps and currency swaps) transactions to hedge exposures on foreign exchange risk and interest rates in the banking book. The mark-to-market method is used to measure the net replacement cost. The potential future credit exposure is calculated by multiplying the notional principal of underlying values by the appropriate regulatory set percentage. The totals are added together to arrive at the total exposure value and the multiplied by a set percentage to obtain the CCR capital requirement. In the case of KEXIM UK, the capital requirement for counterparty credit risk has been covered under the standardised approach of credit risk.

The Bank has exposure to Over-the-Counter (OTC) derivatives, in the form of interest rate swaps. This will give rise to Credit Valuation Adjustment (CVA) risk.

Credit Valuation Adjustment (CVA) risk is the risk of loss caused by changes to the credit spread of a swap due to changes in the counterparty's credit quality. As of 31 December 2018, the capital requirement due to CVA risk, under the standardised approach, was £1,165.

The Bank does not net or hold collateral. Hence, gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivative credit exposure are not applicable to the Bank.

3.5.1.5 Credit risk mitigation

The Bank has put policies in place which allow the use of credit mitigation to reduce Credit Risk. As at 31 December 2018, the Bank has made use of eligible guarantees that it has received, therefore, allowing the Bank to reduce its credit risk exposure on external counterparties. As of December 2018, the total amount of credit risk mitigation used is £1.4 million.

3.5.1.6 Impairment

The Bank's accounting policy for the determination of impairment is set out in section 2 page 32 of the 2018 Annual Report and Financial Statements. The impairment of financial assets is set out below.

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

As of 31 December 2018, KEXIM UK had no impaired exposures.

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

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

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

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

The Solely Payments of Principal and Interest (SPPI) test

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

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

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

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

Debt instruments at FVOCI

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

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

- The contractual terms of the financial asset meet the SPPI test

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.

3.5.2 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 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 e.g. Interest Rate Swaps – to mitigate the risk of rising interest rates.

Market risk exposures are measured using value-at-risk ("VaR") analysis supplemented by sensitivity analysis. The VaR measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99 per cent VaR number used by the Bank reflects the 99 per cent probability that the daily loss will not exceed the reported VaR.

In addition, 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 exposure.

As KEXIM UK does not operate a trading book; the other market risk applicable to KEXIM UK is foreign currency risk. This is calculated using the Position Risk Requirement (PRR) which is 8% of the foreign currency open position.

Market Risk Mitigation:

- It is the Bank's policy that all foreign exchange positions should be hedged with a maximum overnight position of not more than £1.25m.
- Manager Treasury & Securities controls and manages market risk exposures to optimise return relative to risks and net interest income.
- A conservative and cautious approach is adopted within overall parameters approved by the Board.
- A low key approach is adopted towards trading. There is no market making in any products and no trading in FX and interest rate products other than to hedge the banking book.
- The Bank's financial investments (such as bonds) portfolio are held-to-maturity, fair value options and FVOCI debt instruments. No trading portfolios are maintained.
- Risk and concentration parameters are approved by the Board and managed through the Credit Committee and the credit management process.
- Market risks are identified and evaluated for all products as part of the credit approval process.

- Value-at-Risk analysis is employed by KEXIM UK and managed by the Manager Treasury & Securities.

3.5.3 Liquidity risk

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

The Bank measures and manages its cash flow commitments on a daily basis and maintains a diversified portfolio of high quality liquid assets ("HQLA"), which will enable KEXIM UK to meet obligations as they fall due under normal and a range of stressed conditions.

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.

The Bank follows the PRA and FCA liquidity guidance and assesses liquidity risk through the Internal Liquidity Adequacy Assessment Process ("ILAAP") at least once a year and is reviewed and approved by the Board. The ILAAP is subject to rigorous review and challenge by both the executive management team and the Board. The ILAAP report is submitted to the Bank's prudential regulator, which will periodically revisit the Individual Liquidity Guidance requirements for the Bank in the light of the most recent ILAAP and the regulator's own supervisory processes.

The Manager Treasury & Securities ensures that a strong liquidity position is maintained in line with the risk appetite. Up-to-date liquidity positions, available at a granular level are reported and circulated to management daily.

As 31 December 2018 the Bank's HQLA buffer was £21.3million, in the form of cash and HQLA securities. The total adjusted liquidity buffer (after applying haircuts prescribed in the LCR rule) was £10.7million and the net outflow was £0.4million. Thus, the LCR was 2653%, well above the regulatory requirement. It was a usual event that an additional liquidity buffer had been purchased to cover a significant outflow of borrowing repayment to a financial institution which matured just before year end and the liquidity buffer matured in early 2019, resulting in a significant increase in the LCR at year end.

3.5.4 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.

KEXIM UK has adopted the Basis Indicator Approach ("BIA") for operational risk, which is 15% of three-year average of the sum of the Bank's net interest income and net non-interest income.

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

3.5.5 Interest rate risk

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

The Bank is exposed to interest rate risk in the banking book, 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. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost-effective hedging strategies is applied.

Interest rate risk is managed by measuring interest rate Earnings at Risk ("EaR") and interest rate VaR. As part of the sensitivity analysis, the Bank analysis reflects market environment, product features and the Bank's strategies.

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

Sensitivity analysis calculating the impact of a 200 bps movement in interest rates is done to evaluate an impact in interest rate movements.

The table below shows the impact on income of a 200 basis point rise or fall in the yield curve, as of 31 December 2018:

200 basis points increase £000s	% of total regulatory capital	200 basis points decrease £000s	% of total capital resources
(3,028)	(6.9%)	3,307	7.6%

3.5.6 Business risks

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

KEXIM UK's main business segment is lending to corporates. Any significant impact on this business segment will impact the Bank. The Bank intends to make a capital allocation as a certain proportion of the loan book to cover the risk of deterioration in this business segment, in line with the implementation of accounting standards.

The Bank uses SWIFT for electronic funds transfer and if the SWIFT system were to fail, almost every bank worldwide would be adversely affected. The Bank maintains a flat cash position within its accounts based upon the expected delivery of funds from its counterparties, all of whom are major banking institutions. It is recognised, though, that there exists a small chance of a systemic failure leading to non-receipt of expected funds which could, in turn, lead to the Bank seeking temporary emergency funds. The Bank would expect full recovery of any costs involved in such an event, once the process of making the required claims has run its course. The Bank has allocated additional capital resources to cover incidental operational charges based upon the failure of others to make timely payments.

As for the mitigation of business risk, KEXIM UK's management team and Board's view is that the proposed business growth targets are achievable provided there is no significant deterioration in the macro-economic environment. The business risk is mitigated by the following:

- Adequacy of capital relative to costs and risk profile.
- Forecast of significant growth in core and niche market.
- Provision of funding by the Parent Bank.

Budgets and financial forecasts are already very conservative. A specific capital allocation has been provided for business risks, though in practice there is an overlap with operational risk allocation. Taken together these represent a material allocation to cover unforeseen risks, including 'any other' i.e. unspecified risks.

3.5.7 Other risks

These are mainly residual risks that are not covered fully in the earlier six principal risks.

Risk	Mitigants
Insurance Risk	• KEXIM UK has taken out policies which comprehensively cover the risks identified. This cover has been obtained through reputable UK-based brokers with first class insurance companies. The cover is reviewed annually with advice from an external broker.
Regulatory Risk	• The risk is mitigated by continuing to maintain a strong compliance ethos across the entire organisation, commitment to comprehensive staff training in regulatory aspects and compliance, and an experienced Compliance Manager.
Technological Risk	• KEXIM UK does not use untried or untested technology systems. All systems including the core banking system have been recently implemented and employ the latest technology. The Bank's strategy is to install only systems that are known to offer a high degree of stability, ease of use and standardisation of operation.
Residual Risk	• KEXIM UK believes it has put in place a robust governance structure. Taken together with the experience of the management team and the 'four eyes 'principle, this risk is effectively managed. • KEXIM UK has taken out insurance policies which comprehensively cover the risks that may arise due to incident of fraud.

3.6 Risk Declaration - adequacy of the risk management arrangements

The Board is ultimately responsible for the Bank's risk management framework. The risk management framework is the totality of systems, structures, policies, processes and people within the Bank that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Bank's operations.

The Board is of the opinion that it has taken appropriate steps to provide reasonable assurance that the activities of the Bank are and will continue to be managed in a prudent manner which is under-pinned by the governance and risk management framework.

The Board provides an annual declaration on the adequacy of the Bank's risk management arrangements and provides assurances that the risk management systems in place are adequate and in line with Risk Appetite. This is provided in Appendix IV of this document.

4 Own Funds

Own funds (also referred to as capital resources) is the type and level of regulatory capital which must be held to enable the Bank to absorb losses. The Bank is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

Under the CRD IV framework three tiers of capital are recognised, being Common Equity Tier 1 ("CET1"), Tier 1 and Tier 2 Capital with the sum of Tier 1 and Tier 2 Capital constituting "own funds". The table below shows the breakdown of KEXIM UK's capital resources:

Type of Capital	31-12-2018 £000s	31-12-2017 £000s
Common Equity Tier 1 Capital		
Paid up capital instruments	20,000	20,000
Retained earnings	13,410	13,312
Accumulated other comprehensive income	(594)	(151)
Sub-Total	**32,815**	**33,161**
Deductions for non-qualifying items		
Total Common Equity Tier 1 Capital	**32,815**	**33,161**
Additional Tier 1 capital	**-**	**-**
Tier 2 capital		
Subordinated loan	10,938	8,838
General credit risk adjustments	-	420
Total Tier 2 capital	**10,938**	**9,258**
Total regulatory capital[3]	**43,754**	**42,419**

Common Equity Tier 1 capital comprises of the permanent paid up capital instruments, retained earnings and accumulated other comprehensive income resulting from the revaluation of the FVOCI debt instruments. This is the core capital of the Bank and acts as a buffer to absorb losses to protect depositors and other creditors of the Bank.

Tier 2 capital is the supplementary capital and in KEXIM UK's case it comprises of subordinated loans amortised over the life of the loans.

[3] A reconciliation of the regulatory capital to the balance sheet is shown in Appendix I.

5 Compliance with CRD IV and Capital Adequacy

5.1 Capital requirements framework

In order to protect the solvency of the Bank, the Bank holds internal capital resources to absorb unexpected losses. The capital resources requirement is determined by the regulators guidance.

The Capital Framework as applicable to the Bank business model is described below.

Pillar 1 sets out the minimum capital requirements that the Bank is required to meet for credit, market, operational and credit valuation adjustment risk.

Pillar 2A / Individual Capital Requirement (ICR) sets out requirements for the Bank with regard to its internal capital adequacy assessment process ("ICAAP"), internal procedures and control mechanisms. The PRA requires that the Bank meet its Pillar 2A with at least 56% Common Equity Tier 1 ("CET1").

Countercyclical buffer (CCyB) requires the Bank to build up capital when aggregate growth in credit is judged to be associated with a build-up of system-wide risk. The buffer can be drawn down to absorb losses during periods of stress. The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate that applies to eligible UK exposures. The UK CCyB rate as at 31 December 2018 was 1.00%. However for KEXIM UK where exposures are global, the weighted average institution specific CCyB was 0.102%.

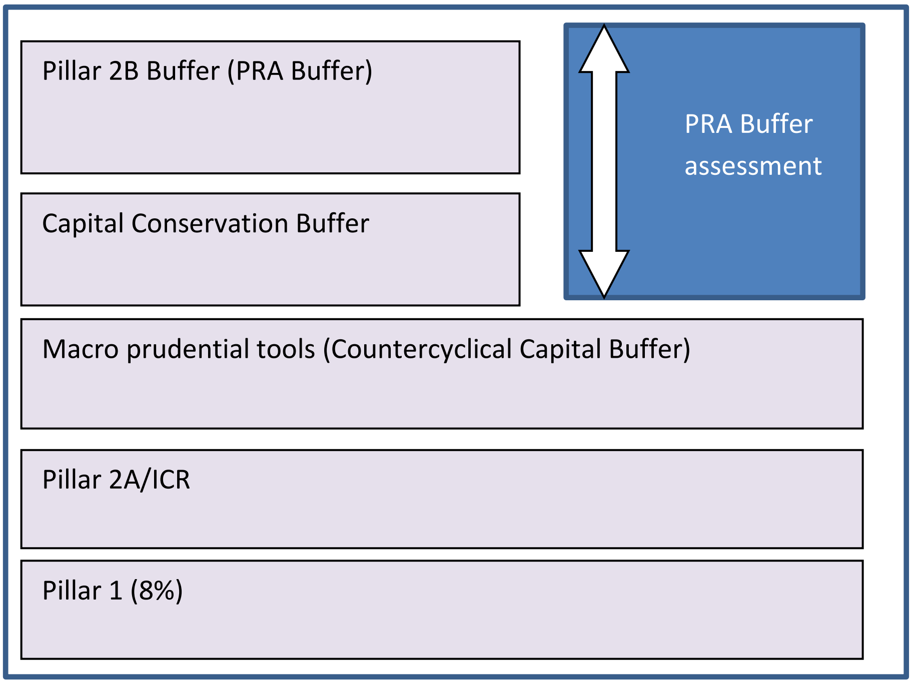
The geographical distribution of our credit exposures relevant for the calculation of its countercyclical capital buffer is detailed in Appendix V.

Capital conservation buffer (CCoB) - The purpose of this buffer is to enable firms to absorb losses in stressed periods. As of 31 December 2018, the CCoB rate was 1.875% and this level will reach its final proposed requirement of 2.5% from 1 January 2019.

Pillar 2B (PRA buffer) - The PRA buffer is an amount of capital that the Bank must hold, in addition to its ICR, to cover losses that may arise under a severe scenario, but avoiding duplication with the CRD IV buffers (CCyB and CCoB). The PRA Buffer imposes a firm-specific PRA buffer incremental to Pillar 1, Pillar 2A and the CRD buffers. The PRA determines the amount required to be maintained by firms using a range of factors, but not limited to, firm-specific stress test results.

Please note that this is a simplified view of the capital framework, and there are other elements like systemic buffers and sectoral capital requirements that are currently not applicable to KEXIM UK. These additional elements could be included in the future, based on specific thresholds, exposure types and changes to regulatory guidance. The Bank, due to its simple business model, is unlikely to be identified as a Globally Systemically Important Bank (G-SIB).

The diagram below illustrates a simplified view of the revised capital framework:



The sum of Pillar 1 and 2A (Total Capital Requirement) was 11.36% of total risk weighted exposure as at 31 December 2018.

5.2 Pillar 1 capital requirements

The Bank's overall minimum capital requirement under Pillar 1 is calculated by adding the credit and counterparty credit risk, operational risk, market risk and credit valuation adjustment capital requirements.

Under CRD IV the Bank has adopted the following approaches for the calculation of Pillar 1 minimum capital requirement:

1) Standardised approach ("SA") to Credit Risk
2) Mark-to-Market method for Counterparty Credit Risk;
3) Basic Indicator Approach ("BIA") for Operational Risk;
4) Position Risk Requirement ("PRR") for Market Risk; and
5) Standardised Approach for Credit Valuation Adjustment ("CVA").

The Bank's Pillar 1 capital requirement is based on 8% of its risk-weighted assets. The Bank uses credit ratings from eligible External Credit Assessment Institutions (ECAIs) in order to arrive at the risk weights necessary to calculate the risk-weighted values for its exposures to rated entities. The capital requirements and risk weighted assets within each exposure class at 31 December 2018 were:

Minimum Capital Requirement (8%) 31 December 2018	RWA £000s	Capital Requirement £000s
Credit and Counterparty Credit Risk (Standardised Approach)	**230,731**	**18,459**
Central Government or Central Banks	985	79
Public Sector Entities	13,388	1,071
Multilateral Development Banks	2,737	219

Institutions	19,788	1,583
Corporates	191,545	15,324
Other items	2,288	183
Operational Risk (Basic Indicator Approach)	**1,992**	**159**
Market Risk (Position Risk Requirement)	**402**	**32**
Credit Valuation Adjustment Risk (Standardised Approach)	**15**	**1**
Pillar 1 Capital Resources Requirement	**233,140**	**18,651**

5.3 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank undertakes a comprehensive formal assessment of its capital adequacy at least on an annual basis, and additionally when considered necessary in the light of changes in market or specific KEXIM UK circumstances, including strategic decisions in respect of the products offered by the Bank.

The KEXIM UK ICAAP is based on experience gained in running KEXIM UK since its establishment in 1992 and also the business plan for the next three years. The ICAAP is also founded on management's familiarity with the risks and opportunities posed by the particular market focus adopted by KEXIM UK. This experience is supplemented by expertise of the non-executive directors and their knowledge of proposed core business activities. There is a clear view at the Board level of the business that works successfully for KEXIM UK, and how it needs to be conducted. The rationale behind Pillar 2 calculations contained within the ICAAP is therefore to allocate capital for the various risks well recognised in the type of business carried out by KEXIM UK, and also to acknowledge and ensure that the transactions carry appropriate risk mitigation measures and are executed and controlled with the requisite operational competence.

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

The ICAAP is subject to rigorous review and challenge by both the executive management team and the Board.

5.4 Capital adequacy

The various capital ratios of the Bank as of 31 December 2018 and 2017, with reference to its risk weighted assets (RWAs) are shown below:

	Minimum capital ratio requirement (as a % of RWAs)	Bank's capital ratios 31-Dec-2018	Bank's capital ratios 31-Dec-2017
Common Equity Tier 1 capital	4.50%	14.1%	12.9%
Tier-1 capital	6.00%	14.1%	12.9%
Total capital	8.00%	18.8%	16.5%

The PRA in their capacity as supervisors set targets for, and monitor, the capital adequacy of the Bank. Capital adequacy returns are submitted quarterly to the Regulators. As at 31 December 2018, and throughout the year, the Bank's capital ("Own Funds") exceeded its minimum regulatory requirement.

6 Asset Encumbrance

Asset encumbrance arises from collateral pledged against secured lending and secured obligations. As of 31 December 2018, the Bank only has encumbered assets of £4.0 million, arising from the initial margin provided against derivatives. Previously as of December 2017 the Bank had encumbered assets with a carrying value of £6.1 million, relating to the derivatives. KEXIM adopts the definition of encumbrance in accordance with regulatory guidelines.

The Tables below show the encumbered assets as detailed in the regulatory returns provided to the PRA:

Encumbered and unencumbered assets									
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	-	-			293,370,399	-		
030	Equity instruments	-	-			12,335,734	-		
040	Debt securities	3,988,624	-	3,988,624	-	101,479,649	-	101,479,649	-
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	-	-	-	-	12,036,623	8,140,293	12,036,623	8,140,293
080	of which: issued by financial corporations	3,988,624	-	3,988,624	-	23,515,619	-	23,515,619	-
090	of which: issued by non-financial corporations	-	-	-	-	65,927,407	13,167,260	65,927,407	13,167,260
120	Other assets	-	-			2,288,221	-		
121	of which: ...	-	-			-	-		

7 Leverage Ratio

The leverage ratio was introduced under the Basel III reforms to restrict the build-up of leverage in the banking sector to avoid distressed deleveraging processes that can damage the broader financial system and the economy.

The calculation of leverage ratio is defined as the ratio of Tier 1 capital to the total exposure measure and applies an equal weighting to all assets regardless of their risk.

The leverage framework has a preliminary target level set by the Basel Committee that banks should hold a minimum leverage ratio of 3%. As of the current reporting date the Bank's leverage ratio is 10.4%, which is well above the proposed minimum requirement.

The table below shows the breakdown of how the leverage ratio is calculated for 31 December 2018 and 2017. The lines/rows of the table that are not applicable to the Bank have not been included:

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		
		Applicable Amount
1	Total assets as per published financial statements	296,875,709
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013	-
4	Adjustments for derivative financial instruments	167,074
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	19,673,648
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	385,122
8	Leverage ratio total exposure measure	**317,101,553**

LRCom: Leverage ratio common disclosure		
		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	297,260,831
2	(Asset amounts deducted in determining Tier 1 capital)	-

3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**297,260,831**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	98,193
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	68,881
EU-5a	EU-5a Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**167,074**
	SFT Exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	EU-5a Exposure determined under Original Exposure Method	-
16	**Total securities financing transaction exposures (sum of lines 12-15a)**	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	19,673,648
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**19,673,648**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 4296 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	Capital and total exposure measure	
20	**Tier 1 Capital**	32,815,271
21	**Leverage ratio total exposure measure (sum of lines 3,11,16,19, EEU-19a and EU-19b**	**317,101,553**
	Leverage ratio	
EU-23	Choice on transitional arrangements for the definition of the capital measure	-
EU-24	Amount of derecognised fiduciary items in accordance with Article 429 (11) of Regulation (EU) No 575/2013	-

LRSpl: Split up of balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
	CRR leverage ratio exposures	
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	297,260,831
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	-
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	2,955,954
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	29,129,716
EU-7	Institutions	47,397,663
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	215,587,470
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	2,190,028

8 Remuneration

8.1 Remuneration governance and decision making

The Board is responsible for the oversight of remuneration policies within the Bank. As a small entity, the Bank does not have a separate remuneration committee as recommended by the Corporate Governance Code. Thus, the Board takes the primary responsibilities of a remuneration committee in monitoring compliance with the Code. The Board is chaired by an independent non-executive director, and consists of the other non-executive director as well as the executive directors and Group NEDs. The Board ensures that the Bank is in compliance with all relevant employment law and remuneration rules set out by UK regulators.

The Bank has identified Material Risk Takers, using the criteria set within the CRDIV and Commission Delegated Regulation (EU) 604/2014, which are those staff whose professional activities have a material impact on a company's risk profile.

The Bank operates two different discretionary bonus schemes for the expatriate employees who are temporarily transferred from the Parent Bank and also for the locally hired employees.

1) Transferred employees: The bonus is determined by the performance of the Parent Bank, the Bank and individuals. The bonus scheme and the performance evaluations are governed by the Parent Bank's remuneration policy and the Korean government. The Bank's remuneration practices follow the rules of the Parent Bank. Being a government–owned export credit agency, the Parent Bank does neither pursue profit making nor reward risky operations with higher profit potentials.

2) Locally hired employees: The bonus payment is based on the qualitative review of individual performance and less on the Bank's financial performance.

8.2 Performance and reward

The Bank's policy when determining remuneration arrangements is to ensure that there is a clear and identifiable link between reward and performance by combining a number of remuneration components. This ensures an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Bank and the professional activity as well as the market practice.

The four remuneration components are:

1) Fixed remuneration: This is determined on the basis of the role of the individual employees, including responsibility and job complexity, experience, performance and market conditions.
2) Performance based remuneration: This remuneration is awarded in a manner which promotes sound risk management and non-inducement of excessive risk-taking. The Bank operates a discretionary non-contractual salary increase and/or an annual bonus scheme. In deciding whether to make any payments under the scheme, the Bank takes into account its own financial results, its assessment of an individual's contribution towards those results, its assessment of their overall conduct and performance during the course of the year and such other factors as it considers relevant.
3) Pension Schemes
4) Other benefits such as medical insurance.

The table below shows the remuneration charged to the profit & loss account during 2018:

Staff Remuneration	Average number of employees	Fixed	Variable	Total
Approved persons, senior management and risk-takers	7	813,691	66,625	880,316
Staff whose activities do not have a material impact upon the Bank's risk profile	4	248,408	6,198	254,606
Total	11	1,062,099	72,823	1,134,922

No Sign on and Severance payments to Material Risk Takers were made during the financial Year for 2018.

No individual received more than £1million in remuneration during 2018.

The remuneration paid in 2018 was in respect of the principal activities of the Bank, which is corporate banking. The Bank's remuneration policy is in line with the Remuneration Code and the requirements of SYSC 19A.

Appendix I – Reconciliation from regulatory capital to balance sheet items

	Balance Sheet Extract	Eligible Capital Components
Liabilities		
Subordinated Loan Capital	19,627,085	
of which: included in Tier 2 capital		10,938,424
Total Liabilities	**264,060,437**	
Equity		
Share capital	20,000,000	
of which: amount eligible for common equity tier 1 capital		20,000,000
Revaluation Reserve	(594,269)	
of which: amount eligible for tier 1 capital		(594,269)
Profit and Loss Account	13,409,540	
of which: Retained Earnings	13,245,485	
of which: Profit or Loss for year	164,055	
of which: amount eligible for tier 1 capital		13,409,540
Total Equity	**32,815,271**	
Total Liabilities & Equity	**296,875,708**	
Regulatory Capital Calculation		
Share capital		20,000,000
Retained Earnings		13,409,540
Accumulated Other Comprehensive Income		(594,269)
Common Equity Tier 1 Capital		**32,815,271**
Subordinated Loans eligible as tier 2 capital		10,938,424
Tier 2 Capital		**10,938,424**
Total Regulatory Capital		**43,753,695**

Appendix – II Own funds disclosure

The following Own Funds disclosure aims to reflect the capital position of the Bank.

Own funds Disclosure Template			
	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000s)	(B) Regulation (EU) No 575/2013 Article reference
1	Capital instruments and the related share premium accounts	20,000	26 (1), 27, 28, 29,
	of which: ordinary share capital		EBA list 26 (3)
	of which: instrument type 2		EBA list 26 (3)
	of which: instrument type 3		EBA list 26 (3)
2	Retained earnings	13,410	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	(594)	26 (1)
3a	Funds for general banking risk		26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)
	Public sector capital injections grandfathered until 1 January 2018		483 (2)
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	32,815	
Common Equity Tier 1 (CET1) capital: Regulatory Adjustments			
7	Additional value adjustments (negative amount)		34, 105
8	Intangible assets (net of related tax liability) (negative amount)		36 (1) (b), 37, 472 (4)
9	Empty Set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges		33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (b)
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)

Own funds Disclosure Template			
	Common Equity Tier 1 capital: instruments and reserves	**(A) Amount at disclosure date (£000s)**	**(B) Regulation (EU) No 575/2013 Article reference**
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty Set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	*of which: qualifying holdings outside the financial sector (negative amount)*		36 (1) (k) (i), 89 to 91
20c	*of which: securitisation positions (negative amount)*		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	*of which: free deliveries (negative amount)*		36 (1) 9k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)		48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU		
25	of which: deferred tax assets arising from temporary differences		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)
25b	Foreseeable tax changes relating to CET1 items (negative amount)		36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR Treatment		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 to 468		
	of which: filter for unrealised loss 1		467
	of which: filter for unrealised loss 2		467
	of which: filter for unrealised gain 1		468
	of which: filter for unrealised gain 2		468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)		

Own funds Disclosure Template			
	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000s)	(B) Regulation (EU) No 575/2013 Article reference
29	**Common Equity Tier 1 (CET1) capital**	**32,815**	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts		51, 52
31	*of which: classified as equity under applicable accounting standards*		
32	*of which: classified as liabilities under applicable accounting standards*		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
	Public sector capital injections grandfathered until 1 January 2018		483 (3)
34	Qualifying Tier capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480
35	*of which: instruments issued by subsidiaries subject to phase out*		486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments		
Additional Tier 1 (AT1) capital: Regulatory Adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)
41	Empty set in EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital		
44	Additional Tier 1 (AT1) capital		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**32,815**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	10,938	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)

Own funds Disclosure Template			
	Common Equity Tier 1 capital: instruments and reserves	**(A) Amount at disclosure date (£000s)**	**(B) Regulation (EU) No 575/2013 Article reference**
	Public sector capital injections grandfathered until 1 January 2018		483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34), issued by subsidiaries and held by third parties		87, 88, 480
49	*of which: instruments issued by subsidiaries subject to phase out*		486 (4)
50	Credit risk adjustments		62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	19,627	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 b) (i), 66 (a), 67, 477 (2)
53	Holdings of T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)
54a	of which: new holdings not subject to transitional arrangements		
54b	of which: holdings existing before 1 January 2013 and subject to transitional arrangements		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79, 477(4)
56	Empty set in the EU		
57	Total regulatory adjustments to Tier 2 (T2) capital		
58	Tier 2 (T2) capital 2	19,627	
59	**Total capital (TC = T1+T2)**	**43,754**	
60	Total Risk Weighted Assets	233,140	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.1%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	14.1%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	18.8%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and counter-cyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer) expressed as a percentage of risk exposure amount)	4,610	CRD 128, 129, 130
65	*of which: capital conservation buffer requirement*	4,371	
66	*of which: counter-cyclical buffer requirement*	239	

Own funds Disclosure Template			
	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at disclosure date (£000s)	(B) Regulation (EU) No 575/2013 Article reference
67	*of which: systemic risk buffer requirement*		
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*		CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	14.08%	CRD 128 (= £21.6m / £257.0m excess CET-1 available after meeting Pillar I is £21.6million and total RWA is £257million
69	Empty set in the EU		
70	Empty set in the EU		
71	Empty set in the EU		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (i), 45, 48, 470, 472 (11)
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach		62
Capital instruments subject to phase-out arrangements *(only applicable between 1 Jan 2014 and 1 Jan 2022)*			
80	Current cap on CET1 instruments subject to phase out arrangements		484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements		484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)

Appendix III – Main features of regulatory capital instruments

		CET1	Additional Tier 1	Tier 2
1	Issuer	KEXIM Bank (UK) Limited	N/A	KEXIM Bank (UK) Limited
2	Unique identifier (eg CUSIP, ISN or Bloomberg identifier for private placement)	Private placement		Private placement
3	Governing law(s) of the instrument	English Law		English Law
Regulatory Treatment				
4	Transitional CRR rules	CET 1		Tier 2
5	Post-transitional CRR rules	CET 1		Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo		Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity		Subordinated Loan
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£20,000,000		£10,900,000
9	Nominal amount of instrument	£1		$19,000,000 and $6,000,000
9a	Issue price	£1		$19,000,000 and $6,000,000
9b	Redemption price	Not applicable		Not applicable
10	Accounting classification	Shareholders' equity		Liability – subordinated loans
11	Original date of issuance	£20,000,000 [1992-7-15]		$19,000,000 [13 Feb 2018] $6,000,000 [12 Dec 2014]
12	Perpetual or dated	Perpetual		Dated
13	Original maturity date	Not applicable		[14 Feb 2028] [12 Dec 2024]
14	Issuer call subject to prior supervisory approval	No		N/A
15	Optional call date, contingent call dates and redemption amount	Not applicable		N/A
16	Subsequent call dates, if applicable	Not applicable		N/A
Coupons/dividends				
17	Fixed or floating dividend/coupon	Floating		Floating
18	Coupon rate and any related index	Not applicable		3 month USD Libor + 1.60% 3 month USD Libor + 1.52%
19	Existence of a dividend stopper	No		N/A
20a	Fully discretionary, partial discretionary or mandatory (in terms of timing)	Fully discretionary		Mandatory
		CET1	**Additional Tier 1**	**Tier 2**
20b	Fully discretionary, partial discretionary or mandatory (in terms of amount)	Fully discretionary		Mandatory
21	Existence of step up or other incentive to redeem	No		No
22	Non-cumulative or cumulative	Non-cumulative		Non-cumulative
23	Convertible or non-convertible	Non-convertible		Non-convertible
24	If convertible, conversion trigger(s)	Not applicable		Not applicable
25	If convertible, fully or partially	Not applicable		Not applicable
26	If convertible, conversion rate	Not applicable		Not applicable
27	If convertible, mandatory or optional conversion	Not applicable		Not applicable

28	If convertible, specify instrument type convertible into	Not applicable		Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable		Not applicable
30	Write-down features	No		No
31	If write-down, write-down trigger(s)	Not applicable		Not applicable
32	If write-down, full or partial	Not applicable		Not applicable
33	If write-down, permanent or temporary	Not applicable		Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable		Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated Loan		All Liabilities
36	Non-compliant transitioned features	No		No
37	If yes, specify non-compliant features	Not applicable		Not applicable

Appendix IV – Risk statement

Board Approved Risk Statement

The Bank's Risk Appetite Statement (RAS) is a fundamental component of the risk culture of the Bank, defining the levels of acceptable risk taking and the risk management framework that supports it, within the context of achieving the Bank's business objectives. The Risk Appetite informs, and is in turn informed by, the Bank's strategy and is a key process in the ICAAP Framework and it has strong links to the recovery triggers in the Bank's Recovery and Resolution Plan.

The RAS sets the tone for consistent risk management across the business. It forms an integral part of the Bank's risk policies and risk management frameworks which collate the overall approach for managing risk within KEXIM UK. The RAS acts as a reference point to assist all staff within the bank to understand the appetite for risk acceptance across all the major risk types.

The Bank defines risk appetite as the collective type and the level of risk it is willing to assume within its 'Risk Capacity' to achieve its strategic objectives and business plan. A 'Risk Tolerance[4]' range consists of maximum / minimum qualitative and quantitative limits showing Business-as-Usual ("BAU") (Green), Early Warning Indicators ("EWI") (Amber) and Triggers (Red) giving the business the ability to optimize its risk positioning and provides management with early warning ahead of any potential issue which may require invocation of recovery action and informing the regulatory authorities. The key broad areas covered by the risk limits include:

- Business (including financials);
- Capital;
- Liquidity;
- Funding;
- Market;
- Operational;
- Conduct & Culture; and
- Compliance

Communication and Monitoring Process

Adherence to the RAS is monitored and reported on a monthly basis to the MD and DMD. All staff members are responsible for:

- ensuring full awareness of the various risk limits;
- the accuracy and integrity of any and all information they input into the Bank's systems;
- ensuring that all limits/metrics care captured; and
- providing early notification should any limit/metric be in risk of breach.

The key risk limits are monitored on an ongoing basis by the respective individuals, departments and committees, and reported on a monthly basis to the ARC. Exceptions (i.e. breaches of risk limits or watch triggers) are reported immediately to the MD & DMD, and escalated immediately for action to the senior management team and reported to the Board based on the specific internal procedure.

[4] Risk tolerance is the Bank's readiness to bear the risk after treatment in order to achieve its objectives (ISO Guide: 73:2009).

Appendix V - Disclosure of institutions with the requirement for a countercyclical buffer

Country breakdown (In £'000)	General credit exposures	Securitization exposure	Own funds requirements			Owns funds requirements weights (%)	Countercyclical capital buffer rate (%)
	Under standardised approach	Under standardised approach	Of which: General credit exposures	Of which: Securitization exposures	Total		
UK	16,878,815	-	1,350,305	-	18,229,120	8.7079	1
Hong Kong	1,589,739	-	127,179	-	1,716,918	0.8202	1.875
Total	**18,468,554**	**-**	**1,477,484**	**-**	**19,946,038**		

	Total
Total Risk Exposure Amount	233,139,709
Institution specific countercyclical buffer rate (%)	0.1025%
Institution specific countercyclical buffer requirement	**238,968**

Appendix VI - Board risk management declaration

The Board is responsible for reviewing the effectiveness of the Bank's risk management arrangements and systems of financial and internal controls. These are designed to manage rather than eliminate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss. The Board considers that the Bank has in place adequate systems and controls with regard to the Bank's business model and strategy.