



**Kookmin Bank International Limited**

**Annual Report and Financial Statements**

**31 December 2016**

**Company Registered in England and Wales  
Registration Number. 2625699**

WEDNESDAY



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**Kookmin Bank International Limited**

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## **Kookmin Bank International Limited**

### **Corporate information**

Kookmin Bank International Limited ("KBI") is a private company which is registered in England and Wales, domiciled in the United Kingdom. KBI has been operating in London since 1991, and is a wholly owned subsidiary of Kookmin Bank Limited based in Seoul, Korea. The ultimate parent undertaking and controlling party is KB Financial Group, a company incorporated in Seoul, Korea.

The consolidated financial statements of Kookmin Bank Limited can be obtained from <https://omoney.kbstar.com/quics?page=C021227>.

KBI is a deposit taking business authorised under the Financial Services and Markets Act 2000 and is regulated by the Financial Conduct Authority and Prudential Regulation Authority.

The fully paid share capital is USD 30,392k (2015: USD 30,392k). Total shareholders' fund is USD 75,383k (2015: USD 72,201k).

A range of activities and services has been developed by KBI in pursuit of its broad strategic guidelines of securing profitability and contributing to the growing presence of Kookmin Bank Limited whilst maintaining stability, liquidity and security. These activities and services include:

### **Client activities**

- Trade finance and letters of credit business;
- Sterling and euro funds transfers; and
- The arrangement, management and participation in corporate and syndicated loans for international, Korean and other borrowers.

### **Activities on company's own book for investment and management purpose**

- Investments in securities; and
- Treasury and derivative products.



## **Kookmin Bank International Limited**

### **Profile of Kookmin Bank Limited**

#### **Brief History**

Kookmin Bank Limited was established by the Korean government in 1963, as Citizens National Bank, with the prime objective of providing retail banking services to household consumers and small and medium sized companies. Over the years there has been strong and steady growth, which has led to Kookmin Bank Limited becoming one of the nation's most respected financial institutions.

In June 1998, Kookmin Bank Limited took over Daedong Bank, followed at the end of the year by a merger with Korea Long Term Credit Bank. The new bank retained the name of Kookmin Bank Limited, and became one of the strongest banks in Korea.

Leading the continuing realignment among the financial institutions within Korea, Kookmin Bank Limited completed a further merger, with Housing & Commercial Bank, on 1 November 2001. Kookmin Bank Limited maintains a strong position within the domestic retail market.

In September 2008, a financial holding company was formed, KB Financial Group ("the Group"), partly for a more effective Group structure.

The largest shareholder of the Group is the Korean National Pension Service (9.53%).

Kookmin Bank Limited aims to continue to strengthen its leadership role in a wide range of areas including private banking, consumer finance, corporate banking, internet banking and the expansion of its overseas representation. It continues and remains an integral part of the Group which itself has a diverse range of activities in asset management, life insurance, securities & investment, credit cards and real estate. Kookmin Bank Limited is now a wholly owned subsidiary within the Group. The Group is listed on the Korean stock exchange and its ADRs are listed on NYSE. The Group has attracted one of the highest credit ratings among the Korean commercial Banks. A1(Moody's), A+(S&P)



## **Kookmin Bank International Limited**

### **Directors and Management**

#### **Board of Directors**

D. Blackmore	Chairman of the Board and Non-executive Director
K. H. Park	Managing Director
S. H. Lee	Deputy Managing Director
O. H. Lee	Chairman of the Audit & Risk Committee and Non-executive Director
C. Edwards	Non-executive Director

#### **Management**

M. Khatri	Compliance and Risk Officer
H. J. Soh	Operation Manager
S. H. Woo	Credit Manager
J. K. Lee	Credit Manager
S. M. Lee	Accountant

#### **Company secretary and registered office**

M. Khatri

Kookmin Bank International Limited  
6th Floor, Princes Court  
7 Princes Street  
London  
EC2R 8AQ

#### **Independent Auditors**

PricewaterhouseCoopers, LLP  
Chartered Accountants and Statutory Auditors  
Hay's Galleria  
1 Hay's Lane,  
London SE1 2RD7



## **Kookmin Bank International Limited**

### **Directors' Report For The Year Ended 31 December 2016**

The directors present their annual report and the audited financial statements for the year ended 31 December 2016 for Kookmin Bank International Limited ("KBI").

#### **Principal activities**

The principal activities of KBI are trade finance, lending to corporates, purchasing securities for investment, the provision of mainstream banking services, international payments and other financial services. KBI is regulated by the Prudential Regulation Authority & Financial Conduct Authority.

#### **Dividends and reserves**

The directors have not declared any dividend payment for the year ended 31 December 2016 (2015: USD nil). The overall profit for the year of USD 3,446k results in a balance of USD 51,736k on profit and loss reserves. The revaluation reserve as at 31 December 2016 has decreased by USD 264k to USD -141k as a result of a net loss on the revaluation of available for sale securities and the associated tax.

#### **Political and charitable contributions**

There have been no donations during the year.

#### **Branches outside the UK**

KBI does not have any branches outside the UK.

#### **Future developments**

The parent bank is in the process of making a branch application for a license to carry a banking branch in the UK. If successful, it likely leads to wind down KBI. The exact timescale are uncertain at the moment.

However, KBI will continue to have parental support irrespective of its form. After reviewing the company's performance projections and the available banking facilities, the Directors are satisfied that KBI has adequate access to resource to enable it to meet its obligations and to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the financial statements.

#### **Third party indemnity provision**

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year ended 31 December 2016 for the benefit of the Directors and is in force at the date of this report in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers of office.



## **Kookmin Bank International Limited**

### **Directors' Report (continued) For The Year Ended 31 December 2016**

#### **Financial risk management**

The management of the business and the execution of the Bank's strategy are subject to a number of risks, the principal ones being credit, liquidity, market, operational and regulatory. All risks are formally reviewed by the Board via the Audit & Risk Committee, and appropriate processes put in place to manage and mitigate these risks. The Bank has adopted the Three Lines of Defense Risk Management Framework which is familiar in the UK financial services environment. The Bank's management and governance arrangements are designed to ensure that the Bank complies with the relevant legislation and regulation within the UK.

#### **Post balance sheet event**

The directors are not aware of any post balance sheet events.

#### **Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements ;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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



**Kookmin Bank International Limited**  
**Directors' Report (continued)**  
**For The Year Ended 31 December 2016**

**Directors**

The following are particulars of all those who were directors of KBI at any time during the financial year and up to the date of signing the financial statements.

D. Blackmore	Chairman of the board and Non-executive Director, appointed 1 January 2014.
K. H. Park	Managing Director, appointed 23 January 2014.
C. H. Cho	Non-executive Director, resigned 11 February 2016.
O. H. Lee	Non-executive Director, appointed 11 February 2016.
C. Edwards	Chairman of Audit & Risk Committee and Non-executive Director, appointed 1 April 2016.
I. S. Jee	Deputy Managing Director, resigned 23 January 2017.
S. H. Lee	Deputy Managing Director, appointed 23 February 2017.

**Disclosure of information to auditors**

So far as the directors are aware, there is no relevant audit information of which KBI's auditors are unaware. In addition, the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed reappointed for each financial year unless the Directors or the members of the Company resolve to terminate their appointment. As at the date of these financial statements the Directors are not aware of any resolution to terminate the appointment of the auditors.

By order of the Board

M. Khatri  
Company Secretary

Date: 24 April 2017

**Registered office**  
6th Floor Princes Court  
7 Princes street  
London  
EC2R 8AQ

Registered number  
2625699





**Kookmin Bank International Limited**

**Strategic Report**  
**For The Year Ended 31 December 2016**

The directors present their strategic report on the Company for the year ended 31 December 2016.

**Review of business**

The results for the year are set out in the Statement of Comprehensive Income on page 13. The profit for the financial year increased by USD 353k to USD 3,446k. The directors consider this to be a satisfactory result as KBI continued with its efforts to maintain its loan book.

KBI's key financial performance indicators for the year were as follows:

	2016	2015
	USD'000	USD'000
Net interest income	4,569	4,431
Other operating income	459	64
Fees and commissions receivable	2,810	2,741
Profit for the financial year	3,446	3,093
Total assets	415,631	403,965
Net assets	75,383	72,201

Management does not currently anticipate any major changes to business activities.

It should be noted that the KB Financial group are in process of making an application to the regulators to operate the UK business (currently in the company) as a branch. This is likely to involve a transfer of assets and liabilities from the company to the branch if and when approved. Application will be likely made in Q2 of 2017. However, the parent, Kookmin Bank Limited, has committed itself to provide KBI with the appropriate level of financial support to enable it to continue operating as a going concern for the foreseeable future, irrespective of KBI's legal form. Hence, the financial statement has been prepared by adopting the going concern basis.

Also management has evaluated the impact of UK leaving European Union on KBI business strategy and no potential risks or uncertainty is noted.

**Risk management**

KBI's objectives in respect of risk management are to ensure that at all times KBI satisfies the requirement of maintaining a balance sheet demonstrating the characteristics of good liquidity and sound credit quality assets. The Board of Directors ensures adherence to all internally set risk limits and compliance with all regulatory ratios. Through its normal operations, KBI is exposed to a number of risks, the most relevant of which are credit, liquidity, market, operational, and regulatory risk. Management of these risks is central to KBI's activities and risk control is therefore appropriately segregated within KBI.

Risk exposures are carefully reviewed by the Board of Directors to ensure the risks taken are within pre-set limits. Regular reports relating to the condition of KBI, including all prudential ratios, are produced and reviewed, as are all matters of a compliance or risk policy nature. Risk limits may also further be subject to discussion and agreement with the parent company.



**Kookmin Bank International Limited**

**Strategic Report (continued)**  
**For The Year Ended 31 December 2016**

**Credit risk**

New credit risks are carefully considered by senior management prior to entering into transactions. Potential non-bank exposures are subject to detailed credit analysis and are subsequently reviewed regularly by the Credit Committee and by the Board of Directors. In addition, the limits for inter-bank counterparties with whom KBI deals are based on credit ratings, size of bank and experience whilst remaining within group guidelines. All inter-bank exposure limits are agreed by the Credit Committee and subsequently confirmed by the Board of Directors. All credit exposures are monitored daily.

**Liquidity risk**

Liquidity risk is the risk that a firm, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. This also results in a firm's inability to meet regulatory liquidity requirements. This risk is inherent in all banking operations and can be affected by a range of Group-specific and market-wide events.

Liquidity risk is covered by a liquidity policy approved by the Board of Directors. The principal objective of the policy is to ensure that at all times there are sufficient liquid assets to satisfy KBI's payment obligations and potential obligations to depositors, together with other business liabilities, as they fall due, without incurring unacceptable shortfalls. This objective is achieved by careful and effective management of the balance sheet within agreed limits as established by the Board of Directors. It is also considered that the presence of high quality liquid assets enhances the liquidity of KBI. Liquidity risk is monitored daily ensuring it remains within PRA requirements and guidelines.

**Market risk**

Market risk consists of interest rate and foreign exchange risks. Both these risks are controlled independently and are governed by policies approved by the Board of Directors. The exposure to interest rate risk on fixed rate debt securities is matched by the purchase of interest rate swaps to convert the fixed flows on the securities to Libor based floating interest income. The securities and interest rate swaps are marked to market on a regular basis with changes in fair values recognised accordingly in reserves and profit and loss account respectively. KBI is exposed to foreign exchange risk to the extent of its open position in each non-USD denominated currency (GBP and EUR). KBI may also execute foreign exchange orders on behalf of customers. The policy is however to minimise FX exposure, through matching the funding and lending currency and hedging transactions.

**Operational risk**

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is inherent within the operation of any business and can only be reduced by control procedures established to minimise such risks. The policy of KBI is to ensure that adequate and effective internal control systems are in place at all times to monitor and manage operational risk



**Kookmin Bank International Limited**

**Strategic Report (continued)  
For The Year Ended 31 December 2016**

**Regulatory risk**

Regulatory risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry which are currently subject to significant changes. Non-compliance could lead to fines, public reprimands, damage to reputation, increased prudential requirements, changes to company structure and/or strategy, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate.

KBI mitigates this risk by keeping up to date with the PRA/FCA requirements affecting risk, capital adequacy, large exposures and liquidity management and ensuring compliance with policies and procedures.

**Capital risk**

KBI monitors, on an ongoing basis, its compliance with the Individual Capital Guidance (ICG) set by the PRA and does not currently anticipate raising any further capital to meet its current plans. KBI regularly monitors its capital adequacy ratios to ensure they meet all regulatory requirements.

By order of the Board

M. Khatri  
Company Secretary  
Date: 24 April 2017

**Registered office**  
6th Floor Princes Court  
7 Princes street  
London  
EC2R 8AQ

Registered number  
2625699



## **Kookmin Bank International Limited**

### **Independent auditors' report to the members of Kookmin Bank International Limited**

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Kookmin Bank International Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
  - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
  - have been prepared in accordance with the requirements of the Companies Act 2006.
- 

### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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## **Opinions on other matters prescribed by the Companies Act 2006**

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

## **Other matters on which we are required to report by exception**

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### **Adequacy of accounting records and information and explanations received**

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

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

We have no exceptions to report arising from this responsibility.



## Kookmin Bank International Limited

### Independent auditors' report to the members of Kookmin Bank International Limited

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#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

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#### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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#### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Joannes Buckens (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
24 April 2017



**Kookmin Bank International Limited**  
**Statement of Comprehensive Income**  
**For The Year Ended 31 December 2016**

	<u>Note</u>	2016 USD'000	2015 USD'000
<b>Interest income</b>			
- Interest income on loans and advances and similar income	3	6,069	5,538
- Interest income arising from debt securities	3	1,278	655
<b>Interest expense</b>	4	<u>(2,778)</u>	<u>(1,762)</u>
<b>Net interest income</b>		4,569	4,431
<b>Fees and commissions income</b>		2,810	2,741
<b>Fees and commissions expense</b>		(403)	(351)
<b>Administrative expenses</b>	5	(3,096)	(2,955)
<b>Other operating income</b>	7	459	64
<b>Depreciation</b>	13	(57)	(40)
<b>Provisions for bad and doubtful debts</b>		-	-
<b>Profit on ordinary activities before taxation</b>		<u>4,282</u>	<u>3,890</u>
<b>Tax on profit on ordinary activities</b>	9	(836)	(797)
<b>Profit for the financial year</b>		<u>3,446</u>	<u>3,093</u>
Loss on revaluation of available for sale securities	19	(276)	(131)
Associated taxation	19	12	27
<b>Total comprehensive income for the year</b>		<u>3,182</u>	<u>2,989</u>



**Kookmin Bank International Limited**

**Statement of Financial Position  
As At 31 December 2016**

<b>Assets</b>	<u>Note</u>	2016 USD'000	2015 USD'000
Cash and cash equivalents		35,024	45,207
Loans and advances to banks	10	137,317	171,763
Loans and advances to customers	11	136,538	118,410
Debt securities	12	104,557	67,227
Tangible fixed assets	13	102	98
Other assets		444	140
Prepayments and accrued income		1,649	1,120
<b>Total assets</b>		<b>415,631</b>	<b>403,965</b>
<b>Liabilities</b>			
Deposits by banks	14	296,865	328,479
Customer accounts	15	41,441	1,957
Other liabilities	16	501	582
Accruals and deferred income		1,441	746
<b>Total liabilities</b>		<b>340,248</b>	<b>331,764</b>
<b>Net assets</b>		<b>75,383</b>	<b>72,201</b>
<b>Share capital</b>			
Share capital	18	30,392	30,392
Revaluation reserve		(141)	123
Currency reserve		(6,604)	(6,604)
Retained earnings		51,736	48,290
<b>Total equity</b>		<b>75,383</b>	<b>72,201</b>

The financial statements on pages 13 to 38 were approved by the Board of Directors on 24 April 2017 and were signed on its behalf by:

K. H. Park  
Managing Director



**Kookmin Bank International Limited**

**Statement of Changes in Equity  
For The Year Ended 31 December 2016**

	Share Capital USD'000	Retained Earnings USD'000	Revaluation Reserve USD'000	Currency Reserve USD'000	Total USD'000
<b>At 1 January 2016</b>	30,392	48,290	123	(6,604)	72,201
Profit for the financial year	-	3,446	-	-	3,446
Loss on revaluation of securities	-	-	(276)	-	(276)
Associated tax on revaluation loss	-	-	12	-	12
<b>Total comprehensive income for the year</b>	-	3,446	(264)	-	3,182
<b>At 31 December 2016</b>	30,392	51,736	(141)	(6,604)	75,383
	Share Capital USD'000	Retained Earnings USD'000	Revaluation Reserve USD'000	Currency Reserve USD'000	Total USD'000
<b>At 1 January 2015</b>	30,392	45,197	227	(6,604)	69,212
Profit for the financial year	-	3,093	-	-	3,093
Loss on revaluation of securities	-	-	(131)	-	(131)
Associated tax on revaluation loss	-	-	27	-	27
<b>Total comprehensive income for the year</b>	-	3,093	(104)	-	2,989
<b>At 31 December 2015</b>	30,392	48,290	123	(6,604)	72,201





## **Kookmin Bank International Limited**

### **Notes To The Financial Statements For The Year Ended 31 December 2016**

#### **1. Accounting policies**

##### **(a) Basis of preparation**

The Financial Reporting Council revised financial reporting standards ("FRSs") in the UK and Republic of Ireland for accounting periods beginning on or after 1 January 2015. The revisions fundamentally reform United Kingdom Generally Accepted Accounting Practices ("UK GAAP"), replacing the previous standards ("previous UK GAAP").

These financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" ("FRS 101"). FRS 101 applies the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union with reduced disclosures. The Company has adopted FRS 101 with a transition date of 1 January 2014. The financial statements have been prepared on a going concern basis under the historical cost convention as modified by the revaluation of certain financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. Wording of following line items on the income statement are modified for fair presentation and no restatement of respective amounts. Interest receivable and similar income as Interest income, Interest payable and similar charges as Interest expense, Fee and commission income receivable as Fee and commission income, Fee and commission income payable as Fee and commission expense.

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2016, have had a material impact on the company.

The accounting policies have been applied consistently. The following exemptions from the requirements of IFRS as adopted by the EU have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Cash flow statement and related notes IAS 7 Cash flow statements;
- Disclosures in relation to new or revised standards issued but not yet effective (paragraph 30 and 31, IAS 8 Accounting policies, changes in accounting estimates and errors);
- Key management compensation disclosures (paragraph 17, IAS 24 Related Party Disclosures); and
- Related party transactions with wholly owned Group undertakings (IAS 24 Related Party Disclosures).

##### **(b) Income recognition**

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.



## Kookmin Bank International Limited

### Notes To The Financial Statements (continued) For The Year Ended 31 December 2016

#### 1. Accounting policies (continued)

##### (b) Income recognition(continued)

The effective interest rate is calculated on initial recognition of the financial asset or liability by estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts expected to be paid or received by KBI. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. In cases where the effective interest rate matches the contractual interest and fee cash flows the contractual cash flows are used. Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the service has been provided.

##### (c) Financial assets

Financial assets are classified as loans and receivables and available for sale.

*Loans and receivables* – non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method less any impairment losses.

*Available for sale (Debt securities)* – those non-derivative assets that are not classified as loans and receivables, held to maturity, or not held for trading and are not designated as at fair value through the profit and loss on initial recognition. Available for sale financial assets are measured at fair value with fair value gains and losses recognised directly in equity through the statement of total recognised gains and losses. Interest is calculated using the effective interest rate method and recognised in the Statement of Comprehensive Income along with any impairment losses.

Only investments in debt securities are classified as assets available for sale and all other non-derivative financial assets are classified as loans and receivables.

##### (d) Cash and cash equivalents

Cash is defined as cash in hand and at bank and deposits repayable on demand.



## Kookmin Bank International Limited

### Notes To The Financial Statements (continued) For The Year Ended 31 December 2016

#### 1. Accounting policies (continued)

##### (e) Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable.

Fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation techniques that are based on independently sourced market parameters. Valuation techniques include net present value techniques, the discounted cash flow method and comparison to similar instruments for which market observable prices exist.

##### (f) Impairment of financial assets

KBI assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

*Loans and receivables* – Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

*Available for sale(Debt securities)* – Debt instruments are assessed for impairment in the same way as assets carried at amortised cost but also a significant / prolonged decline in market value. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in equity is removed from equity and recognised in the income statement. This may be reversed if there is evidence that the circumstances of the issuer have improved.



## Kookmin Bank International Limited

### Notes To The Financial Statements (continued) For The Year Ended 31 December 2016

#### 1. Accounting policies (continued)

##### (g) Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

Depreciation is calculated to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	<u>%</u>
Office equipment	33
Fixtures and fittings	25
	20

Leasehold improvements are depreciated over the effective term of the lease.

##### (h) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rate as at the balance sheet date. All differences are taken to the Statement of Comprehensive Income. KBI's functional and presentational currency is US Dollars. The year-end 2016 GBP/USD rate was 1.2248 and the average rate for the year was 1.3453.

##### (i) Taxation

Tax expense represents the sum of current tax and deferred tax.

###### Current Tax

The current tax position is based on taxable profits and reserves movements for the year. The taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

###### Deferred Tax

Deferred taxation is recognised in respect of all timing differences that have originated but have not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date, measured at expected future tax rates. Deferred tax assets are recognised to the extent that it is regarded as recoverable.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.



## **Kookmin Bank International Limited**

### **Notes To The Financial Statements (continued) For The Year Ended 31 December 2016**

#### **1. Accounting policies (continued)**

##### **(j) Rental on leasehold premises**

Rental payments under property leases are charged to the Statement of Comprehensive Income on a straight-line basis over the life of the lease.

##### **(k) Pensions**

KBI operates a defined contribution pension arrangement whereby some of the locally employed staff are eligible for a contribution by KBI to their personal pension schemes. Contributions are charged to the Statement of Comprehensive Income as they become payable in accordance with the rules of the scheme

##### **(l) Derivatives**

KBI only holds derivative financial instruments to economically hedge the interest rate risk arising from fixed rate securities.

Derivative financial instruments are measured at their fair value with gains and losses arising from changes in their fair value recognised in other operating income within the Statement of Comprehensive Income. Derivative fair values are determined as described in note 1 (e) Fair value.

##### **(j) Critical accounting estimates and judgments**

KBI makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

##### **Impairment of trade receivables**

KBI makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 21 for the net carrying amount of the receivables and associated impairment provision.

#### **2. Segmental reporting**

The directors consider that KBI's activities fall within a single business segment, being the provision of banking services such as trade finance and letters of credit business, sterling and euro funds transfers and corporate and syndicated loans. All activities in the year were conducted in the United Kingdom



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**3. Interest income**

	2016 USD'000	2015 USD'000
- From loans and advances		
Parent company	3,270	3,588
Other parties	2,799	1,950
- From debt securities	1,278	655
	<u>7,347</u>	<u>6,193</u>

**4. Interest expense**

	2016 USD'000	2015 USD'000
To parent company	2,501	1,671
To other parties	277	91
	<u>2,778</u>	<u>1,762</u>

**5. Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is stated after charging

	2016 USD'000	2015 USD'000
<b>Administrative expenses</b>		
<b>Staff costs:</b>		
- Wages and salaries	1,368	1,513
- Social security costs	36	35
- Pension costs (paid under a defined contribution scheme)	5	8
	<u>1,409</u>	<u>1,556</u>
<b>Other administrative expenses :</b>		
- Operating lease rentals: Land and buildings	352	401
- Auditors' remuneration for audit services	80	87
- Auditors' remuneration for non-audit services	-	-
- Other	1,255	911
	<u>1,687</u>	<u>1,399</u>
<b>Total Administrative expenses</b>	<u>3,096</u>	<u>2,955</u>
<b>Depreciation</b>	<u>57</u>	<u>40</u>

**6. Employee information**

	2016 Number	2015 Number
The monthly average number of people (including executive directors) employed		
Trade finance	4	4
Treasury	2	2
Finance and Administration	7	6
	<u>13</u>	<u>12</u>

All employees fall under the defined contribution plan with KBI contributing 3% of gross pay.



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**7. Other operating income**

	2016 USD'000	2015 USD'000
Foreign exchange profit/(loss)	165	(30)
Derivative valuation profit	294	77
Other income	-	17
	459	64

**8. Directors' emoluments**

	2016 USD'000	2015 USD'000
Aggregate emoluments	601	832
Aggregate emoluments payable to the highest paid director	335	343

The directors do not receive pension contributions.

**9. Tax on profit on ordinary activities**

**(a) Analysis of charge**

	2016 USD'000	2015 USD'000
UK Corporation tax payable	(896)	(797)
Adjustment in respect of prior years	61	-
Total tax	(835)	(797)
Deferred tax: origination and reversal of timing differences (note 17)	(1)	-
Tax charge on profit on ordinary activities	(836)	(797)

The UK corporation tax rate at 31 December 2016 was 20% (effective from 1 April 2015). These rates have been reflected in calculation of the deferred tax asset.

**(b) Factors affecting the tax charge**

The tax charge for the year differs (2015: differs) from the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below.

	2016 USD'000	2015 USD'000
Profit on ordinary activities before taxation	4,282	3,890
Tax on profit at standard UK tax rate of 20.00% (2015:20.25%)	856	788
Effects of:		
Expenses not deductible for tax purposes	90	11
Tax rate changes	(1)	(2)
Current tax exchange difference arising on movement between opening and closing spot rates	(48)	-
Adjustment for over/(under) provision in respect of prior years	(61)	-
Total current tax	836	797



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**10. Loans and advances to banks**

Balance by remaining maturity according to maturity dates or periods of notice:

	2016 USD'000	2015 USD'000
Within 3 months	102,879	131,222
After 3 months but within 6 months	34,347	40,241
After 6 months but within 1 year	91	300
	<u>137,317</u>	<u>171,763</u>
Amounts include:		
Parent company	122,914	166,351
Other banks	14,403	5,412
	<u>137,317</u>	<u>171,763</u>

**11. Loans and advances to customers**

Balance by remaining maturity according to maturity dates or periods of notice:

	2016 USD'000	2015 USD'000
Within 3 months	22,091	7,447
After 3 months but within 6 months	30,070	33,445
After 6 months but within 1 year	42,663	33,111
After 1 year but within 5 years	22,843	42,082
Over 5 years	18,871	2,325
	<u>136,538</u>	<u>118,410</u>

**12. Debt securities**

	2016		2015	
	Book Value USD'000	Fair Value USD'000	Book Value USD'000	Fair Value USD'000
Issued by:				
Public bodies	27,668	27,668	21,547	21,547
Other issuers	76,889	76,889	45,680	45,680
	<u>104,557</u>	<u>104,557</u>	<u>67,227</u>	<u>67,227</u>

	2016		2015	
	Book Value USD'000	Fair Value USD'000	Book Value USD'000	Fair Value USD'000
Amounts include				
Listed on UK Exchanges	13,490	13,490	4,000	4,000
Listed on non - UK Exchanges	63,359	63,359	22,362	22,362
Unlisted	27,708	27,708	40,865	40,865
	<u>104,557</u>	<u>104,557</u>	<u>67,227</u>	<u>67,227</u>





**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**12. Debt securities (continued)**

	2016	2015
	USD'000	USD'000
<b>Amounts include:</b>		
Debt securities with maturity due within one year	42,203	41,637
Debt securities with maturity due one year and over	62,354	25,590
	<u>104,557</u>	<u>67,227</u>

Of the total debt securities amounts of USD 104.6 m (2015: USD 67.2m), KBI has pledged an amount of USD 3.0m (2015: USD 3.0m) as collateral under an interest rate swap agreement with another counterparty. Under the agreement, the counterparty is entitled to make good any loss arising should KBI default on the contract.

**13. Tangible fixed assets**

	<b>Computers and office equipment USD'000</b>	<b>Fixtures and fittings USD'000</b>	<b>Total USD'000</b>
<b>Cost</b>			
At 1 January 2016	352	464	816
Additions	60	1	61
Disposal	-	-	-
<b>At 31 December 2016</b>	<u>412</u>	<u>465</u>	<u>877</u>
<b>Accumulated Depreciation</b>			
At 1 January 2016	259	459	718
Charge for year	55	2	57
Disposal	-	-	-
<b>At 31 December 2016</b>	<u>314</u>	<u>461</u>	<u>775</u>
<b>Net book value at 31 December 2016</b>	<u>98</u>	<u>4</u>	<u>102</u>
<b>Net book value at 31 December 2015</b>	<u>93</u>	<u>5</u>	<u>98</u>



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**14. Deposits by banks**

Balance by remaining maturity according to maturity dates or periods of notice:

	2016 USD'000	2015 USD'000
Repayable on demand	7,855	7,850
Within 3 months	104,929	176,139
6 months or less but over 3 months	71,894	61,388
1 year or less but over 6 months	97,187	83,102
More than 1 year	15,000	-
	<u>296,865</u>	<u>328,479</u>
Amounts include:		
Due to parent company	<u>296,865</u>	<u>328,479</u>

**15. Customer accounts**

Balance by remaining maturity according to maturity dates or periods of notice:

	2016 USD'000	2015 USD'000
Repayable on demand	19	83
6 months or less	40,092	1,874
1 year or less but over 6 months	1,330	-
	<u>41,441</u>	<u>1,957</u>

**16. Other liabilities**

	2016 USD'000	2015 USD'000
Corporation tax	424	464
Other liabilities	77	113
Derivatives at fair value (note 21)	-	5
	<u>501</u>	<u>582</u>

**17. Deferred taxation**

	2016 USD'000	2015 USD'000
The deferred taxation balance comprises:		
Accelerated capital allowances	23	(13)
	<u>23</u>	<u>(13)</u>

The movements in the deferred tax balance during the year are outlined below:

Deferred tax liability at 1 January	(13)	(13)
Charge in respect of accelerated capital allowances	(1)	-
Short term temporary difference	37	-
Deferred tax liability at 31 December	<u>23</u>	<u>(13)</u>



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**18. Share capital**

	2016 USD'000	2015 USD'000
<b>Issued, allotted and fully paid</b>		
20,000,000 (2015: 20,000,000) ordinary shares of USD1.5196 each fully paid	<u>30,392</u>	<u>30,392</u>

The holders of the ordinary shares are entitled to receive dividends, as declared from time to time and are entitled to one vote per share at the shareholders meeting. All shares rank equally with regards to the Bank's residual assets.

**19. Reconciliation of movements in shareholders' funds**

	Share Capital USD'000	Retained Earnings USD'000	Revaluation Reserve USD'000	Currency Reserve USD'000	Total Equity USD'000
<b>At 1 January 2016</b>	30,392	48,290	123	(6,604)	72,201
Profit for the financial year	-	3,446	-	-	3,446
Loss on revaluation of securities	-	-	(276)	-	(276)
Associated tax on revaluation loss	-	-	12	-	12
<b>At 31 December 2016</b>	<u>30,392</u>	<u>51,736</u>	<u>(141)</u>	<u>(6,604)</u>	<u>75,383</u>

	Share Capital USD'000	Retained Earning USD'000	Revaluation Reserve USD'000	Currency Reserve USD'000	Total Equity USD'000
<b>At 1 January 2015</b>	30,392	45,197	227	(6,604)	69,212
Profit for the financial year	-	3,093	-	-	3,093
Loss on revaluation of securities	-	-	(131)	-	(131)
Associated tax on revaluation loss	-	-	27	-	27
<b>At 31 December 2015</b>	<u>30,392</u>	<u>48,290</u>	<u>123</u>	<u>(6,604)</u>	<u>72,201</u>

Currency reserves arose from the change in presentational currency from Sterling to US Dollars on 1 January 2010. The revaluation reserve in respect of available-for-sale financial assets represents the cumulative after tax unrealised change in the fair value of financial assets classified as available-for-sale since initial recognition.



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**20. Assets and liabilities denominated in USD and foreign currencies**

	2016	2015
	USD'000	USD'000
<b>Assets</b>		
Denominated in USD	333,485	321,732
Denominated in foreign currencies (GBP and EUR)	82,146	82,233
Total	<u>415,631</u>	<u>403,965</u>
<b>Liabilities</b>		
Denominated in USD	335,615	322,568
Denominated in foreign currencies (GBP and EUR)	80,016	81,397
Total	<u>415,631</u>	<u>403,965</u>

**21. Financial Instruments**

**Categories of financial instruments**

The financial instruments held by KBI are categorised as follows:

	2016	2015
	USD'000	USD'000
<b>Financial assets</b>		
Loans and receivables	273,855	290,173
Available for sale securities	104,557	67,227
Cash and cash equivalents	35,024	45,207
Derivative instruments	340	51
Total	<u>413,776</u>	<u>402,658</u>
<b>Financial liabilities</b>		
Derivative instruments	-	5
Deposits and customers' accounts	338,306	330,436
Total	<u>338,306</u>	<u>330,441</u>



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**21. Financial Instruments (continued)**

**Liquidity risk management gap analysis**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has a liquidity risk management framework for KBI's short, medium and long term funding requirements. KBI manages liquidity by seeking to maintain adequate cash reserves through continuously monitoring forecast and actual cash flows and matching maturities profiles of financial assets and liabilities.

The table below provides details on the contractual maturities of the financial instruments and other assets and liabilities.

At 31 December 2016	Within 3 months USD'000	After 3 months but within 6 months USD'000	After 6 months but within 1 year USD'000	After 1 year but within 5 years USD'000	After 5 years USD'000	Assets/ Liabilities without contractual maturity USD'000	Total USD'000
<b>Assets</b>							
Loans and advances to banks	102,879	34,347	91	-	-	-	137,317
Loans and advances to customers	22,091	30,070	42,663	22,843	18,871	-	136,538
Debt securities	104,557	-	-	-	-	-	104,557
Cash and cash equivalents	35,024	-	-	-	-	-	35,024
Prepayment and accrued income	861	242	160	86	71	229	1,649
Other assets	-	-	-	-	-	444	444
<b>Total assets</b>	<b>265,412</b>	<b>64,659</b>	<b>42,914</b>	<b>22,929</b>	<b>18,942</b>	<b>673</b>	<b>415,529</b>
<b>Liabilities</b>							
Deposits by banks	112,784	71,894	97,187	15,000	-	-	296,865
Customer accounts	20,032	20,079	1,330	-	-	-	41,441
Other liabilities	-	-	-	-	-	501	501
<b>Total Liabilities</b>	<b>132,816</b>	<b>91,973</b>	<b>98,517</b>	<b>15,000</b>	<b>-</b>	<b>501</b>	<b>338,807</b>
<b>Cumulative gap</b>	<b>132,596</b>	<b>105,282</b>	<b>49,679</b>	<b>57,608</b>	<b>76,550</b>	<b>76,722</b>	



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**21. Financial Instruments (continued)**

At 31 December 2015	Within 3 months USD'000	After 3 months but within 6 months USD'000	After 6 months but within 1 year USD'000	After 1 year but within 5 years USD'000	After 5 years USD'000	Assets/ Liabilities without contractual maturity USD'000	Total USD'000
<b>Assets</b>							
Loans and advances to banks	131,222	40,241	300	-	-	-	171,763
Loans and advances to customers	7,447	33,445	33,111	42,082	2,325	-	118,410
Debt securities	67,227	-	-	-	-	-	67,227
Cash and cash equivalents	45,207	-	-	-	-	-	45,207
Prepayment and accrued income	628	236	-	-	-	256	1,120
Other assets	-	-	-	-	-	140	140
<b>Total assets</b>	<b>251,731</b>	<b>73,922</b>	<b>33,411</b>	<b>42,082</b>	<b>2,325</b>	<b>396</b>	<b>403,867</b>
<b>Liabilities</b>							
Deposits by banks	183,989	61,388	83,102	-	-	-	328,479
Customer accounts	1,957	-	-	-	-	-	1,957
Other liabilities	5	-	-	-	-	577	582
<b>Total Liabilities</b>	<b>185,951</b>	<b>61,388</b>	<b>83,102</b>	<b>-</b>	<b>-</b>	<b>577</b>	<b>331,018</b>
<b>Cumulative gap</b>	<b>65,781</b>	<b>78,314</b>	<b>28,623</b>	<b>70,706</b>	<b>73,030</b>	<b>72,849</b>	

**Credit risk management**

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

KBI, as well as undertaking its own credit analysis, checks with its parent's group credit reports and records before extending credit or purchasing a security. KBI assigns internal credit ratings to all non-bank credit risks and these are required to be of investment grade level before a purchase can proceed.

Credit risk on liquid funds is limited because the counterparties are banks with strong credit ratings.

At the year-end, KBI did not have any overdue receivables in respect of interest or principal amounts due from counterparties.



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**21. Financial Instruments (continued)**

**Maximum exposure to credit risk**

The following table shows KBI's maximum exposure to credit risk as at 31 December 2016 and 2015.

	<b>2016</b>	<b>2015</b>
	<b>USD'000</b>	<b>USD'000</b>
Loans and advances to banks	137,317	171,763
Loans and advances to customers	136,538	118,410
Debt securities	104,557	67,227
Cash and cash equivalents	35,024	45,207
Total maximum exposure 31 December 2016	<u>413,436</u>	<u>402,607</u>

	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	<b>Loans and advances to Banks USD'000</b>	<b>Loans and advances to customers USD'000</b>	<b>Debt Securities USD'000</b>	<b>Total USD'000</b>
Neither past due nor individually impaired (a)	137,317	136,538	104,557	378,412
Past due but not individually impaired (b)	-	-	-	-
Individually impaired (c)	-	-	-	-
Total	<u>137,317</u>	<u>136,538</u>	<u>104,557</u>	<u>378,412</u>

	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2015</b>
	<b>Advances to Banks USD'000</b>	<b>Loans and advances to customers USD'000</b>	<b>Debt Securities USD'000</b>	<b>Total USD'000</b>
Neither past due nor individually impaired (a)	171,763	118,410	67,227	357,400
Past due but not individually impaired (b)	-	-	-	-
Individually impaired (c)	-	-	-	-
Total	<u>171,763</u>	<u>118,410</u>	<u>67,227</u>	<u>357,400</u>



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**21. Financial Instruments (continued)**

**Financial assets subject to credit risk**

**a - Financial assets subject to credit risk neither past due nor individually impaired**

	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
	Good quality USD'000	Satisfactory quality USD'000	Below standard but not impaired USD'000	Total USD'000
Loans and advances to banks	137,317	-	-	137,317
Loans and advances to customers	89,440	47,098	-	136,538
Debt securities	104,557	-	-	104,557
Cash	35,024	-	-	35,024
<b>Total</b>	<b>366,338</b>	<b>47,098</b>	<b>-</b>	<b>413,436</b>

  

	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2015</b>
	Good quality USD'000	Satisfactory quality USD'000	Below standard but not impaired USD'000	Total USD'000
Loans and advances to banks	171,763	-	-	171,763
Loans and advances to customers	65,040	53,370	-	118,410
Debt securities	67,227	-	-	67,227
Cash	45,207	-	-	45,207
<b>Total</b>	<b>349,237</b>	<b>53,370</b>	<b>-</b>	<b>402,607</b>

Good quality - there is a very high likelihood of the asset being recovered in full.

Satisfactory quality - While there is a high likelihood that the asset will be recovered and therefore causes no loss to the bank there may be customers that are being monitored due to adverse conditions in the markets in which they operate.

Below standard but not impaired - There is some level of concern over the recoverability of these financial instruments, due to the financial state of these customers, banks or issuers of securities, but there is no impairment.

**b - Financial assets subject to credit risk that are past due but not individually impaired.**

KBI did not have any past due assets as at 31 December 2016 and 2015.

**c - Individually impaired financial assets.**

KBI did not have any individually impaired financial assets as at 31 December 2016 and 2015.





**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**21. Financial Instruments (continued)**

KBI's activities expose it primarily to the financial risks of changes in interest rates and to some extent changes in foreign currency exchange rates. KBI enters into interest rate swaps to manage its exposure to interest rate risk. Market risk is monitored using sensitivity analysis.

Interest rate risks are managed by KBI by maintaining an appropriate mix between fixed rate and floating rate borrowings and by the use of interest rate swaps. KBI's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

**Interest rate risk sensitivity analysis**

The following shows the impact of a 25 basis point change in interest rates.

	2016 + 25 basis points USD'000	2016 - 25 basis points USD'000	2015 + 25 basis points USD'000	2015 - 25 basis points USD'000
Impact on net interest income	(11)	87	10	(35)

**Foreign exchange rates risk sensitivity analysis**

The following sensitivity table demonstrates the effect of a 10% rise or fall in foreign exchange rates in GBP and EUR. These are the only two currencies KBI has exposures to:

	2016 Impact on Profit after tax if currency weakens 10% vs USD USD'000	2016 Impact on Profit after tax if currency strengthens 10% vs USD USD'000	2015 Impact on Profit after tax if currency weakens 10% vs USD USD'000	2015 Impact on Profit after tax if currency strengthens 10% vs USD USD'000
GBP	172	(172)	204	(204)
EUR	(163)	163	(166)	166

Price risk is the risk that market prices for KBI's investment securities measured at fair value may fall.

The table below shows the potential post tax impact on KBI's equity of a 5% increase or decrease in the fair value of KBI's debt securities, assuming all other variables are unchanged.

	2016 Impact on Equity if price weakens by 5% USD'000	2016 Impact on Equity if price strengthens by 5% USD'000	2015 Impact on Equity if price weakens by 5% USD'000	2015 Impact on Equity if price strengthens by 5% USD'000
Effect on equity	-5,228	5,228	-3,361	3,361



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**21. Financial Instruments (continued)**

**Capital risk management**

KBI manages its capital to ensure that it will be able to continue as a going concern whilst generating an appropriate return to stakeholders. The capital structure of KBI consists of equity attributable to equity holders, comprising issued share capital and reserves.

**Fair values of financial instruments**

	2016 Carrying Amount USD'000	2016 Fair Value USD'000	2015 Carrying Amount USD'000	2015 Fair Value USD'000
<b>Financial Assets</b>				
Loans and advances to banks <sup>1</sup>	137,317	137,317	171,763	171,763
Loans and advances to customers	136,538	136,538	118,410	118,410
Debt securities	104,557	104,557	67,227	67,227
Cash and cash equivalents	35,024	35,024	45,207	45,207
Derivative financial assets	340	340	51	51
<b>Total</b>	<b>413,776</b>	<b>413,776</b>	<b>402,658</b>	<b>402,658</b>
<b>Financial Liabilities</b>				
Deposits by banks	296,865	296,865	328,479	328,479
Customer accounts	41,441	41,441	1,957	1,957
Derivative financial liabilities	-	-	5	5
<b>Total</b>	<b>338,306</b>	<b>338,306</b>	<b>330,441</b>	<b>330,441</b>

This table shows KBI's financial assets and liabilities that are recognised at fair value according to a hierarchy that reflects the significance of observable market inputs. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is described below.

	2016 Level 1 USD'000	2016 Level 2 USD'000	2016 Level 3 USD'000	2016 Total USD'000
<b>Financial Assets</b>				
Debt securities	104,557	-	-	104,557
Derivative financial assets	-	340	-	340
<b>Total</b>	<b>104,557</b>	<b>340</b>	<b>-</b>	<b>104,897</b>
<b>Financial Liabilities</b>				
Derivatives financial liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Loans and advances are all floating rate assets and hence their carrying values approximate fair value.



## Kookmin Bank International Limited

### Notes To The Financial Statements (continued) For The Year Ended 31 December 2016

#### 21. Financial Instruments (continued)

##### Valuations based on observable inputs

Level 1 - 3 are defined as follows.

##### Level 1

Financial instruments for which their valuations are deemed by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

##### Level 2

Financial instruments valued using inputs other than quoted prices as described above for level 1, but which are observable for the asset or liability, either directly, such as:

(a) Using recent arm's length market transactions or with reference to the current fair value of similar instruments.

(b) Linear financial instruments such as swaps are valued using standard pricing techniques.

##### Level 3

Valuations based on inputs that are not based on observable market data (unobservable data).

#### 22. Derivatives

KBI uses interest rate swaps to economically hedge the fixed rate income generated from debt securities and not for speculative purposes.

Interest rate swaps are measured at their fair value with gains and losses arising from changes in their fair value being recognised in the profit and loss for the year. The fair values are determined as described in note 1(e) fair value.

	2016 Notional Amounts USD'000	2015 Notional Amounts USD'000	2016 Fair value Assets USD'000	2016 Fair value Liabilities USD'000	2015 Fair value Assets USD'000	2015 Fair value Liabilities USD'000
Under 1 year	-	8,100	-	-	3	5
Over 1 year	52,450	5,420	340	-	48	-
	<u>52,450</u>	<u>13,520</u>	<u>340</u>	<u>-</u>	<u>51</u>	<u>5</u>

There were no foreign exchange contracts outstanding as at 31 December 2016 or 31 December 2015.



**Kookmin Bank International Limited**

**Notes To The Financial Statements (continued)  
For The Year Ended 31 December 2016**

**23. Operating Lease commitments**

KBI have an annual commitment of USD 352k (2015: USD 401k) under an operating lease on land and buildings. New lease commitments commenced on 25 Mar 2012 for the next 10 years. The future aggregate minimum lease payments under non-cancellable operating leases for land and buildings are as follows:

	2016 USD'000	2015 USD'000
No later than 1 year	-	-
Later than 1 year and no later than 5 years	-	-
Later than 5 years	352	401
Total	<u>352</u>	<u>401</u>

**24. Other commitments**

At 31 December 2016, KBI had no undrawn loan commitments (2015: USD nil).

**25. Immediate ultimate parent undertaking**

The immediate parent undertaking is Kookmin Bank Limited.

The ultimate parent undertaking and controlling party is KB Financial Group, a company incorporated in Korea.

KB Financial Group is the parent undertaking of the largest group of undertakings to consolidate these financial statements as at 31 December 2016. Kookmin Bank is the smallest group of undertakings to consolidate these financial statements as at 31 December 2016. The consolidated financial statements of KB Financial Group are available from the following website;

[www.kbstar.com](http://www.kbstar.com)



## **Independent auditors' report to the Directors of Kookmin Bank International Limited**

We have audited the Appendix 1 to the Annual report of Kookmin Bank International Limited for the year ended 31 December 2016 ("the schedule"). The schedule has been prepared by the directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

### **Directors' Responsibility for the schedule**

The directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the Regulations as they affect the preparation of the schedule, and for such internal control as the directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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

### **Opinion**

In our opinion, the country-by-country information in the schedule as at 31 December 2016 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

### **Basis of Preparation and Restriction on Distribution**

Without modifying our opinion, we draw attention to the schedule, which describes the basis of preparation. The schedule is prepared to assist the directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the directors of Kookmin Bank International Limited. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.

PRICE WATERHOUSE COOPERS 22 P

PricewaterhouseCoopers LLP  
Chartered Accountants  
24 April 2017  
London

## Appendix 1

### Country by country reporting

Country by Country Reporting ('CBCR') is a transparency initiative by Financial Conduct Authority which intended to give a clearer picture of a company's tax position. A new CBCR reporting obligation was introduced through Article 89 of the EU Directive 2013/36/EU otherwise known as the Capital Requirements Directive IV ('CRD IV'), aimed at the banking and capital markets industry. In accordance with Article 89 of the EU Capital Requirements Regulations, we set out below the required Country By Country Reporting (CBCR) information for the Bank for the year ended 31 December 2016.

KBI is not liable and does not pay any income taxes in any other tax jurisdictions except for the UK. We can confirm that the following information relates only to the United Kingdom, as the Bank operates solely within this jurisdiction:

- 1) The name of the institution is Kookmin Bank International Limited and its registration number is 2625699. The main activities are trade finance, corporate loans, investment in securities and international payments.
- 2) Net interest income for the year-ending 31 December 2016 was USD 4,569k.
- 3) The average number of employees, on a full-time equivalent basis, during the year was 13.
- 4) Net profit for the year was USD 3,446k.
- 5) The amount of corporation tax paid for the year ended 31 December 2016 was USD 863k.
- 6) We confirm that the Bank receives no subsidies from any third party.