## IMPORTANT NOTICE

**THE SECURITIES DESCRIBED HEREIN ARE AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OF THE SECURITIES ACT (AS DEFINED BELOW) OR (2) ADDRESSEES WHO ARE NON-U.S. PERSONS (AS DEFINED BELOW) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT**

**IMPORTANT: You must read the following before continuing.** The following applies to the information memorandum ("**Information Memorandum**") following this page. You are therefore advised to read this carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the issuer as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF INSTRUMENTS FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE INSTRUMENTS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE INSTRUMENTS MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S OF THE SECURITIES ACT ("**REGULATION S**")), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

A REGISTRATION STATEMENT FOR THE OFFERING AND SALE OF THE INSTRUMENTS HAS NOT BEEN FILED IN KOREA AND THE INSTRUMENTS MAY NOT BE OFFERED OR SOLD IN KOREA OR TO ANY RESIDENT OF KOREA EXCEPT AS PERMITTED BY APPLICABLE KOREAN LAW.

THE FOLLOWING INFORMATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY UNITED STATES ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE INSTRUMENTS DESCRIBED THEREIN.

**Confirmation and your Representation:** In order to be eligible to view this Information Memorandum or make an investment decision with respect to the instruments, investors must be either (1) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) addressees who are non-U.S. persons as defined under Regulation S purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the electronic mail and accessing this Information Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) a non-U.S. person purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act and that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and (2) that you consent to delivery of such Information Memorandum by electronic transmission.

You are reminded that this Information Memorandum has been delivered to you on the basis that you are a person into whose possession this Information Memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Information Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such initial purchaser or such affiliate on behalf of the issuer in such jurisdiction.

This Information Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Hana Daetoo Securities, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Singapore Branch, KEB Asia Finance Limited, Merrill Lynch International, Mizuho Securities Asia Limited or Morgan Stanley & Co. International plc, as Dealers, or any person who controls any of them or any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Information Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Dealers.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this email is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

INFORMATION MEMORANDUM

# KOREA EXCHANGE BANK

*(Incorporated with limited liability under the laws of the Republic of Korea)*

## U.S.$4,000,000,000
## PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

*On 17 May 1995, Korea Exchange Bank (the "**Issuer**" or the "**Bank**") established a programme for the issuance of debt instruments up to U.S.$4,000,000,000 (the "**Programme**", as amended, supplemented or restated) and the Bank prepared this information memorandum dated 26 May 2014 which describes the Programme (this "**Information Memorandum**"). Any Instruments (as defined below) issued under the Programme on or after the date of this Information Memorandum are issued subject to the provisions described herein.*

*Under this Programme, the Bank may from time to time issue debt instruments (the "**Instruments**") denominated in any currency agreed between the Bank and the relevant Dealer (as defined below). The Instruments may be issued in bearer or registered form (respectively "**Bearer Instruments**" and "**Registered Instruments**"). The maximum aggregate nominal amount of all Instruments from time to time outstanding under the Programme will not exceed U.S.$4,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.*

*The Instruments may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an on-going basis. References in this Information Memorandum to the "relevant Dealer" shall, in the case of an issue of Instruments being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Instruments.*

*Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**Singapore Exchange**") for the listing and quotation of Instruments that may be issued under the Programme and which Instruments are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Exchange. Such permission will be granted when such Instruments have been admitted to the Official List of the Singapore Exchange. The Singapore Exchange assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any of the Instruments on, the Singapore Exchange are not to be taken as an indication of the merits of the Bank, its subsidiaries, its associated companies or the Instruments. This Information Memorandum replaces the information memorandum dated 16 October 2013.*

*Notice of the aggregate nominal amount of Instruments, interest (if any) payable in respect of Instruments, the issue price of Instruments and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Instruments"), of Instruments will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Instruments to be listed on the Singapore Exchange, will be delivered to the Singapore Exchange before the date of listing of the Instruments of such Tranche.*

*The Programme provides that Instruments may be listed on such other or further stock exchange(s) as may be agreed between the Bank and the relevant Dealer. The Issuer may also issue unlisted Instruments.*

***See "Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the Instruments**.*

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*The Instruments have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Instruments are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Forms of Instruments" for a description of the manner in which Instruments will be issued. The Instruments are subject to certain restrictions on transfer. See "Transfer Restrictions" and "Subscription and Sale".*

*Bearer Instruments are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder.*

*The Bank may agree with any Dealer that Instruments may be issued in a form not contemplated by the Terms and Conditions of the Instruments herein, in which event (in the case of Instruments intended to be listed on the Singapore Exchange) a supplementary information memorandum, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Instruments.*

*Tranches of Instruments (as defined in "Summary of the Programme") to be issued under the Programme will be rated or unrated. Where a Tranche of Instruments is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.*

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*Arranger for the Programme*

**CITI**

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*Dealers*

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| **BARCLAYS** | **BNP PARIBAS** | **BofA MERRILL LYNCH** |
| **CITI** | **COMMERZBANK** | **CRÉDIT AGRICOLE CIB** |
| **HANA DAETOO SECURITIES** | **HSBC** | **ING** |
| **KEB ASIA FINANCE LIMITED** | **MIZUHO SECURITIES** | **MORGAN STANLEY** |

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Dated 26 May 2014

The Issuer accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Information Memorandum should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Series (as defined herein) of Instruments, should be read and construed together with the relevant Pricing Supplement(s) (as defined herein).

The Issuer has confirmed to the Dealers that this Information Memorandum (including, for this purpose, each relevant Pricing Supplement) contains all information which is (in the context of the Programme, the issue, offering and sale of the Instruments) material; that such information is true and accurate in all material respects and is not misleading in any material respect (save that the Issuer shall not be responsible for the accuracy of the information set out under "*Subscription and Sale*" herein); that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Information Memorandum does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering or sale of the Instruments) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing. The Issuer has further confirmed to the Dealers that this Information Memorandum (together with the relevant Pricing Supplement) contains all such information as may be required by all applicable laws, rules and regulations.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

To the fullest extent permitted by law, none of the Dealers accepts any responsibility for the contents of this Information Memorandum or for any other statement made or purported to be made by a Dealer or on its behalf in connection with the Issuer, or the issue and offering of the Instruments. Each Dealer accordingly disclaims any and all liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Information Memorandum or any such statement. Neither the delivery of this Information Memorandum or any Pricing Supplement nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true subsequent to the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date thereof or, if later, the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Information Memorandum nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Information Memorandum or any Pricing Supplement should subscribe or purchase any Instruments. Each recipient of this Information Memorandum or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE (AS DEFINED HEREIN) OF INSTRUMENTS, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE**

**INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO OBLIGATION ON THE STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) TO UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. ANY LOSS OR PROFIT SUSTAINED AS A CONSEQUENCE OF ANY SUCH OVER-ALLOTMENT OR STABILISING SHALL, AS AGAINST THE ISSUER, BE FOR THE ACCOUNT OF THE STABILISING MANAGER(S).**

The maximum aggregate principal amount of Instruments outstanding at any one time under the Programme will not exceed U.S.$4,000,000,000 (and, for this purpose, any Instruments denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of U.S. dollars being quoted by the Issue and Paying Agent on the date on which the relevant agreement to issue the relevant Tranche was made or such other rate as the Issuer and the relevant Dealer(s) may agree). The maximum aggregate principal amount of Instruments which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under "*Subscription and Sale*".

## U.S. INFORMATION

The distribution of this Information Memorandum and any Pricing Supplement and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum or any Pricing Supplement comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of this Information Memorandum or any Pricing Supplement and other offering material relating to the Instruments, see "*Transfer Restrictions*" and "*Subscription and Sale*".

In particular, Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may include Instruments in bearer form which are subject to U.S. tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold or, in the case of Bearer Instruments, delivered within the United States or to, or for the account or benefit of, any U.S. persons. Neither this Information Memorandum nor any Pricing Supplement may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

The Instruments are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to "**Qualified Institutional Buyers**" in reliance on Rule 144A under the Securities Act ("**Rule 144A**"). Prospective purchasers are hereby notified that sellers of the Instruments may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Instruments and distribution of this Information Memorandum, see "*Transfer Restrictions*" and "*Subscription and Sale*".

THE INSTRUMENTS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE INSTRUMENTS OR THE ACCURACY OR THE ADEQUACY OF THIS INFORMATION MEMORANDUM. ANY REPRESENTATION MADE TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a limited liability company organised under the laws of the Republic of Korea. None of the directors and executive officers of the Issuer is a resident of the United States, and all or a substantial portion of the assets of the Issuer and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons or to enforce against any of them in the United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States. There is doubt as to enforceability in the Republic of Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the U.S. federal securities laws. The attention of the recipients of this Information Memorandum is drawn to item 4 in "*General Information*" concerning enforcement of judgments obtained against the Issuer in non-Korean courts.

## CERTAIN DEFINED TERMS AND CONVENTIONS

In this Information Memorandum, unless otherwise specified or the context otherwise requires:

- references to the "**Issuer**", "**we**", "**us**", the "**Bank**" or "**Korea Exchange Bank**" are to Korea Exchange Bank and, unless the context otherwise requires, our subsidiaries;
- references to "**Hana Bank**" are to Hana Bank, the commercial banking subsidiary of Hana Financial Group Co., Ltd.;
- references to "**Hana Financial Group**" are to Hana Financial Group Co., Ltd.;
- references to "**Korea**" are to the Republic of Korea;
- references to the "**Government**" are to the government of Korea;
- references to "**Won**" or "**₩**" are to the currency of Korea;
- references to "**CNY**" or "**RMB**" are to Renminbi, the currency of the People's Republic of China;

- references to “**S$**” are to the currency of the Republic of Singapore; and

- references to “**$**”, “**U.S.$**”, “**U.S. dollars**” or “**U.S. Dollars**” are to the currency of the United States of America (the “**U.S.**”, “**U.S.A.**” or the “**United States**”).

We publish our financial statements in Won. Unless otherwise specified, all conversions of Won into U.S. dollars in respect of the financial data as of and for the year ended 31 December 2013 herein were made at the base rate under the market average exchange rate system, announced by Seoul Money Brokerage Services, Ltd. in Seoul, Korea between U.S. dollars and Won (the “**Market Average Exchange Rate**”) as of 31 December 2013, which was ₩1,055.3 to U.S.$1.00 and all conversions of Won into U.S. dollars in respect of the financial data as of and for the three months ended 31 March 2014 herein were made at the Market Average Exchange Rate as of 31 March 2014, which was ₩1,068.8 to U.S.$1.00. No representation is made that the Won or U.S. dollar amounts referred to in this Information Memorandum could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Certain figures included in this Information Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

## PRESENTATION OF FINANCIAL INFORMATION

Prior to 2011, the Issuer maintained its financial books and records and prepared its financial statements in Won in accordance with generally accepted accounting principles in Korea. Commencing in 2011, the Issuer maintains its financial books and records and prepares its financial statements in Won in accordance with the Korean equivalent of International Financial Reporting Standards (“**K-IFRS**”), which differ in certain significant respects from generally accepted accounting principles in other countries, including generally accepted accounting principles in the United States (“**U.S. GAAP**”). The Issuer has made no attempt to identify or quantify the impact of differences between K-IFRS and U.S. GAAP.

We have prepared audited consolidated and separate financial statements as of and for the years ended 31 December 2011, 2012 and 2013, and unaudited consolidated and separate financial statements as of 31 March 2014 and for the three months ended 31 March 2013 and 2014 in accordance with K-IFRS.

In this Information Memorandum, unless otherwise specified or the context otherwise requires:

- all financial information contained in this Information Memorandum has been prepared in accordance with K-IFRS; and

- all financial information is presented on a separate basis.

## FORWARD LOOKING STATEMENTS

Certain statements in this Information Memorandum constitute "forward-looking statements" including statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "will", "aim", "will likely result", "will continue", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "should", "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Information Memorandum, including, without limitation, those regarding the Issuer's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Information Memorandum (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future.

These factors include, but are not limited to:

- the Issuer's ability to implement its strategy successfully;
- the Issuer's growth and expansion;
- future levels of non-performing loans;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- availability of funding and liquidity;
- the Issuer's exposure to market risks; and
- adverse market and regulatory conditions.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in or incorporated by reference into this Information Memorandum could include, but are not limited to:

- general economic and political conditions in Korea or other countries which have an impact on the Issuer's business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;

- changes in domestic and foreign laws, regulations and taxes;
- competition in the Korean banking industry; and
- regional or general changes in asset valuations.

Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Investment Considerations*". Any forward-looking statements contained in this Information Memorandum speak only as of the date of this Information Memorandum. Each of the Issuer and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

## AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Instruments are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

(1) the most recently published audited annual financial statements (both on a consolidated and separate basis and including the audit report thereon) and any interim financial statements (whether audited or unaudited or on a consolidated or separate basis) published subsequently to such annual financial statements, of the Issuer from time to time;

(2) all amendments and supplements to this Information Memorandum prepared by the Issuer from time to time; and

(3) with respect to each Tranche, the relevant Pricing Supplement,

**provided**, **however**, **that** any statement contained in this Information Memorandum or in any of the documents incorporated by reference in, and forming part of, this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

## CONTENTS

## SUMMARY OF THE PROGRAMME

*The following is a brief summary only and should be read in conjunction with the rest of this document and, in relation to any Tranche of Instruments, in conjunction with the relevant Pricing Supplement and, to the extent applicable, the Terms and Conditions of the Instruments set out herein.*

| | |
|---|---|
| **Issuer** | Korea Exchange Bank |
| **Arranger** | Citigroup Global Markets Limited |
| **Dealers** | Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Hana Daetoo Securities, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Singapore Branch, KEB Asia Finance Limited, Merrill Lynch International, Mizuho Securities Asia Limited and Morgan Stanley & Co. International plc and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments. |
| **Issue and Paying Agent** | Deutsche Bank AG, London Branch |
| **Registrar** | Deutsche Bank Luxembourg S.A. |
| **DTC Registrar** | Deutsche Bank Trust Company Americas |
| **Initial Programme Amount** | Up to U.S.$4,000,000,000 (and, for this purpose, any Instruments denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of U.S. dollars being quoted by the Issue and Paying Agent on the date on which the relevant agreement to issue the relevant Tranche was made or such other rate as the Issuer and the relevant Dealer(s) may agree) in aggregate principal amount of Instruments outstanding at any one time. The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under "*Subscription and Sale*". |
| **Issuance in Series** | Instruments will be issued in series (each a "**Series**"). Each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that (i) the issue date and the amount of the first payment of interest may be different in respect of different Tranches and (ii) a Series may comprise Instruments in bearer form and Instruments in registered form and Instruments in more than one denomination. The Instruments of each Tranche will all be subject to identical terms in all respects, save that a Tranche may comprise Instruments in bearer form and Instruments in registered form and may comprise Instruments of different denominations. |

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| **Form of Bearer Instruments** | In respect of each Tranche of Instruments issued in bearer form, the Issuer will deliver a temporary global Instrument. Such temporary global Instrument will be deposited on or before the relevant issue date therefor with a depositary or a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and/or any other relevant clearing system.<br><br>Each temporary global Instrument will be exchangeable for a permanent global Instrument or, if so specified in the relevant Pricing Supplement, for Instruments in definitive bearer form in accordance with its terms.<br><br>Each permanent global Instrument will be exchangeable for Instruments in definitive bearer form in accordance with its terms. Instruments in definitive bearer form will, if interest-bearing, either have a grid for recording the payment of interest endorsed thereon or, if so specified in the relevant Pricing Supplement, have interest coupons ("**Coupons**") attached and, if appropriate, a talon ("**Talon**") for further Coupons; and will, if the principal thereof is repayable by instalments, have a grid for recording the payment of principal endorsed thereon or, if so specified in the relevant Pricing Supplement, have payment receipts ("**Receipts**") attached. See "*Terms and Conditions of the Instruments – Form and Denomination*". |
| **Form of Registered Instruments** | In respect of each Tranche of Instruments issued in registered form only, the Issuer will deliver a Regulation S global Instrument and a restricted global Instrument which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") (unless otherwise specified in the relevant Pricing Supplement). Interests in any Regulation S global Instrument will be exchangeable for interests in a restricted global Instrument or Instruments in definitive registered form, and interests in any restricted global Instrument will be exchangeable for interests in a Regulation S global Instrument or Instruments in definitive registered form, in accordance with their terms and as specified in the relevant Pricing Supplement.<br><br>For a more detailed description of the form of Instruments and of certain restrictions on the exchange of Instruments, see "*Forms of Instruments*". For a description of certain restrictions on the transfer of Instruments, see "*Transfer Restrictions*". |

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| **Currencies** | Instruments may be denominated in any currency or currencies (including, without limitation, Australian Dollars ("**AUD**"), Canadian Dollars ("**CAD**"), Euros ("**EUR**"), Hong Kong Dollars ("**HKD**"), Renminbi ("**CNY**" or "**RMB**"), Japanese Yen ("**JPY**"), New Zealand Dollars ("**NZD**"), Pounds Sterling ("**GBP**"), Swiss Francs ("**CHF**") and United States dollars ("**USD**")) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in and/or linked to any currency or currencies other than the currency in which such Instruments are denominated. |
| **Status** | Instruments may be issued on a subordinated or unsubordinated basis, as specified in the relevant Pricing Supplement. |
| **Issue Price** | Instruments may be issued at any price and either on a fully or partly-paid basis, as specified in the relevant Pricing Supplement. |
| **Maturities** | Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. |
| **Redemption** | Instruments may be redeemable at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Pricing Supplement. |
| **Early Redemption** | Early redemption will be permitted for taxation reasons as mentioned in "*Terms and Conditions of the Instruments – Redemption and Purchase – Early Redemption for Taxation Reasons*", but will otherwise be permitted only to the extent specified in the relevant Pricing Supplement. |
| **Interest** | Instruments may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series. |
| **Denominations** | Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements; **provided**, **however**, **that** in the event that any Instruments issued under the Programme are to be listed, quoted and/or traded on a regulated market (as defined in the Prospectus Directive) in any European Economic Area member state, such Instruments shall have a minimum denomination of EUR 1,000.<br><br>The "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU. |

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| **Taxation** | Payments in respect of Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Korea or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will (subject to customary exceptions) pay such additional amounts as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required. |
| **Governing Law** | Unless otherwise specified in the relevant Pricing Supplement or the Terms and Conditions, the Instruments and all related contractual documentation will be governed by, and construed in accordance with, English law. |
| **Listing** | Each Series issued under the Programme may be listed on the Singapore Exchange and/or any other stock exchange as may be agreed between the Issuer and the relevant Dealer(s) and specified in the relevant Pricing Supplement, subject to all necessary approvals having been obtained, or may be unlisted. The Instruments will be traded on the Singapore Exchange in a minimum board lot size of S$200,000 or its equivalent in foreign currencies as long as the Instruments are listed on the Singapore Exchange and the rules of the Singapore Exchange so require. |
| **Ratings** | Tranches of Instruments to be issued under the Programme will be rated or unrated. Where a Tranche of Instruments is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency. |
| **Terms and Conditions** | A Pricing Supplement will be prepared in respect of each Tranche of Instruments, a copy of which will, in the case of Instruments to be listed on the Singapore Exchange, be delivered to the Singapore Exchange before the date of listing of such Instruments. The terms and conditions applicable to each Tranche will be those set out herein under "*Terms and Conditions of the Instruments*" as supplemented, modified or replaced by the relevant Pricing Supplement. |
| **Enforcement of Instruments in Global Form** | In the case of Instruments in global form, individual investors' rights will be governed by a Deed of Covenant dated 16 October 2013, a copy of which will be available for inspection at the specified office of each of the Paying Agents and the Registrar (each as defined below). |
| **Clearing Systems** | Euroclear, Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system (including DTC) as may be specified in the relevant Pricing Supplement. |

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| **Selling Restrictions** | For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States of America, the United Kingdom, Hong Kong, Japan, Korea, the Republic of Singapore and the European Economic Area, see "*Subscription and Sale*". |
| **Redenomination** | In respect of any Tranche of Instruments, if the country of the currency specified in the relevant Pricing Supplement becomes, or announces its intention to become, a Participating Member State, the Instruments may be redenominated in Euros in accordance with Condition 9.4 (*Payments – Euro – Redenomination, Renominalisation and Reconventioning*), if so specified in the relevant Pricing Supplement. |

## TERMS AND CONDITIONS OF THE INSTRUMENTS

*The following are the Terms and Conditions of the Instruments which, as supplemented, modified or replaced in relation to any Instruments by the relevant Pricing Supplement, will be applicable to each Series or Tranche of Instruments:*

The Instruments are issued pursuant to and in accordance with an issue and paying agency agreement dated 17 May 1995 as most recently amended and restated by an (amended and restated) issue and paying agency agreement dated 16 October 2013 (as amended, supplemented or replaced, the "**Issue and Paying Agency Agreement**") and made between Korea Exchange Bank (the "**Issuer**"), Deutsche Bank AG, London Branch of Winchester House, 1 Great Winchester Street, London EC2N 2DB, England, in its capacity as issue and paying agent (the "**Issue and Paying Agent**", which expression shall include any successor to Deutsche Bank AG, London Branch in its capacity as such), Deutsche Bank Luxembourg S.A. in its capacity as registrar (the "**Registrar**"), Deutsche Bank Trust Company Americas in its capacity as DTC registrar (the "**DTC Registrar**", which expression shall include any successor to Deutsche Bank Trust Company Americas in its capacity as such) and the paying agent named therein (the "**Paying Agents**", which expression shall include the Issue and Paying Agent and any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement). The Instruments have the benefit of a 144A deed poll dated 16 October 2013 (as amended, supplemented or replaced, and a deed of covenant dated 17 May 1995 as most recently amended and restated by an (amended and restated) deed of covenant dated 16 October 2013 (as amended, supplemented or replaced, the "**Deed of Covenant**"), each executed by the Issuer in relation to the Instruments. Copies of the Issue and Paying Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents and the Registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each a "**Series**"), and each Series may comprise one or more tranches ("**Tranches**", and each a "**Tranche**") of Instruments. Each Tranche will be the subject of a pricing supplement (each a "**Pricing Supplement**"), a copy of which will be available for inspection during normal business hours at the specified office of the Issue and Paying Agent and/or, as the case may be, the Registrar (as defined in Condition 2.2) and, in the case of a Tranche which is listed on the Singapore Exchange and upon the issue of the Instruments in definitive form, obtainable during normal business hours at the specified office of the Paying Agent in Singapore. In the case of a Tranche of Instruments in relation to which application has not been made for listing on any stock exchange, copies of the Pricing Supplement will only be available for inspection by a Holder (as defined in Condition 2), or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments.

References in these Terms and Conditions to Instruments are to Instruments of the relevant Tranche or Series and any references to Coupons (as defined in Condition 1.6) and Receipts (as defined in Condition 1.7) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the Pricing Supplement are to the Pricing Supplement or Pricing Supplement(s) prepared in relation to the Instruments of the relevant Tranche or Series.

In respect of any Instruments, references herein to these Terms and Conditions are to these terms and conditions as supplemented or modified or (to the extent thereof) replaced by the Pricing Supplement.

### 1. Form and Denomination

1.1 Instruments are issued in bearer form ("**Bearer Instruments**") or in registered form ("**Registered Instruments**"), as specified in the Pricing Supplement, and are serially numbered. Registered Instruments will not be exchangeable for Bearer Instruments.

***Bearer Instruments***

1.2 Each Tranche of Bearer Instruments is represented upon issue by a temporary global instrument (a "**Temporary Global Instrument**").

Interests in the Temporary Global Instrument may be exchanged for:

(i) interests in a permanent global Instrument (a "**Permanent Global Instrument**"); or

(ii) if so specified in the Pricing Supplement, definitive instruments ("**Definitive Instruments**") in bearer form.

Exchanges of interests in a Temporary Global Instrument for Definitive Instruments or, as the case may be, a Permanent Global Instrument will be made only on or after the Exchange Date (as specified in the Pricing Supplement) and provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Pricing Supplement, in each case, without any requirement for certification.

1.3 The bearer of any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by such Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.

1.4 Subject to Condition 1.3 above, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received by Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") or any other relevant clearing system. Payments of amounts due in respect of a Permanent Global Instrument will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.

1.5 Interests in a Permanent Global Instrument will be exchanged by the Issuer in whole but not in part only at the option of the Holder of such Permanent Global Instrument, for Definitive Instruments, if either Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so. If the Issuer does not make the required delivery of Definitive Instruments by 6:00 p.m. (London time) on the day on which the relevant notice period expires or, as the case may be, the thirtieth day after the day on which such Permanent Global Instrument becomes due to be exchanged, such Permanent Global Instrument will become void in accordance with its terms but without prejudice to the rights conferred by the Deed of Covenant.

1.6 Interest-bearing Definitive Instruments have endorsed thereon a grid for recording the payment of interest or, if so specified in the Pricing Supplement, have attached thereto at the time of their initial delivery coupons ("**Coupons**"), presentation of which will be a prerequisite to the payment of interest, save in certain circumstances specified herein. Interest-bearing Definitive Instruments, if so specified in the Pricing Supplement, have attached thereto at the time of their initial delivery a talon ("**Talon**") for further coupons, and the expression Coupons shall, where the context so requires, include Talons.

1.7 Instruments, the principal amount of which is repayable by instalments ("**Instalment Instruments**") which are Definitive Instruments, have endorsed thereon a grid for recording the repayment of principal or, if so specified in the Pricing Supplement, have attached thereto at the time of their initial delivery payment receipts ("**Receipts**") in respect of the instalments of principal.

***Denomination of Bearer Instruments***

1.8 Bearer Instruments are in the denomination or denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Pricing Supplement; **provided**, **however**, **that** instruments, whether Bearer Instruments or Registered Instruments, will have a minimum denomination of EUR1,000 (or its equivalent in other currencies). Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.

***Denomination of Registered Instruments***

1.9 Registered Instruments are in the minimum denomination specified in the Pricing Supplement or integral multiples thereof; **provided**, **however**, **that** instruments, whether Bearer Instruments or Registered Instruments, will have a minimum denomination of EUR1,000 (or its equivalent in other currencies).

***Currency of Instruments***

1.10 The Instruments are denominated in such currency as may be specified in the Pricing Supplement. Any currency may be so specified (including, without limitation, Australian Dollars ("**AUD**"), Canadian Dollars ("**CAD**"), Euros ("**EUR**"), Hong Kong Dollars ("**HKD**"), Renminbi ("**CNY**" or "**RMB**"), Japanese Yen ("**JPY**"), New Zealand Dollars ("**NZD**"), Pounds Sterling ("**GBP**"), Swiss Francs ("**CHF**") and United States dollars ("**USD**")), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

***Partly Paid Instruments***

1.11 Instruments may be issued on a partly-paid basis ("**Partly Paid Instruments**") if so specified in the Pricing Supplement. The subscription moneys therefor shall be paid in such number of instalments ("**Partly Paid Instalments**") in such amounts, on such dates and in such manner as may be specified in the Pricing Supplement. The first such instalment shall be due and payable on the date of issue of the Instruments. For the purposes of these Terms and Conditions, in respect of any Partly Paid Instrument, "**Paid Up Amount**" means the aggregate amount of all Partly Paid Instalments in respect thereof as shall have fallen due and been paid up in full in accordance with the Terms and Conditions.

Not less than 14 days nor more than 30 days prior to the due date for payment of any Partly Paid Instalment (other than the first such Instalment), the Issuer shall publish a notice in accordance with Condition 14 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Instruments with effect from such date ("**Forfeiture Date**") as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon (at the rate specified in the following paragraph) is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Instruments subsequent to the Forfeiture Date in respect thereof (and any interest paid therewith) shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (in the case of non-interest bearing Instruments, at the rate applicable to overdue payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Instruments for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 5.6).

Unless an Event of Default (or an event which with the giving of notice, the lapse of time or the making or giving of any determination or certification would constitute an Event of Default) shall have occurred and be continuing, on the Forfeiture Date, the Issuer shall forfeit all of the Instruments in respect of which any Partly Paid Instalment shall not have been duly paid, whereupon the Issuer shall be entitled to retain all Partly Paid Instalments previously paid in respect of such Instruments and shall be discharged from any obligation to repay such amount or to pay interest thereon, or (where such Instruments are represented by a Temporary Global Instrument or a Permanent Global Instrument) to exchange any interests in such Instrument for interests in a Permanent Global Instrument or to deliver Definitive Instruments or Registered Instruments in respect thereof, but shall have no other rights against any person entitled to the Instruments which have been so forfeited.

Without prejudice to the right of the Issuer to forfeit any Instruments, for so long as any Partly Paid Instalment remains due but unpaid, and except in the case where an Event of Default shall have occurred and be continuing (i) no interests in a Temporary Global Instrument may be exchanged for interests in a Permanent Global Instrument and (ii) no transfers of Registered Instruments or exchanges of Bearer Instruments for Registered Instruments may be requested or effected.

Until such time as all the subscription moneys in respect of Partly Paid Instruments shall have been paid in full and except in the case where any of Euroclear or Clearstream, Luxembourg or any other relevant clearing system (including The Depository Trust Company) is closed for business for a continuous period of 14 days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so, no interests in a Temporary Global Instrument or a Permanent Global Instrument may be exchanged for Definitive Instruments or Registered Instruments.

## 2. Title and Transfer

2.1 Title to Bearer Instruments, Receipts and Coupons passes by delivery. References herein to the "**Holders**" of Bearer Instruments or of Receipts or Coupons are to the bearers of such Bearer Instruments or such Receipts or Coupons.

2.2 Title to Registered Instruments passes by registration in the relevant register which the Issuer shall procure to be kept by, respectively the Registrar and the DTC Registrar. For the purposes of these Terms and Conditions, "**Registrar**" means, in relation to any Series comprising Registered Instruments, either the Registrar or the DTC Registrar as specified in the Pricing Supplement. References herein to the "**Holders**" of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

2.3 The Holder of any Bearer Instrument, Coupon, Receipt or Registered Instrument will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

### *Transfer of Registered Instruments*

2.4 A Registered Instrument may, upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, be transferred in whole or in part only (**provided that** such part is, or is an integral multiple of, the minimum denomination specified in the Pricing Supplement) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

2.5 Each new Registered Instrument to be issued upon the transfer of a Registered Instrument will, within three Relevant Banking Days of the transfer date, be available for collection by each relevant Holder at the specified office of the Registrar or, at the option of the Holder requesting such transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto), to such address(es) as may be specified by such Holder. For these purposes, a form of transfer received by the Registrar after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the Registrar until the day following the due date for such payment.

For the purposes of these Terms and Conditions:

(i) "**Relevant Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located; and

(ii) the "**transfer date**" shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.4 above.

2.6 The issue of new Registered Instruments on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer or the Registrar may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.

2.7 Upon the transfer, exchange or replacement of Registered Instruments bearing the private placement legend (the "**Private Placement Legend**") set forth in the form of Registered Instrument scheduled to the Issue and Paying Agency Agreement, the Registrar shall deliver only Registered Instruments that also bear such legend unless either (i) such transfer, exchange or replacement occurs three or more years after the later of (a) the original issue date of such Instruments and (b) the last date on which the Issuer or any affiliates (as defined below) of the Issuer as notified to the Registrar by the Issuer as provided in the following sentence, was the beneficial owner of such Instrument (or any predecessor of such Instrument) or (ii) there is delivered to the Registrar an opinion reasonably satisfactory to the Issuer of counsel experienced in giving opinions with respect to questions arising under the securities laws of the United States to the effect that neither such legend nor the restrictions on transfer set forth therein is required in order to maintain compliance with the provisions of such laws. The Issuer covenants and agrees that it will not acquire any beneficial interest, and will cause its "**affiliates**" (as defined in paragraph (a)(1) of Rule 144 under the United States Securities Act of 1933, as amended (the "**Securities Act**")) not to acquire any beneficial interest, in any Registered Instrument bearing the Private Placement Legend unless it notifies the Registrar of such acquisition. The Registrar and all Holders shall be entitled to rely without further investigation on any such notification (or lack thereof).

2.8 For so long as any of the Registered Instruments bearing the Private Placement Legend remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the United States Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) under such Act, make available to any Holder of such Instruments in connection with any sale thereof and any prospective purchaser of such Instruments from such Holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

## 3. Status of the Instruments

### *3.1 Status – Unsubordinated Instruments*

3.1.1 This Condition 3.1 is applicable in relation to Instruments specified in the Pricing Supplement as being unsubordinated or not specified as being subordinated ("**Unsubordinated Instruments**").

3.1.2 The Instruments constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsubordinated and unsecured obligations of the Issuer (other than such indebtedness of the Issuer as may be mandatorily preferred under the laws of Korea).

### *3.2 Status – Subordinated Instruments*

3.2.1 This Condition 3.2 is applicable only in relation to Instruments specified in the Pricing Supplement as being subordinated ("**Subordinated Instruments**").

3.2.2 The Instruments are direct, unsecured, general and subordinated (as described below) obligations of the Issuer which will at all times rank pari passu and rateably without any preference among themselves and in priority to claims of holders of all classes of equity (including holders of preference shares (if any)) of the Issuer.

*Definitions*

3.2.3 In these Conditions:

(i) a "**Bankruptcy Event**" shall mean a court of competent jurisdiction in Korea having adjudicated the Issuer to be bankrupt pursuant to the provisions of the Act on Rehabilitation and Bankruptcy of Debtors or any successor legislation thereto;

(ii) a "**Foreign Event**" shall mean, in any jurisdiction other than Korea, the Issuer having become subject to bankruptcy, liquidation or other equivalent proceedings pursuant to any applicable law of any jurisdiction other than Korea;

(iii) a "**Liquidation Event**" shall mean the Issuer being dissolved under the Commercial Act of Korea;

(iv) "**Senior Indebtedness of the Issuer**" shall mean all deposits and other liabilities of the Issuer (other than (a) those which are subject to provisions equivalent to the payment conditions in Conditions 3.2.4, 3.2.5 and 3.2.6 below and (b) those which rank or are expressed to rank *pari passu* with or junior to the Instruments); and

(v) a "**Subordination Event**" shall mean any Bankruptcy Event, Foreign Event or Liquidation Event.

*Bankruptcy*

3.2.4 If on or prior to the due date of redemption therefor a Bankruptcy Event occurs, and so long as it continues, any amounts which become due then or thereafter under the Subordinated Instruments shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer which is listed on the distribution list (as amended, if such be the case) for final distribution submitted to the court in the bankruptcy proceedings is paid in full or provided to be paid in full in such bankruptcy proceedings.

*Corporate Liquidation*

3.2.5 If on or prior to the due date of redemption therefor a Liquidation Event occurs and so long as it continues, any amounts which become due then or thereafter under the Subordinated Instruments shall not be payable unless and until the total amount of any and all Senior Indebtedness of the Issuer shall have been paid in full in the liquidation proceedings by a liquidator.

*Equivalent Proceedings Outside Korea*

3.2.6 If on or prior to the due date of redemption therefor a Foreign Event occurs, and so long as it continues, any amounts which become due then or thereafter under the Subordinated Instruments shall only become payable upon conditions equivalent to those enumerated in Condition 3.2.4 or 3.2.5 above having been fulfilled; **provided that**, notwithstanding any provision herein to the contrary, if the imposition of any such conditions is not allowed under such proceedings, any amounts which become due under the Subordinated Instruments shall become payable in accordance with the terms herein provided and not subject to such conditions.

*Excess Payment*

3.2.7 A Holder of a Subordinated Instrument by its acceptance thereof or its interest therein shall thereby agree that (i) if any payment in respect of such Instrument is made to such Holder after the occurrence of a Subordination Event and the amount of such payment shall exceed the amount, if any, that should have been paid to such Holder upon the proper application of these subordination provisions, the payment of such excess amount shall be deemed null and void and such Holder (without any Paying Agent or, as the case may be Registrar having any obligation or liability with respect thereto, save to the extent that the Issue and Paying Agent or, as the case may be, the Registrar shall return to the Issuer any such excess amount which remains held by it at the time of the notice next referred to) shall be obliged to return the amount of the excess payment within ten days of receiving notice from the Issuer of the excess payment and (ii) upon the occurrence of a Subordination Event and, so long as such Subordination Event continues, such Holder shall not exercise any right to set off any liabilities of the Issuer under such Subordinated Instrument (except in respect of liabilities constituting Senior Indebtedness of the Issuer) which become so payable on or after the date on which the Subordination Event occurs against any liabilities of such Holder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under such Subordinated Instrument become payable pursuant to the proper application of these subordination provisions.

*Absence of Subordination Event*

3.2.8 Prior to the occurrence of a Subordination Event or after a Subordination Event shall have ceased to continue, the Subordinated Instruments will rank *pari passu* and rateably without any preference among themselves but subordinate to all unsecured and unsubordinated obligations of the Issuer, including those in respect of its outstanding debentures and deposits.

*Mandatory conversion into common shares or depreciation of Subordinated Instruments*

3.2.9 Notwithstanding anything to the contrary in these Conditions, all or any portion of the Subordinated Instruments may be subject to permanent mandatory depreciation or conversion into common shares, without the prior consent of the Holder: (i) if the governor of the Financial Supervisory Service has ordered the Issuer to take any measures for the purpose of improving the Issuer's management under Article 26 of the Regulation on Supervision of Banking Business; or (ii) if the Issuer is designated as an insolvent financial institution under the Act on the Structural Improvement of the Financial Industry. For the avoidance of doubt, depreciation or conversion into common shares of the Subordinated Instruments carried out pursuant to the foregoing will not constitute an Event of Default.

## 4. Negative Pledge

4.1 This Condition 4 is applicable in relation to Instruments specified in the relevant Pricing Supplement as being unsubordinated.

4.2 So long as any of the Instruments remains outstanding, the Issuer will not create or permit to be outstanding any mortgage, charge, pledge or other security interest upon the whole or any part of its property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (i) payment of any sum due in respect of any such securities, (ii) any payment under any guarantee of any such securities or (iii) any payment under any indemnity or other like obligation relating to any such securities, without in any such case at the same time according to the Instruments the same security as is granted to or is outstanding in respect of such International Investment Securities, guarantee, indemnity or other like obligation, or such other security as shall be approved by an Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of the Holders.

For the avoidance of doubt, notwithstanding the foregoing, in the event that there is a change in law or regulation in Korea permitting or providing for the issue of covered bonds (the "**Covered Bonds Legislation**"), issuance of covered bonds by the Issuer and any arrangement relating to the segregation or ring-fencing of any part of the Issuer's property, assets or revenues (whether present or future) for the purpose thereof shall be permitted, **provided that** such covered bonds are issued and such arrangement is entered into, respectively, in compliance with the Covered Bonds Legislation and that such property, assets and revenues are intended to form part of the pool of the assets in respect of which a priority of claim in favour of the covered bondholders may be given.

As used in this Condition 4, "**International Investment Securities**" means bonds, debentures, notes or investment securities of the Issuer or any other person which:

(a) by their terms either are payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside Korea by or with the authorisation of the Issuer; and

(b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

## 5. Interest

***Interest***

5.1 Instruments may be interest-bearing or non-interest bearing, as specified in the Pricing Supplement.

***Interest-bearing Instruments***

5.2 Instruments which are specified in the Pricing Supplement as being interest-bearing shall bear interest from their Interest Commencement Date at the Interest Rate and will be payable in arrear on each Interest Payment Date.

Where the "**ISDA Rate**" is specified in the Pricing Supplement as applicable to the Instruments, each Instrument shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into an interest rate swap transaction under the terms of an agreement to which the ISDA Definitions applied with the Holder of such Instrument and under which:

- the Fixed Rate Payer, Fixed Amount Payer, Fixed Price Payer, Floating Rate Payer, Floating Amount Payer or, as the case may be, the Floating Price Payer is the Issuer;
- the Effective Date is the Interest Commencement Date;
- the Termination Date is the Maturity Date;
- the Calculation Agent is the Calculation Agent as defined in Condition 5.4;
- the Calculation Periods are the Interest Accrual Periods;
- the Period End Dates are the Interest Period End Dates;
- the Payment Dates are the Interest Payment Dates;
- the Reset Dates are the Interest Determination Dates;
- the Calculation Amount is the principal amount of such Instrument;
- the Day Count Fraction applicable to the calculation of any amount is that specified in the Pricing Supplement or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
- the Applicable Business Day Convention applicable to any date is that specified in the Pricing Supplement or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and
- the other terms are as specified in the Pricing Supplement.

Interest shall accrue on the principal amount of each Instrument from the Interest Commencement Date (unless, in the case of any Instalment Instrument, any principal amount on which interest shall have ceased to accrue in accordance with the following sentence) or, in the case of a Partly Paid Instrument, on the Paid Up Amount of such Instrument or otherwise as indicated in the Pricing Supplement (in these Terms and Conditions, "**Outstanding Principal Amount**"). Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Redemption Amount (as defined in Condition 6.10) or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof, in which case interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) at the Interest Rate then applicable or such other rate as may be specified for this purpose in the Pricing Supplement until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Issue and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

***Non-Interest Bearing Instruments***

5.3 If any Maturity Redemption Amount (as defined in Condition 6.1) in respect of any Instrument which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield specified in, or determined in accordance with the provisions of, the Pricing Supplement or at such other rate as may be specified for this purpose in the Pricing Supplement.

***Interest Amount(s), Calculation Agent and Reference Banks***

5.4 The Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable in accordance with Condition 5.5 below (the "**Interest Amount(s)**") in respect of each Denomination of the Instruments (in the case of Bearer Instruments) and the minimum denomination (in the case of Registered Instruments) for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount or any Instalment Amount to be notified to the Issue and Paying Agent, the Registrar (in the case of Registered Instruments), the Issuer, the Holders in accordance with Condition 14 and, if the Instruments are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination or calculation, but in no event later than the fourth London Business Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the relevant stock exchange. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Instruments become due and payable under Condition 7, the Interest Rate and the accrued interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition 5, but no publication of the Interest Rate or the Interest Amount so calculated need be made. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it. As used herein, the "**Calculation Agent**" and the "**Reference Banks**" mean such agent and such reference banks, respectively, as may be specified as such in the Pricing Supplement.

The Issuer will procure that there shall at all times be such Reference Banks as may be required for the purpose of determining the Interest Rate applicable to the Instruments and a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

***Calculations and Adjustments***

5.5 The amount of interest payable in respect of any Instrument for any period shall be calculated by multiplying the product of the Interest Rate and the Outstanding Principal Amount by the Day Count Fraction, save that (i) if the Pricing Supplement specifies a specific amount in respect of such period, the amount of interest payable in respect of such Instrument for such period will be equal to such specified amount and (ii) in the case of Instruments where the Interest Rate is fixed and the interest is required to be calculated in respect of a period of less than a full year, the Day Count Fraction shall be Actual/Actual(Bond). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

If any Maximum or Minimum Interest Rate is specified in the relevant Pricing Supplement, then the Interest Rate shall in no event exceed the maximum or be less than the minimum so specified.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

***Definitions***

5.6 "**Applicable Business Day Convention**" means the "**Business Day Convention**" which may be specified in the Pricing Supplement as applicable to any date in respect of the Instruments, **provided that** (unless the Pricing Supplement specifies "**No Adjustment**" in relation to any date in which case such date shall not be adjusted in accordance with any Business Day Convention or unless the "**ISDA Rate**" applies), if none is so specified in relation to either or both of the Interest Payment Dates and/or the Interest Period End Dates, the Applicable Business Day Convention for such purpose shall be the Modified Following Business Day Convention. Different Business Day Conventions may apply or be specified in relation to the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Instruments.

"**Business Day**" means:

(i) in the case of a currency other than Euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of Euro, a day on which the TARGET system (as defined in Condition 9.4(iii)) is operating; and/or

(iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of a currency and/or one or more Relevant Financial Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Relevant Financial Centre(s) or, if no currency is indicated, generally in each of the Relevant Financial Centres.

"**Business Day Convention**" means a convention for adjusting any date if it would otherwise fall on a day that is not a Business Day and the following Business Day Conventions, where specified in the Pricing Supplement in relation to any date applicable to any Instruments, shall have the following meanings:

(i) "**Following Business Day Convention**" means that such date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" means that such date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(iii) "**Preceding Business Day Convention**" means that such date shall be brought forward to the first preceding day that is a Business Day; and

(iv) the "**FRN Convention**" or "**Eurodollar Convention**" means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Pricing Supplement after the calendar month in which the preceding such date occurred, **provided that**:

(a) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(b) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(c) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time ("**Calculation Period**"), such day count fraction as may be specified in the Pricing Supplement and:

(i) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/Actual (ICMA)**" is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (A) the actual number of days in such Regular Period and (B) the number of Regular Periods normally ending in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year;

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30E/360**" or "**Eurobond Basis**" is so specified, means the actual number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period, unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(vi) if "**30/360**" is so specified and relates to Instruments where the Interest Rate is fixed, means the number of days in the Calculation Period (calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed) divided by 360. In respect of Instruments where the Interest Rate is floating, "**30/360**" means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)).

"**Interest Accrual Period**" means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period, **provided always that** the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity.

"**Interest Commencement Date**" means the date of issue of the Instruments (as specified in the Pricing Supplement) or such other date as may be specified as such in the Pricing Supplement.

"**Interest Determination Date**" means, in respect of any Interest Accrual Period, the date falling that number (if any) of Business Days prior to the first day of such Interest Accrual Period as may be specified in the Pricing Supplement.

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the Pricing Supplement as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Pricing Supplement, each of such dates as may occur in accordance with the FRN Convention at such specified period of calendar months.

"**Interest Period**" means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, **provided always that** the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the date of final maturity.

"**Interest Period End Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the Pricing Supplement as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Pricing Supplement, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months or, if none of the foregoing is specified in the Pricing Supplement, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Instruments.

"**Interest Rate**" means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the Instruments specified in, or calculated or determined in accordance with the provisions of, the Pricing Supplement.

"**ISDA Definitions**" means the 2006 ISDA Definitions as further amended and updated as at the date of issue of the first Tranche of the Instruments of the relevant Series (as specified in the Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.).

"**London Business Day**" means a day on which commercial banks and foreign exchange markets are open for business in London.

"**Regular Period**" means:

(i) in the case of Instruments where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Instruments where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Instruments where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Financial Centre**" means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of "**Business Day**" in the ISDA Definitions.

"**Relevant Time**" means the time as of which any rate is to be determined as specified in the Pricing Supplement or, if none is specified, at which it is customary to determine such rate.

## 6. Redemption and Purchase

***Redemption at Maturity***

6.1 Unless previously redeemed, or purchased and cancelled or unless such Instrument is stated in the Pricing Supplement as having no fixed maturity date, each Instrument shall be redeemed at its maturity redemption amount (the "**Maturity Redemption Amount**") (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in or determined in accordance with the Pricing Supplement) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts ("**Instalment Amounts**") as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the Pricing Supplement.

*Early Redemption for Taxation Reasons*

6.2 If, in relation to any Series of Instruments, (i) as a result of any change in the laws, regulations or rulings of Korea or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws, regulations or rulings (including, without limitation, the expiry or termination of the tax exemption in relation to the Instruments under the Special Tax Treatment Control Law of the Republic of Korea) which becomes effective on or after the date of issue of such Instruments or any other date specified in the Pricing Supplement, the Issuer would be required to pay additional amounts as provided in Condition 8, (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (iii) such circumstances are evidenced by the delivery by the Issuer to the Issue and Paying Agent of a certificate signed by two (2) officers (at least one of which shall be a general manager) of the Issuer stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option and having given no less than 30 nor more than 60 days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holders of the Instruments in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the "**Early Redemption Amount (Tax)**") (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with accrued interest (if any) thereon, **provided**, **however**, **that** no such notice of redemption may be given earlier than 90 days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.6.

*Optional Early Redemption (Call)*

6.3 If this Condition 6.3 is specified in the Pricing Supplement as being applicable, then the Issuer may (but, in the case of Subordinated Instruments, subject to the prior approval of the Financial Supervisory Service having been obtained), having given the appropriate notice and subject to such conditions as may be specified in the Pricing Supplement, redeem all (but not, unless and to the extent that the Pricing Supplement specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Early Redemption Amount (Call)**") (which shall be their Outstanding Principal Amount or, in the case of Instruments which are non-interest bearing, their Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with accrued interest (if any) thereon on the date specified in such notice.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.6.

6.4 The appropriate notice referred to in Condition 6.3 is a notice given by the Issuer to the Holders of the Instruments of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Instrument or Permanent Global Instrument) the serial numbers of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption, which shall be not less than 30 days nor more than 60 days after the date on which such notice is given and which shall be such date or the next of such dates ("**Call Option Date(s)**") or a day falling within such period ("**Call Option Period**"), as may be specified in the Pricing Supplement and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
- the Early Redemption Amount (Call) at which such Instruments are to be redeemed.

***Partial Redemption***

6.5 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 6.3:

- in the case of Bearer Instruments (other than a Temporary Global Instrument or Permanent Global Instrument), the Instruments to be redeemed shall be drawn by lot in such European city as the Issue and Paying Agent may specify, or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair;
- in the case of a Temporary Global Instrument or a Permanent Global Instrument, the Instruments to be redeemed shall be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system; and
- in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, **provided always that** the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws and the requirements of any stock exchange on which the relevant Instruments may be listed.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.4 to 2.8 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

***Optional Early Redemption (Put)***

6.6 If this Condition 6.6 is specified in the Pricing Supplement as being applicable, then the Issuer shall (but, in the case of Subordinated Instruments, subject to the prior approval of the Financial Supervisory Service having been obtained), upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the "**Early Redemption Amount (Put)**") (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than 45 days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates ("**Put Date(s)**") or a day falling within such period ("**Put Period**") as may be specified in the Pricing Supplement), deposit the relevant Instrument (together, in the case of an interest-bearing Definitive Instrument, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of Condition 9.1.6 apply)) during normal business hours at the specified office of, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed early redemption notice ("**Put Notice**") in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar specifying, in the case of a Temporary Global Instrument or Permanent Global Instrument or Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Pricing Supplement or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.4 to 2.8 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of a prior exercise by the Issuer of its option to redeem such Instrument under either Condition 6.2 or 6.3.

***Purchase of Instruments***

6.7 The Issuer or any of its subsidiaries may at any time purchase Unsubordinated Instruments and, subject to obtaining the prior approval of the Financial Supervisory Service if required, Subordinated Instruments in the open market or otherwise and at any price, **provided that** all unmatured Receipts and Coupons appertaining thereto are purchased therewith. If purchases are made by tender, tenders must be available to all Holders of Instruments of the relevant Series alike.

***Cancellation of Redeemed and Purchased Instruments***

6.8 All unmatured Instruments and Coupons redeemed or purchased in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold.

***Further Provisions Applicable to Redemption Amount and Instalment Amounts***

6.9 The provisions of Condition 5.4 and the last paragraph of Condition 5.5 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Pricing Supplement to be made by the Calculation Agent (as defined in Condition 5.4).

6.10 References herein to "**Redemption Amount**" shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement.

6.11 In the case of any Instrument which is non-interest bearing, the "**Amortised Face Amount**" shall be an amount equal to the sum of:

(i) the Issue Price specified in the Pricing Supplement; and

(ii) the product of the Amortisation Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Pricing Supplement to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of the Day Count Fraction (as defined in Condition 5.6) specified in the Pricing Supplement for the purposes of this Condition 6.11.

6.12 If any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 6.11 but as if references in paragraph (ii) thereof to the date fixed for redemption or the date upon which such Instrument becomes due and repayable were replaced by references to the earlier of:

(i) the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made; and

(ii) (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment) the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Issue and Paying Agent or, as the case may be, the Registrar has received the required funds (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

## 7. Events of Default and Limited Rights of Acceleration and Enforcement

### *7.1 Events of Default – Unsubordinated Instruments*

7.1.1 The following events or circumstances as modified by, and/or such other events as may be specified in, the Pricing Supplement (each an "**Event of Default**") shall be acceleration events in relation to the Instruments of any Series of Unsubordinated Instruments, namely:

(i) the Issuer fails to pay any amount of principal in respect of the Instruments of the relevant Series or any of them within seven (7) days of the due date for payment thereof or fails to pay any amount of interest in respect of the Instruments of the relevant Series or any of them within 14 days of the due date for payment thereof; or

(ii) the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Instruments of the relevant Series or the Issue and Paying Agency Agreement and (except in any case where such default is incapable of remedy when no such continuation or notice, as is hereinafter mentioned, will be required) such default remains unremedied for 30 days after written notice requiring such default to be remedied has been delivered to the Issuer at the specified office of the Issue and Paying Agent by the Holder of any such Instrument; or

(iii) any Borrowed Moneys Indebtedness, in an aggregate amount of not less than ten million United States dollars (U.S.$10,000,000) (or its approximate equivalent in other relevant currencies), of the Issuer:

(a) is not paid when due or within any originally applicable grace period; or

(b) is declared to be, or becomes capable of being declared to be, or otherwise becomes, due and payable, in any case, prior to its specified maturity, (including any originally applicable grace period) following the occurrence of a default or any event or circumstance which constitutes an event of default (howsoever described); or

(c) in the case of any guarantee, indemnity or other commitment entered into by the Issuer in respect of indebtedness of any other person, is not paid or satisfied upon demand being made thereunder or within any originally applicable grace period, and more than 30 days have elapsed since the occurrence of such event or such circumstance arose and the same remains unremedied. In this Condition 7, "**Borrowed Moneys Indebtedness**" means, with respect to any person, all obligations created, incurred or assumed by such person for the payment or repayment of moneys relating to or in connection with: (A) any indebtedness of such person in respect of moneys borrowed by it; (B) any indebtedness of such person under acceptance or documentary credit facilities; (C) any indebtedness of such person under bills, bonds, debentures, notes or similar instruments on which such person is liable; (D) any obligations of such person under leases which in accordance with accounting principles generally accepted in the jurisdiction in which it is incorporated are required to be capitalised for financial reporting purposes; (E) any indebtedness of such person (whether actual or contingent) for moneys owing under any instrument entered into by such person primarily as a method of raising finance and not referred to elsewhere in this definition; (F) obligations of such person in respect of the acquisition cost of assets, payment of which is deferred for a period in excess of six months after acquisition thereof; and (G) indebtedness of such person (actual or contingent) under guarantees, security, indemnities or other commitments designed to assure any creditor against financial loss in respect of indebtedness of any other person; or

(iv) the Issuer shall cease or threaten to cease to carry on the whole or a substantial part of its business, except in connection with a Qualifying Affiliate Merger (as defined in Condition 7.1.2 below); or

(v) the Issuer shall cease to be a foreign exchange bank with a general banking licence in Korea; or

(vi) any statement, representation or warranty made or deemed made by the Issuer in any Instrument or in any document, instrument, agreement or certificate contemplated hereby or furnished pursuant hereto or in connection herewith shall be at any time incorrect or misleading in any material respect or any such statement, representation or warranty would, if made or deemed made at any time with reference to the facts and circumstances then subsisting, be incorrect or misleading in any material respect at that time and the Issuer shall not have cured the circumstances which caused such statement, representation or warranty to be incorrect or misleading in any material respect within a period of 30 days following the date on which written notice thereof has been given to the Issuer by the Holder of any Instrument; or

(vii) a petition in any bankruptcy, reorganisation, compulsory composition, winding-up or liquidation proceeding, or any other proceeding analogous in purposes or effect, is filed against the Issuer or any Principal Subsidiary (as defined below), and such proceeding is not discharged or stayed within a period of 60 days; or

(viii) the Issuer or any Principal Subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency laws or make an assignment for the benefit of, or enter into any composition with, its creditors; or

(ix) an order of attachment or execution is issued against a part of the property of the Issuer which is material in its effect upon the operations of the Issuer and such order is not removed or discharged within a period of 60 days; or

(x) anything analogous to, or having a substantially similar effect to, any of the events specified in paragraph (vii), (viii) or (ix) above happens under the laws of any applicable jurisdiction; or

(xi) it shall become unlawful for the Issuer to perform all or any of its obligations under any Instrument or any Instrument shall for any reason cease to be in full force and effect or shall be declared to be void or illegal or be repudiated or the legality, validity, priority, admissibility in evidence or enforceability thereof shall be so contested by the Issuer or the Issuer shall deny that it has any, or any further, liability or obligation under any of them.

For the purposes of this Condition 7.1.1, "**Principal Subsidiary**" of the Issuer means any subsidiary from time to time, the total assets of which constitute 10 per cent. or more in value of the aggregate total assets of the Issuer on a consolidated basis calculated by reference to the respective latest audited accounts of the Issuer and the subsidiary in question; and "**subsidiary**" means any entity (A) of which the Issuer owns or controls (either directly or through another or other subsidiaries) 50 per cent. or more of the issued share capital or (B) in which the Issuer has any ownership interest having ordinary voting power to elect 50 per cent. or more of the directors, managers or trustees of such entity.

7.1.2 As used herein, "**Qualifying Affiliate Merger**" shall mean any merger, consolidation or reorganisation of the Issuer or any of its subsidiaries with or into Hana Bank or Hana Financial Group or any of their respective subsidiaries pursuant to which the Issuer is not the surviving entity (the "**Successor**"), **provided that** each of the following conditions shall have been satisfied in connection with such transaction: (i) the Issuer shall have notified the Holders of such transaction no less than 60 days prior to its consummation, in the manner set forth under Condition 14; (ii) the Successor of the Issuer resulting from such merger, consolidation or reorganisation shall be an entity organised and existing under the laws of Korea and shall have expressly assumed in writing the due and punctual payment of the principal, premium (if any), interest (including additional amounts) and any other amounts payable on all the Instruments and the performance or observance of every covenant of the Instruments and the Issue and Paying Agency Agreement on the part of the Issuer to be performed or observed; and (iii) after giving effect to such transaction and treating any Indebtedness for which the Successor of the Issuer shall become liable as a result of such transaction as having been incurred by the Issuer at the time of the transaction, no Event of Default or other default under the Instruments or the Issue and Paying Agency Agreement would have occurred and be continuing; and for purposes of this Condition 7.1.2, "**subsidiary**" in relation to any person means any entity (a) of which such person owns or controls (either directly or through another or other subsidiaries) 50 per cent. or more of the issued share capital or (b) in which such person has any ownership interest having ordinary voting power to elect 50 per cent. or more of the directors, managers or trustees of such entity, and "**Indebtedness**" means any obligation or obligations (whether present or future, actual or contingent) for the payment or repayment of money borrowed and/or interest thereon.

7.1.3 If any Event of Default shall occur in relation to any Series of Unsubordinated Instruments, any Holder of an Instrument of the relevant Series may, by written notice to the Issuer at the specified office of the Issue and Paying Agent, declare that such Instrument and (if the Instrument is interest-bearing) all interest then accrued on such Instrument shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the "**Early Termination Amount**") (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement), together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Instruments of the relevant Series shall have been cured.

***7.2 Limited Rights of Acceleration and Enforcement – Subordinated Instruments***

***Subordination***

7.2.1 If any Subordination Event shall occur in relation to any Series of Subordinated Instruments, any Holder of an Instrument of the relevant Series may, by written notice to the Issuer at the specified office of the Issue and Paying Agent, declare that such Instrument and (if the Instrument is interest-bearing) all interest then accrued on such Instrument shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its "**Early Termination Amount**", together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments to the contrary notwithstanding, unless prior thereto, all Subordination Events in respect of the Instruments of the relevant Series shall have been cured.

***No Other Acceleration***

7.2.2 Except as expressly provided in this Condition 7.2, no Holder of a Subordinated Instrument shall have any right to accelerate any payment of principal or interest in respect of the Instruments of the relevant Series of Subordinated Instruments.

*Remedies*

7.2.3 The only action the Holder of a Subordinated Instrument may take in Korea against the Issuer on acceleration of the Instruments of the relevant Series is to prove in the liquidation or other applicable proceedings in respect of the Issuer in Korea (subject to the satisfaction of the relevant requirements of the applicable law).

**8. Taxation**

8.1 All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Korea or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by the Holder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Instrument or Coupon:

(i) to, or to a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with Korea other than (a) the mere holding of such Instrument or Coupon or (b) the receipt of principal, interest or other amount in respect of such Instrument or Coupon; or

(ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iii) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Instrument or Coupon to another Paying Agent in a Member State of the European Union; or

(iv) presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of 30 days.

8.2 For the purposes of these Terms and Conditions, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent, or as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 14.

8.3 Any reference in these Terms and Conditions to "**principal**" and/or "**interest**" in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to "**principal**" shall include any premium payable in respect of an Instrument, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and "**interest**" shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

## 9. Payments

### *9.1 Payments – Bearer Instruments*

9.1.1 This Condition 9.1 is applicable in relation to Instruments in bearer form.

9.1.2 Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Bearer Instruments, as the case may be:

(i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank; and

(ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Holder with a bank in Hong Kong.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Instrument which is a Definitive Instrument with Receipts will be made against presentation of the Instrument, together with the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Instrument to which they relate will not represent any obligation of the Issuer. Accordingly, the presentation of an Instrument without the relative Receipt or the presentation of a Receipt without the Instrument to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

9.1.3 Payment of amounts in respect of interest on Bearer Instruments will be made:

(i) in the case of a Temporary Global Instrument or Permanent Global Instrument, against presentation of the relevant Temporary Global Instrument or Permanent Global Instrument at the specified office of any of the Paying Agents outside (unless Condition 9.1.4 below applies) the United States and, in the case of a Temporary Global Instrument, upon due certification as required therein;

(ii) in the case of Definitive Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Instruments at the specified office of any of the Paying Agents outside (unless Condition 9.1.4 below applies) the United States; and

(iii) in the case of Definitive Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Definitive Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 9.1.4 below applies) the United States.

9.1.4 Payments of amounts due in respect of interest on the Bearer Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 9.1.7 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City or in such other city in the United States as the Issuer and the Issue and Paying Agent may agree.

9.1.5 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day (as defined in Condition 9.3.3), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.2 or, if appropriate, Condition 5.3.

9.1.6 Each Definitive Instrument initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:

(i) if the Pricing Supplement specifies that this paragraph (i) is applicable (and, in the absence of specification, this paragraph (i) shall apply to Definitive Instruments which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within 10 years of the Relevant Date applicable to payment of such Redemption Amount;

(ii) if the Pricing Supplement specifies that this paragraph (ii) is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Instruments which bear interest at a floating rate or rates or in variable amounts), all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Definitive Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;

(iii) in the case of Definitive Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and

(iv) in the case of Definitive Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (i) above notwithstanding, if any Definitive Instruments should be issued with a maturity date and an Interest Rate or Rates such that, on the presentation for payment of any such Definitive Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) above to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Definitive Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) above in respect of such Coupons as have not so become void, the amount required by paragraph (i) above to be deducted would not be greater than the Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Definitive Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

9.1.7 In relation to Definitive Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9.1.4 above applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10. Each Talon shall, for the purpose of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

***9.2 Payments – Registered Instruments***

9.2.1 This Condition 9.2 is applicable in relation to Instruments in registered form.

9.2.2 Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Instruments will be made against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Instruments at the specified office of the Registrar. If the due date for payment of the Redemption Amount of any Registered Instrument is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any local banking day, and will be entitled to payment by transfer to a designated account on any day which is a local banking day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions, in which event interest shall continue to accrue as provided in Condition 5.2 or, as appropriate, Condition 5.3.

9.2.3 Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Instrument shall be made:

(i) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Instrument at its address appearing in the register held by the Registrar. Upon application by the holder to the specified office of the Registrar before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank; and

(ii) in the case of Renminbi, by transfer to the registered account of the Holder.

In this paragraph, "**registered account**" means the Renminbi account maintained by or on behalf of the Holder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

9.2.4 Notwithstanding the provisions of Condition 9.3.2 below, payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be made in the currency in which such amount is due by cheque and posted to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the Relevant Banking Day (as defined in Condition 2.5(i)) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions, in which event interest shall continue to accrue as provided in Condition 5.2 or, as appropriate, Condition 5.3.

***9.3 Payments – General Provisions***

9.3.1 Save as otherwise specified in these Terms and Conditions, this Condition 9.3 is applicable in relation to Instruments whether in bearer or in registered form.

9.3.2 Payments of amounts due (whether principal, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due (a) by cheque or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee. Payments will be subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in any jurisdiction (whether by operation of law or agreement of the Issuer), but without prejudice to the provisions of Condition 8 and (ii) notwithstanding the provisions of Condition 8, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto, and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements.

9.3.3 For the purposes of these Terms and Conditions:

(i) "**Relevant Financial Centre Day**" means (a) in the case of any currency other than Euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other place specified in the Pricing Supplement; (b) in the case of Euro, a day on which the TARGET system (as defined in Condition 9.4 below) is operating; and (c) in the case of Renminbi, a day on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong; and

(ii) "**local banking day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon.

9.3.4 No commissions or expenses shall be charged to the holders of Instruments or Coupons in respect of such payments.

***9.4 Payments – Euro – Redenomination, Renominalisation and Reconventioning***

Where any of Redenomination, Renominalisation or Reconventioning is specified in the relevant Pricing Supplement as being applicable in relation to Instruments denominated in a Relevant Currency:

(i) the Issuer may, without the consent of the Holders of the Instruments or the Coupons, on giving not less than 30 days' prior notice ("**Redenomination Notice**") to the Holders of the Instruments (by publication in accordance with Condition 14), Euroclear, Clearstream, Luxembourg or any other relevant clearing system, the Paying Agents and, in the case of Registered Instruments, the Registrar, with effect from (and including) the Redenomination Date, elect that the aggregate principal amount of each Holder's holding of Instruments (represented by his interest in the Global Instrument) shall be redenominated into Euros with an aggregate principal amount equal to their aggregate principal amount in the Relevant Currency rounded to the nearest Euro 0.01. The rate for the conversion of the Relevant Currency into Euro shall be the rate established by the Council of the European Union pursuant to relevant EMU Legislation (including compliance with rules relating to roundings in accordance with applicable European Community regulations).

"**EMU Legislation**" means any legislative measures of the European Council for the introduction of, changeover to or operation of the Euro other than Council Regulation (EC) No. 974/98.

"**Euro**" means the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty.

"**Participating Member State**" means a member state of the European Communities who adopts the Euro as its lawful currency in accordance with the Treaty and EMU Legislation.

"**Redenomination Date**" means any Interest Payment Date falling on or after the date on which the relevant member state becomes a Participating Member State as specified in the Redenomination Notice.

"**Relevant Currency**" means the currency of denomination of the Instruments shown on such Instruments and which is specified in the Pricing Supplement being the currency of a member state who at the date of issue of the Instruments was not a Participating Member State.

"**Treaty**" means the Treaty of Rome of 25 March 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on 7 February 1992 and came into force on 1 November 1993).

On or after the Redenomination Date, notwithstanding the other provisions of the Conditions, all payments in respect of the Instruments will be made solely in Euros, including payments of interest in respect of a period before the Redenomination Date. Payments will be made in Euros by credit or transfer to a Euro account (or any other account to which Euros may be credited or transferred) specified by the payee. Neither the Issuer, nor any Paying Agent or Registrar shall be liable to any Holder of Instruments or other person for any commissions, costs, losses or expenses in relation to or resulting from the credit or transfer of Euros or any currency conversion or rounding effected in connection therewith;

(ii) **provided that** the Instruments are in Global form, the Issuer may, without the consent of the Holders of the Instruments or the Coupons, on giving at least 30 days' prior notice to the Holders of the Instruments (by publication in accordance with Condition 14), Euroclear, Clearstream, Luxembourg or any other relevant clearing system, the Paying Agents and in the case of Registered Instruments, the Registrar, with effect from the Redenomination Date or such later date as it may specify in that notice, procure that the denomination of the Instruments shall be Euro 0.01 and integral multiples thereof; and

(iii) the Issuer may, without the consent of the Holders of the Instruments or the Coupons, on giving at least 30 days' prior notice to the Holders of the Instruments (by publication in accordance with Condition 14), Euroclear, Clearstream, Luxembourg or any other relevant clearing system, the Paying Agents and in the case of Registered Instruments, the Registrar, with effect from the Redenomination Date or such later Interest Payment Date as it may specify in that notice, elect the conventions then applicable in respect of the Instruments denominated in Euros. In particular, the Issuer may procure that the definition of "**Business Day**" and "**Relevant Financial Centre**" in Condition 5.6 shall be amended so as to be a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (known as TARGET2) System launched on 19 November 2007 or any successor thereto ("**TARGET**") is operating, and that, if interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 360.

## 10. Prescription

10.1 Claims against the Issuer for payment of principal and interest in respect of Instruments will be prescribed and become void unless made, in the case of principal, within 10 years or, in the case of interest, five years of the Relevant Date (as defined in Condition 8.2) for payment thereof.

10.2 In relation to Definitive Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9.1.6 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

## 11. The Paying Agents, the Registrar and the Calculation Agent

11.1 The initial Paying Agents and Registrars and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent) or the Registrar or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar or another Calculation Agent **provided that** it will at all times maintain (i) an Issue and Paying Agent, (ii) in the case of Registered Instruments, a Registrar, (iii) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city, (iv) upon the issue of the Instruments in definitive form, (a) so long as the Instruments are listed on the Singapore Exchange and the rules of the Singapore Exchange so require, a Paying Agent (which may be the Issue and Paying Agent) with a specified office in Singapore, and (b) so long as the Instruments are listed on any other stock exchange and the rules of the stock exchange so requires, a Paying Agent (which may be the Issue and Paying Agent) and a Registrar (in the case of Registered Instruments) each with a specified office in such place as may be required by such other stock exchange, (v) in the circumstances described in Condition 9.1.4, a Paying Agent with a specified office in New York City or in such other city in the United States as the Issuer and the Issue and Paying Agent may have agreed, (vi) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments and (vii) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive (in the case of (i), (ii), (iii), (vi) and (vii) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Paying Agents, the Registrar and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Registrar or the Calculation Agent will be given promptly by the Issuer to the Holders in accordance with Condition 14.

11.2 The Paying Agents, the Registrar and the Calculation Agent act solely as agents of the Issuer and, save as provided in the Issue and Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement or other agreement entered into with respect to its appointment or incidental thereto.

## 12. Replacement of Instruments

If any Instrument, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Pricing Supplement (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments) ("**Replacement Agent**"), subject to all applicable laws and the requirements of any stock exchange on which the Instruments are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Replacement Agent may require. Mutilated or defaced Instruments, Receipts and Coupons must be surrendered before replacements will be delivered therefor.

## 13. Meetings of Holders and Modification

The Issue and Paying Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Instruments of any Series to consider any matter affecting their interest, including (without limitation) the modification by Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of these Terms and Conditions and the Deed of Covenant insofar as the same may apply to such Instruments. An Extraordinary Resolution passed in accordance with the terms of the Issue and Paying Agency Agreement at any meeting of the Holders of Instruments of any Series will be binding on all Holders of the Instruments of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to Instruments of such Series.

The Issuer may, with the consent of the Issue and Paying Agent, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of an Extraordinary Resolution.

The Issue and Paying Agency Agreement provides that a resolution in writing signed by or on behalf of the Holders of Instruments of any Series of not less than 75 per cent. in nominal amount of the Instruments outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Holders of Instruments of any Series duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders of Instruments of any Series.

## 14. Notices

***To Holders of Bearer Instruments***

14.1 Notices to Holders of Bearer Instruments will, save where another means of effective communication has been specified herein or in the Pricing Supplement, be deemed to be validly given if (i) published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) and (ii) in the case of any Instruments which are listed on the Singapore Exchange (so long as such Instruments are listed on the Singapore Exchange and that exchange so requires), in a leading newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*), if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Asia (or, if permitted by the relevant stock exchange, in the case of Instruments represented by a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein). The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed and each clearing system through which the Instruments are cleared. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers) or, as the case may be, on the fourth weekday after the date of such delivery to Euroclear and Clearstream, Luxembourg and/or such other clearing system. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition.

***To Holders of Registered Instruments***

14.2 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. In the case of Instruments which are listed on the Singapore Exchange (so long as such Instruments are listed on the Singapore Exchange and that exchange so requires), any such notices will, on or before the day of posting, be published in a leading newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed and each clearing system through which the Instruments are cleared.

## 15. Further Issues

The Issuer may from time to time, without the consent of the Holders of any Instruments or Coupons, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Instruments of any particular Series.

## 16. Currency Indemnity

The currency in which the Instruments are denominated or, if different, payable, as specified in the Pricing Supplement (the "**Contractual Currency**"), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Instruments, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of an Instrument or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of an Instrument or Coupon in respect of such Instrument or Coupon, the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Instrument or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Instruments or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of an Instrument or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

## 17. Waiver and Remedies

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

## 18. Law and Jurisdiction

18.1 The Instruments, the Issue and Paying Agency Agreement, the Deed of Covenant and any non contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law except Conditions 3.2 and 7.2 which shall be governed by, and shall be construed in accordance with, the laws of Korea. No person shall have any right to enforce any term or condition of this Instrument under the Contract (Rights of Third Parties) Act 1999.

18.2 The Issuer irrevocably agrees for the benefit of the Holders of the Instruments that the courts of (i) England and (ii) the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Instruments.

18.3 The Issuer irrevocably agrees that the courts referred to in Condition 18.2 above are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.

18.4 Condition 18.2 is for the benefit of the Holders of the Instruments only. As a result, nothing in this Condition 18 prevents the Holders of the Instruments from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Holders of Instruments may take concurrent Proceedings in any number of jurisdictions.

18.5 The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered (i) in connection with any Proceedings in England, to Korea Exchange Bank, London Branch at 30 Old Jewry, London EC2R 8EB or at any address of the Issuer in Great Britain at which service of process may be served on it in accordance with Part 34 of the Companies Act 2006 and (ii) in connection with any Proceedings in the County of New York to KEB NY Financial Corp. at 14th Floor, 460 Park Avenue, New York, New York 10022, U.S.A., Attention: President or its other principal place of business in the County of New York for the time being. If the Issuer ceases to have a place of business in England or the person mentioned in paragraph (ii) above is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Holder of the Instruments addressed to the Issuer and delivered to the Issuer or to a Specified Office of the Issue and Paying Agent, appoint a further person in England or, as the case may be, the County of New York to accept service of process on its behalf and, failing such appointment within 15 days, any Holder of the Instruments shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Issue and Paying Agent. Nothing in this Condition 18 shall affect the right of any Holder of the Instruments to serve process in any other manner permitted by law. This Condition 18.5 applies to Proceedings in England and in the County of New York and to Proceedings elsewhere.

18.6 The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

18.7 To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and, in particular, to the extent that in any proceedings taken in the County of New York, the foregoing waiver of immunity shall have the fullest scope permitted under the United States Foreign Sovereign Immunities Act of 1976 and is intended to be irrevocable for the purpose of such Act.

For certain information regarding the enforceability in Korea of any judgments obtained against the Issuer, see "*General Information*".

## USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Instruments will be applied by the Issuer for general corporate purposes or such other purposes as may be specified in the applicable Pricing Supplement.

## INVESTMENT CONSIDERATIONS

*Prospective purchasers of Instruments should carefully review the information contained in this Information Memorandum, including the following matters.*

### Risks Relating to Our Business

***Uncertainties and instability in global market conditions could adversely affect our business, financial condition and results of operations, as well as the value of the Instruments.***

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditure and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets.

Various sectors of the global credit markets have experienced difficult conditions and volatility since the second half of 2007. The market uncertainty that started from the U.S. residential housing market further expanded to other markets such as those for leveraged finance, collateralised debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global credit and financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions, including the bankruptcy filing of Lehman Brothers. These developments have resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global credit and financial markets. While the rate of deterioration of the global economy slowed in the second half of 2009, with some signs of stabilisation and improvement in 2010 and the first half of 2011, substantial uncertainties have surfaced in the form of fiscal crisis in several European countries (including Greece, Portugal, Italy, Ireland and Spain), a downgrade in the sovereign credit rating of the United States and signs of cooling of the Chinese economy, resulting in continuing uncertainty for the overall prospects for the Korean and global economies in 2012 and beyond. In addition, measures adopted by the international community to sanction Iran for its nuclear weapons programme, as well as political instability in various countries in the Middle East and Northern Africa, including Egypt, Tunisia, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. These or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are implementing "exit strategies", in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. In addition, depending on the nature of the difficulties in the financial markets and general economy, we may be forced to scale back certain of our core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on our earnings and profitability. Furthermore, while we currently maintain our capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a deepening crisis. In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other, unanticipated systemic or other risks that may not be presently predictable. Any of these risks, if materialised, may have a material adverse effect on our business, liquidity, financial condition and results of operations.

We are exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities. Changes in currency rates, particularly in the Won-U.S. dollar exchange rates, affect the value of our assets and liabilities denominated in foreign currencies, the reported earnings of our non-Korean subsidiaries and income from foreign exchange dealings. From the second half of 2008 to the first half of 2010, the value of the Won relative to major foreign currencies in general, and the U.S. dollar in particular, fluctuated widely. While such fluctuations have generally stabilised in the second half of 2010 and 2011, there is no guarantee that they will not occur again in the future. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, there has been continuing volatility in the securities market in Korea, which may result in losses to our domestic trading and investment securities portfolio. The downturn in the economy and volatility of the value of Won relative to major foreign currencies, among other factors, may also negatively affect our borrowers and in turn adversely affect us through increased levels of non-performing loans and lower capital adequacy ratios over time. In addition, recent increases in credit spreads, as well as limitations on the availability of credit, have adversely affected our ability to borrow, particularly with respect to foreign currency funding, which may negatively impact our liquidity and performance.

The value of the Instruments is sensitive to the volatility of the credit markets and may be adversely affected by future developments. To the extent that turmoil in the credit markets continues and/or intensifies, such turmoil has the potential to materially affect the value of the Instruments.

***We may potentially merge or consolidate with Hana Bank or one of its subsidiaries, which would entail significant risks and challenges, including difficulties in integrating our existing operations, loss of overlapping customers, adverse tax consequences, decrease in employee morale and labour unrest.***

In February 2012, Hana Financial Group completed the purchase of 51.02 per cent. of our issued and outstanding shares of common stock from an affiliate of the Lone Star funds and an additional 6.25 per cent. of our shares from the Export-Import Bank of Korea for an aggregate purchase price of approximately ₩4.4 trillion. See "*Management and Employees – Acquisition by Hana Financial Group*". On 26 April 2013, our common stock, which had been listed on the KRX KOSPI Market since 1994, was delisted following Hana Financial Group's acquisition of 40 per cent. shares in us through a share swap ("**Share Swap**") which was proceeded at an exchange rate of one share of Hana Financial Group to 0.1894302 share of Korea Exchange Bank. We are currently a wholly-owned subsidiary of Hana Financial Group, however we still remain independent from Hana Financial Group with respect to our business, including our brand, employment and wage systems.

However, Hana Financial Group may decide to merge Hana Bank or one of its subsidiaries with Korea Exchange Bank in the future. Expansion and/or reorganisation of our business activities in connection with a future merger with Hana Bank will expose us to a number of risks and challenges, including, among others, the following:

- we may experience difficulties in integrating our existing operations with those of Hana Bank, including divergent standards, policies and procedures, overlapping personnel and branch and subsidiary networks, and inconsistent information technology systems and management and administrative functions;

- we may face unforeseen contingent risks or latent liabilities with respect to Hana Bank's operations that only become apparent after our merger with Hana Bank;

- we may experience a loss of overlapping customers between us and Hana Bank;

- a merger with Hana Bank may result in adverse tax consequences to us;

- we may not be the surviving entity upon a merger with Hana Bank;

- we may experience a decrease in employee morale, loss of key personnel and labour unrest in connection with a merger with Hana Bank; and

- the integration of our operations and Hana Bank will likely require a significant amount of time, financial resources and management attention.

Any such merger will likely have a material impact on our business, corporate structure, financial condition and results of operations and there is no guarantee that we will realise the anticipated benefits of any future merger with Hana Bank.

***Exposure to large Korean conglomerates, or Chaebols, could have an adverse effect on us.***

As of 31 March 2014, on a separate basis, our exposure to our 10 largest borrowers was ₩16.9 trillion which represented 15.6 per cent. of our total assets, and all of such borrowers were named in the "**Main Debtor Group**" (as identified and designated by the Financial Supervisory Service (the "**FSS**")). The Main Debtor Group is a list of companies maintained by the FSS which sets forth those companies whose outstanding credit amount to a financial institution exceeds 0.1 per cent. of the total credit provided by such financial institution, and includes most of the *Chaebols*. Our largest single credit (based on outstanding balances), on a separate basis, to a *chaebol* member company as of 31 March 2014 was ₩1.3 trillion, which represented 1.2 per cent. of our total assets. See "*Description of Assets and Liabilities – Loan Concentrations*". As of 31 March 2014, our 10 largest credits were all classified as normal. However, if any of our large credits were to become non-performing, the quality of our total loan portfolio could be adversely affected and additional provisions may be required.

***Exposure to small-and medium-sized enterprises, and financial difficulties experienced by such enterprises, may result in a deterioration of our asset quality.***

One of our core banking businesses has historically been and continues to be lending to small-and medium-sized enterprises ("**SMEs**"). Our total loans in Won to SMEs amounted to ₩14.9 trillion as of 31 December 2011, ₩14.1 trillion as of 31 December 2012, ₩15.0 trillion as of 31 December 2013 and ₩15.5 trillion as of 31 March 2014, representing 23.1 per cent., 21.3 per cent., 21.3 per cent. and 20.9 per cent., respectively, of our total loan portfolio as of such dates on a separate basis.

Compared to loans to *Chaebols*, which tend to be better capitalised and better able to weather business downturns, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to SMEs have historically had a relatively higher delinquency ratio. Prior to the onset of the recent global financial crisis, such enterprises were the targets of aggressive lending by Korean banks, including us, as part of their campaigns to increase their respective market shares. Many SMEs represent sole proprietorships or very small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected to a greater extent than large corporate borrowers by fluctuations in the Korean and global economy. In addition, SMEs often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for us to judge the level of risk inherent in lending to these enterprises, as compared to *Chaebols*. In addition, many SMEs have close business relationships with *Chaebols* in Korea, primarily as suppliers. Any difficulties encountered by those *Chaebols* would likely hurt the liquidity and financial condition of related SMEs, including those to which we have exposure, also resulting in an impairment of their ability to repay loans. In recent years, some Korean *Chaebols* have expanded into China and other countries with lower labour costs and other expenses by relocating their production plants and facilities to such countries, which may have a material adverse impact on such SMEs.

Financial difficulties experienced by SMEs as a result of, among other things, recent economic difficulties in Korea and globally, as well as aggressive marketing and intense competition among banks to lend to this segment in recent years, have led to a deterioration in the asset quality of our loans to this segment. As of 31 December 2011, 2012 and 2013 and 31 March 2014 on a separate basis, our delinquent loans to SMEs were ₩185 billion, ₩147 billion, ₩112 billion and ₩115 billion, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 1.0 per cent., 0.9 per cent., 0.6 per cent. and 0.6 per cent., respectively.

We have been taking active steps to curtail delinquency among our SME customers, including by way of increasing our exposure to so-called "blue-chip" companies with low credit risk profiles and reducing our exposure to companies with high credit risk profiles. Despite such efforts, there can be no assurance that the delinquency ratio for our loans to SMEs will not rise in the future, especially if the Korean economy were to face renewed difficulties leading to a subsequent deterioration in the liquidity and cash flow of these borrowers. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs, higher provisioning and reduced interest and fee income from this segment in the future, which would have an adverse impact on our financial condition and results of operations.

***Competition in the Korean banking industry is intense and may further intensify as a result of mergers and acquisitions in the Korean banking industry.***

We compete principally with other national commercial banks in Korea. We also face competition from a number of additional sources including regional banks, development banks, specialised banks, branches of foreign banks operating in Korea and various other types of financial service institutions. See "*The Korean Banking Industry*". In the retail and SME lending business, which has traditionally been our core business, competition has increased significantly and is expected to increase further. Most Korean banks have been focusing on retail customers and SMEs in recent years, although they have generally begun to increase their exposure to large corporate borrowers. In addition, the profitability of our retail banking operations may decline as a result of growing market saturation in the retail lending segment, increased interest rate competition and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for us to secure retail and SME customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

In addition, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Hanmi Bank by an affiliate of Citibank in 2004, Standard Chartered Bank's acquisition of Korea First Bank in 2005, Chohung Bank's merger with Shinhan Bank in 2006 and Hana Financial Group's acquisition of a controlling interest in us in February 2012. We expect that such consolidation in the financial industry will continue. Other financial institutions may seek to acquire or merge with such entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean banking industry. See "*The Korean Banking Industry*".

***Deregulation may further intensify the competition in the Korean banking industry, which could have an adverse effect on us.***

General regulatory reforms in the Korean banking industry have increased competition among banks. We believe that Korea's recent economic difficulties have accelerated and will continue to bring about regulatory reforms in and liberalisation of the Korean financial industry, leading to increased competition among financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, many with greater resources than we have, have entered and may continue to enter the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with us in providing financial and related services.

The Financial Investment Services and Capital Markets Act (the "**FSCMA**"), which came into effect on 4 February 2009, comprehensively regulates Korean capital markets, financial investment businesses (including trust businesses) and financial investment products (such as securities and futures). The FSCMA also permits financial organisations such as investment banks to engage in various types of financial business other than banking and insurance. As such financial organisations will be able to provide settlement and remittance services, increased competition could cause us to face difficulties in increasing or retaining our deposits, which in turn may result in an increase in our cost of funding and a decrease in our settlement and remittance service fee revenue. With the FSCMA now in effect, competition may become more intense among existing banks, insurance companies, securities companies and other financial organisations, and may lead to significant changes in the current Korean financial market.

If we are unable to compete effectively in this more competitive and deregulated business environment, our profit margin and market share may erode and our further growth opportunities may become limited, which could adversely affect our business, results of operations and financial condition.

***Financial difficulties of Korean companies in the construction, shipbuilding and shipping sector could have an adverse effect on us.***

Following the difficult conditions and volatility of the global credit markets, a significant number of Korean companies, especially in the construction, shipbuilding and shipping sector, have experienced financial difficulties. As of 31 December 2013 and 31 March 2014, on a separate basis, we had loans of ₩9.0 trillion and ₩9.6 trillion, respectively, to borrowers in the construction sectors, equal to 12.8 per cent. and 12.9 per cent., respectively, of our total loans. In June 2010, the Financial Services Commission of Korea ("**FSC**") and FSS announced that, following credit risk evaluations conducted by six creditor financial institutions (including us) of companies in Korea with outstanding debt of Won 50 billion or more, 65 companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Of such 65 companies, 16 were construction companies and three were shipbuilding companies. In July 2012, the FSC and FSS announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including us) of companies in Korea, in which 36 companies with outstanding debt of Won 50 billion or more (17 of which were construction companies and one of which was a shipbuilding company) were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Most recently, in July 2013, the "Results of the 2013 Periodic Review of the Credit Risk of Large Enterprises" published by the FSS indicated that 40 enterprises were designated as targets for restructuring, among which 20 were constructions companies and three were companies in the shipbuilding/shipping sector. There is no assurance, however, that these measures will be successful in stabilising the Korean construction and shipbuilding industries.

The continued increase in the corporate restructuring and reorganisations of Korean companies in the construction, shipbuilding and shipping sector will likely increase the amount of non-performing credits with respect to our exposure to such companies. There can be no assurance that we will not be required to allocate additional reserves for such conditions, or that losses from non-performing credits to such companies will not exceed the amounts that we have reserved against such losses, either of which could have a material adverse effect on us.

We also have construction-related credit exposure under our project financing loans for real estate development projects in Korea. In light of the general deterioration in the asset quality of real estate project financing loans in Korea in recent years, several Korean banks, including us, agreed with the FSS in September 2010 to implement a uniform set of guidelines regarding the evaluation of real estate development projects and asset quality classification of project financing loans for such projects. Under these guidelines, which became effective from the third quarter of 2010, Korean banks are generally required to apply more stringent criteria in evaluating the asset quality of real estate project financing loans. As a result, we may be required to establish additional allowances with respect to our outstanding real estate project financing loans, which could adversely affect our financial condition and results of operations.

***We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions which may be required and/or the adoption of restructuring plans with which we do not agree.***

As of 31 December 2013 and 31 March 2014, our loans to companies that were in a workout, restructuring or rehabilitation (including corporate reorganisation) amounted to ₩1.4 trillion and ₩1.4 trillion, respectively, each representing approximately 2.0 per cent. and 1.9 per cent. of our total loans on a separate basis as of their respective dates. Our allowances for losses on these loans may not be sufficient to cover all future losses arising from our exposure to these companies. In addition, with respect to those companies that are in or may in the future enter into a workout or liquidation proceedings, we may not be able to make any recoveries against such companies. We may, therefore, experience future losses with respect to those loans.

***A considerable increase in interest rates could decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which, as a result, could have an adverse effect on us.***

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea reduced its policy rate to 2 per cent., by a total of 325 basis points, to support Korea's economy amid the global financial crisis, and left such rate unchanged throughout 2009. In an effort to stem inflation amid improved growth prospects, the Bank of Korea progressively increased its policy rate from 2 per cent. in 2009 to 3.25 per cent. in June 2011. The Bank of Korea reduced its policy rate to 3.00 per cent. in July 2012 and further reduced such rate to 2.75 per cent. in October 2012 and 2.50 per cent. in May 2013 to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects. The Bank of Korea maintained its policy rate equal to 2.50 per cent. in March 2014, however there may be further fluctuations to such rate depending on the decisions of the Bank of Korea. All else being equal, an increase in interest rates leads to a decline in the value of our portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our asset portfolio and our liabilities in order to minimise the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, which in turn may lead to a deterioration in our credit portfolio.

***Our funding is highly dependent on short-term deposits, which dependence may have an adverse effect on our operations.***

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of 31 December 2013 and 31 March 2014, most of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of our short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

***Reductions in our credit ratings could, among other things, increase the cost of borrowing funds and may have an adverse impact on our ability to raise new funds or refinance maturing debt on commercially acceptable terms.***

Credit ratings are a component of our liquidity profile. Among other factors, credit ratings are based on the financial strength, the credit quality of and concentrations in our loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core and retail deposits and the ability to access a broad range of funding sources. Any reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs and limit our access to the capital markets and funding sources on commercially acceptable terms. Such events could adversely affect our financial condition and results of operations.

***A decline in the value of the collateral securing our loans or our inability to fully realise the collateral value may adversely affect our credit portfolio.***

Most of our home and mortgage loans are secured by borrowers' homes, other real estate or other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. The secured portion of our loans amounted to ₩16.6 trillion, or 33.6 per cent., of our total loans, as of 31 December 2013 and ₩16.8 trillion, or 32.8 per cent., of our total loans, as of 31 March 2014, on a separate basis. We cannot assure you that the collateral value of such loans may not materially decline in the future. Our general policy for home and mortgage loans is to lend up to 40 per cent. to 60 per cent. of the appraised value of the collateral and to periodically re-appraise the value of the collateral. However, in light of the current downturn in the real estate market in Korea, the value of the collateral may fall below the outstanding principal balance of the underlying loans. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of the collateral may result in our inability to recover a portion of the value of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, may result in the deterioration of our asset quality and require us to take additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea typically take from seven months to one year from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realise the full value of the collateral as a result of, among other factors, delays in foreclosure proceedings, defects in the perfection of the collateral and general declines in the collateral value. Our failure to recover the expected value of the collateral could expose us to significant losses.

***Payment guarantees received in connection with our real estate financing may not provide sufficient coverage.***

We, alone or together with other financial institutions, provide financing to real estate development projects, which are concentrated in the construction of residential and, to a lesser extent, commercial complexes. Developers in Korea commonly use project financing to acquire land and to cover related project development costs. It is market practice for general contractors to guarantee loans raised by special purpose financing vehicles established by the developers in order to procure the construction orders, as most developers tend to be small and highly leveraged. While general contractors tend to be large and well-established construction companies, given the severe downturn in the real estate market and the construction industry in general, there can be no guarantee that even such companies will have sufficient liquidity to back up their payment guarantees if the real estate development projects do not generate sufficient cash flow from pre-sales of the residential or commercial units. This is particularly the case for development projects outside the Seoul metropolitan area, which have recently had lower-than-expected levels of pre-sales. If defaults arise under our loans to real estate development projects and payment guarantees are not paid in sufficient amounts to cover the amount of our financings, this may have a material adverse effect on our business, financial condition and results of operations.

***Any deterioration in the asset quality of our guarantees and acceptances will likely have a material adverse effect on our financial condition and results of operations.***

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances, which are recorded as off-balance sheet items in the notes to its financial statements. As of 31 December 2013 and 31 March 2014, we had aggregate guarantees and acceptances of ₩8.7 trillion and ₩9.4 trillion, respectively, for which we provided allowances for losses of ₩38.0 billion and ₩35.8 billion, respectively, on a separate basis. No assurance can be given that such allowance will be sufficient to cover any actual losses resulting in respect of these instruments.

***We may incur significant losses from our investments and, to a lesser extent, trading activities due to market fluctuations.***

We enter into and maintain large investment positions in the fixed income markets, primarily through our treasury and investment business, as described in "*Korea Exchange Bank – Other Domestic Activities*". We also maintain smaller trading positions, including securities and derivative financial instruments, as part of our banking operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits that we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt securities, a decline in market prices, as a result of fluctuating market interest rates, can expose us to losses. If market prices move in a way that we have not anticipated, we may experience losses. In addition, when markets are volatile and subject to rapid changes in the price directions, the actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

***We may incur losses from our commission- and fee-based business.***

We provide trust account management services for our customers. Downturns in stock markets are likely to lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients' portfolios are in many cases based on the size of the assets under management, a market downturn which has the effect of reducing the value of our clients' portfolios or increasing the amount of withdrawals may reduce the revenues that we receive from our trust account management. Even in the absence of a market downturn, below-market performance by our trust account services may result in increased withdrawals and reduced inflows, which may reduce the revenue that we receive from these businesses. In addition, protracted market movements resulting in declines of asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices.

***Our risk management policies and procedures may not be fully effective at all times.***

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. See "*Risk Management*". Although we devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management techniques may not be fully effective at all times in mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, in the past, we have had employees who engaged in embezzlement of substantial amounts for an extended period of time before our risk management systems detected such activities. Management of credit, market and operational risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks that we face.

***Legal claims and regulatory risks arise in the conduct of our business.***

In the ordinary course of our business, we are subject to regulatory oversight and liability risk. We are also involved in a variety of other claims, disputes, legal proceedings and government investigations in jurisdictions where we are active, including Korea. These types of proceedings expose us to substantial monetary damages and legal defence costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on our businesses. The outcome of these matters cannot be predicted, and they could adversely affect our future business.

In addition, due to the global economic slowdown and a deteriorating Korean stock market since the second half of 2008, many investment funds whose performance is tied to domestic and foreign stock markets have experienced a sharp fall in their rates of return. Consequently, investors in these funds have increasingly brought lawsuits against commercial banks in Korea that have sold such investment fund products based on the allegation that such banks used defective sales practices in selling such funds, such as failing to comply with disclosure requirements or unfairly inducing them to invest in the funds. There have been cases in which the courts required the banks to compensate their customers for inadequate disclosure and unfair inducement. On 5 March 2013, we received a warning from the FSS that we had applied the interest spreads on certain floating rate loans to a number of our corporate borrowers during the period from June 2006 to September 2012 without proper supporting documentation. In connection with this incident, seven former and current executives and staff members of us were charged for the irregular practice. We cannot assure you that, despite due training, all of our employees in charge of such sales have not breached disclosure requirements, engaged in unfair inducement or committed similar acts.

As of 31 December 2013 and 31 March 2014, there were 770 and 857 cases respectively, filed by or against us, which amounted to claims of ₩850.3 billion and ₩668.4 billion in the aggregate, respectively. The amount claimed may increase in the course of litigation and there may be other lawsuits that may be brought against us based on similar allegations. We believe that we have made sufficient reserves for possible losses from such claims. While it is difficult to predict the outcome of each lawsuit against us, as it will ultimately depend on the specific facts and circumstances underlying each lawsuit, if the courts rule against us, the lawsuits may have a material adverse effect on our business, financial condition and results of operations.

***We may experience disruptions, delays and other difficulties relating to our information technology systems.***

We rely on our information technology systems for our daily operations, including billing, effecting online and offline financial transactions and recordkeeping. We also upgrade from time to time our group-wide customer data sharing and other customer relations management systems. We may experience disruptions, delays or other difficulties relating to our information technology systems, and may not integrate or upgrade our systems as currently planned. Any of these developments may have an adverse effect on our business and adversely impact our customers' confidence in us.

***Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.***

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the internet, although secure, are not free from security breaches. We may experience security breaches in connection with our internet banking service in the future, which may result in liability to our customers and third parties and materially and adversely affect our business.

***You may not be able to enforce a judgment of a foreign court against us.***

We are a corporation with limited liability organised under the laws of Korea. Substantially all of our directors and officers and other persons named in this Information Memorandum reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this Information Memorandum and substantially all of our assets are located in Korea. As a result, it may not be possible for investors to effect service of process within the United States or certain other jurisdictions, or to enforce against them or us in the United States or certain other jurisdictions judgments obtained in courts in such jurisdictions based on the civil liability provisions of such jurisdictions. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of courts in such jurisdictions, of civil liabilities predicated on the laws of such jurisdictions.

## Risks Relating to Regulations

### *U.S. Foreign Account Tax Compliance Withholding*

In order to receive payments free of U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**"), we and the financial institutions through which payments on the Instruments are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments in respect of the Instruments made after 31 December 2016. This withholding does not apply to payments on Instruments that are issued prior to the date that is six months after the date on which the final regulations that define "foreign passthru payments" are published unless the Instruments are "**materially modified**" (as that term is used in FATCA) after the end of the grandfathering period or are characterised as equity for U.S. federal income tax purposes. If a series of Instruments are eligible for the grandfathering rule and we issue further Instruments in such series after the end of the grandfathering period, this could have a negative impact on the grandfathered status of the grandfathered Instruments unless such further issuance qualifies as a "**qualified reopening**" for U.S. federal income tax purposes. Whilst the Instruments are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Instruments are discharged once it has paid the common depositary for the clearing systems (as bearer or registered holder of the Instruments) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – United States Foreign Account Tax Compliance Act*".

## Risks Relating to Korea

### *Adverse developments in Korea may have adverse effects on us.*

We generate most of our revenue from operations in Korea. Our future performance will depend in large part on Korea's future economic growth. Adverse developments in Korea's economy or in political or social conditions in Korea may have an adverse effect on our business.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S., Europe and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies in recent years, particularly in light of the financial difficulties affecting many governments worldwide, including Greece, Spain, Italy and Portugal. Future declines in the Korea Composite Stock Price Index ("**KOSPI**") and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could negatively impact Korea's economy in the future include:

- continued volatility or deterioration in Korea's credit and capital markets;
- financial problems relating to *Chaebols*, or their suppliers, and their potential adverse impact on the Korean economy;
- difficulty or lack of progress in the restructuring of *Chaebols*, the financial industry and other large troubled companies, including credit card companies;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues of certain *Chaebols*;
- a slowdown in consumer spending and the overall economy;
- difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including an increase in oil prices), exchange rates (particularly against the U.S. dollar), interest rates and stock markets;
- deterioration of economic or market conditions in other emerging markets;
- adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- the continued emergence of China, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of manufacturing from Korea to China);
- social and labour unrest;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for unemployment compensation and other social programmes that, together, may lead to an increased Government budget deficit;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the recurrence of SARS, H1N1 virus or the avian influenza in Asia and other parts of the world;
- political uncertainty or increasing strife among or within political parties in Korea;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- the economic impact of any pending or future free trade agreements;
- natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners, such as the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and any resulting releases of radiation from damaged nuclear power plants in the area;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy;

- hostilities involving oil-producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil resulting from those hostilities;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea and/or the United States; and
- changes in financial regulations in Korea.

***Increased tensions with North Korea could have an adverse effect on us and the market value of the Instruments.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and missile programmes and uncertainty regarding North Korea's actions and possible responses from the international community. In April 2009, after launching a long-range missile over the Pacific Ocean, which led to protests from the international community, North Korea announced that it may permanently withdraw from the six-party talks that began in 2003 to discuss Pyongyang's path to denuclearisation. In May 2009, North Korea conducted its second nuclear test by launching several short-range missiles. In response to such actions, Korea decided to join the Proliferation Security Initiative, an international campaign aimed at stopping the trafficking of weapons of mass destruction, over Pyongyang's threat of war. After the United Nations Security Council passed, in June 2009, a resolution to condemn North Korea's second nuclear test and impose tougher sanctions such as a mandatory ban on arms exports, North Korea announced that it may produce nuclear weapons and take "resolute military actions" against the international community.

There recently has been increased uncertainty about the future of North Korea's political leadership and its implications for the economic and political stability of the region. Shortly after the death of Kim Jong-il, a long-standing former ruler of North Korea, in December 2011, his son Kim Jong-eun, reported to be in his late twenties, was named North Korea's Supreme Commander of the Armed Forces. Whether Kim Jong-eun will successfully solidify his political power or whether he will implement policies that will successfully assist North Korea in withstanding the many challenges it faces, however, remains uncertain. In addition, North Korea's economy faces severe challenges. For example, on 30 November 2009, North Korea redenominated its currency at a ratio of 100 to 1 as part of its first currency reform in 17 years as a way to control inflation and reduce the income gap among its citizens. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

Furthermore, there have been recent military conflicts on the Korean peninsula. On 26 March 2010, the *Cheonan*, a Korean navy ship, sank off the western coast of Korea killing 46 soldiers. An investigation carried out by the Joint Civilian-Military Investigation Group, consisting of investigators from Korea, the United States, Australia, the United Kingdom and Sweden, concluded that the *Cheonan* was sunk by a North Korean torpedo. Also, on 23 November 2010, the North Korean military fired artillery shells onto the Korean island of Yeonpyeong, killing two Korean soldiers and two civilians which set off an exchange of fire between the two sides. Around the end of 2010, the International Criminal Court tentatively concluded that North Korea's sinking of the *Cheonan* and shelling of the island of Yeonpyeong constituted a war crime, and launched a preliminary investigation regarding such incidents.

On 22 August 2011, North Korea unilaterally declared that it will legally dispose of all Korean-owned real estate, equipment and raw materials it seized in April 2010 within the Mountain Geumgang resort area (the "**Geumgang area**"), concurrent with its seizure and embargo of Korean supplies and assets and its exit order of all employees who were dispatched from Korea (the "**2011 Declaration**"). It is estimated that the value of the assets, including the real estate, owned by the Government, the Korea Tourism Organisation and other private Korean companies in the Geumgang area amount to approximately ₩484.1 billion. Tourism in the Geumgang area has effectively been discontinued since a Korean tourist was shot and killed by a North Korean soldier on 11 July 2008. On 13 April 2012, North Korea conducted a test of a long-range missile against the protests of many in the international community, including Korea, Japan and the United States. Although the test failed, it has raised tensions on the Korean peninsula. The United Nations Security Council has strongly condemned the tests and the United States has cut off food aid to North Korea. North Korea has responded by issuing a statement that it is free to take necessary retaliatory measures. After Korea announced on 7 October 2012, that it would extend the range of its ballistic missiles from 185 to 500 miles, a distance which could hit the northeast corner of North Korea from launch sites in central Korea, the National Defense Commission (which is the top military body of North Korea) announced it was ready to wage war on the United States and its allies and threatened to launch nuclear weapons in the event the United States or its allies use nuclear weapons against North Korea. In April 2013, North Korea reactivated its nuclear facility at Yongbyon, and in March 2014, three unmanned drones launched by North Korea were found in the border area of Baekryeong Island.

There can be no assurance that the level of tension and instability in the Korean peninsula will not escalate in the future, or that the political regime in North Korea may not suddenly collapse. We currently are not engaged in any business activities in North Korea. However, any further increase in tension or uncertainty relating to the military or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear programme, the occurrence of military hostilities or heightened concerns about the stability of North Korea's political leadership, could have a material adverse effect on our business, financial condition and results of operations and the market value of the Instruments.

***We are subject to the Korean regulatory environment applicable to banks which has undergone significant reforms and are subject to continuing changes.***

Recently, the legal and regulatory framework for the Korean banking industry has undergone significant reforms. Historically, regulations of the Government included, among other things, establishing the lending rates and deposit rates for banks. Regulations also dictated the extent of competition through restrictions on new entrants and on the growth of existing banks, including the opening of new branches.

Regulatory reform of the Korean banking industry to date has removed controls on all lending rates and all deposit rates (other than the maximum interest rate for certain demand deposits) and provided for increased prudential supervision of the financial sector by the Government. We believe that, in light of Korea's recent economic difficulties, the Government will accelerate the deregulation and internationalisation of the financial sector, including allowing market forces to have a larger role in guiding the development of the industry. However, the Government has recently implemented new standards relating to foreign exchange and the revised regulations require the banks to maintain a certain amount of foreign exchange reserves. In addition, with respect to capital adequacy standards, the Government has revised its regulations to implement stricter standards for the banks, including for us. Even in light of the recent changes by the FSC with respect to capital adequacy, such standard continues to be less stringent than those applicable to banks located in the United States and certain other countries. This may result in our capital adequacy ratio being inadequate if we were located in such countries. The continued deregulation of the financial industry and implementation of foreign exchange standards, stricter provisioning, liquidity and capital adequacy standards may have a material adverse effect on us and our liquidity ratio and capital adequacy ratios. See "*Capitalisation and Indebtedness – Capital Adequacy*". In addition, the Government has enacted the Act on Limitation of Interest to provide caps on the amount of interest that can be charged in connection with loan agreements. Although this Act exempts regulated financial institutions and registered loan providers such as us, we can make no assurances that a similar act will not be enacted in the future that extends to our operations. We expect the regulatory environment in which we operate to continue to be subject to significant changes in the near future. There can be no assurance that future regulatory changes will not have an adverse effect on us and our results of operations.

***Financial instability in Korea and other countries, particularly emerging market countries, could adversely impact the price of the Instruments.***

The Korean market and the Korean economy are influenced by economic and market conditions of other countries, including emerging market countries. Financial turmoil in Asia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to developments in one country, such as Argentina and Brazil, can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. In addition, global market conditions have deteriorated significantly recently, and have had, and will likely continue to have, a significant adverse effect on the Korean market and economy. See "*– Risks Relating to Our Business – Uncertainties and instability in global market conditions could adversely affect our business, financial condition and results of operations as well as the value of the Instruments*". No assurance can be given that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again, or that such events or continued deterioration in global and Korean markets and economies will not have an adverse effect on our business or the market value of the Instruments.

In the future, if the Government believes that serious difficulties exist or are expected in relation to the international balance of payments or finance or that the movement of capital between Korea and abroad poses serious obstacles in carrying out its currency, exchange rate or other macroeconomic policies, it may take measures to require any person who intends to perform foreign currency-denominated capital transactions to obtain permission or to require any person who performs foreign currency-denominated capital transactions to deposit part of the means of payment acquired in such transactions in certain Korean governmental agencies or financial institutions.

***We may be required to raise additional capital to maintain our capital adequacy ratios, which we may not be able to do on favourable terms or at all.***

Pursuant to the capital adequacy requirements of the FSC, we are required to maintain a minimum common shares capital adequacy ratio of 4.0 per cent., a minimum Tier I capital adequacy ratio of 5.5 per cent. and a combined Tier I and Tier II capital adequacy ratio of 8.0 per cent. as of the date hereof. However, from 1 January 2015, we will be required to maintain a minimum common shares capital adequacy ratio of 4.5 per cent. and a minimum Tier I capital adequacy ratio of 6.0 per cent. while the minimum combined Tier I and Tier II capital adequacy ratio will remain unchanged. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100.0 per cent. of Tier I capital. Our Tier I capital adequacy ratio and our combined Tier I and Tier II capital adequacy ratio were 11.66 per cent. and 13.83 per cent., respectively, as of 31 December 2013 and 11.33 per cent. and 13.37 per cent., respectively, as of 31 March 2014, each of which exceeded the minimum levels required by the FSC.

See "*Capitalisation and Indebtedness – Capital Adequacy*". However, our capital base and capital adequacy ratio may deteriorate in the future if the results of our operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of our retail loans and loans to SMEs, or if we are not able to deploy our funding into suitably low-risk assets.

If our capital adequacy ratios deteriorate, we may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. We may not be able to obtain additional capital on favourable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our licence.

***We may face increased capital requirements under the new Basel Capital Accord.***

Beginning on 1 January 2008, the FSS implemented the new Basel Capital Accord ("**Basel II**") in Korea, which has substantially affected the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk and market risk and on capital adequacy and asset soundness as measures of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk.

In addition, under Basel II, banks are permitted to follow either a standardised approach or an internal ratings-based approach with respect to calculating credit risk capital requirements. We began preparation for conversion to the Basel II Risk Management standards in April 2005 and completed the conversion by the end of 2006. We started to calculate our risk profile, risk-related reserves and risk-weighted capital in January 2007. The FSS approved our use of an internal model for our market risk measurement in April 2008, and we have used our model for our BIS ratio calculation since 1 July 2008. In addition, we received the FSS's approval to use the Foundation Internal Ratings Based (the "**FIRB**") for credit risk measurement and the Advanced Measurement Approach (the "**AMA**") for operational risk measurement in November 2008. We have been using the FIRB method for measuring our credit risk and AMA method for measuring our operational risk since 1 January 2009.

While the implementation of our internal ratings-based approach in 2008 increased our capital adequacy ratio and led to a decrease in our credit risk-related capital requirements as compared to those under our previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in our credit risk capital requirements in the future, which may require us to either improve our asset quality or raise additional capital.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision began phasing in the new set of measures, referred to as "**Basel III**", in 2013. In September 2012, the FSC announced its plans to implement a new set of regulations that, among other things, require Korean banks to comply with stricter minimum capital ratio requirements beginning in 2013 and additional minimum capital conservation buffer requirements from 2016. In May 2013, the FSC announced its decision, in conjunction with the Ministry of Strategy and Finance, FSS and the Bank of Korea, to implement Basel III by 1 December 2013 in light of the fact that it was adopted by most major Asian countries. Under the regulations, which came into effect as of 1 December 2013, Korean banks are required to maintain a minimum ratio of Tier I common capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk-weighted assets of 3.5 per cent. and Tier I capital to risk-weighted assets of 4.5 per cent. from 2013, with such minimum ratios being increased to 4.0 per cent. and 5.5 per cent., respectively, from 2014 and 4.5 per cent. and 6.0 per cent., respectively, from 2015. Such requirements would be in addition to the existing requirement for a total minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0 per cent., which will remain unchanged. The regulations also contemplate an additional capital conservation buffer of 0.625 per cent. starting in 2016, with such buffer to increase to 1.25 per cent. in 2017, 1.875 per cent. in 2018 and 2.5 per cent. in 2019, respectively.

In addition, the implementation of the newly imposed Basel III leverage and liquidity standards are expected to be delayed until 2015. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us.

## Risks Relating to the Instruments

***The Instruments may have limited liquidity.***

The Instruments, when issued, will constitute a new issue of securities for which there will be no existing trading market. Although the Dealers may make a market for the Instruments, they are not obligated to do so, and any market-making activity with respect to the Instruments, if commenced, may be discontinued at any time without notice.

No assurances can be given that a market for the Instruments will develop in the future. If such a market were to develop, the Instruments could trade at prices that may be higher or lower than the offering price depending on many factors, including, among others:

- prevailing interest rates;
- our financial condition, performance and prospects;
- the rate of exchange between Won and the currency of the Instruments;
- political and economic developments in Korea; and
- the market conditions for similar securities.

***The Instruments are subject to transfer restrictions.***

The Instruments will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to Qualified Institutional Buyers (within the meaning of Rule 144A under the Securities Act) in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or, if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities laws. In addition, subject to the conditions set forth in the Issue and Paying Agency Agreement, an Instrument may be transferred only if the principal amount of Instruments transferred is at least U.S.$100,000. For a further discussion of the transfer restrictions applicable to the Instruments, see "*Subscription and Sale*".

***The consent of Holders of the Instruments may not be necessary for a Qualifying Affiliate Merger.***

We may not require the consent of Holders of the Instruments for a related party merger with Hana Bank. Under the Terms and Conditions of the Instruments, if we were to merge with Hana Bank or its subsidiaries, such a merger, to the extent it constituted a cessation of the carrying on of our business, would not constitute an Event of Default and we would not be required to seek your consent as a Holder of the Instruments outstanding at such time in connection with such transaction, if such transaction satisfied the conditions set forth for a "Qualifying Affiliate Merger". See "*Terms and Conditions of the Instruments – Events of Default and Limited Rights of Acceleration and Enforcement*" and "*– Risks Relating to Our Business – We may potentially merge or consolidate with Hana Bank or one of its subsidiaries, which would entail significant risks and challenges, including difficulties in integrating our existing operations, loss of overlapping customers, adverse tax consequences, decrease in employee morale and labour unrest*".

**Risks Relating to Instruments Denominated in Renminbi**

A description of risks which may be relevant to an investor in Instruments denominated in Renminbi ("**Renminbi Instruments**") are set out below.

***Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and outside the PRC which may adversely affect the liquidity of Renminbi Instruments.***

Renminbi is not freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

However, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

In respect of Renminbi foreign direct investments ("**FDI**"), the People's Bank of China ("**PBoC**") promulgated the *Administrative Measures on Renminbi Settlement of Foreign Direct Investment* (外商直接投資人民幣結算業務管理辦法) (the "**PBoC FDI Measures**") on 13 October 2011 as part of PBoC's detailed Renminbi FDI accounts administration system. The system covers almost all aspects in relation to FDI, including capital injections, payments for the acquisition of PRC domestic enterprises, repatriation of dividends and other distributions, as well as Renminbi denominated cross-border loans. On 14 June 2012, PBoC issued a circular setting out the operational guidelines for FDI. PBoC further issued the *Circular on the Relevant Issues on Renminbi Settlement of Investment in Onshore Financial Institutions by Foreign Investors* (關於境外投資者投資境內金融機構人民幣結算有關事項的通知) on 10 October 2013, which provides further details for using Renminbi to invest in a financial institution domiciled in the PRC. Under the PBoC FDI Measures, special approval for FDI and shareholder loans from PBoC, which was previously required, is no longer necessary. In some cases however, post-event filing with PBoC is still necessary.

On 3 December 2013, the Ministry of Commerce of the PRC ("**MOFCOM**") promulgated the *Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment* (商務部關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify "**Renminbi Foreign Direct Investment**" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

To support the development of the China (Shanghai) Free Trade Pilot Zone (the "**Shanghai FTZ**"), the Shanghai Head Office of PBoC issued the *Circular on Supporting the Expanded Cross-border Utilisation of Renminbi in the Shanghai FTZ* (關於支持中國(上海)自由貿易試驗區擴大人民幣跨境使用的通知) (the "**PBoC Shanghai FTZ Circular**") on 20 February 2014, which allows banks in Shanghai to settle FDI based on a foreign investor's instruction. In respect of FDI in industries that are not on the "negative list" of the Shanghai FTZ, the MOFCOM approval previously required is replaced by a filing. However, the application of the Shanghai FTZ Circular is limited to the Shanghai FTZ.

As the PBoC FDI Measures, the MOFCOM Circular and the PBoC Shanghai FTZ are relatively new circulars, they will be subject to interpretation and application by the relevant authorities in the PRC.

In the event that we decide to remit some or all of the proceeds into the PRC in Renminbi, our ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and our ability to source Renminbi to finance our obligations under Instruments denominated in Renminbi.

***There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Instruments and our ability to source Renminbi outside the PRC to service Renminbi Instruments.***

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

While PBoC has established Renminbi clearing and settlement mechanisms for participating banks in Hong Kong, Macau, Singapore and Taiwan through settlement agreements on the clearing of Renminbi business with Bank of China (Hong Kong) Limited in Hong Kong, Bank of China, Macau Branch in Macau, Industrial and Commercial Bank of China, Singapore Branch in Singapore and Bank of China, Taipei Branch in Taiwan (each, a "**Renminbi Clearing Bank**"), and are in the process of establishing Renminbi clearing and settlement mechanisms in France, Germany and the United Kingdom (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC. The Renminbi Clearing Banks only have access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Instruments. To the extent we are required to source Renminbi in the offshore market to service our Renminbi Instruments, there is no assurance that we will be able to source such Renminbi on satisfactory terms, if at all.

***Investment in the Renminbi Instruments is subject to exchange rate risks.***

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. We will make all payments of interest and principal with respect to the Renminbi Instruments in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Instruments in that foreign currency will decline.

***Payments with respect to the Renminbi Instruments may be made only in the manner designated in the Renminbi Instruments.***

All payments to investors in respect of the Renminbi Instruments will be made solely (i) for so long as the Renminbi Instruments are represented by global certificates held with the common depositary for Clearstream Banking *société anonyme* and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Instruments are represented by global certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as the Renminbi Instruments are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, in accordance with prevailing rules and regulations. We cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

## FORMS OF INSTRUMENTS

Instruments may be issued in either global or definitive bearer form ("**Bearer Instruments**") or in registered form ("**Registered Instruments**"), as specified in the relevant Pricing Supplement. In the case of Instruments issued in registered form, the relevant Pricing Supplement may specify that the Instruments will be issued in global form ("**Global Registered Instruments**") held in specified clearing systems, as described below, or in definitive form ("**Definitive Registered Instruments**").

### Forms of Global Registered Instruments

Registered Instruments sold in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**") may be represented by a single, permanent Global Registered Instrument in definitive, fully registered form without interest coupons (a "**Regulation S Global Instrument**"), which will be deposited with the DTC Registrar as a custodian for DTC and registered in the name of Cede & Co. ("**Cede**") as nominee of DTC, or with a nominee for Euroclear and Clearstream, Luxembourg (unless otherwise specified in the relevant Pricing Supplement). On or prior to the 40th day after the later of the commencement of the offering and the closing date (the "**Closing Date**") in relation to the relevant Series, beneficial interests in the Regulation S Global Instrument may be held only through Euroclear or Clearstream, Luxembourg (unless otherwise specified in the relevant Pricing Supplement), unless delivery is made in the form of an interest in a Restricted Global Instrument (as defined below) in accordance with the certification requirements described below.

Registered Instruments sold in reliance on Rule 144A under the Securities Act may be represented by a single, permanent Global Registered Instrument in definitive, fully registered form without interest coupons (a "**Restricted Global Instrument**"), which will be deposited with a custodian for DTC and registered in the name of Cede as a nominee of DTC (unless otherwise specified in the relevant Pricing Supplement). Each Restricted Global Instrument (and any Definitive Registered Instruments issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Issue and Paying Agency Agreement and will bear the legend regarding such restrictions set forth under "*Transfer Restrictions*". A Regulation S Global Instrument and a Restricted Global Instrument may simultaneously be in issue in respect of the same Series of Instruments.

### Exchange of Interests in Global Registered Instruments

On or prior to the 40th day after the later of the commencement of the offering of the relevant Series and the relevant Closing Date, a beneficial interest in the relevant Regulation S Global Instrument may be transferred to a person who takes delivery in the form of an interest in the relevant Restricted Global Instrument only upon receipt by the Registrar or the DTC Registrar, as the case may be, of a written certification from the transferor (in the form provided in the Issue and Paying Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirement will no longer apply to such transfers.

Beneficial interests in a Restricted Global Instrument may be transferred to a person who takes delivery in the form of an interest in the relevant Regulation S Global Instrument, whether before, on or after such 40th day, only upon receipt by the Registrar or the DTC Registrar, as the case may be, of a written certification from the transferor (in the applicable form provided in the Issue and Paying Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A and that, if such transfer occurs on or prior to such 40th day, such interest will be held immediately thereafter only through Euroclear and Clearstream, Luxembourg (unless otherwise specified in the relevant Pricing Supplement).

Any beneficial interest in one of the Global Registered Instruments relating to any series that is transferred to a person who takes delivery in the form of an interest in the other Global Registered Instrument relating to such Series will, upon transfer, cease to be an interest in such Global Registered Instrument and become an interest in the other Global Registered Instrument and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Registered Instrument for as long as it remains such an interest.

**Owner of Global Registered Instruments and Payments**

So long as DTC, or its nominee, is the registered owner or holder of a Global Registered Instrument, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Instruments represented by such Global Registered Instrument for all purposes under the Issue and Paying Agency Agreement and the Instruments. Payments of principal, interest and additional amounts pursuant to Condition 8, if any, on Global Registered Instruments will be made to DTC as its nominee, as the registered owner thereof. Neither the Issuer, the Registrar, the DTC Registrar nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Registered Instruments or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment of principal, interest or additional amounts, if any, in respect of a Global Registered Instrument representing any Instruments held by it or its nominee, will immediately credit DTC Participants' (as defined in "*Clearing and Settlement*") accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Registered Instrument as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC Participants, including Euroclear and Clearstream, Luxembourg, to owners of beneficial interests in such Global Registered Instrument held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Unless DTC, Euroclear or Clearstream, Luxembourg notifies the Issuer that it is unwilling or unable to continue as a clearing system or depositary for a Global Registered Instrument and (in the case of one of them ceasing to be a depositary) a successor depositary is not appointed by the Issuer within 90 days or DTC ceases to be a "**clearing agency**" registered under the United States Securities Exchange Act of 1934 (the "**Exchange Act**"), owners of beneficial interests in a Global Registered Instrument will not be entitled to have any portion of such Global Registered Instrument registered in their names, will not receive or be entitled to receive physical delivery of Registered Instruments in definitive form and will not be considered to be the owners or holders of any Registered Instruments under the Issue and Paying Agency Agreement or the Global Registered Instruments. In addition, no beneficial owner of an interest in a Global Registered Instrument will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Issue and Paying Agency Agreement and, if applicable, those of Euroclear and Clearstream, Luxembourg).

**Exchange of Global Registered Instruments for Definitive Registered Instruments**

If DTC, Euroclear or Clearstream, Luxembourg is at any time unwilling or unable to continue as a clearing system or depositary for a Global Registered Instrument and (in the case of one of them ceasing to be a depositary) a successor depositary is not appointed by the Issuer within 90 days or DTC ceases to be a "**clearing agency**" (as defined in the Exchange Act), the Issuer will issue Instruments in definitive registered form in exchange for the relevant Regulation S Global Instrument and Restricted Global Instrument. The Global Registered Instruments are not issuable in bearer form. In the case of Definitive Registered Instruments issued in exchange for the Restricted Global Instrument, such Instruments will bear, and be subject to, the legend referred to under "*Transfer Restrictions*". The holder of a Definitive Registered Instrument may transfer such Instrument by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, New York City, which initially will be the office of the DTC Registrar. Upon the transfer, exchange or replacement of Definitive Registered

Instruments bearing the legend, or upon specific request for removal of the legend on a definitive Registered Instrument, the Issuer will deliver only Definitive Registered Instruments that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the DTC Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restriction on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

For so long as the Instruments are listed on the Singapore Exchange and the rules of the Singapore Exchange so require, the Issuer will appoint and maintain a paying agent in Singapore, where the Instruments may be presented or surrendered for payment or Redemption, if any Global Instrument is exchanged for Definitive Instruments. In the event that a Global Instrument is exchanged for Definitive Instruments, an announcement of such exchange shall be made by or on behalf of the Issuer through the Singapore Exchange and such announcement will include all material information on the delivery of the Definitive Instruments and details of the paying agent in Singapore.

Neither the Registrar nor the DTC Registrar, as the case may be, will register the transfer of or exchange of interests in a Global Registered Instrument for Definitive Registered Instruments for a period of 15 days preceding the due date for any payment of principal of or interest on the relevant Instruments.

In the event that the Issuer does not duly exchange any Global Registered Instrument for Definitive Registered Instruments, the beneficial owners of an interest in such Global Registered Instrument will acquire rights under the Deed of Covenant, a copy of which is available for inspection at the specified office of each of the Paying Agents and the Registrar.

The holder of a Registered Instrument may transfer such Registered Instrument in accordance with the provisions of Condition 2.

**Form of Bearer Instruments**

Instruments may also be issued in bearer form. For details of the terms upon which Instruments in bearer form may be transferred and exchanged, see Conditions 1.2 to 1.8.

## SUMMARY OF PROVISIONS RELATING TO THE INSTRUMENTS WHILE IN GLOBAL FORM

***Clearing System Accountholders***

In relation to any Tranche of Instruments represented by a Global Instrument in bearer form, references in the Terms and Conditions of the Instruments to "**Holder**" are references to the bearer of the relevant Global Instrument which, for so long as the Global Instrument is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Instruments represented by one or more Global Registered Instruments, references in the Terms and Conditions of the Instruments to "**Holder**" are references to the person in whose name the relevant Global Registered Instrument is for the time being registered in the Register which (a) in the case of a Restricted Global Instrument or Regulation S Global Instrument held by or on behalf of DTC, will be Cede & Co. (or such other entity as is specified in the applicable Pricing Supplement) as nominee for DTC; and (b) in the case of any Regulation S Global Instrument which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, and/or a sub-custodian for the CMU Service, will be such sub-custodian, such depositary or common depositary, or a nominee for such depositary or common depositary, as the case may be.

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Instrument or a Global Registered Instrument (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Instrument or Global Registered Instrument and in relation to all other rights arising under such Global Instrument or Global Registered Instrument. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Instrument or Global Registered Instrument will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Instruments are represented by a Global Instrument or Global Registered Instrument, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Instruments and such obligations of the Issuer will be discharged by payment to the holder of such Global Instrument or Global Registered Instrument.

***Conditions applicable to Global Instruments***

Each Global Instrument and Global Registered Instrument will contain provisions which modify the Terms and Conditions of the Instruments as they apply to the Global Instrument or Global Registered Instrument. The following is a summary of certain of those provisions:

*Payments*: All payments in respect of the Global Instrument or Global Registered Instrument which, according to the Terms and Conditions of the Instruments, require presentation and/or surrender of a Instrument, Registered Instrument or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Instrument or Global Registered Instrument to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Instruments. On each occasion on which a payment of principal or interest is made in respect of the Global Instrument, the Issuer shall procure that the payment is noted in a schedule thereto.

*Payment Business Day*: in the case of a Global Instrument or a Global Registered Instrument, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

*Payment Record Date*: Each payment in respect of a Global Registered Instrument (other than a Global Registered Instrument cleared through DTC) will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means any week day (Monday to Friday inclusive) within any given calendar year, except 25 December and 1 January.

*Exercise of put option*: In order to exercise the option contained in Condition 6.6 (*Optional Early Redemption (Put)*) the bearer of a Permanent Global Instrument or the holder of a Global Registered Instrument must, within the period specified in the Conditions for the deposit of the relevant Instrument and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Instruments in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Notices*: Notwithstanding Condition 14 (*Notices*), while all the Instruments are represented by a Permanent Global Instrument (or by a Permanent Global Instrument and/or a Temporary Global Instrument) or a Global Registered Instrument and the Permanent Global Instrument is (or the Permanent Global Instrument and/or the Temporary Global Instrument are), or the Global Registered Instrument is, registered in the name of DTC's nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Holders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Holders in accordance with Condition 14 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## CLEARING AND SETTLEMENT

Arrangements have been made with each of DTC, Euroclear and Clearstream, Luxembourg to facilitate initial issuance of Instruments. Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Instruments through DTC and investors who hold or will hold Instruments through Euroclear and/or Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg.

### DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a member of the Federal Reserve System, a "**clearing corporation**" within the meaning of the Uniform Commercial Code and a "**clearing agency**" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organisations ("**DTC Participants**") and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need or physical movement of certificates. DTC Participants include securities brokers and dealers, brokers, banks, trust companies and clearing corporations and may include certain other organisations. Indirect access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("**Indirect DTC Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers between DTC Participants on whose behalf it acts with respect to the Instruments and is required to receive and transmit distributions of principal of and interest on the Instruments. DTC Participants and Indirect DTC Participants with which investors have accounts with respect to the Instruments similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective investors.

Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of Indirect DTC Participants and certain banks, the ability of a person having a beneficial interest in an Instrument held in DTC to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in an Instrument held in DTC to such persons may be limited.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Instruments (including the presentation of Instruments for exchange, as described above) only at the direction of one or more DTC Participants to whose account(s) with DTC interests in the relevant Instruments are credited, and only in respect of such portion of the aggregate principal amount of the Instruments as to which such DTC Participant(s) has or have given such direction. However, in certain circumstances, DTC will exchange the Global Registered Instruments held by it for Definitive Registered Instruments, which it will distribute to its participants and which, if representing interests in the Restricted Global Instrument, will be legended as set forth under "*Transfer Restrictions*". See "*Forms of Instruments – Exchange of Global Registered Instruments for Definitive Registered Instruments*".

### Euroclear

The Euroclear System was created in 1968 to hold securities for participants in Euroclear ("**Euroclear Participants**") and to effect transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfer of securities and cash.

Euroclear is operated by Euroclear Bank S.A./N.V. (the "**Euroclear Operator**"), under contract with Euroclear Clearance System société Coopérative, a Belgian co-operative corporation (the "**Co-operative**"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Co-operative. The Co-operative establishes fundamental policies for Euroclear on behalf of Euroclear Participants. The Euroclear Operator is regulated and examined by the Board of Governors of the Federal Reserve System, the New York State Banking Department and the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the terms and conditions governing the use of Euroclear, the related operating procedures of the Euroclear Systems and applicable Belgian law (collectively, the "**Euroclear Terms and Conditions**"). The Euroclear Terms and Conditions govern transactions of securities and cash within Euroclear, withdrawal of securities and cash from the system, and receipts of payments with respect to securities in the system. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Euroclear Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to interests in Global Registered Instruments held through Euroclear will be credited to the Euroclear cash accounts of Euroclear Participants to the extent received by the Euroclear Operator's depositary, in accordance with the Euroclear Terms and Conditions. The Euroclear Operator will take any other action permitted to be taken by a holder of any Global Registered Instruments on behalf of a Euroclear Participant only in accordance with the Euroclear Terms and Conditions, subject to the ability of the Euroclear Operator's depositary to effect such actions on its behalf through DTC.

**Clearstream, Luxembourg**

Clearstream Banking, *société anonyme*, 67 Bd Grande-Duchesse Charlotte, L-2967 Luxembourg, namely Clearstream, Luxembourg, was incorporated in 1970 as ″Cedel S.A.″, a company with limited liability under Luxembourg law (a *société anonyme*). Cedel S.A. subsequently changed its name to Cedelbank. On 10 January 2000, Cedelbank's parent company, Cedel International, *société anonyme* ("**CI**") merged its clearing, settlement and custody business with that of Deutsche Borse Clearing AG ("**DBC**"). On 17 January 2000, DBC was renamed "Clearstream Banking AG".

Clearstream, Luxembourg holds securities for its customers ("**Clearstream, Luxembourg Participants**") and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

**Initial Settlement in Relation to Global Registered Instruments**

Upon the issuance of a Regulation S Global Instrument and a Registered Global Instrument, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such Global Registered Instruments to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer(s). Ownership of beneficial interests in a Global Registered Instrument will be limited to DTC Participants, including Euroclear and Clearstream, Luxembourg, or Indirect DTC Participants. Ownership of beneficial interests in Global Registered Instruments will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of Indirect DTC Participants).

Euroclear and Clearstream, Luxembourg will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream, Luxembourg on the books of their respective depositaries, which in turn will hold such positions in customers' securities accounts in such depositaries' names on the books of DTC.

Investors that hold their interests in a Global Registered Instrument through DTC will follow the settlement practices applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors that hold their interests in a Global Registered Instrument through Clearstream, Luxembourg or Euroclear accounts will follow the settlement procedures applicable to conventional Eurobonds, except that there will be no "lock up" or restricted period. The interests will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

**Secondary Market Trading in Relation to Global Registered Instruments**

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the following procedures in order to facilitate transfers of interests in a Regulation S Global Instrument and a Restricted Global Instrument among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any Paying Agent, nor the Registrar nor the DTC Registrar will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

***Trading between DTC Participants***

Secondary trading between DTC Participants will be settled using the procedures applicable to global bond issues in same-day funds.

***Trading between Clearstream, Luxembourg and/or Euroclear Participants***

Secondary market trading between Clearstream, Luxembourg Participants and/or Euroclear Participants will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

***Trading between DTC Seller and Clearstream, Luxembourg or Euroclear Purchaser***

When interests are to be transferred from the account of a DTC Participant to the account of a Clearstream, Luxembourg Participant or a Euroclear Participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg Participant or a Euroclear Participant, as the case may be, at least one business day prior to settlement. Clearstream, Luxembourg or the Euroclear Operator will instruct its respective depositary to receive such interest against payment. Payment will include interest accrued on such beneficial interest in the relevant Global Registered Instrument from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the depositary to the DTC Participant's account against delivery of the interest in the relevant Global Registered Instrument. After settlement has been completed, the beneficial interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Clearstream, Luxembourg Participant's or Euroclear Participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on the Global Registered Instrument will accrue from, the value date (which would be the preceding day, when settlement occurred in New York). If settlement is not completed on the intended value date (i.e. the trade fails), the Clearstream, Luxembourg or Euroclear cash debit will be valued instead as of the actual settlement date.

Clearstream, Luxembourg Participants and Euroclear Participants will need to make available to the relevant clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on-hand or existing lines of credit, as such Participants would for any settlement occurring within Clearstream, Luxembourg or Euroclear. Under this approach, such Participants may take on credit exposure to Clearstream, Luxembourg or the Euroclear Operator until the interests in the relevant Global Registered Instrument are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or the Euroclear Operator has extended a line of credit to a Clearstream, Luxembourg Participant or a Euroclear Participant, as the case may be, such Participant may elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Clearstream, Luxembourg Participants or Euroclear Participants purchasing interests in a Global Registered Instrument would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the relevant Global Registered Instrument were credited to their accounts. However, interest on the relevant Global Registered Instrument would accrue from the value date. Therefore, in many cases, the investment income on the interest in the relevant Global Registered Instrument earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Participant's particular cost of funds.

Since settlement takes place during New York business hours, DTC Participants can employ their usual procedures for transferring global bonds to the respective depositaries of Clearstream, Luxembourg or Euroclear for the benefit of Clearstream, Luxembourg Participants or Euroclear Participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to DTC Participants, a cross-market sale transaction will settle no differently from a trade between two DTC Participants.

Day traders that use Clearstream, Luxembourg or Euroclear to purchase interests in a Global Registered Instrument from DTC Participants for delivery to Clearstream, Luxembourg Participants or Euroclear Participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(a) borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;

(b) borrowing the interests in the United States from a DTC Participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear account in order to settle the sale side of the trade; or

(c) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Participant is at least one day prior to the value date for the sale to the Clearstream, Luxembourg Participant or Euroclear Participant.

***Trading between Clearstream, Luxembourg or Euroclear Seller and DTC Purchaser***

Due to time zone differences in their favour, Clearstream, Luxembourg Participants and Euroclear Participants may employ their customary procedures for transactions in which interests in a Global Registered Instrument are to be transferred by the relevant clearing system, through its respective depositary, to a DTC Participant at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct its respective depositary to deliver the interest in the relevant Global Registered Instrument to the DTC Participant's account against payment. Payment will include interest accrued on such beneficial interest in such Global Registered Instrument from and including the interest payment date to and excluding the settlement date. The payment will then be reflected in the account of the Clearstream, Luxembourg Participant or Euroclear Participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg Participant's or Euroclear Participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream, Luxembourg Participant or Euroclear Participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e. the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear Participant's account would instead be valued as of the actual settlement date.

**Initial Settlement and Secondary Market Trading in Relation to Bearer Instruments**

Initial settlement in Euroclear and Clearstream, Luxembourg and secondary market trading between Euroclear Participants and/or Clearstream, Luxembourg Participants will be settled using the procedures applicable to conventional Eurobonds.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, purchasers of Instruments offered in the United States in reliance on Rule 144A ("**Restricted Instruments**") are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Instruments offered and sold in reliance on Rule 144A.*

Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Each prospective purchaser of Instruments offered in reliance on Rule 144A (a "**144A Offeree**"), by accepting delivery of this Information Memorandum, will be deemed to have represented and agreed as follows:

(1) Such 144A Offeree acknowledges that this Information Memorandum is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Instruments other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this Information Memorandum or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.

(2) Such 144A Offeree agrees to make no photocopies of this Information Memorandum or any documents referred to herein.

Each purchaser of Restricted Instruments (including Restricted Global Instruments) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(1) The purchaser (A) is a Qualified Institutional Buyer, (B) is aware and each beneficial owner of such Instruments has been advised that the sale to it is being made in reliance on Rule 144A and (C) is acquiring Instruments for its own account or for the account of a Qualified Institutional Buyer.

(2) The purchaser understands that such Restricted Instruments are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Restricted Instruments have not been and will not be registered under the Securities Act or any other applicable securities law and may not be offered, sold, pledged or otherwise transferred unless registered pursuant to, or exempt from registration under, the Securities Act or any other applicable securities law, and that (A) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Instruments, such Restricted Instruments may be offered, sold, pledged or otherwise transferred only (i) to a person who the seller reasonably believes is a Qualified Institutional Buyer purchasing for its own account or for the account of another Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction and that (B) the purchaser will, and each subsequent holder of Restricted Instruments is required to, notify any purchaser of such Restricted Instruments from it of the resale restrictions referred to in (A) above.

(3) Unless otherwise specified in the relevant Pricing Supplement, either (A) the purchaser is neither (i) an employee benefit plan that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), or a plan, account or arrangement subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "**Code**"), including entities such as collective investment funds, partnerships and separate accounts whose underlying assets include the assets of such plan (each a "**Plan**") nor (ii) an employee benefit plan that is a governmental plan (as defined in Section 3(32) of ERISA), non-electing church plan (as defined in Section 3(33) of ERISA) or non-U.S. plan (as described in Section 4(b)(4) of ERISA) (each a "**Non-ERISA Arrangement**") and it is not purchasing or holding the Instruments on behalf of or with "plan assets" of any Plan or Non-ERISA Arrangement or (B) such purchase and holding of the Instruments does not constitute and will not result in a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code or a violation of similar rules under other applicable laws or regulations.

(4) The Restricted Instruments will bear a legend to the following effect unless the Issuer determines otherwise in compliance with applicable law:

**THIS INSTRUMENT (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT. THIS INSTRUMENT MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS INSTRUMENT IS HEREBY NOTIFIED THAT THE SELLER OF THIS INSTRUMENT MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.**

**THE HOLDER OF THIS INSTRUMENT AGREES FOR THE BENEFIT OF THE ISSUER AND THE DEALERS THAT (A) THIS INSTRUMENT MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) IN THE UNITED STATES TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, OR (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS INSTRUMENT FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.**

**BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER REPRESENTS THAT EITHER (A) IT IS NEITHER (I) AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR A PLAN, ACCOUNT OR ARRANGEMENT SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), INCLUDING ENTITIES SUCH AS COLLECTIVE INVESTMENT FUNDS, PARTNERSHIPS AND SEPARATE ACCOUNTS WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF**

**SUCH PLAN (EACH A "PLAN") NOR (II) AN EMPLOYEE BENEFIT PLAN THAT IS A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), NON-ELECTING CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA) OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) (EACH A "NON-ERISA ARRANGEMENT") AND IT IS NOT PURCHASING OR HOLDING THE INSTRUMENTS ON BEHALF OF OR WITH "PLAN ASSETS" OF ANY PLAN OR NON-ERISA ARRANGEMENT OR (B) SUCH PURCHASE AND HOLDING OF THE INSTRUMENTS DOES NOT CONSTITUTE AND WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA AND/OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR RULES UNDER OTHER APPLICABLE LAWS OR REGULATIONS.**

(5) The purchaser understands that the Issuer, the Registrar, the DTC Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Restricted Instruments for the account of one or more Qualified Institutional Buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(6) The purchaser understands that Instruments offered in reliance on Rule 144A will be represented by a Restricted Global Instrument. Before any interest in a Restricted Global Instrument may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an unrestricted Instrument (including a Regulation S Global Instrument), it will be required to provide the Registrar or the DTC Registrar, as the case may be, with a written certification (in the form provided in the Issue and Paying Agency Agreement) as to compliance with the transfer restrictions referred to in Clause (2)(A)(ii) above.

Each purchaser of Regulation S Global Instruments and each subsequent purchaser of such Regulation S Global Instruments in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Information Memorandum and the Regulation S Global Instruments, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time Regulation S Global Instruments are purchased will be, the beneficial owner of such Regulation S Global Instruments and (A) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (B) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands that such Regulation S Global Instruments have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Global Instruments except (A) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a Qualified Institutional Buyer purchasing for its own account, or for the account of one or more Qualified Institutional Buyers or (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

(3) Unless otherwise specified in the relevant Pricing Supplement, either (A) it is neither a (i) employee benefit plan that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), or a plan, account or arrangement subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "**Code**"), including entities such as collective investment funds, partnerships and separate accounts whose underlying assets include the assets of such plan (each a "**Plan**") nor (ii) an employee benefit plan that is a governmental plan (as defined in Section 3(32) of ERISA), non-electing church plan (as defined in Section 3(33) of ERISA) or non-U.S. plan (as described in Section 4(b)(4) of ERISA) (each a "**Non-ERISA Arrangement**") and it is not purchasing or holding the Instruments on behalf of or with "plan assets" of any Plan or Non-ERISA Arrangement or (B) such purchase and holding of the Instruments does not constitute and will not result in a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code or a violation of similar rules under other applicable laws or regulations.

(4) It understands that the Regulation S Global Instruments, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

**"THIS INSTRUMENT HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.**

**BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER REPRESENTS THAT EITHER (A) IT IS NEITHER (I) AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR A PLAN, ACCOUNT OR ARRANGEMENT SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), INCLUDING ENTITIES SUCH AS COLLECTIVE INVESTMENT FUNDS, PARTNERSHIPS AND SEPARATE ACCOUNTS WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF SUCH PLAN (EACH A "PLAN") NOR (II) AN EMPLOYEE BENEFIT PLAN THAT IS A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), NON-ELECTING CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA) OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) (EACH A "NON-ERISA ARRANGEMENT") AND IT IS NOT PURCHASING OR HOLDING THE INSTRUMENTS ON BEHALF OF OR WITH "PLAN ASSETS" OF ANY PLAN OR NON-ERISA ARRANGEMENT OR (B) SUCH PURCHASE AND HOLDING OF THE INSTRUMENTS DOES NOT CONSTITUTE AND WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA AND/OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR RULES UNDER OTHER APPLICABLE LAWS OR REGULATIONS."**

(5) It understands that the Issuer, the Registrar, the DTC Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(6) Each purchaser understands that, on or prior to the 40th day after the later of the commencement of the offering and the Closing Date in relation to the Series of which such Regulation S Global Instrument is a part, beneficial interests in such Regulation S Global Instrument (A) may be held only through Euroclear or Clearstream, Luxembourg, unless delivery is made in the form of an interest in a Restricted Global Instrument in accordance with the certification requirements described above, and (B) may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Instrument of such Series only upon receipt by the Registrar or the DTC Registrar, as the case may be, of a written certification from the transferor (in the form provided in the Issue and Paying Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A under the Securities Act and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

## PRO FORMA PRICING SUPPLEMENT

**Korea Exchange Bank**
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Instruments] under the U.S.$4,000,000,000 Programme for the Issuance of Debt Instruments**

The Issuer (a) [has complied with] its obligations under the listing rules of the Singapore Exchange in relation to the proposed listing of the Instruments on the official list of the Singapore Exchange and continuing listing of any Instruments issued under the Programme and of any previous issues made by it under the Programme and listed on the same exchange; (b) [confirms] that it will have complied with its obligations under the listing rules of the Singapore Exchange in relation to the listing of the Instruments by the time the Instruments are so listed; and (c) [has not,] since the last publication of information in compliance with the listing rules of the Singapore Exchange about the Programme, any previous issues made by it under the Programme and listed on the Singapore Exchange, or the Instruments, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as Issuer in respect of the Instruments as they fall due.

This document constitutes the Pricing Supplement relating to the issue of Instruments described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated 26 May 2014 [and the supplemental Information Memorandum dated [date]]. This Pricing Supplement must be read in conjunction with such Information Memorandum [as so supplemented].

***[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]***

| | | |
|---|---|---|
| 1. | Issuer: | Korea Exchange Bank |
| 2. | [(i)] Series Number: | [ ] |
| | [(ii) Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible)] | [ ] |
| 3. | Specified Currency or Currencies: | [ ] |
| 4. | Aggregate Nominal Amount: | [ ] |
| | [(i)] Series: | [ ] |
| | [(ii) Tranche: | [ ]] |
| 5. | [(i)] Issue Price: | [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)] |
| | [(ii) Net proceeds: | [ ] (*Required only for listed issues*)] |
| 6. | Specified Denominations: | [*Instruments which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system situated or operating in a member state of the European Union may not have a minimum denomination of less than EUR 1,000 (or nearly equivalent in another currency. Subject thereto, Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements*.] |

| | | |
|---|---|---|
| | | [*In the case of Bearer Instruments with specified denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof, insert the following:*] |
| | | [EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. No Definitive Instruments will be issued with a denomination above EUR 199,000.] |
| | | [ ] |
| 7. | [(i)] Issue Date: | [ ] |
| | [(ii) Interest Commencement Date (if different from the Issue Date): | [ ]] |
| 8. | Maturity Date: | [*specify date or (for Floating Rate Instruments) Interest Payment Date falling in the relevant month and year*][1] |
| 9. | Interest Basis: | [[●] per cent. Fixed Rate]<br>[Floating Rate]<br>[Zero Coupon]<br>[Index Linked Interest]<br>[Other (*specify*)]<br>(further particulars specified below) |
| 10. | Redemption/Payment Basis: | [Redemption at par]<br>[Index Linked Redemption]<br>[Dual Currency]<br>[Partly Paid]<br>[Instalment]<br>[Other (*specify*)] |
| 11. | Change of Interest or Redemption/Payment Basis: | [*Specify details of any provision for convertibility of instruments into another interest or redemption/payment basis*] |
| 12. | Put/Call Options: | [Investor Put]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 13. | Status of the Instruments: | [Unsubordinated/Subordinated] |
| 14. | Listing: | [Singapore/other (*specify*)/None] |
| 15. | Method of distribution: | [Syndicated/Non-syndicated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | |
|---|---|---|
| 16. | Interest-bearing or non-interest bearing: | [Interest bearing/Non-interest bearing] |
| 17. | Fixed Rate Instrument Provisions | [Applicable/Not Applicable]<br>(If not applicable, delete the remaining sub-paragraphs of this paragraph) |
| | (i) Interest Rate(s): | [ ] per cent. per annum<br>[payable [annually/semi-annually/quarterly/monthly] in arrear] |

1 Note that for Renminbi denominated Fixed Rate Instruments where the Interest Payment Dates are subject to modification, it will be necessary to use the second option here.

| | | |
|---|---|---|
| | (ii) Interest Payment Date(s): | [ ] in each year<br>[adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted] |
| | (iii) Fixed Coupon Amount[(s)]: | [ ] per [ ] in Nominal Amount[2] |
| | (iv) Broken Amount(s): | [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]] |
| | (v) Day Count Fraction: | [30/360/Actual/Actual (ICMA/ISDA)/other] |
| | (vi) Determination Dates: | [ ] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)) |
| | (vii) Other terms relating to the method of calculating interest for Fixed Rate Instruments: | [Not Applicable/*give details*] |
| 18. | Floating Rate Instrument Provisions | [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph.*) |
| | (i) Interest Payment Dates (or, if the Applicable Business Day Convention is the FRN Convention, specify number of calendar months): | [ ] |
| | (ii) Interest Period End Date (or, if the Applicable Business Day Convention is the FRN Convention, specify number of calendar months): | [*Specify, if nothing is specified Interest period End Date will correspond with interest Payment Date*] |
| | (iii) Applicable Business Day Convention: | [Following Day Convention/Modified Following Business Convention/Preceding Business Day Convention/FRN Convention or Eurodollar Convention/(unless "**No Adjustment**" is stated or the ISDA Rate applies) if nothing is specified in relation to Interest Payment Dates and/or Interest Period End Dates, the Modified Following Business Day Convention will apply. *Care should be taken to match the maturity date (as well as other key dates) of the Instruments with any underlying swap transaction. Since maturity dates do not automatically move with business day convention under ISDA, it may be necessary to specify "No Adjustment" in relation to maturity date of the Instruments to disapply the Applicable Business Day Convention*] |
| | • Interest Payment Date: | [ ] |
| | • Interest Period End Date: | [ ] |
| | • Any other dates: | [ ] |

2 For Renminbi denominated Fixed Rate Instruments where the Interest Payment Dates are subject to modification, the following alternative wording is appropriate: "Each Fixed Coupon Amount" shall be calculated by multiplying the product of the Rate of Interest and the Nominal Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards.

| | | |
|---|---|---|
| | (iv) Definition of Business Day: | [*Specify any additional places or days*] |
| | (v) Manner in which the Interest Rate(s) is/are to be determined: | [Screen Rate Determination/ISDA Rate/other (*give details*)] |
| | (vi) Calculation Agent: | [ ] |
| | (vii) Reference Banks: | [ ] |
| | (viii) Rate Determination: | Screen |
| | • Reference Rate: | [ ] |
| | • Interest Determination Date(s): | [[ ] Business Days prior to first day of the relevant Interest Accrual Period] |
| | • Relevant Screen Page: | [ ] |
| | • Relevant Time: | [ ] |
| | (ix) ISDA Rate: | |
| | • Floating Rate Option: | [ ] |
| | • Designated Maturity: | [ ] |
| | • Reset Date: | [ ] |
| | • ISDA Definitions: [2000/2006] | [ ] |
| | (x) Margin(s): | [+/-][ ] per cent. per annum |
| | (xi) Minimum Rate of Interest: | [ ] per cent. per annum |
| | (xii) Maximum Rate of Interest: | [ ] per cent. per annum |
| | (xiii) Day Count Fraction: | [ ] |
| | (xiv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: | [ ] |
| 19. | Default Interest Rate: | [*Specify if different from Interest Rate*] |
| 20. | Zero Coupon Instrument Provisions | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Amortisation Yield: | [ ] per cent. per annum |
| | (ii) Rate of interest on overdue amounts: | [*Specify if not the Amortisation Yield*] |
| | (iii) Any other formula/basis of determining amount payable: | [ ] |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| 21. | Optional Early Redemption (Call) | [Condition 6.3 applicable/not applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Call Option Date(s)/Call Option Period: | [ ] |
| | (ii) Early Redemption Amount (Call) and method, if any, of calculation of such amount(s): | [Outstanding Principal Amount/Amortised Face Amount/other] |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [ ] |
| | (b) Maximum Redemption Amount: | [ ] |
| | (iv) Notice period (if other than as set out in the Conditions): | [ ] |
| | (v) Other conditions: | [ ] |
| 22. | Optional Early Redemption (Put) | [Condition 6.6 applicable/not applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Put Date(s)/Put Period: | [ ] |
| | (ii) Early Redemption Amount (Put) and method, if any, of calculation of such amount(s): | [Outstanding Principal Amount/Amortised Face Amount/other] |
| | (iii) Minimum Denomination: | [*Specify denomination or multiple thereof which may be redeemed*] |
| | (iv) Notice period (if other than as set out in the Conditions): | [ ] |
| 23. | Maturity Redemption Amount | [Outstanding Amount/other] |
| 24. | Early Redemption Amount (Tax) | [Outstanding Principal Amount/Amortised Face Amount/other] |
| | • Date after which changes in law, etc. entitle Issuer to redeem: | [*Specify, if not the Issue Date*] |
| 25. | Events of Default | |
| | (i) Any additional or modification to Events of Default: | [ ] |
| | (ii) Early Termination Amount: | [Outstanding Principal Amount/Amortised Face Amount/other] |

**GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS**

| | | |
|---|---|---|
| 26. | Form of Instruments: | Bearer Instruments: |
| | | [Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Instruments on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument.] |
| | | [Temporary Global Instrument exchangeable for Definitive Instruments on [●] days' notice.] |
| | | (*N.B. The exchange upon notice/at any time options as specified above and in the Conditions should not be expressed to be applicable if the Specified Denomination of the Instruments in paragraph 6 includes language substantially to the following effect: "[EUR 100,000 and integral multiples of EUR 1,000 in excess thereof and up to and including EUR 199,000]."*) |
| | | Registered Instruments |
| | | [Regulation S Global Instrument (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/held through the CMU Service]]/[Regulation S Global Instrument exchangeable for Definitive Registered Instruments in the limited circumstances described in the Regulation S Global Instrument] |
| | | [Restricted Global Instrument (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/held through the CMU Service]] [Restricted Global Instrument exchangeable for Definitive Registered Instruments in the limited circumstances described in the Restricted Global Instrument] |
| | • Exchange Date: | [ ] |
| 27. | Unmatured Coupon missing upon Early Redemption: | [*Specify whether paragraph (i) of Condition 9.1.6 or paragraph (ii) of Condition 9.1.6 applies. If nothing is specified, paragraph (i) will apply to fixed rate or fixed coupon amount Instruments and paragraph (ii) will apply to floating or variable coupon amount Instruments*] |
| 28. | Payments | |
| | (i) Business Day: | [ ] |
| | (ii) Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/*give details. Note that this item relates to the place of payment, and nor interest period end dates*] |
| 29. | Coupons to be attached to Definitive Instruments or whether there will be a grid for interest payments: | [ ] |

| | |
|---|---|
| 30. Talons for future Coupons or Receipts to be attached to Definitive Instruments (and dates on which such Talons mature): | [Yes/No. *If yes, give details*] |
| 31. Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment: | [Not Applicable/*give details*] |
| 32. Details relating to Instalment Instruments: Instalment Amounts, date on which each payment is to be made: | [Not Applicable/*give details*] |
| 33. Redenomination, renominalisation and reconventioning provisions: | [Not Applicable/The provisions [in Condition 9.4] [annexed to this Pricing Supplement] apply] |
| 34. Replacement Instruments: | [*Specify Replacement Agent, if other than (or in addition to) the Issue and Paying Agent or in the case of Registered Instruments, the Registrar or DTC Registrar*] |
| 35. Notices: | [*Specify any other means of effective communication*] |
| 36. Other terms or special conditions: | [Not Applicable/*give details*] |

**DISTRIBUTION**

| | |
|---|---|
| 37. (i) If syndicated, names of Managers: | [Not Applicable/*give names*] |
| (ii) Stabilising Manager (if any): | [Not Applicable/*give name*] |
| 38. If non-syndicated, name of Dealer: | [Not Applicable/*give name*] |
| 39. Additional selling restrictions: | [Not Applicable/*give details*] |

**OPERATIONAL INFORMATION**

| | |
|---|---|
| 40. ISIN Code: | [ ] |
| 41. Common Code: | [ ] |
| 42. CUSIP Code: | [ ] |
| 43. Any clearing system(s) other than Euroclear, Clearstream Banking, sociètè anonyme and DTC and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s)*] |
| 44. Delivery: | Delivery [against/free of] payment |
| 45. Additional Paying Agent(s) (if any): | [ ] |

**[LISTING APPLICATION**

**This Pricing Supplement comprises the details required to list the issue of Instruments described herein pursuant to the listing of the U.S.$4,000,000,000 Programme for the Issuance of Debt Instruments of Korea Exchange Bank.]**

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

*duly authorised*

## CAPITALISATION AND INDEBTEDNESS

The following table shows our separate indebtedness and capitalisation as of 31 December 2013 and 31 March 2014. This information has been extracted from our audited separate financial statements as of 31 December 2013 and our reviewed separate financial statements as of 31 March 2014.

| | As of 31 December 2013 | As of 31 March 2014 | |
|---|---|---|---|
| | (In billions of Won and millions of US$) | | |
| **Indebtedness** | | | |
| Borrowings | ₩6,520.7 | ₩8,544.7 | US$7,994.7 |
| Debentures | 6.582.0 | 6,364.1 | 5,954.4 |
| Total debt | ₩13,102.7 | ₩14,908.8 | US$13,949.1 |
| **Shareholders' equity** | | | |
| Common stock | 3,224.5 | 3,224.5 | 3,016.9 |
| Capital surplus | 0.9 | 0.9 | 0.8 |
| Hybrid equity securities | 429.5 | 179.8 | 168.3 |
| Capital adjustments | (18.7) | (0.8) | (0.7) |
| Accumulated other comprehensive income | 242.6 | 229.3 | 214.5 |
| Retained earnings | 5,537.8 | 5,511.8 | 5,157.0 |
| **Total equity** | ₩9,416.6 | ₩9,145.5 | US$8,556.8 |
| **Total capitalisation** | ₩22,519.3 | ₩24,054.3 | US$22,505.9 |

There have been no material changes to our capitalisation or indebtedness since 31 March 2014.

### Capital Adequacy

The FSC has introduced risk-adjusted capital standards in accordance with the standards set by us for International Settlement ("**BIS**") and the requirements of these standards have been implemented with full effect commencing as of 31 December 1995. Under FSC guidelines, banks in Korea are required to maintain a capital adequacy ratio (Tier I and Tier II) of at least 8 per cent. based on their consolidated financial statements. To the extent a bank fails to maintain such ratio, Korean regulatory authorities may impose penalties on such bank ranging from a warning to suspension or revocation of its licence. As of 31 March 2014, our Basel III capital adequacy ratio was 13.37 per cent. based on the consolidated financial statements.

From 2008, Korean banks implemented the New Basel Accord known as Basel II. Under Basel II, credit risks are measured using three kinds of methods: (i) a standard method provided by the relevant authority (where all the risk variables are determined by the FSC); (ii) FIRB method that allows the financial institution to determine one of the risk variables, the probability of default, **provided that** such method is approved by the FSC for a particular financial institution; and (iii) Advanced Internal Ratings Based method that allows the financial institution to determine all the risk variables, **provided that** such method is approved by the FSC for a particular financial institution.

We began preparation for conversion to the Basel II Risk Management standards in April 2005 and completed the conversion by the end of 2006. We started to calculate our risk profile, risk-related reserves and risk-weighted capital since January 2007. We were approved of using an internal model for our market risk measurement by the FSS in April 2008 and have used our model for our BIS ratio calculation since 1 July 2008. In addition, we received the FSS's approval for using FIRB for credit risk measurement and the AMA for operational risk measurement in November 2008. We have been using the FIRB method for measuring our credit risk and AMA method for measuring our operational risk since 1 January 2009.

In September 2012, the FSC announced its plans to implement a new set of regulations that will, among other things, require Korean banks to comply with stricter minimum capital ratio requirements beginning in 2013 and additional minimum capital conservation buffer requirements from 2016. In May 2013, the FSC announced its decision, in conjunction with the Ministry of Strategy and Finance, FSS and the Bank of Korea, to implement Basel III by 1 December 2013, and such regulations came into effect accordingly. See "*Investment Considerations – Risks Relating to Korea – We may face increased capital requirements under the new Basel Capital Accord*" for a description of the new regulations on minimum capital ratio requirements.

The following table sets out a summary of our capital base and capital adequacy ratios, on a consolidated basis, as of 31 December 2013 and 31 March 2014.

| | As of 31 December 2013 | As of 31 March 2014 | |
|---|---|---|---|
| | (In billions of Won and millions of US$, except percentages) | | |
| **Tier I capital** | | | |
| Paid-in capital | ₩3,224.5 | ₩3,224.5 | US$3,016.9 |
| Capital surplus | 0.9 | 0.9 | 0.8 |
| Retained earnings | 5,001.8 | 4,935.7 | 4,618.0 |
| Hybrid bond | 384.8 | 180.0 | 168.4 |
| Others | 131.3 | 183.1 | 171.3 |
| Deductions | (368.2) | (95.4) | (89.3) |
| Total Tier I capital | ₩8,375.1 | ₩8,428.8 | US$7,886.2 |
| **Tier II capital** | | | |
| Provisions | 514.3 | 577.7 | 540.5 |
| Subordinated debts | 1,045.0 | 931.0 | 871.1 |
| Others | 0.1 | 12.1 | 11.3 |
| Deductions | – | – | – |
| Total Tier II capital | ₩1,559.4 | ₩1,520.8 | US$1,422.9 |
| **Total Tier I and Tier II capital** | ₩9,934.5 | ₩9,949.6 | US$9,309.1 |
| Risk-weighted assets ("**RWA**")(1) | ₩71,820.6 | ₩74,415.2 | US$69,625.0 |
| Credit risk RWA | 64,953.4 | 66,765.4 | 62,467.6 |
| Market risk RWA | 2,604.7 | 3,385.9 | 3,167.9 |
| Operating risk RWA | 4,262.5 | 4,263.9 | 3,989.5 |
| Capital adequacy ratio | 13.83% | 13.37% | – |
| Tier I | 11.66% | 11.33% | – |
| Tier II | 2.17% | 2.04% | – |

Note:

(1) Based on market-risks.

There have been no material changes to our capital base and capital adequacy ratios since 31 March 2013.

See "*Regulation and Supervision – Principal Regulations Applicable to Banks*" for a description of the capital adequacy standards applicable to the Issuer.

## SELECTED FINANCIAL INFORMATION

The following tables set forth our selected financial data. The selected financial data set forth below have been derived from our audited consolidated and separate financial statements as of and for the years ended 31 December 2011, 2012 and 2013 prepared in accordance with K-IFRS (the "**Audited Financial Statements**") and our unaudited consolidated and separate financial statements as of and for the three months ended 31 March 2013 and 2014 prepared in accordance with K-IFRS (the "**Unaudited Financial Statements**").

The audited financial statements as of and for the years ended 31 December 2011 and 2012 have been audited by Deloitte Anjin LLC, whose reports thereon are included elsewhere in this Information Memorandum. The audited financial statements as of and for the year ended 31 December 2013 have been audited by Ernst & Young Han Young, our current independent auditors, whose report thereon is included elsewhere in this Information Memorandum. The Unaudited Financial Statements have been reviewed by Ernst & Young Han Young our current independent auditors, whose reports thereon are also included in this Information Memorandum.

Our financial statements, where applicable, have been prepared in accordance with K-IFRS, which may differ in certain significant respects from U.S. GAAP or IFRS.

### Consolidated Income Statement Data

| | Year Ended 31 December | | | | Three Months Ended 31 March | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | | 2013 | 2014 | |
| | (In billions of Won and millions of US$) | | | | | | |
| Interest income | ₩4,412 | ₩4,413 | ₩3,898 | US$3,693 | ₩990 | ₩963 | US$901 |
| Interest expenses | (1,846) | (1,943) | (1,670) | (1,582) | (437) | (397) | 371 |
| **Net interest income** | 2,566 | 2,470 | 2,228 | 2,111 | 553 | 566 | 530 |
| Non-interest operating income | 7,039 | 5,600 | 5,545 | 5,255 | 1,949 | 1,212 | 1,134 |
| Non-interest operating expenses | (5,976) | (5,594) | (5,644) | (5,349) | (2,009) | (1,336) | (1,250) |
| **Net non-interest operating income (expenses)** | 1,063 | 6 | (99) | (94) | (60) | (124) | (116) |
| **Total income** | 3,629 | 2,476 | 2,129 | 2,017 | 493 | 442 | 414 |
| General and administrative expenses | (1,488) | (1,565) | (1,540) | (1,459) | (379) | (357) | (334) |
| **Net operating income** | 2,141 | 911 | 589 | 558 | 114 | 85 | 80 |
| Non-operating income | 68 | 66 | 23 | 21 | 5 | 7 | 7 |
| Non-operating expenses | (50) | (50) | (45) | (42) | (3) | (5) | (5) |
| **Net non-operating income (expenses)** | 18 | 16 | (22) | (21) | 2 | 2 | 2 |
| **Net income before income tax expense** | 2,159 | 927 | 567 | 537 | 116 | 87 | 82 |
| Income tax expense | (505) | (263) | (123) | (116) | (41) | (15) | (15) |
| **Net income** | 1,654 | 664 | 444 | 421 | 75 | 72 | 67 |
| Other comprehensive expenses | (450) | (201) | (29) | (27) | 92 | 6 | 6 |
| **Total comprehensive income** | ₩1,204 | ₩463 | ₩415 | US$343 | ₩167 | ₩78 | US$73 |
| Equity holders of the parent | 1,205 | 464 | 416 | 394 | 167 | 73 | 68 |
| Non-controlling interests | ₩(1) | ₩1 | ₩(1) | US$(1) | – | ₩5 | US$5 |

**Consolidated Balance Sheet Data**

| | As of 31 December | | | | As of 31 March | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | | 2014 | |
| | (In billions of Won and millions of US$) | | | | | |
| **Assets** | | | | | | |
| Cash and due from banks . . . | ₩8,468 | ₩8,254 | ₩8,247 | US$7,815 | ₩9,437 | US$8,830 |
| Financial assets at FVTPL . . | 2,007 | 1,921 | 2,134 | 2,022 | 1,779 | 1,664 |
| Derivative assets used for hedging purposes. . . . . . . | 33 | 38 | 23 | 22 | 21 | 20 |
| Available-for-sale financial assets . . . . . . . . . . . . . . | 6,121 | 7,027 | 9,204 | 8,722 | 10,149 | 9,496 |
| Held-to-maturity investments . . . . . . . . . . | 5,462 | 5,126 | 2,331 | 2,209 | 1,586 | 1,484 |
| Loans receivable . . . . . . . . | 67,990 | 70,392 | 73,684 | 69,823 | 78,076 | 73,050 |
| Property and equipment . . . . | 1,207 | 1,223 | 1,220 | 1,156 | 1,212 | 1,134 |
| Other assets. . . . . . . . . . . . | 9,856 | 10,667 | 9,791 | 9,277 | 12,540 | 11,732 |
| **Total assets**. . . . . . . . . . . | ₩101,144 | ₩104,648 | ₩106,634 | US$101,046 | ₩114,800 | US$107,410 |
| **Liabilities** | | | | | | |
| Deposits . . . . . . . . . . . . . . | 65,108 | 67,404 | 69,777 | 66,121 | 71,807 | 67,185 |
| Financial liabilities at FVTPL . . . . . . . . . . . . . | 968 | 1,309 | 1,287 | 1,220 | 987 | 923 |
| Derivative liabilities used for hedging purposes. . . . . . . | 1 | – | 13 | 12 | 8 | 7 |
| Borrowings . . . . . . . . . . . . | 9,330 | 6,926 | 6,833 | 6,475 | 8,964 | 8,387 |
| Debentures . . . . . . . . . . . . | 5,460 | 6,173 | 6,770 | 6,415 | 6,547 | 6,126 |
| Other liabilities . . . . . . . . . | 11,627 | 13,741 | 12,371 | 11,722 | 17,054 | 15,956 |
| **Total liabilities** . . . . . . . . . | ₩92,494 | ₩95,553 | ₩97,051 | US$91,965 | ₩105,367 | US$98,584 |
| **Equity** | | | | | | |
| Common stock. . . . . . . . . . | ₩3,225 | ₩3,225 | ₩3,225 | US$3,056 | ₩3,225 | US$3,017 |
| Capital surplus. . . . . . . . . . | 1 | 1 | 1 | 1 | 1 | 1 |
| Hybrid equity securities . . . . | 250 | 250 | 430 | 407 | 180 | 168 |
| Capital adjustments. . . . . . . | – | 1 | (19) | (18) | (20) | (19) |
| Accumulated other comprehensive income . . . | 378 | 176 | 148 | 141 | 151 | 141 |
| Retained earnings . . . . . . . . | 4,794 | 5,440 | 5,796 | 5,492 | 5,764 | 5,394 |
| Non-controlling shareholder's equity . . . . . | 2 | 2 | 2 | 2 | 132 | 124 |
| **Total Equity** . . . . . . . . . . . | ₩8,650 | ₩9,095 | ₩9,583 | US$9,081 | ₩9,433 | US$8,826 |
| **Total liabilities and equity** . | ₩101,144 | ₩104,648 | ₩106,634 | US$101,046 | ₩114,800 | US$107,410 |

### Separate Income Statement Data

| | Year Ended 31 December | | | | Three Months Ended 31 March | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | | 2013 | 2014 | |
| | (In billions of Won and millions of US$) | | | | | | |
| Interest income | ₩4,148 | ₩4,144 | ₩3,651 | US$3,460 | ₩928 | ₩892 | US$834 |
| Interest expenses | (1,752) | (1,836) | (1,577) | (1,495) | (412) | (368) | (344) |
| **Net interest income** | 2,396 | 2,308 | 2,074 | 1,965 | 516 | 524 | 490 |
| Non-interest operating income | 6,893 | 5,438 | 5,422 | 5,138 | 1,910 | 1,187 | 1,111 |
| Non-interest operating expenses | (5,313) | (4,816) | (5,024) | (4,761) | (1,849) | (1,115) | (1,043) |
| **Net non-interest operating income** | 1,580 | 622 | 398 | 377 | 61 | 72 | 67 |
| **Total income** | ₩3,976 | ₩2,930 | ₩2,472 | US$2,342 | ₩577 | ₩596 | US$558 |
| General and administrative expenses | (1,393) | (1,463) | (1,435) | (1,359) | (353) | (330) | (309) |
| **Net operating income before provisions** | 2,583 | 1,467 | 1,037 | 983 | 224 | 266 | 249 |
| Impairment losses | (493) | (613) | (484) | (459) | (126) | (185) | (173) |
| **Net operating income after provisions** | 2,090 | 855 | 553 | 524 | 98 | 81 | 76 |
| Non-operating income | 62 | 64 | 22 | 21 | 5 | 6 | 6 |
| Non-operating expenses | (45) | (48) | (129) | (122) | (49) | (3) | (3) |
| **Net non-operating income (expenses)** | 17 | 16 | (107) | (101) | (44) | 3 | 3 |
| **Net income before income tax expense** | 2,107 | 871 | 446 | 423 | 54 | 84 | 79 |
| Income tax expense | (483) | (239) | (86) | (82) | (23) | (8) | (7) |
| **Net income** | ₩1,624 | ₩632 | ₩360 | US$341 | ₩31 | ₩76 | US$71 |

**Separate Balance Sheet Data**

| | As of 31 December | | | | As of 31 March | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | | 2014 | |
| | (In billions of Won, except percentages) | | | | | |
| **Assets** | | | | | | |
| Cash and due from banks | ₩7,409 | ₩6,929 | ₩6,646 | US$6,298 | ₩7,369 | US$6,895 |
| Financial assets at FVTPL | 1,481 | 1,473 | 1,607 | 1,523 | 1,210 | 1,132 |
| Derivative assets used for hedging purposes | 33 | 38 | 23 | 22 | 21 | 20 |
| Available-for-sale financial assets | 6,055 | 6,970 | 9,156 | 8,676 | 10,075 | 9,426 |
| Held-to-maturity investments | 5,333 | 5,018 | 2,196 | 2,081 | 1,464 | 1,370 |
| Loans receivable | 64,691 | 66,457 | 69,712 | 66,059 | 73,518 | 68,786 |
| Property and equipment | 1,189 | 1,205 | 1,199 | 1,136 | 1,188 | 1,112 |
| Other assets | 10,777 | 11,703 | 10,633 | 10,075 | 13,360 | 12,499 |
| **Total assets** | ₩96,968 | ₩99,793 | ₩101,172 | US$95,870 | ₩108,205 | US$101,240 |
| **Liabilities** | | | | | | |
| Deposits | 61,919 | 63,549 | 65,135 | 61,722 | 66,323 | 62,054 |
| Borrowings | 9,175 | 6,563 | 6,521 | 6,179 | 8,545 | 7,995 |
| Debentures | 4,976 | 5,810 | 6,582 | 6,237 | 6,364 | 5,954 |
| Other liabilities | 12,443 | 14,925 | 13,517 | 12,809 | 17,828 | 16,680 |
| **Total liabilities** | ₩88,513 | ₩90,847 | ₩91,755 | US$86,947 | ₩99,060 | US$92,6863 |
| **Equity** | | | | | | |
| Issued capital | 3,225 | 3,225 | 3,225 | 3,056 | 3,225 | 3,017 |
| Capital surplus | 1 | 1 | 1 | 1 | 1 | 1 |
| Hybrid equity securities | 250 | 250 | 430 | 407 | 180 | 168 |
| Capital adjustments | – | 1 | (19) | (18) | (1) | (1) |
| Accumulated other comprehensive income | 327 | 204 | 243 | 230 | 229 | 214 |
| Retained earnings | 4,652 | 5,265 | 5,537 | 5,248 | 5,511 | 5,157 |
| **Total equity** | ₩8,455 | ₩8,946 | ₩9,417 | US$8,924 | ₩9,145 | US$8,556 |
| **Total liabilities and equity** | ₩96,968 | ₩99,793 | ₩101,172 | US$95,870 | ₩108,205 | US$101,240 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by reference to, our separate financial statements and the notes thereto included elsewhere in this Information Memorandum. The Audited Financial Statements and the Unaudited Financial Statements have been prepared in accordance with K-IFRS, which differs in certain respects from IFRS. The discussion contains forward-looking statements and reflects our current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Investment Considerations" and elsewhere in this Information Memorandum.*

## Overview

We are one of the leading commercial banks in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. We provide a wide range of commercial and other banking services to retail and corporate customers primarily in Korea and, to a lesser extent, in select overseas markets. We are one of the largest lenders in Korea to SMEs. As of 31 March 2014, we had 350 domestic branches and 91 business offices as well as 3 subsidiaries located in Korea.

We are a member of Hana Financial Group, which is one of the leading financial holding companies in Korea. In February 2012, Hana Financial Group completed the purchase of 51.02 per cent. of our issued and outstanding shares of common stock from an affiliate of the Lone Star funds and an additional 6.25 per cent. of our shares from the Export-Import Bank of Korea for an aggregate purchase price of approximately ₩4.4 trillion. We are currently a wholly-owned subsidiary of Hana Financial Group, however we still remain independent from Hana Financial Group with respect to our business, including our brand, employment and wage systems.

We are a national commercial bank in Korea with separate total assets of ₩108.2 trillion and separate total shareholders' equity of ₩9.1 trillion as of 31 March 2014. As of that date, we had a total loan portfolio of ₩73.5 trillion and a securities portfolio of ₩12.8 trillion, and managed customer deposits of ₩66.3 trillion, on a separate basis. We continue to hold a strong market position in the business segments where we have historically maintained competitive strengths. We believe that we had leading estimated domestic market shares of approximately 44.3 per cent., 30.1 per cent. and 35.2 per cent. in foreign exchange, import finance and export finance transaction volumes, respectively, in 2013.

On 24 December 2013, our Board of Directors approved the spin-off of our credit card division to strengthen the competitiveness of our credit card business. We applied to the Financial Services Commission ("**FSC**") for the approval of such spin-off and are awaiting for the decision. Once we obtain approval from FSC and approval from our shareholders, we plan to merge the spun-off entity with Hana SK Card, which we expect to bring synergy effects and advance the combined entity to be one of the leading credit card companies in Korea.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy.

Specifically, the recent economic downturn in Korea and the global markets led to a deterioration in the quality of our assets, particularly with respect to corporate loans made to SMEs, which represents our traditional core business. In response to the impending crisis, we took active steps to enhance our risk management policy, including taking a more conservative approach to provisioning and charge-offs. In 2012 and 2013, we made substantial charge-offs of corporate loans (amounting to ₩295.8 billion in 2012 and ₩242.5 billion in 2013) and set aside provisioning for corporate loans (amounting to ₩422.6 billion in 2012 and ₩249.9 billion in 2013). Industries that were particularly hit by the economic downturn were the real estate and leasing and construction industries, some of which became subject to the Government's "fast track" restructuring programme. The recent economic downturn had a less severe impact on the asset quality of retail loans as most of these loans are home mortgage loans collateralised by residential properties and individuals and households traditionally are less prone to default on home mortgage loans.

We derive most of our income from interest earned on our corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon. For 2012 and 2013, the average volume of loans and deposits increased in Korea. The average volume of loans increased largely as a result of an increase in demand for both mortgage loans and corporate loans which were due to increases in life-time first home purchase mortgages and other housing related loans, as the residential real estate market showed signs of recovery, and increases in loans to non-banking financial institutions and corporations.

Net interest income, amounted to ₩2,307.9 billion and ₩2,074.4 billion in 2012 and 2013, respectively. Such decrease was mainly attributable to the low interest rate environment due to the economic downturn. Net interest income after provision for loan losses amounted to ₩523.6 billion in the three months ended 31 March 2014, representing a 1.5 per cent. increase from ₩516.1 billion in the corresponding period in 2013.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products. Since the second half of 2008, the value of the Won relative to major global currencies in general and the U.S. dollar in particular has fluctuated significantly. See "– *Changes in Securities Values, Exchange Rates and Interest Rates*". A depreciation of the Won will have the impact of increasing our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. As a result of adverse global and Korean economic conditions, there may be significant volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest, which may lead to further trading and valuation losses on our trading and investment securities portfolio.

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, a potential rise in inflation rates and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2014 and for the foreseeable future remains uncertain.

### Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value of and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the KRX KOSPI Market as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| KOSPI | 1,825.1 | 1,997.1 | 2,011.3 | 1,985.6 |
| ₩/US$ exchange rates[(1)] | ₩1,158.5 | ₩1,063.2 | ₩1,055.3 | ₩1,066.1 |
| Corporate bond rates[(2)] | 4.2% | 3.4% | 3.3% | 3.3% |
| Treasury bond rates[(3)] | 3.3% | 2.8% | 2.9% | 2.9% |

Notes:

(1) Represents the Market Average Exchange Rate in effect on such dates.

(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds issued by the MOSF.

### Critical Accounting Policies

The preparation of our financial statements requires management to make judgements, involving significant estimates and assumptions, in the application of certain accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available to us as of the date of the financial statements, and changes in this information over time could materially impact amounts reported in the financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions, and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, we have identified the following significant accounting policies that involve critical accounting estimates. These policies require subjective or complex judgements, and as such could be subject to revision as new information becomes available. Our significant accounting policies are described in more detail in Note 3 in the notes to our financial statements included in this Information Memorandum.

#### *Allowance for Loan Losses*

We have established an allowance for loan losses to absorb losses that we incur in our loan portfolio.

*Individual assessment of impairment*: For loans measured at amortised cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. We first assess whether objective evidence of impairment exists individually for the financial assets that are individually significant.

*Collective assessment of impairment*: For financial assets that are not individually significant, we assess whether the objective evidence of impairment exists individually or collectively. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognised in net income. See "*Description of Assets and Liabilities – Asset Quality of Loans – Loan Loss Provisioning Policy*".

We believe that the accounting estimate related to our allowance for loan losses is a "critical accounting policy" because: (1) it is highly susceptible to change from period to period based on our judgements regarding the capacity of our borrowers to repay their loans; and (2) any significant difference between our estimated loan losses (as reflected in our allowance for loan losses) and actual loan losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our allowance for loan losses in the future will also be affected by our intention to implement the new loan loss provisioning guidelines of the FSC.

Our consolidated financial statements for the years ended 31 December 2012 and 2013 included total loan loss allowances of ₩772 billion and ₩725 billion, respectively. Our consolidated financial statements for the three months ended 31 March 2014 included a total loan loss allowance of ₩768 billion as of that date.

***Valuation of Securities and Financial Instruments***

Financial assets are classified into the following specified categories: "financial assets at FVTPL ("**FVTPL**")", "held-to-maturity investments", "loans and receivables" and "available-for-sale ("**AFS**") financial assets". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned.

Financial assets are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial assets, except for those financial assets classified as at FVTPL, which are initially measured at fair value. Fair value is an estimate of the market value, based on what reasonable, willing and independent transaction parties would probably exchange assets or pay liabilities in the market. Fair values of financial instruments are generally estimated through the market price (fair values provided or received).

*Financial assets at FVTPL*: Financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held for trading if it is a derivative that is not designated and effective as a hedge instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognised in net income in the period incurred.

*Held-to-maturity investments*: Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that we have the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment, with revenue recognised on an effective yield basis. We believe that the accounting estimate related to the fair value and recoverable value of our various securities is a "critical accounting policy" because: (1) it may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair or recoverable value of these securities on any particular date and either their estimated fair or recoverable value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a material impact on our net income. Our assumptions about the fair or recoverable value of securities we hold require significant judgement because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

*Loans and receivables*: Non-derivative financial assets whose payment amounts are already determined or determinable and whose prices are not announced in the public market are categorised as loans and receivables. We categorise loan credits, deposits and rental deposits as loans and receivables. We measure loans and receivables by subtracting provision for credit losses from the amortised cost of such loans and receivables (calculated using the effective interest rate method). Interest income is calculated using the effective interest rate method, not taking into account short-term receivables, the effect of which on interest income is negligible.

*AFS financial assets*: Non-derivative financial assets that are not classified as held-for-trading, designated as at FVTPL, as held-to-maturity or loans and receivables are classified as AFS financial assets. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in net income. Unquoted equity investments for which fair values cannot be measured reliably are carried at cost. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income. Dividends on AFS equity instruments are recognised in net income when our right to receive the dividends is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The AFS non-monetary assets measured at the amortised cost are translated at the exchange rate on the trade date, while assets measured at the fair value are translated at the exchange rate on the date when the fair value is determined.

**Adjustment of 2012 financial statements**

With respect to the long term deposits inactive for five years, we classified such accounts as prescribed dormant deposits and recognized such accounts as gain from liabilities exempted. However, in accordance with the Supreme Court judgment made on 23 August 2012, we returned such deposits to the relevant customers on 31 December 2013. For comparative purposes, we adjusted our separate financial statements for the year ended 31 December 2012 to reflect such return in the comparative financial statements for the year ended 31 December 2013. These adjustments resulted in a decrease in (i) beginning balances of retained earnings for the years ended 31 December 2012 and 2013 in the amount of ₩9,648 million and ₩5,930 million, respectively, (ii) operating income, other operating income and other operating expenses for the year ended 31 December 2012 in the amount of ₩10,071 million, ₩6,858 million and ₩2,942 million, respectively, and (iii) income tax expense and net income for the year ended 31 December 2012 in the amount of ₩2,437 million and ₩3,718 million, respectively.

In March 2013, we received a warning from the FSS as a result of raising interest rates without notifying customers with respect to floating rate loans, and as a result, are in the process of returning the interests received in connection with such raise to the relevant customers. For comparative purposes, we adjusted our separate financial statements for the year ended 31 December 2012 to reflect such return. The adjustments resulted in a decrease in (a) the beginning balances of retained earnings for the years ended 31 December 2012 and 2013 in the amount of ₩28,694 million and ₩30,031 million, respectively and (b) interest income and net income for the year ended 31 December 2012 in the amount of ₩1,337 million, respectively.

The adjustments to the financial information as of and for the year ended 31 December 2012 described above are only reflected in the consolidated and separate financial statements as of and for the year ended 31 December 2013 included in pages F-283 through F-426 and F-428 through F-560 for comparative purposes and have not been audited by our former or current independent auditors. The financial statement for the year ended 31 December 2012, which Deloitte Anjin LLC has expressed their opinion thereon, had not been amended by the adjustments described above.

## Results of Operations

### *Net Interest Income*

The following table sets out the principal components of our separate interest income for the years ended 31 December 2011, 2012 and 2013, and the three months ended 31 March 2013 and 2014.

| | Year Ended 31 December | | | | Three Months Ended 31 March | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2012/2013 % Change | 2013 | 2014 | % Change |
| | (In billions of Won, except percentages) | | | | | | |
| **Interest income** | | | | | | | |
| Due from banks | ₩64.3 | ₩78.6 | ₩27.8 | (64.6)% | ₩5.8 | ₩10.8 | 86.2% |
| Loans receivable | 3,694.5 | 3,654.1 | 3,280.4 | (10.2) | 828.2 | 803.3 | (3.0) |
| Financial assets at FVTPL ("**FVTPL**") | 3.4 | 4.0 | 3.9 | (2.5) | 0.8 | 1.1 | 37.5 |
| Investment financial assets(1) | 386.3 | 407.4 | 338.5 | (16.9) | 93.5 | 76.7 | (18.0) |
| **Total interest income** | ₩4,148.5 | ₩4,144.0 | ₩3,650.6 | (11.9)% | ₩928.3 | ₩891.9 | (3.9)% |
| **Interest expense** | | | | | | | |
| Deposits | 1,391.2 | 1,448.9 | 1,211.6 | (16.4) | 320.2 | 276.5 | (13.6) |
| Debentures | 213.4 | 222.4 | 224.2 | 0.8 | 57.7 | 57.0 | (1.2) |
| Borrowings | 100.1 | 117.3 | 101.2 | (13.7) | 23.7 | 27.9 | 17.7 |
| Others | 47.4 | 47.4 | 39.3 | (17.1) | 10.7 | 7.0 | (34.6) |
| **Total interest expense** | ₩1,752.1 | ₩1,836.1 | ₩1,576.3 | (14.1)% | ₩412.3 | ₩368.3 | (10.7)% |
| Net interest income | 2,396.4 | 2,307.9 | 2,074.4 | (10.1) | 516.1 | 523.6 | 1.5 |
| Net interest margin(2) | 2.99% | 2.76% | 2.11% | (0.65)% | 2.17% | 2.07% | (0.10)% |

Notes:

(1) Includes available-for-sale financial assets and held-to-maturity financial assets.

(2) The ratio of net interest income to average interest-earning assets. See "*Description of Assets and Liabilities – Average Balance Sheets and Related Interest*".

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

(a) Interest income

Interest income decreased 3.9 per cent. from ₩928.3 billion in the three months ended 31 March 2013 to ₩891.9 billion in the three months ended 31 March 2014, primarily due to a decrease in interest from loans receivable and interest from investment.

The interest from loans receivable decreased 3.0 per cent. from ₩828.2 billion in the three months ended 31 March 2013 to ₩803.3 billion in the three months ended 31 March 2014, which was a result of a lower interest rate and a decrease in the average balance of loans for the three months ended 31 March 2014 compared to the same period of the previous year. See "*Description of Assets and Liabilities – Average Balance Sheets and Related Interest*".

Interest from investment financial assets decreased by 18.0 per cent. from ₩93.5 billion in the three months ended 31 March 2013 to ₩76.7 billion in the three months ended 31 March 2014, primarily due to a 64.3 per cent. decrease in interest income from held-to-maturity investments from ₩44.8 billion in the three months ended 31 March 2013 to ₩16.0 billion in the three months ended 31 March 2014.

(b) Interest Expense

Interest expense decreased by 10.7 per cent. from ₩412.2 billion in the three months ended 31 March 2013 to ₩368.3 billion in the three months ended 31 March 2014, primarily due to a 13.6 per cent. decrease in interest expense on deposits from ₩320.2 billion in the three months ended 31 March 2013 to ₩276.5 billion in the three months ended 31 March 2014. The decrease in our interest expense on deposits was due to a lower interest rate and a decrease in the average balance of deposits for the three months ended 31 March 2014 compared to the same period of the previous year. See "*Description of Assets and Liabilities – Average Balance Sheets and Related Interest*".

(c) Net interest margin

Net interest margin represents the ratio of net interest income to average interest earning assets. On a separate basis, our overall net interest margin decreased from 2.17 per cent. in the three months ended 31 March 2013 to 2.07 per cent. in the three months ended 31 March 2014, reflecting the continued low interest rate environment and the economic downturn.

*Comparison of 2013 to 2012*

(a) Interest income

Interest income decreased 11.9 per cent. from ₩4,144.0 billion in 2012 to ₩3,650.6 billion in 2013, primarily due to a decrease in interest from loans receivable, interest from investment financial assets and interest on due from banks.

Interest from loans receivable decreased 10.2 per cent. from ₩3,654.1 billion in 2012 to ₩3,280.4 billion in 2013 due to the lower interest rate in 2012 despite the increase in the average balance of loans during the same period. See "*Description of Assets and Liabilities – Average Balance Sheets and Related Interest*".

Interest from investment financial assets decreased by 16.9 per cent. from ₩407.4 billion in 2012 to ₩338.5 billion in 2013, which resulted from a decrease in interest income from held-to-maturity investments such as Korean Won denominated marketable securities.

Interest income on due from banks decreased 64.6 per cent. from ₩78.6 billion in 2012 to ₩27.8 billion in 2013, which mainly resulted from a decrease in Korean Won denominated deposits to financial institutions.

(b) Interest Expense

Interest expense decreased by 14.1 per cent. from ₩1,836.1 billion in 2012 to ₩1,576.3 billion in 2013, primarily due to a decrease in interest expense on deposits and interest expense on borrowings.

Interest expense on deposits decreased 16.4 per cent. from ₩1,448.9 billion in 2012 to ₩1,211.6 billion in 2013, which resulted from a decrease in the average interest rate in Korean Won denominated deposits from 3.15% in 2012 to 2.57% in 2013 despite an increase in average balance of deposits. See "*Description of Assets and Liabilities – Average Balance Sheets and Related Interest*".

Our interest expense on borrowings decreased by 13.7 per cent. from ₩117.3 billion in 2012 to ₩101.2 billion in 2013 primarily due to a decrease in foreign currency denominated borrowings and a decrease in the average interest rates in foreign currency denominated borrowings from 1.15% in 2012 to 0.99% in 2013.

(c) Net interest margin

On a separate basis, our overall net interest margin decreased from 2.76 per cent. in 2012 to 2.11 per cent. in 2013, reflecting the low interest rate environment as the Bank of Korea lowered its policy interest rates.

*Comparison of 2012 to 2011*

(a) Interest income

Interest income decreased slightly from ₩4,148.5 billion in 2011 to ₩4,144.0 billion in 2012, primarily due to a decrease in interest from loans receivable partially offset by an increase in interest from investment financial assets and interest on due from banks.

Interest from loans receivable decreased 1.1 per cent. from ₩3,694.5 billion in 2011 to ₩3,654.1 billion in 2012 as the average interest rate slightly decreased.

Interest on investment financial assets increased by 5.5 per cent. from ₩386.3 billion in 2011 to ₩407.4 billion in 2012, primarily due to a 16.5 per cent. increase in interest income from AFS financial assets from ₩176.8 billion in 2011 to ₩206.0 billion in 2012.

Interest income on due from banks increased 22.2 per cent. from ₩64.3 billion in 2011 to ₩78.6 billion in 2012. This increase resulted primarily from a 57.0 per cent. increase in interest income from banks excluding other financial institutions from ₩16.5 billion in 2011 to ₩25.9 billion in 2012 which was the result of an increase in deposits of the Bank of Korea.

(b) Interest Expense

Interest expense increased by 4.8 per cent. from ₩1,752.1 billion in 2011 to ₩1,836.1 billion in 2012, primarily due to an increase in interest expense on deposits and interest expenses on borrowings.

Interest expense on deposits increased 4.1 per cent. from ₩1,391.2 billion in 2011 to ₩1,448.9 billion in 2012 which resulted from an increase in the average interest rate in Korean Won denominated deposits from 3.0% in 2011 to 3.1% in 2012. See "*Description of Assets and Liabilities – Average Balance Sheets and Related Interest*".

The 17.2 per cent. increase in interest expense on borrowings from ₩100.1 billion in 2011 to ₩117.3 billion in 2012 was primarily due to an increase in the average interest rate of borrowings denominated in Korean Won from 2.30% in 2011 to 2.40% in 2012 and an increase in the average interest rate of borrowings denominated in foreign currencies from 0.9% in 2011 to 1.10% in 2012.

(c) Net interest margin

From 2011 to 2012, our overall net interest margin, on a separate basis, decreased from 2.99 per cent. to 2.76 per cent., primarily due to lower interest rates, which resulted from the low interest rate policy of the Bank of Korea.

***Impairment Losses on financial instruments***

Impairment losses on financial instruments include provision for possible loan losses for loans receivables and other assets and impairment losses on available-for-sale financial assets.

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Impairment losses on financial instruments increased by 46.8 per cent. from ₩126.1 billion in the three months ended 31 March 2013 to ₩185.1 billion in the three months ended 31 March 2014, primarily due to an increase in impairment loss on available-for-sale financial assets from ₩1.2 billion in the three months ended 31 March 2013 to ₩44.2 billion in the three months ended 31 March 2014.

*Comparison of 2013 to 2012*

Impairment losses on financial instruments decreased by 21.1 per cent. from ₩612.7 billion in 2012 to ₩483.7 billion in 2013, primarily due to the decrease in provision for possible loan losses from ₩597.4 billion in 2012 to ₩455.3 billion in 2013.

*Comparison of 2012 to 2011*

Impairment losses on financial instruments increased by 24.1 per cent. from ₩493.6 billion in 2011 to ₩612.7 billion in 2012, primarily due to the increase in provision for possible loan losses from ₩499.4 billion in 2011 to ₩597.4 billion in 2012.

*__Net Fees and Commissions Income__*

The following table sets forth the components of our net fees and commissions income for the periods indicated, as well as changes in these components over such periods in percentage terms.

| | Year Ended 31 December | | | | Three Months Ended 31 March | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2012/2013 % Change | 2013 | 2014 | % Change |
| | (In billions of Won, except percentages) | | | | | | |
| Fees and commissions income . . . . . . . . . . | ₩458.5 | ₩468.0 | ₩486.1 | 3.9% | ₩123.9 | ₩113.3 | (8.6)% |
| Fees and commissions expense . . . . . . . . . | 258.2 | 334.8 | 359.2 | 7.3 | 78.9 | 88.5 | 12.2 |
| Fees and commissions income, net. . . . . . . | ₩200.3 | ₩133.2 | ₩126.9 | (4.7)% | ₩45.0 | ₩24.8 | (44.9)% |

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Our net fees and commissions income decreased 44.9 per cent. from ₩45.0 billion in the three months ended 31 March 2013 to ₩24.8 billion in the three months ended 31 March 2014. The 8.6 per cent. decrease in fees and commissions income from ₩123.9 billion in the three months ended 31 March 2013 to ₩113.3 billion in the three months ended 31 March 2014 was mainly the result of a 55.5 per cent. decrease in fees and commission income from agency business from ₩15.5 billion in the three months ended 31 March 2013 to ₩6.9 billion in the three months ended 31 March 2014. The 12.2 per cent. increase in fees and commissions expenses from ₩78.9 billion in the three months ended 31 March 2013 to ₩88.5 billion in the three months ended 31 March 2014 was principally due to a 12.7 per cent. increase in fees and commission expense used in credit card business from ₩63.2 billion in the three months ended 31 March 2013 to ₩71.2 billion in the three months ended 31 March 2014.

*Comparison of 2013 to 2012*

Our net fees and commissions income decreased 4.7 per cent. from ₩133.2 billion in 2012 to ₩126.9 billion in 2013, as fees and commissions expenses increased 7.3 per cent. from ₩334.8 billion in 2012 to ₩359.2 billion in 2013 while fees and commissions income increased 3.9 per cent. from ₩468.0 billion in 2012 to ₩486.1 billion in 2013. The increase in fees and commissions expenses was principally due to a 5.2 per cent. increase in fees and commissions expense on credit cards from ₩274.7 billion in 2012 to ₩289.0 billion in 2013. The increase in fees and commissions income was mainly the result of a 30.2 per cent. increase in fees and commissions income on credit cards from ₩89.8 billion in 2012 to ₩116.9 billion in 2013 which was primarily due to increases in franchise fees, annual membership fees and fees from affiliated banks.

*Comparison of 2012 to 2011*

Our net fees and commissions income decreased 33.5 per cent. from ₩200.3 billion in 2011 to ₩133.2 billion in 2012, as fees and commissions expense increased 29.7 per cent. from ₩258.2 billion in 2011 to ₩334.8 billion in 2012 while fees and commissions income increased 2.1 per cent. from ₩458.5 billion in 2011 to ₩468.0 billion in 2012. The increase in fees and commissions expense was mainly the result of a 36.1 per cent. increase in fees and commissions expense on credit cards from ₩201.8 billion in 2011 to ₩274.7 billion in 2012 which was primarily due to an increase in membership recruitment fees. The 2.1 per cent. increase in fees and commissions income was principally due to a 73.7 per cent. increase in fees and commissions income on agency business from ₩24.7 billion in 2011 to ₩42.9 billion in 2012 which mainly resulted from an increase in fees from bancassurance business.

### *Net Gain (Loss) on Financial Instruments*

The following table sets forth the components of our net gain on financial instruments for the periods indicated, as well as changes in these components over such periods in percentage terms. We did not recognise any gain or loss on held-to-maturity financial assets for such periods.

| | Year Ended 31 December | | | | Three Months Ended 31 March | | |
|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2012/2013 % Change** | **2013** | **2014** | **% Change** |
| | (In billions of Won, except percentages) | | | | | | |
| Gain (loss) on financial instruments at FVTPL, net . . . . . . . . . . . . . . . | ₩58.7 | ₩(4.4) | ₩77.6 | 1,863.6% | ₩(49.2) | ₩27.3 | 155.5% |
| Gain (loss) on hedging derivatives . . . . . . . . . | 0.8 | (4.8) | 3.6 | 175.0 | 1.7 | 0.1 | (94.1) |
| Gain (loss) on available-for-sale financial assets, net[(1)] . . . . . . . . | 1,181.5 | 223.2 | 49.1 | (78.0) | 13.5 | (23.2) | (271.9) |
| Total net gain (loss) on financial instruments. . | ₩1,241 | ₩214 | ₩130.3 | (39.1)% | ₩(34.0) | ₩4.2 | (112.4)% |

Note:

(1) Includes reversal of impairment losses for available-for-sale financial assets of ₩5.8 billion in 2011, impairment losses of ₩15.3 billion in 2012 and ₩28.5 billion in 2013, and ₩1.2 billion for the three months ended 31 March 2013 and ₩44.2 billion for the three months ended 31 March 2014.

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Our net gain on financial instruments shifted from a net loss of ₩34.0 billion in the three months ended 31 March 2013 to a net gain of ₩4.2 billion in the three months ended 31 March 2014. This change was primarily attributable to the significant improvement in gain (loss) on financial instruments at FVTPL which shifted from a loss of ₩49.2 billion in the three months ended 31 March 2013 to a net gain of ₩27.3 billion in the three months ended 31 March 2014.

The change in net gain on financial instruments at FVTPL was principally the result of a decrease in loss on valuation of derivatives held-for-trading from ₩914.1 billion in the three months ended 31 March 2013 to ₩347.2 billion in the three months ended 31 March 2014, and a decrease in loss on disposal of derivatives held-for-trading from ₩440.7 billion in the three months ended 31 March 2013 to ₩228.2 billion in the three months ended 31 March 2014.

*Comparison of 2013 to 2012*

Our net gain on financial instruments decreased 39.1 per cent. from ₩214 billion in 2012 to ₩130.3 billion in 2013. This decrease was primarily attributable to a decrease of 78.0 per cent. in our net gain on available-for-sale financial assets, such as a decrease in gain on disposal of equity securities from ₩188.5 billion in 2012 to ₩39.4 billion in 2013.

Gain (loss) on financial instruments at FVTPL, net, shifted from a loss of ₩4.4 billion in 2012 to a gain of ₩77.6 billion in 2013. The change in net gain on financial instruments at FVTPL was principally the result of a 6.0 per cent. increase in gains on disposal of derivatives held-for-trading from ₩2,147.9 billion in 2012 to ₩2,275.8 billion in 2013, and a 20.5 per cent. decrease in loss on valuation of derivatives held-for-trading from ₩1,229.0 billion in 2012 to ₩976.7 billion in 2013.

*Comparison of 2012 to 2011*

Our net gain on financial instruments decreased 82.8 per cent. from ₩1,241 billion in 2011 to ₩214 billion in 2012.

Gain (loss) on financial instruments at FVTPL, net, shifted from a gain of ₩58.7 billion in 2011 to a loss of ₩4.4 billion in 2012. This change was principally the result of a 27.8 per cent. decrease in gains on trading derivatives from ₩2,974.7 billion in 2011 to ₩2,147.9 billion in 2012 and a 63.4 per cent. increase in loss on valuation of trading derivatives from ₩752.1 billion in 2011 to ₩1,229 billion in 2012, which was primarily due to increases in net loss on valuation of interest rate swaps and valuation of currency derivatives.

The 81.1 per cent. decrease in net gain on available-for-sale financial assets was attributable primarily to a 84.0 per cent. decrease in gains on disposal of available-for-sale equity securities from ₩1,178.3 billion in 2011 to ₩188.5 billion in 2012.

***General and Administrative Expenses***

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Our general and administrative expenses decreased 6.7 per cent. from ₩353.2 billion in the three months ended 31 March 2013 to ₩329.7 billion in the three months ended 31 March 2014. Such decrease was primarily attributable to a 11.1 per cent. decrease in employee benefits from ₩234.3 billion in the three months ended 31 March 2013 to ₩208.4 billion in the three months ended 31 March 2014.

*Comparison of 2013 to 2012*

Our general and administrative expenses decreased 1.9 per cent. from ₩1,462.6 billion in 2012 to ₩1,434.8 billion in 2013. Such decrease was primarily attributable to a 4.0 per cent. decrease in employee benefits from ₩929.5 billion in 2012 to ₩892.7 billion in 2013, and a 35.7 per cent. decrease in provision for severance and retirement benefits from ₩81.8 billion in 2012 to ₩52.6 billion in 2013.

*Comparison of 2012 to 2011*

Our general and administrative expenses increased 5.0 per cent. from ₩1,392.7 billion in 2011 to ₩1,462.6 billion in 2012. Such increase was primarily attributable to a 12.6 per cent. increase in salaries from ₩561.7 billion in 2011 to ₩632.6 billion in 2012 and a 93.0 per cent. increase in retirement allowances from ₩42.4 billion in 2011 to ₩81.8 billion in 2012.

***Other Operating Income (including dividend income) and Expenses***

The following table sets forth the components of our net other operating income for the periods indicated, as well as changes in these components over such periods in percentage terms.

| | Year Ended 31 December | | | | Three Months Ended 31 March | | |
|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2012/2013 % Change** | **2013** | **2014** | **% Change** |
| | (In billions of Won, except percentages) | | | | | | |
| Other operating income | ₩1,405.4 | ₩1,297.2 | ₩1,522.1 | 17.3% | ₩454.8 | ₩441.0 | (3.0)% |
| Other operating expenses | 1,272.6 | 1,037.4 | 1,410.3 | 35.9 | 406.2 | 442.0 | 8.8 |
| Total net other operating income | ₩132.8 | ₩259.8 | ₩111.8 | (57.0)% | ₩48.6 | ₩(1.0) | (102.1)% |

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Our net other operating income shifted from a net gain of ₩48.6 billion in the three months ended 31 March 2013 to a net loss of ₩1.1 billion in the three months ended 31 March 2014.

Other operating expenses principally include loss on foreign exchange transaction, contributions to guarantee fund, insurance fee on deposits, loss on foreign exchange difference, provision for others, point expense, loss on sales of loans and loss on merchant banking accounts.

The increase in other operating expenses from ₩406.2 billion in the three months ended 31 March 2013 to ₩442.0 billion in the three months ended 31 March 2014 was primarily the result of a 23.0 per cent. increase in loss on foreign exchange difference from ₩105.7 billion in the three months ended 31 March 2013 to ₩130.0 billion in the three months ended 31 March 2014.

Other operating income principally includes dividend income, gain on foreign exchange transaction, gain on foreign exchange differences, gain on operating trust account, gain on sales of loans and gain on merchant banking accounts. The decrease in other operating income from ₩454.8 billion in the three months ended 31 March 2013 to ₩441.0 billion in the three months ended 31 March 2014 was attributable mainly to a 27.1 per cent. decrease in gain on foreign exchange transaction from ₩342.4 billion in the three months ended 31 March 2013 to ₩249.7 billion in the three months ended 31 March 2014.

Our dividend income significantly increased from ₩3.5 billion in the three months ended 31 March 2013 to ₩28.5 billion in the three months ended 31 March 2014, primarily as the result of increased dividends earned from investments in subsidiaries and associates.

*Comparison of 2013 to 2012*

Our net other operating income decreased 57.0 per cent. from ₩259.8 billion in 2012 to ₩111.8 billion in 2013, as the increase in our other operating expenses from ₩1,037.4 billion in 2012 to ₩1,410.3 billion outpaced the increase in our other operating income from ₩1,297.2 billion in 2012 to ₩1,522.1 billion in 2013.

The increase in other operating expenses was primarily the result of a 42.5 per cent. increase in loss on foreign exchange transaction from ₩676.2 billion in 2012 to ₩963.7 billion in 2013 and the substantial increase in loss on foreign exchange difference from ₩39.6 billion in 2012 to ₩89.1 billion in 2013.

The increase in other operating income was attributable mainly to a 16.6 per cent. increase in gain on foreign exchange transaction from ₩996.0 billion in 2012 to ₩1,161.3 billion in 2013 and the substantial increase in gain on sales of loans from ₩0.6 billion in 2012 to ₩55.2 billion in 2013.

Our dividend income increased 13.2 per cent. from ₩9.1 billion in 2012 to ₩10.3 billion in 2013, primarily as the result of a 18.3 per cent. increase in dividends on available-for-sale financial assets from ₩8.2 billion in 2012 to ₩9.7 billion in 2013.

*Comparison of 2012 to 2011*

Our net other operating income increased 95.6 per cent. from ₩132.8 billion in 2011 to ₩259.8 billion in 2012, mainly due to a 18.5 per cent. decrease in other operating expenses from ₩1,272.6 billion in 2011 to ₩1,037.4 billion in 2012.

The decrease in other operating expenses was primarily the result of a 21.1 per cent. decrease in loss on foreign exchange transactions from ₩857.0 billion in 2011 to ₩676.2 billion in 2012.

Our dividend income decreased 81.3 per cent. from ₩48.6 billion in 2011 to ₩9.1 billion in 2012, primarily as the result of a 82.7 per cent. decrease in dividends in available-for-sale financial assets.

***Non-operating Income (Expenses)***

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Our net non-operating income shifted from a net expense of ₩44.0 billion in the three months ended 31 March 2013 to a net income of ₩3.0 billion in the three months ended 31 March 2014.

Non-operating income includes gain on exemption of debts, rental income and gain on disposal of intangible assets. The increase in non-operating income from ₩5.1 billion in the three months ended 31 March 2013 to ₩6.4 billion in the three months ended 31 March 2014 was attributable mainly to a 44.4 per cent. increase in gain on others from ₩2.7 billion in the three months ended 31 March 2013 to ₩3.9 billion in the three months ended 31 March 2014.

Non-operating expenses include principally impairment loss on investment in subsidiaries, donations, loss on disposal of property and equipment, intangible assets or investment property, commission expenses on collection of management of charge-offs and others. The 93.1 per cent. decrease in other non-operating expenses from ₩49.1 billion in the three months ended 31 March 2013 to ₩3.4 billion in the three months ended 31 March 2014 was attributable mainly to the impairment loss on investment in subsidiaries in the amount of ₩46.6 billion in the three months ended 31 March 2013, which was not recorded in the three months ended 31 March 2014.

*Comparison of 2013 to 2012*

Our net non-operating income shifted from a net income of ₩16.4 billion in 2012 to a net expense of ₩107.5 billion in 2013, as non-operating income decreased 61.8 per cent. from ₩63.7 billion in 2012 to ₩21.7 billion in 2013 and non-operating expenses increased 173.2 per cent. from ₩47.3 billion in 2012 to ₩129.2 billion in 2013.

The decrease in non-operating income was attributable mainly to a 38.6 per cent. decrease in gain on exemption of debts from ₩11.4 billion in 2012 to ₩7.0 billion in 2013 and a 73.6 per cent. decrease in gain on others from ₩42.1 billion in 2012 to ₩11.1 billion in 2013.

The increase in other non-operating expenses was attributable mainly to a substantial increase in impairment loss on investment in subsidiaries from ₩0.7 million in 2012 to ₩87.9 billion in 2013 which was the result of a loss on KEB F&I (formerly known as KEB Capital Inc.).

*Comparison of 2012 to 2011*

Our net non-operating income decreased 4.1 per cent. from a net income of ₩17.1 billion in 2011 to ₩16.4 billion in 2012, primarily the result of the decrease in non-operating income from ₩62.4 billion in 2011 to ₩63.7 billion in 2012 which mainly reflects a decrease in income from recovery of bad debts.

***Income Tax Expense***

*Comparison of the three months ended 31 March 2014 to the three months ended 31 March 2013*

Income tax expense decreased by 67.0 per cent. from ₩23.0 billion in the three months ended 31 March 2013 to ₩7.6 billion in the three months ended 31 March 2014, mainly as a result of a decrease in deferred corporate tax in the amount of ₩70.1 billion. The statutory tax rate was 24.2 per cent. in both the three months ended 31 March 2013 and 2014. Our effective income tax rate was 42.9 per cent. in the three months ended 31 March 2013 and 9.0 per cent. in the three months ended 31 March 2014, respectively. See Note 44 of the notes to our separate financial statements for the three months ended 31 March 2013 and 2014 included elsewhere in this Memorandum.

*Comparison of 2013 to 2012*

Income tax expense decreased by 64.3 per cent. from ₩239.3 billion in 2012 to ₩85.4 billion in 2013, mainly as a result of a decrease in our pre-tax income. The statutory tax rate was 24.2 per cent. in both 2012 and 2013. Our effective income tax rate was 27.5 per cent. in 2012 and 19.2 per cent. in 2013, respectively. See Note 44 of the notes to our separate financial statements for the years ended 31 December 2012 and 2013 included elsewhere in this Memorandum.

*Comparison of 2012 to 2011*

Income tax expense decreased by 50.4 per cent. from ₩482.8 billion in 2011 to ₩239.3 billion in 2012, mainly as a result of a decrease in our pre-tax income. The statutory tax rate was 24.2 per cent. in both 2011 and 2012. Our effective tax rate was 22.9 per cent. in 2011 and 27.5 per cent. in 2012. See Note 44 of the notes to our separate financial statements for the years ended 31 December 2011 and 2012 included elsewhere in this Memorandum.

### *Net Income*

Due to the factors described above, our net income for the three months ended 31 March 2014 was ₩76.4 billion compared to ₩30.6 billion for the three months ended 31 March 2013 and was ₩360.4 billion in 2013 compared to ₩632.0 billion in 2012 and ₩1,624.2 billion in 2011.

## Financial Condition

### *Assets*

The following table sets forth the principal components of our assets as of the dates indicated, as well as changes in these components over such dates in percentage terms.

| | As of 31 December | | | | As of 31 March | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2012/2013 % Change | 2014 | % Change |
| | (In billions of Won, except percentages) | | | | | |
| **Assets** | | | | | | |
| Cash and due from banks | ₩7,409.0 | ₩6,929.2 | ₩6,646.1 | (4.1)% | ₩7,368.9 | 10.9% |
| Financial assets at FVTPL | 1,481.3 | 1,472.8 | 1,606.7 | 9.1 | 1,210.4 | (24.7) |
| Derivative assets used for hedging purposes | 32.5 | 37.9 | 23.1 | (39.1) | 20.7 | (10.4) |
| Available-for-sale financial assets | 6,054.8 | 6,969.9 | 9,155.7 | 31.4 | 10,075.5 | 10.0 |
| Held-to-maturity investments | 5,332.8 | 5,017.6 | 2,195.6 | (56.2) | 1,463.8 | (33.3) |
| Loans receivable | 64,691.0 | 66,457.4 | 69,712.0 | 4.9 | 73,518.2 | 5.5 |
| Property and equipment | 1,188.9 | 1,204.8 | 1,199.0 | (0.5) | 1,187.8 | (0.9) |
| Other assets(1) | 10,777.3 | 11,703.0 | 10,633.8 | (9.1) | 13,598.8 | 25.6 |
| **Total assets** | ₩96,967.6 | ₩99,792.6 | ₩101,172.0 | 1.4% | ₩108,205.1 | 7.0% |

Note:

(1) Includes investments in subsidiaries and associates, investment properties, intangible assets, deferred income tax assets, other assets, merchant banking account assets and non-current assets held-for-sale.

For further information on our assets, see "*Description of Assets and Liabilities*".

### *Comparison as of 31 March 2014 to 31 March 2013*

Our total assets increased 7.0 per cent. from ₩101,172.0 billion as of 31 December 2013 to ₩108,205.1 billion as of 31 March 2014, principally due to increases in loans receivables and other assets. The 5.5 per cent. increase in loans receivable from ₩69,712.0 billion as of 31 December 2013 to ₩73,518.2 billion as of 31 March 2014 was mainly due to the increase in loans denominated in Korean Won. The 25.6 per cent. increase in other assets was mainly due to a 62.5 per cent. increase in accounts receivable from ₩4,436.8 billion as of 31 December 2013 to ₩7,211.1 billion as of 31 March 2014.

The effect of these increases was partially offset by a 33.3 per cent. decrease in held-to-maturity investments and a 24.7 per cent. decrease in financial assets at FVTPL.

### *Comparison as of 31 December 2013 to 31 December 2012*

Our total assets increased 1.4 per cent. from ₩99,792.6 billion as of 31 December 2012 to ₩101,172.0 billion as of 31 December 2013, principally due to increases in loans receivables and available for sale financial assets. The 4.9 per cent. increase in loans receivable from ₩66,457.4 billion as of 31 December 2012 to ₩69,712.0 billion as of 31 December 2013 was mainly due to increases in loans denominated in Korean Won and bills bought in foreign currencies. The 31.4 per cent. increase in available-for-sale financial assets from ₩6,969.9 billion 2012 to ₩9,155.7 billion as of 31 December 2013 was the result of increases in national housing bonds and bonds issued by government owned entities.

The effect of these increases was partially offset by a 56.2 per cent. decrease in held-to-maturity investments from ₩5,017.6 billion as of 31 December 2012 to ₩2,195.6 billion as of 31 December 2013 and a 9.1 per cent. decrease in other assets from ₩11,703.0 billion as of 31 December 2012 to ₩10,633.8 billion as of 31 December 2013 which was mainly due a decrease in accounts receivable.

*Comparison as of 31 December 2012 to 31 December 2011*

Our assets increased 2.9 per cent. from ₩96,967.6 billion as of 31 December 2011 to ₩99,792.6 billion as of 31 December 2012, principally due to a 2.7 per cent. increase in loans receivable from ₩64,691.0 billion as of 31 December 2011 to ₩66,457.4 billion as of 31 December 2012 and a 8.6 per cent. increase in other assets from ₩10,777.3 billion as of 31 December 2011 to ₩11,703.0 billion as of 31 December 2012 which mainly resulted from an increase in accounts receivable.

These increases were partially offset by a 6.5 per cent. decrease in cash and due from banks from ₩7,409.0 billion as of 31 December 2011 to ₩6,929.2 billion as of 31 December 2012 and a 5.9 per cent. decrease in held-to-maturity investments from ₩5,332.8 billion as of 31 December 2011 to ₩5,017.6 billion as of 31 December 2012.

***Liabilities and Equity***

The following table sets forth the principal components of our liabilities and equity as of the dates indicated, as well as changes in these components over such dates in percentage terms.

| | As of 31 December | | | | As of 31 March | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2012/2013 % Change | 2014 | % Change |
| | (In billions of Won, except percentages) | | | | | |
| **Liabilities** | | | | | | |
| Deposits | ₩61,919 | ₩63,548.8 | ₩65,135.3 | 2.5% | ₩66,323.1 | 1.8% |
| Financial liabilities at FVTPL | 967.7 | 1,308.6 | 1,286.8 | (1.7) | 986.4 | (23.3) |
| Derivative liabilities used for hedging purposes | 0.9 | – | 12.6 | – | 8.4 | (33.3) |
| Borrowings | 9,175.1 | 6,562.5 | 6,520.7 | (0.6) | 8,544.7 | 31.0 |
| Debentures | 4,975.9 | 5,810.1 | 6,582.0 | 13.3 | 6,364.1 | (3.3) |
| Other liabilities(1) | 11,474.7 | 13,617.3 | 12,217.9 | (10.4) | 16,832.9 | 37.8 |
| **Total liabilities** | ₩88,513.3 | ₩90,847.3 | ₩91,755.3 | 1.0% | ₩99,059.6 | 8.0% |
| **Equity** | | | | | | |
| Issued capital | ₩3,224.5 | ₩3,224.5 | ₩3,224.5 | 0.0% | ₩3,224.5 | 0.0% |
| Capital surplus | 0.9 | 0.9 | 0.9 | 0.0 | 0.9 | 0.0 |
| Hybrid equity securities | 249.8 | 249.8 | 429.5 | 71.9 | 179.7 | (58.2) |
| Capital adjustments | – | – | (18.7) | – | (0.8) | 95.7 |
| Accumulated other comprehensive income | 327.2 | 204.4 | 242.6 | 18.7 | 229.3 | (5.5) |
| Retained earnings | 4,651.9 | 5,265.7 | 5,537.8 | 5.9 | 5,511.8 | (0.5) |
| **Total Equity** | ₩8,454.3 | ₩8,945.3 | ₩9,416.7 | 5.3% | ₩9,145.5 | (2.9)% |
| **Total liabilities and equity** | ₩96,967.6 | ₩99,792.6 | ₩101,172.0 | 1.4% | ₩108,205.1 | 7.0% |

Note:

(1) Other liabilities include provisions, current income tax liabilities, deferred income tax liabilities, other liabilities and merchant banking account liabilities.

For further information on our liabilities, see "*Description of Assets and Liabilities*."

*Comparison as of 31 March 2014 to 31 March 2013*

Our total liabilities increased 8.0 per cent. from ₩91,755.3 billion as of 31 December 2013 to ₩99,059.6 billion as of 31 March 2014, principally as a result of a 1.8 per cent. increase in deposits from ₩65,135.3 billion as of 31 December 2013 to ₩66,323.1 billion as of 31 March 2014, and a 37.8 per cent. increase in other liabilities from ₩12,217.9 billion as of 31 December 2013 to ₩16,832.9 billion as of 31 March 2014 which was mainly attributable to an increase in other accounts payable.

Our total equity decreased 2.9 per cent. from ₩9,416.7 billion as of 31 December 2013 to ₩9,145.5 billion as of 31 March 2014. This decrease was principally due to a 58.2 per cent. decrease in hybrid equity securities from ₩429.5 billion as of 31 December 2013 to ₩179.7 billion as of 31 March 2014.

*Comparison as of 31 December 2013 to 31 December 2012*

Our total liabilities increased 1.0 per cent from ₩90,847.3 billion as of 31 December 2012 to ₩91,755.3 billion as of 31 December 2013, principally as a result of a 2.5 per cent. increase in deposits from ₩63,548.8 billion as of 31 December 2012 to ₩65,135.3 billion as of 31 December 2013, which was partially offset by a 10.3 per cent. decrease in other liabilities from ₩13,617.3 billion as of 31 December 2012 to ₩12,217.9 billion as of 31 December 2013.

Our total equity increased 5.3 per cent. from ₩8,945.3 billion as of 31 December 2012 to ₩9,416.6 billion as of 31 December 2013. This increase was principally due to an increase in retained earnings from ₩5,265.7 billion as of 31 December 2012 to ₩5,537.8 billion as of 31 December 2013. Such increase was also enhanced by a 71.9 per cent. increase in hybrid equity securities from ₩249.8 billion in 2012 to ₩429.5 billion in 2013 which resulted from the issuance of domestic hybrid securities in October 2013.

*Comparison as of 31 December 2012 to 31 December 2011*

Our total liabilities increased 2.6 per cent from ₩88,513.3 billion as of 31 December 2011 to ₩90,847.3 billion as of 31 December 2012, principally as a result of an 18.7 per cent. increase in other liabilities from ₩11,474.7 billion as of 31 December 2011 to ₩13,617.3 billion as of 31 December 2012, a 2.6 per cent. increase in deposits from ₩61,919 billion as of 31 December 2011 to ₩63,548.8 billion as of 31 December 2012 and a 16.8 per cent. increase in debentures from ₩4,975.9 billion as of 31 December 2011 to ₩5,810.1 billion as of 31 December 2012. Such increases were partially offset by a 28.5 per cent. decrease in borrowings from ₩9.175.1 billion as of 31 December 2011 to ₩6,562.5 billion in as of 31 December 2012 which was primarily due to a decrease in borrowings in foreign currencies and a substantial decrease in call money.

Our total equity increased 5.8% from ₩8,454.4 billion as of 31 December 2011 to ₩8,945.3 billion as of 31 December 2012. This increase was principally due to an increase of 13.2 per cent. in retained earnings from ₩4,651.9 billion as of 31 December 2011 to ₩5,265.7 billion as of 31 December 2012.

**Liquidity and Capital Resources**

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see "*Risk Management – Market Risk Management for Non-trading Activities – Liquidity Risk Management*". In our opinion, we have sufficient working capital to meet our requirements for the next 12 months.

The following table sets forth our source of capital as of the dates indicated.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| Deposits | ₩61,919.0 | ₩63,548.8 | ₩65,135.3 | ₩66,323.1 |
| Borrowings in Korean Won | 1,133.2 | 1,694.4 | 1,645.6 | 2,076.9 |
| Borrowings in foreign currencies | 6,805.2 | 4,673.6 | 4,107.5 | 5,251.7 |
| Call money | 1,122.5 | 136.0 | 683.2 | 1,120.0 |
| Bonds sold under repurchase agreements | 22.2 | 0.2 | 0.2 | 0.2 |
| Bills sold | 92.0 | 58.4 | 84.2 | 95.9 |
| Debentures in Korean Won | 3,800.5 | 4,018.0 | 4,334.6 | 4,086.7 |
| Debentures in foreign currencies | 1,175.3 | 1,792.2 | 2,247.4 | 2,277.4 |
| Issued capital | 3,224.5 | 3,224.5 | 3,224.5 | 3,224.5 |
| **Total** | ₩79,294.4 | ₩79,146.1 | ₩81,462.5 | ₩84,456.4 |

Due to our history as a traditional commercial bank, our primary source of funding has historically been and continues to be customer deposits. Deposits amounted to ₩61,919.0 billion, ₩63,548.8 billion, ₩65,135.3 billion and ₩66,323.1 billion as of 31 December 2011, 2012 and 2013 and 31 March 2014, respectively, which represented approximately 78.1 per cent., 80.3 per cent., 80.0 per cent. and 78.5 per cent., respectively, of our total funding as of each relevant dates.

As of 31 December 2011, 2012 and 2013 and 31 March 2014, approximately 97.4 per cent., 97.8 per cent., 98.0 per cent. and 97.8 per cent. of our total deposits were composed of customer deposits, respectively. As customers typically roll over a substantial majority of deposits upon maturity, deposits have generally been a stable source of funding for us. However, in times of a bullish stock market as in 2007 and the first half of 2008, customers transferred a significant amount of bank deposits to alternative investment products, such as money market funds and other brokerage accounts maintained at securities companies, in search of higher returns, which resulted in temporary difficulty in finding sufficient funding for Korean banks in general, including us, in the first half of 2008. Since the onset of the global financial crisis, our customers have largely reverted back to bank deposits as their investment priorities have shifted to maintaining the safety of their principal and stable returns, and deposits have also increased due to an overall increase in liquidity from Government programmes in response to the global financial crisis. However, we cannot assure you that there will not be significant outflows in bank deposits in the future resulting from upturns in the stock market, the availability of other attractive investment alternatives or a tightening in market liquidity. While we currently are not facing liquidity difficulties, if we are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively.

We may use secondary and other funding sources, such as debt and equity securities issuances, denominated in both Won and foreign currencies, to complement, or, if necessary, replace funding through customer deposits.

We depend on borrowings in foreign currencies as a significant source of funding, principally in the form of corporate debt securities denominated in foreign currencies. As of 31 December 2011, 2012 and 2013 and 31 March 2014, our borrowings in foreign currencies amounted to ₩6,805.2 billion, ₩4,673.6 billion, and ₩4,107.5 billion and ₩5,251.7 billion, respectively.

Secondary funding sources also include call money and debentures denominated in both Won and foreign currencies which amounted to ₩6,098.3 billion, ₩5,946.2 billion, ₩7,265.2 billion and ₩7,484.1 billion, as of 31 December 2011, 2012 and 2013 and 31 March 2014, respectively, representing 7.7 per cent., 7.5 per cent., 8.9 per cent. and 8.9 per cent. of our total funding as of each relevant dates, respectively.

## Cash Flows

The following table sets forth, as of the dates indicated, the principal components of our cash flows.

| | As of 31 December | | | Three months ended 31 March | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 | 2014 |
| | (In billions of Won) | | | | |
| Net cash flows from (used in) operating activities. . . . . . . . . . . | ₩(843.6) | ₩1,881.7 | ₩(1,839.8) | ₩(843.1) | ₩(592.2) |
| Net cash flows from (used in) investing activities . . . . . . . . . . | 1,673.5 | 708.0 | 861.3 | (4.9) | (1,446.2) |
| Net cash flows from (used in) financing activities . . . . . . . . . . | (191.8) | (1,705.4) | 967.7 | 479.2 | 1,449.0 |
| Net increase (decrease) in cash and cash equivalents . . . . . | 638.0 | 884.3 | (10.7) | (368.7) | (589.4) |
| Effect of exchange rate changes on cash and cash equivalents . . . . . | 37.3 | (20.2) | (12.7) | (37.0) | 89.9 |
| Cash and cash equivalents at the beginning of the period . . . . . . . | ₩2,012.9 | ₩2,688.2 | ₩3,552.3 | ₩3,552.3 | ₩3,528.9 |
| Cash and cash equivalents at the end of the period. . . . . . . . . . . | ₩2,688.2 | ₩3,552.3 | ₩3,528.9 | ₩3,146.6 | ₩3,029.4 |

### *Net Cash Flows from Operating Activities*

We recorded a net cash outflow from operating activities of ₩592.2 billion for the three months ended 31 March 2014. The primary reason for the net cash outflow during the period was a net increase in loans receivable.

We recorded a net cash outflow from operating activities of ₩1,839.8 billion for 2013. The primary reason for the net cash outflow during the period was a net increase in loans receivable.

We recorded a net cash inflow from operating activities of ₩1,881.7 billion for 2012. The primary reason for the net cash inflow during the period was a net increase in other liabilities.

We recorded a net cash outflow from operating activities of ₩843.6 billion for 2011. The primary reason for the net cash outflow during the period was a net increase in loans made to customers.

### *Net Cash Flows from Investing Activities*

We recorded a net cash outflow from investing activities of ₩1,446.2 billion for the three months ended 31 March 2014. The primary reason for the net cash outflow during the period was the purchase of available-for-sale financial assets and an increase in restricted due from banks, net.

We recorded a net cash inflow from investing activities of ₩861.3 billion for 2013. The primary reasons for the net cash inflow during the period were disposal of available-for-sale financial assets and held-to-maturity investments.

We recorded a net cash inflow from investing activities of ₩708.0 billion for 2012. The primary reason for the net cash inflow during the period was a net decrease in restricted due from banks.

We recorded a net cash inflow from investing activities of ₩1,673.5 billion for 2011. The primary reason for the net cash inflow during the period was a net decrease in restricted due from banks.

*Net Cash Flows from Financing Activities*

We recorded a net cash inflow from financing activities of ₩1,449.0 billion for the three months ended 31 March 2014. The primary reason for the net cash inflow during the period was a net increase in borrowings.

We recorded a net cash inflow from financing activities of ₩967.7 billion for 2013. The primary reason for the net cash inflow during the period was issuance of debentures.

We recorded a net cash outflow from financing activities of ₩1,705.4 billion for 2012. The primary reasons for the net cash outflow during the period were a net decrease in borrowings and a net decrease in debentures.

We recorded a net cash outflow from financing activities of ₩191.8 billion for 2011. The primary reason for the net cash outflow during the period was payments of dividends.

**Contractual Obligations**

In our ordinary course of business, we make certain contractual cash obligations and commitments which extend for several years. As we are able to obtain liquidity and funding through various sources as described in "– *Liquidity and Capital Resources*" above, we do not believe that these contractual cash obligations and commitments will have a material effect on our liquidity or capital resources. The following tables set forth our contractual cash obligations as of 31 March 2014.

| | As of 31 March 2014 Payments Due by Period[3] | | | | | |
|---|---|---|---|---|---|---|
| | Immediate payment | Less than 3 months | 4-12 months | 1-5 years | More than 5 years | Total |
| | (In billions of Won) | | | | | |
| Borrowings[1] | ₩1,642.1 | ₩3,853.3 | ₩2,211.0 | ₩773.7 | ₩156.3 | ₩8,636.5 |
| Debentures[2] | 0.1 | 903.7 | 639.1 | 4,249.8 | 1,338.6 | 7,131.4 |
| Deposits | 28,536.9 | 15,375.3 | 21,521.3 | 1,660.1 | 274.2 | 67,367.9 |
| **Total** | ₩30,179.2 | ₩20,132.4 | ₩24,371.5 | ₩6,683.6 | ₩1,769.1 | ₩83,135.8 |

Notes:

(1) Cash outflow from interest paid is included.

(2) ₩16.4 billion of bond discounts of debentures is excluded.

(3) As of 31 March 2014, defined benefit obligations amounted to ₩369.9 billion.

**Commitments and Guarantees**

For a description of our commitments and guarantees, see "*Description of Assets and Liabilities – Commitments and Guarantees*".

**Off-Balance Sheet Arrangements**

We have several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments.

Details of our off-balance sheet arrangements are provided in Note 29 in the notes to our financial statements included in this Information Memorandum.

## KOREA EXCHANGE BANK

### Introduction

Korea Exchange Bank was established in 1967, pursuant to the Korea Exchange Bank Act, as a wholly Government-owned bank specialising in the foreign exchange and international trade finance businesses. We were the only Korean bank to offer trade financing and foreign exchange services until 1977.

Following the loss of our monopoly in trade financing and foreign exchange, we expanded and diversified our activities to include a full range of commercial banking services, both through the expansion of our branch network, as well as the diversification of our customer base and financial product and service offerings. We were privatised in 1989 with the repeal of the Korea Exchange Bank Act, and our shares were first offered for public ownership in 1991. Our common stock, which had been listed on the KRX KOSPI Market since 1994, was delisted on 26 April 2013 following Hana Financial Group's acquisition of 40 per cent. shares in us through the Share Swap. We are currently a wholly-owned subsidiary of Hana Financial Group, however we still remain independent from Hana Financial Group with respect to our business, including our brand, employment and wage systems. To procure our financial soundness, we sold all of our 12,700,000 shares in Hana Financial Group which we acquired through the Share Swap, and as of the date of this Information Memorandum, we do not hold any shares of Hana Financial Group.

We are a national commercial bank in Korea with separate total assets of ₩108.2 trillion and separate total shareholders' equity of ₩9.1 trillion as of 31 March 2014. As of that date, we had a total loan portfolio of ₩73.5 trillion and a securities portfolio of ₩12.8 trillion, and managed customer deposits of ₩66.3 trillion, on a separate basis. As a full-service financial institution, we operate an extensive banking network consisting of 350 domestic branches and sub-branches, as well as 76 international branches and sub-branches, six overseas representative offices and nine overseas subsidiaries located in 23 countries outside of Korea as of 31 March 2014. We also operate over 2,704 automated teller machines ("**ATMs**") throughout Korea as of 31 March 2014, and offer Internet and telephone banking services. Through this global network, we serve Korean corporate and retail customers with a full complement of banking and financial services. We continue to hold a strong market position in the business segments where we have historically maintained competitive strengths. We estimate that we had leading domestic market shares in foreign exchange, import finance and export finance transaction volumes of approximately 44.3 per cent., 30.1 per cent. and 35.2 per cent., respectively, in 2013.

### Business

### Corporate Banking

#### *Overview*

We and our subsidiaries provide comprehensive commercial banking services in Korea to corporate customers, ranging from SMEs to large corporations, including the member companies of Korea's major *Chaebols*. Our corporate banking operations include lending to and taking deposits from our corporate customers, mostly in Won currency. As of 31 March 2014, our corporate loans denominated in Won (comprising loans in Won to corporate borrowers and corporate and trade bills discounted, which are components of bills bought in Won) amounted to ₩29.3 trillion, accounting for approximately 39.1 per cent. of our total loans, on a separate basis. We also provide our corporate customers with a variety of fee and commission based services, such as investment banking and foreign exchange transactions. In 2013, while maintaining the total amount of our corporate exposure substantially the same as in 2012, we have made efforts to improve our asset quality by increasing our corporate exposure to so called "blue-chip" companies (regardless of their size) with low credit risk profiles and decreasing our corporate exposure to the companies with high credit risk profiles.

The following tables set forth the balances and percentage of our total lending denominated in Won attributable to each category of our corporate lending business, on a separate basis, as of the dates indicated.

| | As of 31 December | | | | | | As of 31 March | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2013 | | 2014 | |
| | (In billions of Won, except percentages) | | | | | | | | | |
| SME loans . . . . . . . . | ₩14,914 | 64.2% | ₩14,129 | 55.6% | ₩15,041 | 55.9% | ₩14,454 | 55.8% | ₩15,981 | 54.5% |
| Large corporate loans. . | 8,327 | 35.8% | 11,286 | 44.4% | 11,862 | 44.1% | 11,450 | 44.2% | 13,342 | 45.5% |
| **Total corporate loans** . | ₩23,241 | 100% | ₩25,415 | 100% | ₩26,903 | 100% | ₩25,904 | 100% | ₩29,323 | 100% |

### *Small-and Medium-Sized Enterprise Banking*

The SME segment of the corporate banking market has grown significantly in recent years, primarily as a result of government measures to encourage lending to those enterprises. As of 31 December 2013 and 31 March 2014, our corporate loans denominated in Won to SMEs amounted to ₩15.0 billion and ₩16.0 billion respectively, accounting for approximately 55.9 per cent. and 54.5 per cent., respectively, of our total corporate loans denominated in Won, on a separate basis. We have recently pursued a more selective loan strategy that focuses on identifying and marketing to SME borrowers with low credit risk profiles based on our internal credit risk assessment.

We intend to continue to selectively target this market segment through our Corporate Group, which is dedicated to serving the needs of SMEs. This group acts as an all-around "solution provider" for this market segment, creating and marketing a broad array of "package solutions" comprising banking products, incentives and business support services. In particular, we have focused on marketing to high credit SMEs with low interest rate products.

### *Large Corporate Banking*

In the past, we concentrated our commercial lending activities on large Korean companies. We were also a principal creditor bank to many of Korea's largest corporate borrowers.

We now pursue a more focused, profit-oriented marketing approach toward large corporate customers. In particular, we have reoriented our large corporate banking business around a more fee-based income structure, offering a broad range of fee-earning products and services, rather than simply providing traditional lending services. Our large corporate banking business strategy includes developing new products and services, as well as cross-selling existing fee-based products and services to our core large corporate customers. As a result we have increased the volume and proportion of our fee income from corporate banking areas such as investment banking, financial advisory services and derivatives transactions.

We also use our advanced customer relationship management technology, which allows us to segment customers by creditworthiness and profitability, to identify high-quality large corporate customers on whom we can concentrate our marketing efforts. This technology also allows us to automate the pricing of products and services accordingly.

We market to potential large corporate banking customers primarily through our senior relationship managers and relationship managers, all of whom are sales professionals specifically dedicated to marketing to high credit large corporate customers.

## Retail Banking

### *Overview*

We offer a wide range of retail banking services in Korea through our national network of local branches and electronic delivery systems, including ATMs and the Internet. While our retail banking operations are focused primarily on retail lending and deposit-taking activities, we also provide an array of ancillary fee-based services.

Our retail banking services include mortgage and retail lending, as well as demand, savings and time deposit-taking, electronic banking (including Internet and telephone banking and ATM services), bill paying services and payroll services.

We not only view retail banking as a significant source of income, but also believe that it is a business area through which we may further enhance our brand recognition as a customer-oriented provider of comprehensive banking services. In order to better understand, serve and market to our retail clients, we have increased our efforts to improve our marketing strategies and implement a customer management system which will allow us to target more effectively the various customer groups based on each customer's financial needs, career and current marital status. We have reassessed the marketing procedures operating between our branches and headquarters in order to enhance the efficiency of our marketing strategies.

Following such efforts and reassessment of our marketing procedures and our customers' preference to low risk products, our total deposits as of 31 December 2013 amounted to ₩65.1 trillion, a 2.5 per cent. increase from 31 December 2012 and our total deposits as of 31 March 2014 amounted to ₩66.3 trillion, a 1.8 per cent. increase from 31 December 2013.

The following tables set forth the portfolio of our deposits, on a separate basis, as of 31 December 2011, 2012 and 2013, and 31 March 2014.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| Demand deposits | ₩25,608 | ₩25,996 | ₩27,340 | ₩27,927 |
| Time and saving deposits | 36,285 | 37,274 | 37,542 | 38,091 |
| Certificate of deposits | 26 | 279 | 253 | 305 |
| **Total deposits** | ₩61,919 | ₩63,549 | ₩65,135 | ₩66,323 |

Our household loans, as of 31 March 2014, amounted to ₩21.2 trillion, representing a 3.2 per cent. decrease from 31 December 2013. Our household loans, as of 31 December 2013, amounted to ₩21.9 trillion, representing a 2.3 per cent. increase from 31 December 2012. Our unsecured loan as of 31 March 2014 amounted to ₩7.1 trillion representing a 4.1 per cent. decrease from 31 December 2013. Our unsecured loan as of 31 December 2013 amounted to ₩7.4 trillion representing a 45.1 per cent. increase from 2012.

The following table sets forth the portfolio of our household loans, on a separate basis, as of 31 December 2011, 2012 and 2013, and 31 March 2014.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| Household loans | ₩19,742 | ₩21,392 | ₩21,921 | ₩21,201 |

***Private Banking Operations***

As part of our retail banking operations, we also offer private banking services to high net-worth retail customers. These services, along with customer relationship management, continue to be a focal point of our retail banking growth strategy. We opened our first "VIP Centre" in Seoul in 1992 to serve the needs of high net-worth customers, advising them on tax matters and asset management. With the rising number of high net-worth retail customers, we believe the Korean wealth management market offers potential for significant growth.

In order to meet the enhanced expectations and sophisticated needs of our high net-worth retail customers, we pursue a "total financial service package" approach which encompasses a wide range of services from traditional banking to advanced asset-allocation. We are in the process of further strengthening our private banking business platform for these high net-worth retail customers. As of 31 March 2014, we had 82 private banking branches and 10 Wealth Management Centers. Through our private banking network, we offer diversified, packaged products and services such as standard retail banking, loan products, brokerage, bancassurance, investment products, real estate and estate management services.

**Credit Card Operations**

We were the first bank to introduce credit cards to Korea in 1978 and also the first to issue international credit cards in Korea in 1978. In May 1988, we restructured our credit card operation into KEB Credit Services Co., Ltd. ("**KEBCS**") as a separate subsidiary. KEBCS, which was the first principal member of Visa and the first monoline credit card issuer in Korea, also became the first credit card company to list on the Korea Stock Exchange (the predecessor of the Stock Market Division of the Korea Exchange), in December 2001. We continued to operate our credit card business through KEBCS until February 2004, when it merged with us due to its liquidity problems stemming from rising delinquency levels and the deteriorating asset quality of its credit card portfolio.

After KEBCS merged with us, we immediately set to work restoring profitability of our credit card operations by lowering credit limits for cardholders and implementing more rigorous eligibility standards for new card issuances.

We have also recently undertaken initiatives to improve credit card marketing and product development. In order to enhance cooperation with our retail banking branches and realise synergies, in 2008, we formed a Credit Card Business Synergy Team. Further in 2009, we have created several "Package" products, including Branch Package, Women Partner Package, and Foreigner Package to accommodate diversified needs of our existing customers and to attract new customers. We have also focused on working more closely with our International Group to strengthen our marketing strategies and concentrating on our high-net-worth customers. Through customer classification, we developed various card products to meet the diversified needs of our clients. For example, in 2009, we introduced the Signature card to our VIP customers and the Wingo check-card to our younger customers in their twenties and thirties. In 2011, we introduced the American Express Crossmile Card which enables customers to receive discounts and accrue miles at various retail outlets. In February 2012, we launched the Korea Exchange 2X card which offers discounts at coffee shops, convenience stores, shopping malls, gas stations, movie theatres as well as discounts to certain public fees such as wireless communication fees and public transportation fees. The Korea Exchange 2X card, which is named by its feature of offering double discounts after 6 months of consecutive usage, gained considerable popularity and has been offered to over 1 million customers since 13 months of its release. In 2013, our card operations generated operating income of ₩28.2 billion and net profit of ₩32.7 billion, and in the three months ended 31 March 2014, our card operations generated operating income of ₩1.0 billion and net profit of ₩5.2 billion.

On 24 December 2013, our Board of Directors approved the spin-off of our credit card division to strengthen the competiveness of our credit card business. We applied to the Financial Services Commission ("**FSC**") for the approval of such spin-off and are awaiting for the decision. Once we obtain approval from FSC and approval from our shareholders, we plan to merge the spun-off entity with Hana SK Card, which we expect to bring synergy effects and advance the combined entity to be one of the leading credit card companies in Korea.

### Other Domestic Activities

### Trust Management Services

We offer our customers a variety of money trust products and manage the funds that they invest in money trusts, on a fee basis. We generally manage money trusts that allow investors to share in the investment performance of the trust in proportion to the amount of their investment in the trust. We also offer property trust management services, where we manage non-cash assets for a fee. The trust management services that we offer include:

- money trusts, consisting of:
  - pension trusts;
  - specific money trusts;
  - retired pension trusts; and
- property trusts, consisting of:
  - real estate collateral trusts; and
  - money receivable trusts.

Pursuant to Korean law, the assets of our money trusts are segregated from our assets and are not available to satisfy the claims of our creditors. Accordingly, trust accounts are accounted for, and reported separately from, bank accounts. For money trusts, under the FSCMA, we are permitted to offer only specified money trust account products. Specified money trusts are established on behalf of individual customers, typically corporations, which direct our investment of trust assets.

For some of the money trusts we manage, we have guaranteed the principal amount of an investor's investment as well as a fixed rate of interest. We no longer offer new money trusts products where we guarantee both the principal amount and a fixed rate of interest. We continue to offer pension-type money trusts that provide a guarantee of the principal amount of an investor's investment.

### Investment Banking and Capital Markets

We engage in different types of investment banking and capital markets activities, primarily on behalf of corporate customers in Korea, as well as for our own account. Our principal investment banking activities include:

- arrangement of project financing and other international bond issues and syndicated loans;
- arrangement and advisory services relating to issuances of asset-backed securities;
- real estate financing and advisory services; and
- acquisition financing and financial advisory services.

We invest in and trade securities for our own account, primarily to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains.

**Foreign Exchange and Trade Financing**

We are one of the leaders in the Korean foreign exchange market and believe that we continue to hold the largest market share of any Korean bank with respect to customer-related foreign exchange transactions, with numerous awards from industry journals. These transactions include purchases and sales of foreign currencies in the spot and forward markets on behalf of customers to enable them to satisfy payment obligations, hedge currency exposures and meet other needs for foreign currency. In 2013, our foreign exchange volume amounted to U.S.$178.3 billion, which we estimate represented a market share of approximately 44.3 per cent. In 2013, the export and import volumes totalled to U.S.$197.3 billion and U.S.$155.0 billion, respectively, representing market shares of approximately 35.2 per cent. and 30.1 per cent., respectively, according to our internal estimates. We believe we hold the largest market shares of any Korean bank with respect to the foreign exchange business and the financing of export-import transactions, including documentary letters of credit, bankers' acceptances and other forms of trade financing.

**Merchant Banking**

We provide merchant banking services as a result of the merger with our merchant banking subsidiary, Korea International Merchant Bank, in 1999. Our merchant banking services include principally the following:

- commercial paper discounting, which entails purchasing at a discount notes that are issued, endorsed or guaranteed by companies to supply them with short-term working capital; and
- payment guarantees, which entails issuing guarantees in respect of notes, corporate bonds and other Won and foreign currency payment obligations in return for fees.

**Bancassurance**

Continuing volatility in Europe and the general downturn in the global markets generally has contributed to a weakened Korean domestic economy. However, the Korean bancassurance market has been able to increase its share of the general insurance market in Korea. Conversely, our profits from bancassurance operations amounted to ₩31.2 billion in 2013, a 15.0 per cent. decrease from 2012. For the three months ended 31 March 2014, our profit from bancassurance operations was ₩5.5 billion.

We believe our focus on providing a wide variety of bancassurance products, rather than focusing on one product, allows us to better meet individual customer needs, increases customer satisfaction and drives increased sales. In addition, due to the tax favourable nature of our bancassurance products, we are seeing increased interest from high net worth individuals, professionals and high income self-employed persons.

We primarily offer our customers third-party insurance products, including the following:

- annuity insurance, which generally pays a fixed amount yearly or monthly during an insured's lifetime and for a fixed period after death;
- long-term savings insurance, which compensates for physical injury or disease occurring during the coverage period and reimburses the insured for premiums paid and interest accrued at the end of such coverage period; and
- travel and leisure insurance, which compensates for physical injury or disease, as well as loss of personal property, incurred during travel.

**Domestic Branch Network and Electronic Banking**

***Domestic Branch Network***

As of 31 March 2014, we maintained 317 domestic branches and 33 domestic sub-branches, most of which are located in Seoul and the surrounding provinces. The domestic sub-branches are "compact" branches opened to produce higher returns on investment with relatively lower operating costs, due to facility design, efficient staffing and location in relatively affluent areas. From 1 January 2013 through 31 March 2014, six branches were newly opened, and during the same period, 17 sub-branches were closed. Decisions as to whether to close or merge a branch office are based on considerations of profitability, growth potential in the branch's surrounding area, competitive concerns and impact on our branch network, among other factors. In an effort to improve productivity and profitability, we have also regrouped our branches based on regional characteristics and classified our branches into retail and corporate groups to better focus on target markets.

The following table presents the geographical distribution of our domestic branch network, according to major metropolitan areas, as of 31 March 2014.

| | Number of Domestic Branches | | |
|---|---|---|---|
| | **Branch** | **Sub-branch** | **Total** |
| Seoul and metropolitan | 148 | 2 | 150 |
| Kyunggi Province | 65 | 10 | 75 |
| Six major cities: | 65 | 14 | 79 |
| Incheon | 13 | 2 | 15 |
| Busan | 26 | 4 | 30 |
| Kwangju | 4 | 2 | 6 |
| Taegu | 11 | 1 | 12 |
| Ulsan | 6 | 5 | 11 |
| Taejon | 5 | 0 | 5 |
| **Sub-total** | 278 | 26 | 304 |
| Others | 39 | 7 | 46 |
| **Total** | 317 | 33 | 350 |

***Electronic Banking***

In order to maximise customer access to our products and services, we have established, since 1975, an extensive network of 2,074 ATMs (including cash dispensers) that are located both in branches and in unmanned outlets.

We actively promote the use of other electronic delivery systems, including telephone and internet banking, and mobile banking, in order to provide convenient service to customers at lower cost and to attract more customers to bring a long-term growth of our business.

Our electronic delivery systems services include balance and transaction inquiries, money transfers, loan applications, bill payment and foreign exchange transactions. In the retail sector, we utilize our Internet banking services to complement our branch network. As of 31 March 2014, about 1.8 million individual customers and 0.1 million corporate customers were using our Internet banking services, and 0.8 million individual customers were using our smart-phone banking services. The volume of the transactions carried out through our electronic delivery systems represented more than 81 per cent. of the total volume of our transactions for the period.

In 2013, Korea had over 37 million smart-phone users, 21 million of whom were using smart-phone banking. This dramatic growth has brought many changes to the country's financial industry, including the emergence of "smart" banking. KEB responded to this challenge by launching a number of smart-phone-based financial services that can be accessed by both Koreans and non-Koreans. For instance, we became the first player in the country's financial industry to offer a multi-lingual smart-phone banking service, namely "KEB Global Banking". Currently available in twelve languages, KEB Global Banking service is helping us to attract the business of many non-Korean workers and students living in Korea, as well as members of multi-cultural families. Another first financial service that we introduced is the "Smart Exchange Rate" application, which provides customers with up-to-the-minute exchange rate information and coupons that entitle them to lowered charge for foreign exchange. This application service is also multi-lingual. Following efforts to expand our mobile banking services for individual customers (including providing access through tablet personal computers and offering English language services), the number of customers using our smart-phone banking services in 2013 increased by 104 per cent. from 2012.

In 2014, we plan to launch even more smart-phone-based products. We will also build an open, web-based internet banking platform that will support a number of operating systems and web browsers, strengthening our customers' access to our services on their mobile devices. In addition, we will increase our level of support for people who have difficulty using computers and/or accessing the Internet.

**International Banking**

We operate the largest network of overseas branches of any Korean bank to meet the needs of our customers for foreign exchange, trade finance, funds remittance and other global banking services in Korea and elsewhere around the world.

Our network of overseas branches and subsidiaries as of 31 March 2014 consists of 91 business offices in 23 countries (four in the U.S., nine in Canada, three in South America, seven in Europe, 13 in China, three in the Middle East, 47 in Southeast Asia, four in Japan and one in Australia). As of 31 March 2014, we had 14 branches, nine subsidiaries and six representative offices in 23 countries.

We have over 45 years of experience operating in many high-growth regions of the world. In 2013, we earned an operating profit of ₩120.8 billion from our offshore operations. This amount represented 21.8 per cent. of our operating profit. As of 31 March 2014 and 31 December 2013, on a separate basis, we had total overseas assets of ₩19.0 trillion and ₩17.4 trillion, respectively.

We continue to adapt the focus of our network of overseas branch operations in response to changes in the global economy. To overcome the difficulties we may face due to current market volatility and instability, we are concentrating our efforts on maintaining quality assets and creating new products for our overseas business. Under our "Global Expansion and Profitable Growth" drive, we are promoting projects to help client restructure assets, adjust their business models, and develop their scope of business.

The table below sets forth our overseas branches and subsidiaries as of 31 March 2014.

| Business Unit | Location | Year Established |
|---|---|---|
| **Subsidiaries** | | |
| **America** | | |
| NY Financial Co. | 460 Park Ave. 14th Floor, New York, NY 10022, U.S.A. | 2004 |
| LA Financial Co | 777 South Figueroa Street, Suite 3000, Los Angeles, CA 90017, U.S.A. | 2004 |
| KEB USA International | 460 Park Ave. 15th Floor, York, NY 10022, U.S.A. | 2004 |
| KEB of Canada | 4950 Yonge Street, Suite 1101, Toronto, Ontario, Canada M2N 6K1 | 1981 |
| KEB Brasil | Av. Doutor Chucri Zaidan 940, Torre II, 18 Andar Cj: 181 Vila Cordeiro, CEP:04583-110, Sao Paulo, SP., Brasil | 1998 |
| **Europe** | | |
| KEB Deutschland AG | Bockenheimer Landstrasse, 51-53, 60325 Frankfurt am main, Germany | 1992 |

| Business Unit | Location | Year Established |
|---|---|---|
| **Asia and others** | | |
| KEB Asia Finance Limited . . . . . . . | Suites 1001-04, Level 10, One Pacific Place, 88 Queensway, Hong Kong | 2009 |
| PT. KEB Hana Bank . . . . . . . . . . . . | Wisma Mulia, Jl.Gatot Subroto, No. 42, Jakarta 12710, Indonesia | 2014 |
| KEB Bank (China) Co., Ltd. . . . . . . | Floor 5, Huaqiao Bldg No. 92-1 Nanjing Road, Heping District, Tianjin city 300042, China | 2010 |
| **Branches** | | |
| **America** | | |
| Atlanta LPO . . . . . . . . . . . . . . . . . . | 3473 Old Norcross Road, Suite 106, Duluth, GA 30096, U.S.A. | 2007 |
| Main Branch. . . . . . . . . . . . . . . . . . | Madison Centre Suite 103, 4950 Yonge St., Toronto, Ontario M2N 6K1 Canada | 1981 |
| Bloor Branch . . . . . . . . . . . . . . . . . | 627 Bloor Street, West Toronto, Ontario M6G 1K8, Canada | 1982 |
| Vancouver-Downtown Branch . . . . . | 590 Robson St. Vancouver, British Columbia V6B 2B7, Canada | 2008 |
| Mississauga Branch. . . . . . . . . . . . . | 90 Burhamthorpe Rd. West, Suite 120, Mississauga Ontario L5B 3C3, CANADA | 1991 |
| Thornhill Branch . . . . . . . . . . . . . . | 7670 Yonge Street, Suite #5, Thornhill, Ontario, Canada | 2002 |
| Vancouver-Burnaby Branch . . . . . . . | 100-4900 Kingsway, Burnaby, British Columbia V5H 2E3, Canada | 1983 |
| Vancouver-Coquitlam Branch. . . . . . | 4501 North Road, Suite 202A, Burnaby, British Columbia, Canada | 2002 |
| Calgary Branch. . . . . . . . . . . . . . . . | 1935 37th Street SW, Unit 110, Calgary, AB T3E 3A4 | 2008 |
| Panama Branch. . . . . . . . . . . . . . . . | Calle 50, Urbanizacion Obarrio Edificio Torre, Global Bank No. 19, Oficina No. 1902 Panama, Republica de Panama | 1980 |
| **Europe** | | |
| London Branch. . . . . . . . . . . . . . . . | 30 Old Jewry, London EC2R 8EB, U.K. | 1968 |
| Paris Branch. . . . . . . . . . . . . . . . . . | 38/40 Avenue Des Champs-Elysees 75008 Paris France | 1974 |
| Amsterdam Branch . . . . . . . . . . . . . | Dr. Willem Dreesweg 2, 1185VB Amstelveen, the Netherlands | 1979 |
| Czech Ostrava office. . . . . . . . . . . . | Czech Ostrava Office, 3F Axis Office Park Building C Na Rovince 879,720 00 Ostrava, Czech Republic | 2008 |
| **China** | | |
| Tianjin Branch . . . . . . . . . . . . . . . . | 1st Floor, Huaqiao Building No. 92-1 Nanjing Road, Heping District, Tianjin 300042, China | 1993 |
| Beijing Branch . . . . . . . . . . . . . . . . | #510, 5th Floor, Henderson Center Office Tower 2, 18 Jianguomennei Av. Beijing | 1996 |

| Business Unit | Location | Year Established |
|---|---|---|
| Dalian Branch . . . . . . . . . . . . . . . . | 1st to 3rd Floor, Qianhui Town, Shiji Street No 16, Dalian, China | 1995 |
| Kalifaqu Branch . . . . . . . . . . . . . . . | 1st Floor, 2nd Floor Shiyuan International Building, No. 156 Jinma Road, Development Zone, Dalian, China | 2012 |
| Shanghai Branch. . . . . . . . . . . . . . . | 17th Floor Pufa Tower, 588 Pudong South Road, Shanghai. P.R. China. 200120 | 2003 |
| Hong Kong. . . . . . . . . . . . . . . . . . . | 32nd Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, China | 1967 |
| **Asia and others** | | |
| Tokyo Branch. . . . . . . . . . . . . . . . . | The Shinkokusai Bldg. 4-1, 3-Chome, Marunouchi Chiyodaku, Tokyo, Japan | 1967 |
| Osaka Branch . . . . . . . . . . . . . . . . . | Yodoyabashi Mitsui Bldg., 1-1, Imabashi 4 Chome, Chuoku, Osaka, Japan | 1967 |
| Singapore Branch . . . . . . . . . . . . . . | 30 Cecil St., 08 Prudential Tower #24-03, Singapore 049712 | 1973 |
| Manila Branch . . . . . . . . . . . . . . . . | 21st Fl. Zuellig Bldg., Makati Ave., Cor. Paseo de Roxas, Makati City, Philippines | 1995 |
| Clark Branch . . . . . . . . . . . . . . . . . | 1st Floor, Berthaphil Building 5, Clark Center, J.A.Santos Ave., Clark Freeport Zone, Philippines | 2013 |
| Hanoi Branch . . . . . . . . . . . . . . . . . | 14th Floor, Daeha Business Center 360 Kim Ma St, Ba Dinh Dist, Hanoi, Vietnam | 1999 |
| Bahrain Branch. . . . . . . . . . . . . . . . | 5th Floor, Yateem Center Bldg. P.O. Box 5767, Manama, Bahrain | 1977 |
| Abu Dhabi Branch . . . . . . . . . . . . . | 8th Floor, Tower No 3. Etihad Tower. Cornishi Road, Abu Dhabi, U.A.E. P.O. Box 45636 | 2013 |
| Sydney Branch . . . . . . . . . . . . . . . . | Suite 1203, Level 12, Chifley Tower, 2 Chifley Square, Sydney NSW 2000 AUSTRALIA. (P.O BOX N595 GROSVENOR PL. NSW 1220 AUSTRALIA) | 2014 |
| Main branch . . . . . . . . . . . . . . . . . . | Wisma GKBI 20th FI. Suite 2012 JI. Sudirman No. 28 P.O Box 2317 Jakarta 10210 Indonesia | 1990 |
| Kelapa Gading Branch . . . . . . . . . . | Graha Rekso Building, Ground Floor, Suite GR-W03 Jl. Bulevar Artha GADING Kav. A1, Sentra Bisnis Artha Gading Kelapa Gading, Jakarta 14240 | 2009 |
| Wisma Mulia Branch . . . . . . . . . . . | Wisma Mulia, Jl.Gatot Subroto, No.42, Jakarta 12710, Indonesia | 2008 |
| Bandung Branch . . . . . . . . . . . . . . . | Jl.Jendral Sudirman No. 67 Bandung, Indonesia. | 2008 |
| Bogor Branch . . . . . . . . . . . . . . . . . | Jl.Surya Kencana No. 101 Bogor, Indonesia. | 2008 |
| Surabaya Branch. . . . . . . . . . . . . . . | Ruko Bukit Dharmo BLVD no.2C, Kel. Pradah Kendal, Kec Dukuh Pakis, Surabaya | 2010 |
| Cilegon Branch. . . . . . . . . . . . . . . . | Jl.KH. Yassin Beji No 2, Cilegon, Banten 42435 | 2012 |

| Business Unit | Location | Year Established |
|---|---|---|
| Subang Branch . . . . . . . . . . . . . . . . | Jl. Otto Iskandardinata No 82 C, Subang, Jawa Barat | 2013 |
| Semarang Branch . . . . . . . . . . . . . . | Jl. Pandnaran No.60, RT02 Pekunden, Semarang Jawa Tengah | 2013 |
| **Representative Offices** | | |
| Santiago Rep. Office. . . . . . . . . . . . | Av. Nueva Tajamar 481, Office 304, Torre Norte, WTC, Las Condes, Santiago, Chile | 2008 |
| Istanbul Rep. Office . . . . . . . . . . . . | Buyukdere Caddesi No. 100-102 Maya Akar Center Kat: 14, Daire: 52, Pk: 34394, Esentepe, Sisli, Istanbul/Turkiye | 2013 |
| Moscow Rep. Office . . . . . . . . . . . . | World Trade Center, Ent. 3, Office Building 1308A, Krasnopresnenskaya nab. 12, Moscow 123610, Russia | 2008 |
| Hochiminh Rep. Office . . . . . . . . . . | Unit 1209, 12 floor Diamond Plaza, 34 Le Duan St. Dist. 1, Ho Chi Minh City, Vietnam | 2002 |
| New Delhi Rep. Office . . . . . . . . . . | Flat No. 511, Ansal Bhawan, 16 Kasturba Gandhi Marg, New Delhi 110001, India | 2008 |
| Dubai Rep. Office. . . . . . . . . . . . . . | Office No. 202 (Block A) Concorde Complex Bldg, Plot 125-130, P.O. Box 14535, Dubai, U.A.E. | 2003 |

**Information Technology**

We have a fully integrated information technology or "IT" system that provides information to all offices and branches. We believe that a sophisticated IT system is critical to supporting our operations management and providing high quality customer service. Accordingly, we have made, and intend to continue to make, significant investments to upgrade and expand our IT systems in order to improve our risk management, operations management and customer service. In recent years, we have developed and implemented several new technologically advanced risk management systems, including our Basel II System, Anti-Money Laundering System and BIS Risk-Weighted Asset Management System.

We continued to allocate considerable resources to improve the capacity and reliability of our IT infrastructure in our business divisions in 2011. By upgrading our Business Online Portal which included providing such online service in English for retail customers and developing Global CRM System, we have strengthened our market position in both retail and corporate banking. Further, we implemented Tailored KEB China IT System to increase our business opportunities. We have completed IFRS Managerial Accounting Reformation Project to enhance business processes and to comply with relevant regulations. We have developed Global ATM Services to better serve our customers and establishing Channel Strategy System based on Geographical Information System which provides information on the customers located close to each of our branches to be used for the purpose of opening new branches.

**Subsidiaries**

The following table provides summary financial information regarding our consolidated subsidiaries (other than special purpose companies) as of or for the year ended 31 March 2014.

| Subsidiaries | Percentage of Ownership | Total Assets | Total Liabilities | Capital Stock | Shareholders' Equity | Net Income (Loss) |
|---|---|---|---|---|---|---|
| | (In percentages) | (In millions of Won, except for Capital Stock) | | | | |
| KEB Capital Inc. . . . . . . . . . . . . . . | 99.31 | 261,372 | 233,835 | 75,400 | 27,537 | 12 |
| KEB Futures Co., Ltd. . . . . . . . . . . | 100.0 | 600,747 | 535,373 | 15,000 | 65,374 | 217 |
| KEB Fund Services Co., Ltd. . . . . . | 100.0 | 17,911 | 1,820 | 2,550 | 16,091 | 821 |
| Korea Exchange Bank of Canada. . . | 100.0 | 1,272,264 | 1,124,576 | 36,973 | 147,688 | 2,537 |
| KEB Australia Ltd . . . . . . . . . . . . . | 100.0 | 61,747 | 3,183 | 57,478 | 58,564 | 609 |
| Korea Exchange Bank (Deutschland) A.G. . . . . . . . . . . . | 100.0 | 630,329 | 550,149 | 25,681 | 80,180 | 1,807 |
| PT. Bank KEB Indonesia . . . . . . . . | 49.87 | 1,238,669 | 976,218 | 144,220 | 262,451 | 4,760 |
| Banco KEB do Brasil S. A . . . . . . . | 100.0 | 164,267 | 118,876 | 42,030 | 45,391 | 909 |
| KEB NY Financial Corp . . . . . . . . . | 100.0 | 484,819 | 442,962 | – | 41,857 | 1,298 |
| KEB LA Financial Corp . . . . . . . . . | 100.0 | 281,426 | 235,782 | – | 45,644 | 834 |
| KEB USA Int'l Corp . . . . . . . . . . . | 100.0 | 7,120 | 2 | – | 7,118 | (7) |
| KEB Asia Finance Limited . . . . . . . | 100.0 | 145,660 | 89,914 | 58,380 | 55,746 | 96 |
| KEB Bank (China) Co., Ltd . . . . . . | 100.0 | 3,221,754 | 2,766,507 | 391,037 | 455,247 | 5,858 |

**Funding**

We fund our lending and other activities using various sources, both domestic and foreign. Our primary funding strategy is to maintain stable and low-cost funding. We have in the past achieved this in part by increasing the average balances of low-cost customer deposits, in particular demand deposits and savings deposits.

Customer deposits are our principal funding source and, on a separate basis, accounted for 71.0 per cent. of our total funding as of 31 March 2014 and 67.0 per cent. of our total funding as of 31 December 2013. See "*Description of Assets and Liabilities – Deposits*".

We also acquire funding through the following sources:

- long-term borrowings, including the issuance of senior and subordinated debentures and borrowings from government-affiliated funds and entities and other financial institutions;

- short-term borrowings, including borrowings from our trust accounts and from the Bank of Korea, and call money; and

- asset securitisations and securities sold under repurchase agreements.

**Legal Proceedings**

We are involved in various legal actions arising from the normal course of our business. As of 31 March 2014, the aggregate amounts of claims brought by and against us totalled ₩186.0 billion (relating to 669 cases) and ₩482.3 billion (relating to 188 cases), respectively, for which we recorded a provision of ₩122.0 billion. As of 31 December 2013, the aggregate amounts of claims brought by and against us totalled approximately ₩291.0 billion (relating to 566 cases) and ₩559.3 billion (relating to 204 cases), respectively, for which we recorded a provision of ₩122.1 billion.

On 5 March 2013, we received a warning from the FSS that we had applied the interest spreads on certain floating rate loans to a number of our corporate borrowers during the period from June 2006 to September 2012 without proper supporting documentation. In connection with this incident, seven former and current executives and staff members of us were charged for the irregular practice. The case is currently pending decision of the trial court. In compliance with an order from the FSS, we have returned ₩20 billion to the relevant customers out of approximately ₩30 billion of the total interest we received from such loans, and we plan to return the balance in the remainder of 2014.

In 2013, a claim was brought against us by approximately 350 minority shareholders who claimed that the Share Swap with Hana Financial Group, which took place when we were delisted, was invalid because we did not comply with the regulatory legal process required for the Share Swap. This lawsuit is pending in the Seoul District Court.

Such legal actions include claims brought against us and other parties affiliated with Lone Star Funds ("**Lone Star**") before the Court of International Arbitration (the "**COIA**") by Olympus Capital KEB Cards Ltd., together with other entities (collectively, the "**Plaintiffs**"), seeking compensation totalling U.S.$300 million. The claimants argued that we and the other defendant parties breached certain obligations under the shareholders' contract, dated 1 December 1999 between us and the claimants, thus rendering invalid the transfer of shares contract entered into on 20 November 2003. On 13 December 2011, the COIA ruled in favour of the Plaintiffs, finding us and Lone Star jointly liable, in the amount of U.S.$64,072,330, which includes interest and the Plaintiffs' legal fees. As of 31 December 2011, we have made a provision for the half of the Plaintiffs' award attributed to us by the COIA. On 28 February 2012, Lone Star made full payment of the award to the Plaintiffs. Currently, we are involved in arbitration proceedings in the Singapore International Arbitration Centre, defending against a claim filed by Lone Star over the liability contributions regarding the COIA award.

We are also the defendant in the lawsuit filed by Hyundai Merchant Marine on behalf of the Hyundai Group consortium. Hyundai Merchant Marine is claiming the return of its security deposit and compensation for damages against us, the preferred negotiating parties, for our termination of the memorandum of understanding and rejection of signing the main contract in connection with the disposal of equity swap stock of Hyundai Engineering and Construction. The aggregate claim amount is ₩326 billion, and our share of such amount is ₩82 billion. The Seoul District Court rendered a decision on 2 August 2013 requiring us to return to Hyundai Merchant Marine a portion of the security deposit in the amount of ₩206.6 billion. In December 2013, the Seoul High Court upheld the lower court's ruling and this case is currently pending in the Supreme Court of Korea.

In addition, in 2010, 4 lawsuits were filed against us by our depositors demanding the return of their deposits which were embezzled by our former employees. The aggregate claim amount is ₩62 billion. This case is currently pending in the Seoul High Court.

Claims brought against us also include the lawsuits in connection with our sale of foreign currency derivatives products known as "**KIKOs**", which stands for "knock-in knock-out," to certain of our customers. The KIKOs, which are intended to be hedging instruments, operate so that if the value of Korean Won increases to a certain level, the Bank is required to pay the purchasers a certain amount, and if the value of Korean Won falls below a certain level, the purchasers of KIKOs are required to pay the Bank a certain amount. As the Korean Won significantly depreciated against the U.S. dollar in the second half of 2008, purchasers of KIKOs were required under the relevant contracts to make large payments to the Bank, and some of such purchasers filed lawsuits to nullify their obligations under the allegation that the Bank did not sufficiently disclose the risks in investing in KIKOs and unfairly induced them to make such investments. As of 31 March 2014, the aggregate KIKO claims amounted to ₩68.9 billion, for which we set aside ₩4.9 billion as allowance.

In 2005, we, together with other creditor financial institutions, filed a litigation against Mr. Lee Gun-Hee, the president of Samsung, and 28 affiliates of Samsung to claim penalty fees and loss compensations based on the agreement we entered into in the bankruptcy process of Samsung Motors. The aggregate claim amount is ₩115 billion, and we partially won ₩320 billion in the appellate court. The case is currently waiting the Supreme Court's final decision.

Other than the aforementioned arbitration action and appeals, we are not involved in any litigation, arbitration or administrative proceedings relating to claims which could have a significant effect on our financial condition or results of our operations, or financial condition or results of operations of ourselves and our consolidated subsidiaries, and we are not aware of any such litigation, arbitration or administrative proceedings that are pending or threatened.

**Related Party Transactions**

As of 31 March 2014, there were no loans outstanding made by us to the members of our board of directors or our executive officers. There are no guarantees provided by us and our consolidated subsidiaries for the benefit of any of our directors or executive officers. None of the directors or executive officers has or has had any interest in any transactions effected by us which are or were unusual in their nature or conditional or significant to our business and which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

## DESCRIPTION OF ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding our assets and liabilities. Unless otherwise specified, the information provided below is presented on a separate basis. As used below, unless otherwise specified:

- "**loans**", "**loan portfolio**" and "**loan exposure**" refer to our separate total loans on a gross basis, prior to deducting allowance for loan losses, the principal components of which include loans in Won, loans in foreign currencies, bills bought in Won, bills bought in foreign currencies, call loans, credit card accounts and securities purchased under resale agreements;

- "**credits**", "**credit portfolio**" and "**credit exposure**" refer to our separate total credits as reported to the FSC, the principal components of which include:

  - loans net of present value discounts and excluding certain items, principally interbank loans in foreign currencies, call loans and securities purchased under resale agreements;

  - confirmed guarantees and acceptances and loans from our trust accounts, both of which are off-balance sheet items;

  - certain other items, principally merchant bank credits, due from banks and suspense receivables; and

- "**exposures**" refer to our credits and other exposures, including debt and equity securities held by us.

### Average Balance Sheets and Related Interest

The following table sets forth the average balances of our assets and liabilities on a separate basis for the periods indicated. For interest-earning assets and interest-bearing liabilities, the tables provide the amount of interest earned or paid and the average rate of such interest. For the purposes of these tables, average balance has been determined based upon daily average balances.

| | Year Ended 31 December | | | | | | | | | Three Months Ended 31 March | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | | 2013 | | | 2014 | | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | (In billions of Won, except percentages) | | | | | | | | | | | | | | |
| **Interest earning assets** | | | | | | | | | | | | | | | |
| Loans | ₩66,109 | ₩3,495 | 5.3% | ₩55,137 | ₩2,688 | 4.9% | ₩58,173 | ₩2,407 | 4.1% | ₩56,764 | ₩611 | 4.4% | ₩59,934 | ₩582 | 3.9% |
| Won | 48,319 | 3,141 | 6.5 | 45,454 | 2,471 | 5.4% | 48,908 | 2,233 | 4.6 | 47,770 | 566 | 4.8 | 50,514 | 542 | 4.4 |
| Foreign currency | 17,790 | 354 | 2.0 | 9,683 | 217 | 2.2% | 9,265 | 174 | 1.9 | 8,994 | 45 | 2.0 | 9,420 | 40 | 1.7 |
| Due from banks | 3,512 | 64 | 1.8 | 4,584 | 79 | 1.7% | 3,420 | 28 | 0.8 | 3,100 | 6 | 0.8 | 3,949 | 11 | 1.1 |
| Won | 1,880 | 59 | 3.2 | 2,262 | 73 | 3.2% | 799 | 20 | 2.5 | 733 | 4 | 2.2 | 1,270 | 8 | 2.5 |
| Foreign currency | 1,632 | 5 | 0.3 | 2,322 | 6 | 0.3% | 2,621 | 8 | 0.3 | 2,367 | 2 | 0.3 | 2,679 | 3 | 0.4 |
| Securities | 10,423 | 390 | 3.7 | 11,072 | 400 | 3.6% | 11,070 | 340 | 3.1 | 11,586 | 94 | 3.3 | 10,792 | 78 | 2.9 |
| Won | 10,041 | 379 | 3.8 | 10,839 | 394 | 3.6% | 10,515 | 331 | 3.2 | 11,121 | 92 | 3.4 | 10,072 | 75 | 3.0 |
| Foreign currency | 382 | 11 | 2.8 | 233 | 6 | 2.5% | 555 | 9 | 1.7 | 465 | 2 | 1.8 | 720 | 3 | 1.8 |
| Other | 13 | 8 | 6.6 | 12,893 | 759 | 5.9% | 11,758 | 684 | 5.8 | 11,264 | 170 | 6.1 | 12,549 | 172 | 5.6 |
| Won | – | 8 | n/m | 4,149 | 609 | 14.7% | 3,777 | 556 | 14.7 | 3,777 | 139 | 14.9 | 3,483 | 135 | 15.8 |
| Foreign currency | 13 | – | 2.4 | 8,744 | 150 | 1.7% | 7,982 | 128 | 1.6 | 7,487 | 31 | 1.7 | 9,066 | 36 | 1.6 |
| **Total interest earning assets** | ₩80,057 | ₩3,957 | 4.9% | ₩83,686 | ₩3,926 | 4.7% | ₩84,421 | ₩3,459 | 4.1% | ₩82,714 | ₩881 | 4.3% | ₩87,224 | ₩842 | 3.9% |
| Non-interest earning assets | 17,714 | n/m | n/m | 17,488 | n/m | n/m | 17,290 | n/m | n/m | 17,232 | n/m | n/m | 17,589 | n/m | n/m |
| **Total assets** | ₩97,771 | ₩3,957 | 4.0% | ₩101,174 | ₩3,926 | 3.9% | ₩101,711 | ₩3,459 | 3.4% | ₩99,947 | ₩881 | 3.6% | ₩104,813 | ₩842 | 3.3% |
| **Interest bearing liabilities** | | | | | | | | | | | | | | | |
| Deposits | 58,93 | 1,481 | 2.5 | 61,753 | 1,548 | 2.5% | 63,807 | 1,315 | 2.1 | 62,686 | 346 | 2.2 | 65,389 | 304 | 1.9 |
| Won | 46,511 | 1,403 | 3.0 | 47,328 | 1,449 | 3.1% | 49,418 | 1,234 | 2.5 | 48,856 | 325 | 2.7 | 50,727 | 286 | 2.3 |
| Foreign currency | 12,182 | 78 | 0.6 | 14,425 | 99 | 0.7% | 14,389 | 81 | 0.6 | 13,830 | 20 | 0.6 | 14,661 | 18 | 0.5 |
| Borrowings | 8,983 | 100 | 1.1 | 8,775 | 117 | 1.3% | 7,427 | 101 | 1.4 | 6,999 | 24 | 1.4 | 8,536 | 28 | 1.3 |
| Won | 1,267 | 29 | 2.3 | 1,685 | 40 | 2.4% | 2,310 | 53 | 2.3 | 1,975 | 11 | 2.3 | 2,814 | 16 | 2.3 |
| Foreign currency | 7,716 | 71 | 0.9 | 7,090 | 77 | 1.1% | 5,117 | 48 | 0.9 | 5,024 | 13 | 1.0 | 5,722 | 12 | 0.8 |
| Debenture | 4,760 | 214 | 4.5 | 5,250 | 222 | 4.2% | 6,182 | 224 | 3.6 | 5,901 | 58 | 4.0 | 6,563 | 57 | 3.5 |
| Won | 3,522 | 179 | 5.1 | 3,848 | 182 | 4.7% | 4,082 | 173 | 4.2 | 4,171 | 46 | 4.5 | 4,272 | 43 | 4.1 |
| Foreign currency | 1,238 | 35 | 2.8 | 1,402 | 40 | 2.9% | 2,100 | 51 | 2.4 | 1,730 | 12 | 2.7 | 2,291 | 14 | 2.4 |
| Other | 2,034 | 65 | 3.2 | 1,997 | 65 | 3.2% | 1,555 | 40 | 2.6 | 1,578 | 11 | 2.8 | 1,480 | 9 | 2.4 |
| **Total interest bearing liabilities** | ₩74,470 | ₩1,860 | 2.5% | ₩77,775 | ₩1,952 | 2.5% | ₩78,971 | ₩1,680 | 2.1% | ₩77,164 | ₩438 | 2.3% | ₩81,968 | ₩397 | 2.0% |
| Non-interest bearing liabilities and stockholder's equity | 23,301 | n/m | n/m | 23,399 | n/m | n/m | 22,740 | n/m | n/m | 22,783 | n/m | n/m | 22,845 | n/m | n/m |
| **Total liabilities and stockholder's equity** | ₩97,771 | ₩1,860 | 1.9% | ₩101,174 | ₩1,952 | 1.9% | ₩101,711 | ₩1,680 | 1.7% | ₩99,947 | ₩438 | 1.8% | ₩104,813 | ₩397 | 1.5% |

## Analysis of Changes in Net Interest Income – Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense, and net interest income based on changes in volume and changes in rates for the year ended 31 December 2012 compared to 2011 and for the year ended 31 December 2013 compared to 2012. Information is provided with respect to (i) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

| | 2012 vs. 2011 (increase/decrease) | | | 2013 vs. 2012 (increase/decrease) | | |
|---|---|---|---|---|---|---|
| | Changes in Average Volume | Changes in Average Rate | Net Change | Changes in Average Volume | Changes in Average Rate | Net Change |
| | (a) | (b) | (a) + (b) | (a) | (b) | (a) + (b) |
| | (in billions of Won) | | | (in billions of Won) | | |
| **Interest earning assets** | | | | | | |
| Due from banks | ₩1,071 | ₩14 | ₩1,086 | ₩(1,163) | ₩(51) | ₩(1,214) |
| Investment securities | 649 | 10 | 659 | (2) | (60) | (62) |
| Loans in Won: | | | | | | |
| Household loans | 448 | (24) | 423 | 1,797 | (106) | 1691 |
| Corporate loans | 1,315 | (25) | 1,290 | 1,407 | (142) | 1,265 |
| Other loans | 13 | (3) | 10 | 250 | 10 | 260 |
| **Total loans in Won** | ₩1,776 | ₩(49) | ₩1,727 | ₩3,454 | ₩(238) | ₩3,216 |
| Loans in foreign currency | (305) | 6 | (299) | (419) | (43) | (462) |
| Credit and receivable | (15) | (3) | (17) | 27 | (25) | 2 |
| Call loans | 64 | (1) | 63 | (1,358) | (10) | (1,368) |
| Privately placed corporate bonds | (55) | (4) | (60) | (52) | (6) | (58) |
| Foreign currency bills bought | 259 | 5 | 264 | 378 | (16) | 362 |
| Other loans | 185 | 2 | 187 | (159) | (6) | (165) |
| Other | (226) | (12) | (238) | (169) | (12) | (181) |
| **Total interest expense** | ₩3,305 | ₩92 | ₩3,397 | ₩1,196 | ₩(271) | ₩925 |
| **Net interest income (loss)** | ₩97 | ₩(122) | ₩(25) | ₩(659) | ₩(196) | ₩(855) |

## Loan Portfolio

As of 31 December 2011, 2012 and 2013 and as of 31 March 2014, on a separate basis, the balance of our total loan portfolio before allowance for loan losses and net deferred loan fees and costs was ₩65,358 billion, ₩67,128 billion, ₩70,348 billion and ₩74,196 billion, respectively. As of December 2011, 2012 and 2013 and 31 March 2014, on a separate basis, 66.3 per cent., 70.3 per cent., 76.4 per cent. and 74.5 per cent. of our total loans were denominated in Won, respectively, and 11.2 per cent., 9.2 per cent., 23.6 per cent. and 25.5 per cent., of our total loans were denominated in other currencies, principally in U.S. dollars, respectively.

### *Borrower Types*

As of 31 December 2011, 2012 and 2013 and as of 31 March 2014, on a separate basis, our total loans after allowance for loan losses and net deferred loan fees and costs were ₩64,691 billion, ₩66,457 billion, ₩69,712 billion and ₩73,518 billion, which accounted for 66.7 per cent., 66.6 per cent., 64.4 per cent. and 72.7 per cent. of our total assets from loans unrelated to trust accounts, respectively. Guarantees are not categorised as loans unless and until we have made a payment on behalf of a customer in relation to the guarantee.

The table below sets forth a summary of our loans denominated in Won by type of borrower, on a separate basis, as of 31 December 2011, 2012 and 2013 and 31 March 2014.

| | As of 31 December 2013 | | | | As of 31 March | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | | 2014 | |
| | (In billions of Won, except percentages) | | | | | |
| Large companies | ₩8,327 | ₩11,286 | ₩11,863 | 24.0% | ₩13,342 | 26.1% |
| SMEs | 14,913 | 14,129 | 15,041 | 30.4% | 15,981 | 31.3% |
| Individuals | 19,709 | 21,367 | 21,921 | 44.3% | 21,201 | 41.5% |
| Others | 400 | 387 | 598 | 1.3% | 610 | 1.1% |
| **Total** | ₩43,349 | ₩47,169 | ₩49,423 | 100% | ₩51,134 | 100% |

***Loan Types***

The following table presents our loans by type and total credits, on a separate basis, as of 31 December 2011, 2012 and 2013, and 31 March 2014. Totals include past due amounts.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| Loans in Korean Won | ₩43,349 | ₩47,169 | ₩49,423 | ₩51,135 |
| Loans denominated in foreign currencies | 7,288 | 6,149 | 6,459 | 8,192 |
| Bills purchased in Korean Won | 399 | 84 | 89 | 82 |
| Bills purchased denominated in foreign currencies | 4,433 | 4,508 | 5,589 | 6,437 |
| Call loans | 2,222 | 1,758 | 1,407 | 1,347 |
| Credit card loans | 2,563 | 2,661 | 2,650 | 2,692 |
| Bonds purchased under resale agreements | 490 | 490 | 700 | 640 |
| Others | 4,613 | 4,309 | 4,031 | 3,670 |
| Allowance for possible loan losses | (667) | (704) | (674) | (710) |
| Deferred loan fees and costs | 1 | 33 | 38 | 33 |
| **Total loans** | ₩64,691 | ₩66,457 | ₩69,712 | ₩73,518 |

## Loan Concentrations

We limit our total exposure to any single borrower as required by Korean regulations and pursuant to our internal policies. We determine this limit based on the borrower's credit rating provided by our Credit Analysis System and adjust it if it would otherwise exceed the limit imposed by Korean regulations.

### *Ten Largest Exposures by Borrower*

As of 31 March 2014, our 10 largest exposures totalled ₩7,206.1 billion and accounted for 9.7 per cent. of our total exposures. The following table sets forth our total exposures to these top 10 borrowers as of 31 March 2014.

| | As of 31 March 2014 |
|---|---|
| | (in billions of Won) |
| Hyundai Heavy Industries | ₩1,301.6 |
| Hyundai Engineering & Construction | 1,017.5 |
| Doosan Heavy Industries & Construction | 833.6 |
| Samsung Engineering | 708.5 |
| Hyundai mipo dockyard | 628.4 |
| POSCO Engineering & Construction | 580.5 |
| DAEWOO INTERNATIONAL | 578.9 |
| SK Networks | 559.5 |
| DSME | 512.0 |
| Samsung C&T | 485.6 |
| **Total** | ₩7,206.1 |

### *Exposure to Main Debtor Groups*

As of 31 March 2014, 22.7 per cent. of our total exposure was to the main debtor groups as designated by the FSS. The main debtor groups consist mostly of *Chaebols*. The following table shows, as of 31 March 2014, our total exposure to the 10 *chaebol* groups to which we have the largest exposure.

| | As of 31 March 2014 |
|---|---|
| | (in billions of Won) |
| Hyundai Heavy Industries | ₩2,605.1 |
| SK Corp. | 2,468.1 |
| Hyundai Motor Company | 2,461.8 |
| Samsung | 2,325.0 |
| Doosan Corp. | 1,559.5 |
| POSCO Corp. | 1,557.7 |
| Lotte | 1,170.0 |
| LS | 1,057.0 |
| Hanwha | 844.8 |
| LG | 823.4 |
| **Total** | ₩16,872.40 |

### *Loan Concentration by Industry*

The following tables show, on a separate basis, as of 31 March 2014, the aggregate balances of our total loans by industry concentration. The amounts disclosed are before deferred loan origination fees and loan origination costs.

| Industry | As of 31 March 2014 Aggregate Loan Balance | As of 31 March 2014 Percentage of Loan Balance |
|---|---|---|
| | (In billions of Won) | (In percentages) |
| Corporate loans: | | |
| Manufacturing | ₩21,428 | 28.9% |
| Wholesale and retail | 6,900 | 9.3 |
| Real estate, renting and leasing | 5,498 | 7.4 |
| Financial business | 4,763 | 6.4 |
| Construction | 1,899 | 2.6 |
| Others | 9,790 | 13.2 |
| **Total** | ₩50,278 | 67.8% |
| Individuals and households | 21,226 | 28.6 |
| Credit Card | 2,692 | 3.6 |
| **Total** | ₩74,196 | 100.0% |

### *Loan Concentration by size of loans (retail)*

The following table shows the aggregate balances of our loans to retail customers by outstanding loan amount as of 31 March 2014

| Retail Loans | As of 31 March 2014 Aggregate Loan Balance | As of 31 March 2014 Percentage of Loan Balance |
|---|---|---|
| | (In billions of Won, except percentages) | |
| Up to ₩10 million | ₩376.2 | 1.8% |
| Over ₩10 million to ₩50 million | 2,904.7 | 13.7 |
| Over ₩50 million to ₩100 million | 4,168.7 | 19.5 |
| Over ₩100 million to ₩200 million | 6,401.7 | 30.2 |
| Over ₩200 million to ₩300 million | 3,129.6 | 14.8 |
| Over ₩300 | 4,239.4 | 20.0 |
| Sub-totals | ₩21,220.4 | 100% |

### Maturity Analysis (Loans in Won)

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of 31 March 2014. The amounts disclosed are before deduction of attributable loan loss reserves.

| | As of 31 March 2014 | | | |
|---|---|---|---|---|
| | 1 Year or Less | Over 1 Year but Not More Than 5 years | Over 5 Years | Total |
| | (In billions of Won) | | | |
| Corporate | ₩9,487 | ₩3,974 | ₩1,573 | ₩15,034 |
| SMEs | 11,841 | 2,680 | 564 | 15,085 |
| Retail | 9,795 | 3,324 | 8,082 | 21,201 |
| **Total gross loans** | ₩31,123 | ₩9,978 | ₩10,219 | ₩51,320 |

We may roll over our corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in instalments) after we conduct our normal loan review in accordance with our loan review procedures. Our working capital loans may be extended on an annual basis for an aggregate term of three to five years for unsecured loans and up to five years for secured loans. Facilities loans, which are generally secured, may be extended once for a maximum term of five years from the date when the relevant loan is initially made. Retail loans may be extended for additional terms of up to 12 months for a maximum aggregate of 10 years for both unsecured loans and secured loans.

### Interest Rate Sensitivity (Loans in Won)

The following table shows, on a separate basis, as of 31 March 2014, our loans denominated in Won by interest rate sensitivity.

| | As of 31 March 2014 | | |
|---|---|---|---|
| | Due Within 1 Year | Due After 1 Year | Total |
| | (In billions of Won) | | |
| Fixed rate loans(2) | ₩11,287.4 | ₩2,217.1 | ₩13,504.5 |
| Variable or adjustable rate loans(3) | 23,484.9 | 14,136.4 | 37,621.3 |
| **Total gross loans** | ₩34,772.3 | ₩16,353.5 | ₩51,125.8 |

Notes:

(1) Excludes impaired loans.

(2) Fixed rate loans are loans for which the interest rate is fixed for the entire term.

(3) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term.

For additional information regarding our management of interest rate risk for our loans, see "*Risk Management – Market Risk Management – Market Risk Exposure from Trading Activities*".

### Asset Quality of Loans

#### *Loan Classifications*

The FSC generally requires Korean financial institutions to analyse and classify their assets by quality into one of five categories. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, and the value of any collateral or guarantee taken as security for the extension of credit. This classification method, and our related provisioning policy, is intended to fully reflect the borrower's capacity to repay.

The following is a summary of the asset classification criteria we apply for corporate and retail credits (including credit card receivables) based on the asset classification guidelines of the FSC. Credit card receivables are subject to classification based on the number of days past due, as required by the FSC. We also apply different criteria for other types of credits such as loans to the Government or to government related or controlled entities, certain bills of exchange and certain receivables.

| Asset Classification | Characteristics |
|---|---|
| Normal | Credits to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits. |
| Precautionary | Credits to customers that:<br>• based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk;<br>• are in arrears for one month or more but less than three months; or<br>• have refused to repay their debt instruments within the previous six months. |
| Substandard | Either:<br>• credits to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or<br>• the portion that we expect to collect of total credits (1) extended to customers (including credit card customers) that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding credits that are classified as "doubtful" or "estimated loss". |
| Doubtful | Credits exceeding the amount we expect to collect of total credits to customers that:<br>• based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or<br>• have been in arrears for three months or more but less than 12 months (or, in the case of credit card customers, have been in arrears for three months or more but less than six months). |

| Asset Classification | Characteristics |
| --- | --- |
| Estimated Loss | Credits exceeding the amount we expect to collect of total credits to customers that:<br>• based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay;<br>• have been in arrears for 12 months or more (or, in the case of credit card customers, have been in arrears for six months or more); or<br>• have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business. |

We classify our corporate loans based on the borrower's capacity to repay in consideration of its business operations, financial position and future cash flows, the past due period (if any) of the loans and status of any bankruptcy proceedings in which the borrower is involved. Loans to small companies and to households, however, are classified not by evaluating the debt repayment capability of the borrower but by the past due period (if any) of the loans and the status of any bankruptcy proceedings in which the borrower is involved. We generally classify all credits to a single borrower in the same category of classification, but guaranteed credits or credits secured by bank deposits, real estate or other collateral may be classified differently based on the guarantor's capability to perform under its guarantee or based on the value of collateral securing the credits.

***Loan Loss Provisioning Policy***

We have established an allowance for loan losses to absorb losses that we incur in our loan portfolio.

For loans measured at amortised cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. We first assess whether objective evidence of impairment exists individually for the financial assets that are individually significant.

For financial assets that are not individually significant, we assess whether the objective evidence of impairment exists individually or collectively. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, we include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognised in net income.

*Allowance for possible losses on credits by individual assessment*

Allowance for possible losses on credits is recognised by the difference between the asset's carrying amount and the present value of future cash flows expected to be collected, considering borrower's management performance, financial position, overdue period and mortgage amount.

*Allowance for possible losses on credits by collective assessment*

Allowance for possible losses on credits is recognised by adjusting Probability of Default ("PD") and Loss Given Default from Basel III for the purpose of accounting and applying that to carrying amount. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period and collection period, and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

Similar provisioning requirements apply to other types of credits such as guarantees and acceptances and loans from the trust accounts.

**Allowances for Loan Losses**

***Analysis of Allowance for Loan Losses***

The following table presents an analysis of our loan loss experience for each of the periods indicated.

| | Year ended 31 December | | | Three Months Ended 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won, except percentages) | | | |
| Balance at the beginning of the period[1] | ₩789 | ₩676 | ₩704 | ₩674 |
| Provision for possible loan losses | 499 | 597 | 448 | 141 |
| Total charge-offs | (622) | (496) | (489) | (89) |
| Disposal of loans | (46) | (60) | (35) | – |
| **Total gross charge-offs** | 620 | 717 | 628 | 726 |
| Total Recoveries | 126 | 115 | 121 | 27 |
| **Net charge-offs** | 746 | 832 | 749 | 753 |
| Interest income from impaired loans | (68) | (82) | (68) | (13) |
| Other | (2) | (42) | (7) | (30) |
| **Balance at the end of the period[1]** | ₩676 | ₩708 | ₩674 | ₩710 |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 1.13% | 1.50% | 1.16% | 1.18% |

Note:

(1) Includes allowance related to other assets.

The following table sets forth a summary of our precautionary and substandard and below credits, including guarantees, of the bank and trust accounts, on a separate basis, as of 31 December 2013 and 31 March 2014 as reported to the FSC.

| | As of 31 December 2013 | | As of 31 March 2014 | |
|---|---|---|---|---|
| | Principal Amount | % of Total Credit | Principal Amount | % of Total Credit |
| | (In billions of Won, except percentages) | | | |
| Precautionary | ₩1,274.2 | 1.58% | ₩1,254.3 | 1.48% |
| Substandard and below credits: | | | | |
| Substandard | 657.5 | 0.82% | 622.8 | 0.73% |
| Doubtful | 170.8 | 0.21% | 167.2 | 0.20% |
| Estimated loss | 111.6 | 0.14 | 162.8 | 0.19 |
| **Total** | 2,214.1 | 2.75% | 2,207.1 | 2.60% |
| **Total credits** | ₩80,512.2 | – | ₩85,014.8 | – |
| Credits written-off | ₩491.3 | 0.61% | ₩89.4 | 0.11% |

*Corporate Loans*

We review corporate loans periodically for potential impairment through a formal credit review; however, our loan officers also consider the credits for impairment throughout the year if we receive information that indicates that an impairment event has potentially occurred. The credit rating of the corporate borrower is determined based on exposure type. We make provisions for loan losses based on the higher of (i) provision for loan losses required under the FSS guidelines and (ii) provision for loan losses as determined by us based on an expected loss ratio applicable to each credit rating. Our credit rating system is derived from the Basel Accord.

The following table sets out the asset quality classifications of our corporate loans as a percentage of total outstanding corporate loans at the dates indicated.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In percentages) | | | |
| Normal | 96.5% | 96.5% | 96.7% | 97.0% |
| Precautionary | 2.0 | 2.0 | 1.8 | 1.6 |
| Substandard | 0.7 | 1.0 | 1.1 | 1.0 |
| Doubtful | 0.7 | 0.4 | 0.3 | 0.2 |
| Estimated loss | 0.1% | 0.1% | 0.1% | 0.2% |

*Retail Loans*

The credit rating of retail borrower is determined based on a behaviour scoring system or application scoring system developed by us. We make provisions for loan losses based on the higher of (i) provision for loan losses required under the FSS guidelines and (ii) provision for loan losses as determined by us based on expected loss computed using our scoring system. Our scoring system is derived from the Basel Accord.

*Allocation of Allowance for Loan Losses*

The following table presents the allocation of our loan loss allowance by loan type as of the dates indicated.

| | As of 31 December | | | | | | As of 31 March | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | |
| | Amount | Loans as % of Total Loans | Amount | Loans as % of Total Loans | Amount | Loans as % of Total Loans | Amount | Loans as % of Total Loans |
| | (In billions of Won except percentages) | | | | | | | |
| Corporate . . . . . . . . . . . | ₩524 | 0.81% | ₩537 | 0.81% | ₩527 | 0.75% | ₩553 | 0.75% |
| Retail . . . . . . . . . . . . . . | 26 | 0.04 | 44 | 0.07 | 53 | 0.08 | 63 | 0.08 |
| Card . . . . . . . . . . . . . . . | 68 | 0.11 | 85 | 0.13 | 86 | 0.12 | 94 | 0.13 |
| **Total allowance for loan losses** . . . . . . . . . | ₩618 | 0.96% | ₩666 | 1.00% | ₩667 | 0.95% | ₩710 | 0.96% |

Total allowance for loan losses increased by 7.8 per cent. from ₩618 billion as of 31 December 2011 to ₩666 billion as of 31 December 2012, primarily due to an increase in the allowance for retail loan losses of 69.2 per cent. from ₩26 billion as of 31 December 2011 to ₩44 billion as of 31 December 2012, which was primarily related to the downturn in the real estate market in Korea.

Total allowance for loan losses increased by 0.2 per cent. from ₩666 billion as of 31 December 2012 to ₩667 billion as of 31 December 2013 primarily due to the decrease in our precautionary credits.

Our total allowance for loan losses increased by 6.4 per cent. from ₩667 billion as of 31 December 2013 to ₩710 billion as of 31 March 2014, which was primarily related to our increase in total assets.

*Loan Aging Schedule*

The following table shows our loan aging schedule, excluding accrued interest and before allowance for loan losses and net deferred loan fees and costs, for all loans as of the dates indicated.

| | Current | | Past Due up to 3 Months | | Past Due 3 to 6 Months | | Past Due More than 6 Months | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount |
| | (In billions of Won, except percentages) | | | | | | | | |
| As of: | | | | | | | | | |
| 31 December 2011 . . | ₩64,916 | 99.3% | ₩271 | 0.4% | ₩67 | 0.1% | ₩104 | 0.2% | ₩65,358 |
| 31 December 2012 . . | 64,762 | 99.2 | 173 | 0.3 | 115 | 0.2 | 204 | 0.3 | 65,254 |
| 31 December 2013 . . | 69,971 | 99.5 | 145.9 | 0.2 | 61.4 | 0.1 | 169.7 | 0.2 | 70,348 |
| 31 March 2014 . . . . | ₩73,788 | 99.5% | ₩173.3 | 0.2% | ₩84.6 | 0.1% | ₩150.2 | 0.2% | ₩74,196 |

## Credit Exposures to Companies in Workout and Court Receivership

Our exposures in restructuring are managed and collected by our credit group. As of 31 December 2011, 2012 and 2013, 2.9 per cent., 1.5 per cent. and 2.0 per cent of our total exposure, respectively, or ₩1,870 billion, ₩1,026 billion and ₩1,388.2 billion was under restructuring, respectively. As of 31 March 2014, 1.9 per cent. of our total exposure, or ₩1,373.5 billion, was under restructuring. The legal form of restructurings in Korea is principally either workout or court receivership.

## Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. These loans are generally rated "substandard" or below under the FSC guidelines.

The following table shows, as of the dates indicated, certain details of the total non-performing loan portfolio.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won, except percentages) | | | |
| Total non-performing loans[1] | ₩1,124 | ₩1,111 | ₩1,281 | ₩1,216 |
| As a percentage of total loans | 1.53% | 1.46 % | 1.82% | 1.64% |

Note:

(1) Consist of loans that are impaired, which are presented in K-IFRS.

The following tables set forth, for the dates indicated, the total non-performing loans by type of borrower.

| | As of 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Total Loans | Non-Performing Loans[1] | Ratio of Non-Performing Loans | Total Loans | Non-Performing Loans[1] | Ratio of Non-Performing Loans | Total Loans | Non-Performing Loans[1] | Ratio of Non-Performing Loans |
| | (In billions of Won, except percentages) | | | | | | | | |
| Corporate | ₩39,732 | ₩ 931 | 2.34% | ₩38,084 | ₩ 916 | 2.41% | ₩45,752 | ₩1,084 | 2.37% |
| Retail | 19,742 | 53 | 0.27 | 21,392 | 93 | 0.43 | 21,946 | 135 | 0.62 |
| Card | 2,563 | 49 | 1.91 | 2,661 | 59 | 2.22 | 2,650 | 62 | 2.34 |
| **Total** | ₩62,037 | ₩1,033 | 1.66% | ₩62,137 | ₩1,068 | 1.72% | ₩70,348 | ₩1,281 | 1.82% |

Note:

(1) Consist of loans that are impaired, which are presented in K-IFRS.

| | As of 31 March | | |
|---|---|---|---|
| | 2014 | | |
| | Total Loans | Non-Performing Loans[1] | Ratio of Non-Performing Loans |
| | (In billions of Won, except percentages) | | |
| Corporate | ₩50,278 | ₩1,029 | 2.05% |
| Retail | 21,226 | 122 | 0.57 |
| Card | 2,692 | 65 | 2.41 |
| **Total** | ₩74,196 | ₩1,216 | 1.64% |

Note:

(1) Consist of loans that are impaired, which are presented in K-IFRS.

### *10 Largest Non-Performing Loans*

As of 31 March 2014, our 10 largest non-performing loans accounted for 44.9 per cent. of our total non-performing loan portfolio. The following table shows, as of 31 March 2014, certain information regarding our 10 largest non-performing loans.

| | | As of 31 March 2014 | |
|---|---|---|---|
| **Borrower** | **Industry** | **Gross Principal Outstanding** | **Allowance for Loan Losses** |
| | | (In billions of Won) | |
| 1 | Construction | ₩84 | ₩53.8 |
| 2 | Real estate leasing | 40 | 7.5 |
| 3 | Construction | 38 | 6 |
| 4 | Cement | 23 | 10.2 |
| 5 | Transportation industry | 22 | 15.3 |
| 6 | Transportation industry | 19 | 5.2 |
| 7 | Construction | 16 | 10.5 |
| 8 | Construction | 15 | 3 |
| 9 | Transportation industry | 14 | 0.3 |
| 10 | Real estate leasing | 12 | 2.5 |
| | **Total** | ₩283 | ₩114.3 |

### *Sales of Non-Performing Loans*

We have also issued securities backed by non-performing loans and other assets through special purpose companies. Some of these transactions involved transfers of loans in connection with asset securitisations. The assets are not included in our balance sheet as these transactions are classified as sold under K-IFRS.

We sell non-performing loans to savings banks and the Korea Asset Management Corporation. The aggregate principal amounts of non-performing loans sold in connection with asset securitisation transactions were ₩168 billion, ₩69 billion and ₩261 billion for 2011, 2012 and 2013, respectively, and ₩95 billion and ₩86 billion for the three months ended 31 March 2013 and 2014, respectively.

### *Non-Performing Loan Strategy*

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, we have reduced our credit risk relating to future non-performing loans. Our credit rating system is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans.

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence of the borrower's assets, send a notice demanding payment or a notice that we will take legal action or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

- on a limited basis, identifying commercial loans subject to normalisation efforts based on the cash flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts on non-performing loans are handled by several of our departments or units, depending on the nature of such loans and of the borrower.

The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

- making phone calls and paying visits to the borrower requesting payment;

- continuing to assess and evaluate assets of our borrowers; and

- if necessary, initiating legal action such as foreclosures, attachments and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to the relevant unit at headquarters or regional headquarters.

*Foreclosure and Collateral*

Generally when a non-performing loan becomes overdue for more than three months, we foreclose on mortgages or exercise our security interests in respect of other collateral. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will typically be lowered by 20.0 per cent. Korean law does not provide for non-judicial foreclosure.

Korean financial institutions, including us, maintain general policies to assess a potential customer's eligibility for loans based on that entity's credit quality, rather than requiring a particular level of collateral, especially in the case of large corporate borrowers. As a result, the ratio of our collateral to non-performing corporate loans is relatively low when compared with our total exposures. For secured household loans, however, we generally impose limits on loan amounts based on the collateral we receive.

We reflect this collateral level when we estimate the future cash flow for our loans, which we calculate using a discounted cash flow method. With respect to loans to borrowers that we do not believe will be going concerns in the future, the lower collateral ratio has a direct effect on cash flow estimates and results in a higher level of allowances. With respect to loans to borrowers that we expect to be going concerns, the lower collateral ratio has an effect on cash flow estimates, but we also consider other factors, including future operating income and future asset disposals and restructuring, in determining allowance levels. Accordingly, for these latter borrowers, the effect of lower collateral levels on allowances is mitigated by other characteristics of the borrower, and that lower collateral level will not necessarily result in a higher level of allowances.

***Loan Charge-Offs***

Our level of gross charge-offs was ₩620 billion, ₩717 billion and ₩491.3 billion for 2011, 2012 and 2013, respectively, and ₩99.7 billion and ₩89.4 billion for the three months ended 31 March 2013 and 2014, respectively.

*Basic Principles*

We attempt to minimise loans to be charged-off, by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans.

*Loans To Be Charged-Off*

Loans are charged-off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means; or
- the portion of loans classified as "estimated loss", net of any recovery from collateral, which is deemed to be uncollectible.

*Procedure for Charge-Offs*

All applications for our loan charge-off are submitted to our credit group, whether they are corporate loans or individual loans. Such applications for charge-off are generally submitted immediately after the relevant loan becomes one month past due, which our credit group will then evaluate. Once loans are charged-off, they are derecognised from our balance sheet.

**Credit Portfolio**

***Credit Types***

The following table sets forth, as of the dates indicated, our credit portfolio, which consists principally of the following:

- loans net of present value discounts and excluding certain items, principally interbank loans, call loans and securities purchased under resale agreements; and
- certain other items, principally merchant bank credits and suspense receivables.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| Loans in Korean won | ₩43,349 | ₩47,169 | ₩49,423 | ₩51,134 |
| Loans denominated in foreign currencies | 7,288 | 6,149 | 6,459 | 8,192 |
| Bills purchased denominated in foreign currencies | 4,433 | 4,508 | 5,589 | 6,437 |
| Privately-placed corporate bonds | 485 | 436 | 297 | 367 |
| Merchant banking loans | 797 | 450 | 154 | 106 |
| Installment receivables purchased | 825 | 1,340 | 1,269 | 713 |
| Advance payments on acceptances and guarantees | 6 | 15 | 7 | 8 |
| **Total loans** | ₩57,183 | ₩60,067 | ₩63,198 | ₩66,957 |
| Other credits: | | | | |
| Guarantees and acceptances | 10,056 | 11,042 | 12,550 | 10,460 |
| Suspense receivables as credit | 13 | 7 | 14 | 14 |
| **Total credits** | ₩67,252 | ₩71,116 | ₩75,762 | ₩77,431 |

### *Substandard or Below Credits*

Substandard or below credits are defined as those credits that are classified as substandard or below based on the FSC's asset classification criteria. See "– *Asset Quality of Loans – Loan Classifications*".

The following table shows, for the dates indicated, certain details regarding the asset quality of our credits, net of present value discounts, including our substandard or below credits, as reported to the FSC.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won, except percentages) | | | |
| Normal | ₩71,156 | ₩74,064 | ₩78,298.1 | ₩82,807.7 |
| Precautionary | 1,086 | 1,315 | 1,274.2 | 1,254.3 |
| Substandard | 399 | 542 | 657.5 | 622.8 |
| Doubtful | 405 | 241 | 170.8 | 167.2 |
| Estimated loss | 62 | 108 | 111.6 | 162.8 |
| **Total credits** | ₩73,108 | ₩76,271 | ₩80,512.2 | ₩85,014.8 |
| Total substandard or below credits | 866 | 891 | 939.9 | 952.8 |
| Precautionary and substandard or below credits | 1,952 | 2,207 | 2,214.1 | 2,207.1 |
| Allowance for credit losses | ₩1,257 | ₩1,279 | ₩1,247.0 | ₩1,295.3 |
| Substandard or below credits as a percentage of total credits | 1.18% | 1.17% | 1.17% | 1.12% |
| Precautionary and substandard or below credits as a percentage of total credits | 2.67% | 2.89% | 2.75% | 2.60% |
| Allowance for credit losses as a percentage of substandard or below credits | 145.1% | 143.5% | 132.68% | 135.95% |
| Allowance for credit losses as a percentage of total credits | 1.7% | 1.7% | 1.55% | 1.52% |

Note:

(1) Allowance for credit losses consists of allowance for loan losses, allowance for suspense receivables, allowance for acceptances and guarantees.

## Assets and Liabilities of the Trust Accounts

Under Korean law, assets accepted in our trust accounts are segregated from our other assets and are not available to satisfy the claims of our depositors or other creditors. Accordingly, our trust assets and liabilities are accounted for and reported separately from our bank accounts.

The following table sets forth the assets and liabilities of our trust accounts as of the dates indicated.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| **Assets:** | | | | |
| Cash and deposits | ₩1,620 | ₩2,275 | ₩2,730 | ₩2,936 |
| Securities[(1)] | 12,573 | 5,703 | 5,164 | 5,543 |
| Loans | 108 | 101 | 47 | 45 |
| Monetary claims for collection | 5,270 | 10,301 | 15,444 | 16,477 |
| Real property in trust | 2,342 | 2,685 | 3,515 | 3,087 |
| Others | 2,647 | 2,902 | 3,416 | 3,581 |
| Total assets | ₩24,560 | ₩23,967 | ₩30,316 | ₩31,669 |
| **Liabilities:** | | | | |
| Money trusts | ₩16,791 | ₩10,746 | ₩11,116 | ₩11,809 |
| Property trusts | 7,663 | 13,091 | 19,057 | 19,702 |
| Others | 106 | 130 | 143 | 158 |
| Total liabilities | ₩24,560 | ₩23,967 | ₩30,316 | ₩31,669 |

Note:

(1) Securities consists of stocks, government securities, finance debentures, corporate bonds, securities in foreign currency, bills bought and other securities.

Loans made by trust accounts are similar in type to those made by the Bank's bank accounts, except that they are made only in Won. As of 31 December 2011, 2012 and 2013, and 31 March 2014 approximately 42.2%, 38.5%, 47.2% and 44.0%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed.

We provide guarantees as to principal for pension-type money trusts. As of 31 March 2014, the aggregate amount of money trusts guaranteed as to principal was ₩654.3 billion or 5.5 per cent. of our total money trust.

Monetary claims in trust constitute the largest item of liabilities from our trust accounts, accounting for 51.1 per cent. and 52.3 per cent. of our total liabilities from trust accounts as of 31 December 2013 and 31 March 2014, respectively.

**Investment Portfolio**

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

In making securities investments, we take into account a number of factors, including macroeconomic trends, industry analysis and evaluation of credit.

Our investments in securities are also subject to a number of guidelines, including limitations prescribed under the Banking Act. Under these regulations, we must limit our investments in shares and securities with a maturity in excess of three years (other than monetary stabilisation bonds issued by the Bank of Korea, national government bonds and government guaranteed bonds) to 60.0 per cent. of our total Tier I and Tier II capital. Generally, we are also prohibited from acquiring more than 15.0 per cent. of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in "*Regulation and Supervision*".

***Securities Classifications***

The classification guidelines and methods of valuation for securities are as follows:

| Classification | Valuation Method |
|---|---|
| *Financial assets at FVTPL* . . . . | Financial assets at fair value through profit or loss ("**FVTPL**") are stated at fair value, with any gains or losses arising on remeasurement recognised in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognised in net income in the period incurred. |
| *AFS financial assets* . . . . . . . . . | Non-derivative financial assets that are not classified as at held to maturity, held-for-trading designated as at FVTPL, or loans and receivables, are classified as available-for-sale ("**AFS**") financial assets. AFS financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in net income. Unquoted equity investments for which fair values cannot be measured reliably are carried at cost. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income. Dividends on AFS equity instruments are recognised in net income when our right to receive the dividends is established. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The AFS non-monetary assets measured at the amortised cost are translated at the exchange rate on the trade date, while assets measured at the fair value are translated at the exchange rate on the date when the fair value is determined. |
| *Held-to-maturity investments* . . . | Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that we have the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any impairment, with revenue recognised on an effective yield basis. |

| Classification | Valuation Method |
|---|---|
| *Loans and receivables* | Non-derivative financial assets whose payment amounts are already determined or determinable and whose prices are not announced in the public market are categorised as loans and receivables. We categorise loan credits, deposits and rental deposits as loans and receivables. We measure loans and receivables by subtracting provision for credit losses from the amortised cost of such loans and receivables (calculated using the effective interest rate method). Interest income is calculated using the effective interest rate method, not taking into account short-term receivables, the effect of which on interest income is negligible. |

Privately-placed commercial paper, privately-placed corporate bonds and guaranteed notes are not subject to the above valuation method. Instead, they are classified as loans and are subject to the corresponding loan loss provisioning method.

***Book Value***

The following table sets out the book value of securities in our investment portfolio as of the dates indicated.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| **Available for sale:** | | | | |
| Equity securities | ₩621 | ₩463 | ₩853 | ₩622 |
| Investment in partnership | 27 | 52 | 52 | 53 |
| Government and public bonds | 280 | 1,299 | 1,968 | 3,322 |
| Finance bonds | 3,806 | 2,958 | 2,681 | 3,008 |
| Corporate and other bonds | 1,101 | 1,797 | 3,006 | 2,257 |
| Beneficiary Certificates | – | 1 | 5 | 5 |
| Securities denominated in foreign currencies | 154 | 362 | 583 | 795 |
| Other securities | 66 | 37 | 8 | 13 |
| **Sub-total** | ₩6,055 | ₩6,969 | ₩9,156 | ₩10,075 |
| **Held to Maturity:** | | | | |
| Government and public bonds | 751 | 663 | 530 | 339 |
| Finance bonds | 3,701 | 3,303 | 1,053 | 663 |
| Corporate and other bonds | 803 | 1,021 | 583 | 432 |
| Securities denominated in foreign currencies | 78 | 31 | 30 | 30 |
| **Sub-total** | ₩5,333 | ₩5,018 | ₩2,196 | ₩1,464 |
| **Trading:** | | | | |
| Stocks | 20 | 21 | 13 | 38 |
| Debt securities: | | | | |
| Government and public bonds | 16 | – | 39 | 70 |
| Financial bonds | 370 | 101 | 160 | 30 |
| Securities denominated in foreign currencies | 4 | – | 39 | 63 |
| **Sub-total** | ₩410 | ₩122 | ₩251 | ₩201 |
| **Total Securities**[(1)] | ₩11,798 | ₩12,109 | ₩11,603 | ₩11,740 |

Note:

(1) Excluding investment stocks using the equity method.

*Maturity Analysis*

The following table categorises our securities (carrying amount) by maturity as of 31 March 2014.

| | As of 31 March 2014 | | | | |
|---|---|---|---|---|---|
| | Within 1 year | Over 1 but within 5 years | Over 5 but within 10 years | Over 10 years | Total |
| | (In billions of Won) | | | | |
| **Securities available for sale:**[1] | | | | | |
| Government and public bonds | ₩438 | ₩2,885 | – | – | ₩3,323 |
| Finance bonds | 1,228 | 1,731 | 49 | – | 3,008 |
| Corporate and other bonds | 336 | 1,891 | 30 | – | 2,257 |
| Bonds denominated in foreign currencies | 139 | 635 | 12 | – | 786 |
| **Total** | ₩2,141 | ₩7,142 | ₩91 | – | ₩9,374 |
| **Held-to-maturity securities:** | | | | | |
| Government and public bonds | ₩271 | ₩68 | – | – | ₩339 |
| Finance bonds | 520 | 21 | 122 | – | 663 |
| Corporate and other bonds | 392 | 20 | 20 | – | 432 |
| Bonds denominated in foreign currencies | 1 | 29 | 0 | – | 30 |
| **Total** | ₩1,184 | ₩138 | ₩142 | – | ₩1,464 |

Note:

(1) Includes only bonds on securities available for sale.

*Concentrations of Risk*

We held no securities of individual issuers where the aggregate book value of those securities exceeded 10 per cent. of our stockholders' equity as of 31 March 2014.

**Commitments and Guarantees**

In the normal course of our operations, we make various commitments and guarantees to meet the financing and other business needs of our customers. Commitments and guarantees are usually in the form of, among others, payment guarantees for issuance of debentures, letters of guarantee for importers, commercial letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss that would occur if the counterparty were to draw down the commitment or we were to fulfil our obligation under the guarantee and the counterparty were to fail to perform under the contract.

The following table sets forth our credit-related commitments and guarantees as of the dates indicated.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In billions of Won) | | | |
| **Financial acceptances and guarantees in Won:** | | | | |
| Payment guarantee for issuance of debentures | ₩5 | ₩0 | – | – |
| Payment guarantee for loans | 70 | 87 | 100 | 116 |
| Others | 4 | 26 | 15 | 15 |
| **Financial acceptances and guarantees denominated in foreign currencies** | 541 | 619 | 1,051 | 1,306 |
| **Confirmed acceptances and guarantees in Won** | 1,090 | 1,553 | 1,483 | 1,430 |
| **Confirmed acceptances and guarantees in foreign currencies:** | | | | |
| Acceptances on letters of credit | 499 | 541 | 385 | 491 |
| Acceptances on letters of guarantee for importers | 80 | 98 | 90 | 78 |
| Others | 7,735 | 8,092 | 9,426 | 9,891 |
| **Contingent acceptances and guarantees:** | | | | |
| Letters of credit | 4,058 | 3,836 | 3,935 | 4,088 |
| Others | 196 | 34 | 40 | 52 |
| **Bills endorsed** | 33 | 26 | 47 | 45 |
| **Total** | ₩14,310 | ₩14,912 | ₩16,572 | ₩17,512 |

We have credit-related commitments that are not reflected on the balance sheet, which primarily consist of commitments to extend credit and letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorisations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments.

Commercial letters of credit are undertakings on behalf of customers authorising third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralised by the underlying shipments of goods to which they relate and therefore have less risk.

Other financial and performance guarantees are irrevocable promises to make payments to beneficiaries in the event that our customers fail to fulfil their obligations or to perform under certain contracts. Liquidity facilities to special purpose entities ("**SPEs**") represent irrevocable commitments to provide contingent liquidity credit lines to SPEs established by our customers in the event that a triggering event such as shortage of cash occurs.

The commitments and guarantees do not necessarily represent our exposure since they often expire unused.

### Derivatives

We engage in derivatives trading activities primarily on behalf of our customers so that they may hedge their risks and also enter into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, we enter into derivatives transactions to hedge against risk exposures arising from our own assets and liabilities.

The following table shows, as of 31 December 2013 and 31 March 2014, the gross notional or contractual amounts of derivatives held or issued by us.

| | As of 31 December 2013 | | | As of 31 March 2014 | | |
|---|---|---|---|---|---|---|
| | Underlying Notional Amount | Estimated Fair Value Assets | Estimated Fair Value Liabilities | Underlying Notional Amount | Estimated Fair Value Assets | Estimated Fair Value Liabilities |
| | (In billions of Won) | | | | | |
| **Foreign exchange contracts:** | | | | | | |
| Forward contracts | ₩40,670 | ₩582 | ₩50 | ₩42,499 | ₩187 | ₩156 |
| Futures bought | 145 | – | – | 18,116 | 87 | 131 |
| Options purchased | 1,593 | 11 | 10 | 1,900 | 1 | 11 |
| Options written | 2,118 | 13 | 10 | 2,506 | 11 | 1 |
| Swaps | 18,826 | 251 | 329 | 514 | – | – |
| **Sub-total** | ₩63,352 | ₩856 | ₩850 | ₩65,534 | ₩286 | ₩298 |
| **Interest rate contracts:** | | | | | | |
| Futures bought | 494 | – | – | 47,305 | 41 | 47 |
| Options purchased | 690 | 1 | 1 | 690 | 0 | 1 |
| Options written | 1,325 | 1 | 1 | 1,425 | 1 | 0 |
| Swaps | 47,541 | 62 | 59 | 1,079 | – | – |
| **Sub-total** | ₩50,050 | ₩64 | ₩61 | ₩50,500 | ₩43 | ₩48 |
| **Stock Price index contracts:** | | | | | | |
| Futures bought | 25 | – | – | 38 | – | – |
| Stock index options purchased | 6 | 0 | 1 | 13 | – | 1 |
| Stock index option written | 477 | 0 | 0 | 339 | 1 | 0 |
| **Sub-total** | ₩508 | ₩0 | ₩0 | ₩390 | ₩1 | ₩1 |
| **Other derivatives:** | | | | | | |
| Deferred gain on valuation of derivatives | – | – | – | – | – | – |
| Deferred loss on valuation of derivatives | – | – | – | – | – | – |
| Credit spread adjustment | – | – | 3 | – | 2 | – |
| Bid-Ask spread adjustment | – | 1 | – | – | 1 | – |
| **Sub-total** | – | ₩1 | ₩3 | – | ₩3 | – |
| **Total** | ₩113,910 | ₩921 | ₩914 | ₩116,425 | ₩333 | ₩347 |

## Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. The following tables show the average balances of our deposits and the average rates paid on our deposits, on a separate basis, for the periods indicated.

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | Average Balance | Average rate paid | Average Balance | Average rate paid | Average Balance | Average rate paid |
| | (In billions of Won, except percentages) | | | | | |
| Demand deposits in Korean Won | ₩15,622 | 0.8% | ₩15,893 | 0.9% | ₩17,071 | 0.7% |
| Time deposits in Korean Won | 31,032 | 3.8 | 32,078 | 3.8 | 32,864 | 3.1 |
| Demand deposits in foreign currency | 7,884 | 0.2 | 9,826 | 0.2 | 9,826 | 0.1 |
| Time deposits in foreign currency | 4,298 | 1.0 | 4,599 | 1.2 | 4,564 | 1.0 |
| Mutual instalment deposits | 29 | 2.9 | 21 | 2.9 | 17 | 2.7 |
| Certificates of deposits | 629 | 3.9 | 114 | 3.1 | 278 | 2.3 |
| Total | ₩59,495 | 2.3% | ₩62,532 | 2.3% | ₩64,620 | 1.9% |

| | Three Months Ended 31 March | | | |
|---|---|---|---|---|
| | 2013 | | 2014 | |
| | Average Balance | Average rate paid | Average Balance | Average rate paid |
| | (In billions of Won, except percentages) | | | |
| Demand deposits in Korean Won | ₩16,749 | 0.8% | ₩18,131 | 0.7% |
| Time deposits in Korean Won | 32,702 | 3.4 | 33,163 | 2.8 |
| Demand deposits in foreign currency | 9,436 | 0.1 | 10,076 | 0.1 |
| Time deposits in foreign currency | 4,394 | 1.1 | 4,586 | 0.8 |
| Mutual instalment deposits | 18 | 2.8 | 15 | 2.6 |
| Certificates of deposits | 182 | 2.4 | 271 | 2.2 |
| Total | ₩63,481 | 2.0% | ₩66,242 | 1.7% |

### *Maturities of Deposits*

The following table presents, as of 31 March 2014, the remaining maturities of our deposits.

| | As of 31 March 2014 | | | | |
|---|---|---|---|---|---|
| | Within 3 months or less | After 3 but within 12 months | After 12 months but within 5 years | After 5 years | Total |
| | (In billions of Won) | | | | |
| **Deposits** | ₩47,467 | ₩23,195 | ₩2,062 | ₩274 | ₩72,998 |

### Return on Equity and Assets

The following table shows our profitability and other return-related ratios, on a separate basis, for the periods indicated.

| | Year Ended 31 December | | | Three Months Ended 31 March | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 | 2014 |
| | (In percentages) | | | | |
| Net income as a percentage of: | | | | | |
| Average total assets(1) | 1.50% | 0.61% | 0.3% | 0.05% | 0.16% |
| Average shareholders' equity(1) | 17.72 | 7.46 | 3.76 | 0.68 | 1.98 |
| Dividend payout ratio(2) | 59.96 | 5.10 | 21.48 | 0 | 0 |
| Cost-to-average assets ratio(3) | 1.44 | 1.46 | 1.42 | 1.44 | 1.28 |
| Won loans (gross) as a percentage of Won deposits | 89.8% | 94.8% | 98.8% | 96.6% | 99% |
| Total loans (gross) as a percentage of total deposits | 104.5% | 104.6% | 107.0% | 110.6% | 110.8% |
| Equity to asset ratio(4) | 8.46% | 8.12% | 8.16% | 8.08% | 8.19% |

Notes:

(1) Calculated by FSS standard.

(2) Represents the ratio of total dividends declared on common stock as a percentage of net income.

(3) Represents the ratio of general and administrative expense to average total assets.

(4) Represents the ratio of average shareholders' equity to average total assets.

### Capital Adequacy Ratio

The following table sets forth a summary of our capital adequacy ratios, on a consolidated basis, as of 31 December 2011, 2012, 2013, and as of 31 March 2014.

| | As of 31 December | | | As of 31 March |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (In percentages) | | | |
| Total capital adequacy (BIS) ratio(1) | 14.48% | 13.59% | 13.83% | 13.37% |
| Tier I capital adequacy ratio(1) | 11.95% | 11.06% | 11.66% | 11.33% |
| Tier II capital adequacy ratio(1) | 2.53% | 2.53% | 2.17% | 2.04% |

Note:

(1) Computed on a consolidated basis pursuant to the guidelines of the FSC.

### Short-term Borrowings

The following tables present information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

| | As of 31 December | | | | | | As of 31 March | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | |
| | Balance Outstanding | Interest Rate | Balance Outstanding | Interest Rate | Balance Outstanding | Interest Rate | Balance Outstanding | Interest Rate |
| | ((In billions of Won, except percentages) | | | | | | | |
| **Borrowing in Korean Won:** | | | | | | | | |
| Borrowings from Bank of Korea | ₩396 | 1.44% | ₩545 | 1.25% | ₩200 | 0.50~ 1.00% | ₩564 | 0.50~ 1.00% |
| Borrowings from government | 457 | 0.86~ 4.20% | 928 | 0.00~ 4.00% | 1,292 | 0.00~ 3.65% | 1,362 | 0.00~ 3.10% |
| Other borrowings | 280 | 2.00~ 3.75% | 221 | 1.39~ 3.84% | 154 | 1.00~ 5.05% | 151 | 0.75~ 5.40% |
| **Sub total** | ₩1,133 | – | ₩1,694 | – | ₩1,646 | – | ₩2,077 | – |
| **Borrowing in foreign currencies:** | | | | | | | | |
| Bank overdrafts | 202 | 1.83~ 15.75% | 181 | 1.83~ 15.75% | 206 | 1.83~ 15.75% | 231 | 0.70~ 16.28% |
| Other borrowings | 6,603 | 0.00~ 2.62% | 4,493 | 0.41~ 5.81% | 3,902 | 0.69~ 5.77% | 5,021 | 0.40~ 5.75% |
| **Sub total** | ₩6,805 | – | ₩4,674 | – | ₩4,108 | – | ₩5,252 | – |
| **Call money:** | | | | | | | | |
| Call money in foreign currencies | 1,122 | 0.53~ 0.94% | 136 | 0.34~ 1.10% | 683 | 0.32~ 0.55% | 966 | 0.18~ 0.42% |
| Call money in Won | – | – | – | – | – | – | 154 | 2.45~ 2.47% |
| **Sub total** | ₩1,122 | – | ₩136 | – | ₩683 | – | ₩1,120 | – |
| Bonds sold under repurchase agreement | 23 | 3.70~ 3.95% | 0 | 3.70~ 3.95% | 0 | 3.70~ 3.95% | 0 | 3.70~ 3.95% |
| Bills sold | 92 | 2.81% | 58 | 2.00~ 3.78% | 84 | 2.04~ 2.95% | 96 | 1.75~ 2.81% |
| **Total** | ₩9,175 | – | ₩6,562 | – | ₩6,521 | – | ₩8,545 | – |

## RISK MANAGEMENT

### Overview

We believe that effective risk management is crucial to our strategy.

Our lending and trading businesses, our deposit-taking activities and our operating environment expose us to various risks. Our risk management goal is to understand, measure and monitor these risks and to ensure that all of our employees (including members of our regular staff and contract-based employees) strictly adhere to the policies and procedures that we establish. We seek to take a conservative approach to risk management in order to better insulate our operations from adverse events.

Our Risk Management Committee is ultimately responsible for our risk management. It provides board-level direction regarding risk management strategies and policies to the risk management bodies that are subordinate to it. Our Risk Management Committee is comprised of our president and the chairman and three non-standing members of our board of directors. Our Risk Management Committee measures and monitors the various risks faced by us and reports to our board of directors regarding decisions that it makes on risk management issues. It also makes strategic decisions regarding our operations, such as allocating credit risk, market risk and other risk limits and reviewing the whether the degree of risk is appropriate.

Our Risk Management Steering Committee, which reports directly to the Risk Management Committee and our president and chief executive officer, implements the execution of these strategies and policies. This committee works with our Risk Management Department and, based on actual results, may further risk limit of sectors, adjust risk limits of our business units. This committee also oversees the early warning system for risks and, at an operational level, develops the implementation of new risk management methodologies and risk management systems.

Our Risk Management Department is divided into three different units to directly implement and ensure compliance with our risk policies and guidelines at an operational level. They monitor market-related risk (which includes market risk, liquidity risk and interest rate risk), credit risk and operational risk, on a regular basis and make monthly reports to the Risk Management Steering Committee and quarterly reports to the Risk Management Committee. We have an independent Credit Risk Team for credit risk management.

Our Loan Committee is charged with administration of loan policy, credit risk management and credit evaluation policy.

Our Credit Policy Division is responsible for planning our credit policy, analysing the different industries to which we lend, performing technical surveys of our risk management system, developing and overseeing our comprehensive loan support system and supporting our Loan Committee.

Our Credit Approval Division is responsible for monitoring a borrower's affiliates or related parties and the condition of a borrower's industry, conducting business analysis of a particular borrower, and evaluation and approval of loans, including loans with respect to our private banking customers. This division also monitors our credit exposures on a monthly basis and focuses on managing outstanding loans to ensure smooth repayment after they have been approved and disbursed.

### Credit Risk Management

Our credit risk management policy objectives are to improve our asset quality, reduce our nonperforming loans and minimise our concentration risk through a diversified, balanced and risk-weighted loan portfolio. Since 1999, we have, with the assistance of several external consultants, developed and implemented a centralised credit risk management system using the Credit Risk Model with respect to our value at risk ("**VaR**") calculations. This system quantifies credit risk by calculating the default and recovery rates for each borrower and standard deviation of default, as well as taking into account macro-economic factors. We believe that our credit risk management system is a systematic and efficient credit VaR measurement system, and we have expedited our loan review process and improved our ability to monitor and evaluate our overall risk profile by using this system. As a result, we have also been able to allocate our risk capital more efficiently, calculate risk adjusted return on capital more effectively and evaluate in more detail the performance of our loans or investments.

We use our Credit Rating System ("**CRS**") system to evaluate and approve new credit and to review and monitor outstanding credit. We conduct various quantitative and qualitative analyses to establish acceptable risk levels that provide what we believe are appropriate levels of return on investments. Our CRS system integrates various data, including customers' financial and economic condition, limits on loans and guarantee amounts, cash flow evaluations, collateral levels, our desired profit margin and the likelihood of unexpected loan losses. We then use such data to perform roll-rate vintage analysis to make forecasts on delinquency ratios and possible triggers for our early warning system. We also perform a comprehensive analysis on loan size, delinquency ratio and recovery ratio to better adjust our core risk management techniques and create the basis for a more advanced monitoring system for our loans.

## Credit Evaluation and Approval

We evaluate the credit of every loan applicant and guarantor before approving any loans and applicants (other than the applicants who provide security over their deposits) receive internal credit ratings through our CRS system. The evaluation and approval process differs depending on whether the loan is a corporate loan, a general household retail loan or a mortgage loan, and there is a separate process for credit card applications and credit card loans.

In 1995, we introduced the CRS system to evaluate credit in connection with corporate loans. In the decade since its introduction, we have regularly improved and updated the CRS system. Starting in January 2008, we implemented new BIS standards.

### *Corporate Loan Approval Process*

Each of our branches reviews corporate loan applications using a credit evaluation system for corporate borrowers. Our corporate credit evaluation system measures various quantitative and qualitative factors. The model used by the credit evaluation system to review an application depends, however, on certain characteristics of the potential borrower. We have developed separate credit evaluation models for large corporate borrowers and SME borrowers.

In general, each model uses scores from both a computerised evaluation of quantitative financial factors, such as cash flow and income, and more qualitative factors which are scored using judgements by the credit officer or officers reviewing the application to produce an overall credit risk rating. These credit evaluation systems provide us with tools to make consistent credit decisions and assist them in making risk-based pricing decisions.

### *Retail Loan and Credit Card Approval Process*

We use a standardised Credit Scoring System ("**CSS**") which evaluates and approves retail loan applications by reviewing the applicant's personal details, income level, profession, details of his or her assets and transaction history. Under this system, there are two different evaluation methods: Application Scoring ("**AS**") and Behavioural Scoring ("**BS**"). We evaluate all new retail loan applications using the above systems except for loan application for which a deposit in our bank is provided as security. Both the AS and BS methods employ scoring systems ranging from 1 to 15. We also factor in the credit ratings of external rating agencies. Loan applications for amounts up to ₩100 million are subject to the automated CSS approval system. However, an applicant whose loan application has been rejected by the CSS can ask for his application to be reviewed by a member of our loan approval team.

In order to centralise and make more consistent the evaluation and approval of retail loan applications, our branches are no longer authorised to unilaterally approve such applications. Since July 2006, such applications have been now referred to two specialised teams which evaluate such applications depending on the size of the loan.

With respect to new credit card loans and approval of new credit card applicants, we use a credit underwriting system, called the Application Scoring System 88. This system takes into account information provided by the applicants on their credit card applications, together with information on the applicants' outstanding credit exposure and payment history obtained from external databases maintained by the Korea Federation of Banks, Korea Credit Bureau and a consortium of five Korean credit card providers.

We also monitor and review the creditworthiness of cardholders on an on-going basis, primarily utilising a risk assessment system called TRIAD. TRIAD combines advanced behavioural scoring with a powerful adaptive control system to create actionable data. We believe the data derived by the TRIAD system allows us to make more informed credit risk decisions. TRIAD's "challenger" feature also allows us to develop and test risk management strategies on smaller segments of customer accounts, enabling us to refine new strategies on control groups before broadly applying the most effective strategies to larger segments.

**Market Risk Management**

***Market Risk Exposure from Trading Activities***

We recognise the following types of transactions as transactions entailing market risk exposure and trading book positions. All of our foreign exchange positions that meet the criteria prescribed by Section 3 in Chapter 2 of "Criteria for Calculating BIS Capital Adequacy Ratio to Incorporate Market Risk" by the FSS shall be categorised as trading book positions regardless of the intent of holding:

- transactions conducted intentionally for short-term selling/buying;
- transactions conducted in the process of underwriting (except underwriting of securities intended to be accounted as available-for-sales/held-to-maturity), brokering, market making, and similar transactions;
- transactions, without the prior approval of Risk Management Department, conducted by traders/divisions with the autonomy of entering into the transactions within predefined limits; and
- transactions embedded in trading book positions conducted with intent to hedge.

The following table presents an overview of market risk, measured by VaR, from our trading activities, on a separate basis, as of 31 March 2014 and as of 31 December 2013. For market risk management purposes, we include our trading portfolio in bank accounts and assets in trust accounts for which we guarantee principal or fixed return in accordance with the FSC regulations.

| | Trading Profit VaR for the Year Ended 31 December 2013 | | | Trading Profit VaR for the Three Months Ended 31 March 2014 | | |
|---|---|---|---|---|---|---|
| | Average | Minimum | Maximum | Average | Minimum | Maximum |
| | (In billions of Won) | | | | | |
| Interest Rate Risk | ₩9.1 | ₩5.4 | ₩13.1 | ₩13.3 | ₩9.1 | ₩17.4 |
| Foreign currency risk | 41.7 | 20.8 | 81.3 | 52.2 | 21.2 | 79.7 |
| Stock price risk | 16 | 4.2 | 40.1 | 17.7 | 4.9 | 39.7 |
| Option risk | 2.8 | 0.5 | 7.9 | 4.6 | 2.2 | 7.4 |
| **Total Risk** | ₩54.3 | ₩24.1 | ₩103.7 | ₩67.5 | ₩35.3 | ₩100.9 |

*Foreign Currency Risk and Management*

Foreign currency risk is the risk of holding or taking positions in foreign currencies. Our net open position in each currency is calculated by aggregating:

- the net spot position;

- the present value of the net forward position (which is equal to aggregate amounts to be received less aggregate amounts to be paid under forward foreign exchange transactions, including currency futures and the principal and interest on currency swaps not included in the spot position); and

- the net delta-based equivalent of the total book of foreign currency options.

*Stock Price Risk and Management*

Stock price risk is the risk of holding or taking positions in equities and equity-related derivatives' delta equivalent position. We recognise general stock price market risk separately from specific stock price risk.

Our trading equity portfolio consists of stocks listed on the Korea Stock Exchange ("**KRX**") KOSPI Market or the KRX KOSDAQ Market and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. We have been particularly focused on managing risk in these equities due to the level of volatility in the Korea stock market. On a separate basis, we held ₩13.2 billion and ₩43.3 billion of equity securities denominated in Won in our trading account as of 31 December 2013 and 31 March 2014, respectively.

*Interest Rate Risk*

Our exposure to interest rate risk arises primarily from debt securities denominated in Won, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. Our exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since our net position in such securities is not significant. As our trading accounts are marked-to-market daily, we manage the interest rate risk related to our trading accounts using advanced deterministic VaR techniques developed in 2007.

**Market Risk Management for Non-trading Activities**

*Liquidity Risk Management*

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including having to obtain funds at a high price or to dispose of securities at an unfavourable price due to lack of available funds or losing attractive investment opportunities.

We have maintained a daily liquidity risk monitoring system since 2007. Additionally, we developed a customer behaviour model for more advanced forecasting of asset and liability maturities and revised the system in 2008 to improve the efficiency of analysis. Finally, to ensure that we effectively manage any potential liquidity crisis with rapid-response measures, we have created a liquidity contingency plan and continue to review and update it as necessary.

We manage our liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the FSC. The FSC requires Korean banks to maintain a Won liquidity ratio of at least 100.0 per cent. and a foreign currency liquidity ratio of at least 85.0 per cent. The FSC defines the Won liquidity ratio and foreign currency liquidity ratio as liquid assets (including marketable securities) due within seven days, one month and three months, respectively, divided by liabilities due within seven days, one month and three months, respectively.

The following tables show our liquidity status and limits for Won and foreign currency accounts (including derivatives), on a separate basis, as of 31 December 2013 and 31 March 2014 in accordance with the regulations of the FSC.

| Accounts Denominated in Won | As of 31 December 2013 0-1 Months | 1-3 Months | 3-6 Months | 6-12 Months | 1-3 Years | Over 3 Years | Substandard or Below | Total |
|---|---|---|---|---|---|---|---|---|
| | (In billions of Won, except percentages) | | | | | | | |
| Assets | ₩24,663 | ₩9,075 | ₩13,951 | ₩19,434 | ₩15,755 | ₩21,520 | ₩1,314 | ₩105,712 |
| Liabilities | 20,867 | 12,669 | 12,973 | 16,298 | 10,627 | 31,658 | 0 | 105,092 |
| Liquidity gap | ₩3,796 | ₩(3,594) | ₩978 | ₩3,136 | ₩5,128 | ₩(10,138) | ₩1,314 | ₩620 |
| Liquidity ratio | 118.2% | 71.6% | 107.5% | 119.2% | 148.3% | 68.0% | – | 100.6% |
| Limit | 100.0% | – | – | – | – | – | – | – |

| Accounts Denominated in Foreign Currencies | As of 31 December 2013 0-3 Months | 3-6 Months | 6-12 Months | Over 1 Year | Substandard or Below | Total |
|---|---|---|---|---|---|---|
| | (In millions of U.S.$, except percentages) | | | | | |
| Assets | $29,322 | 8,141 | $7,662 | $13,144 | $103 | $58,372 |
| Liabilities | 23,289 | 8,032 | 6,929 | 20,434 | 0 | 58,684 |
| Liquidity ratio | 116.89% | 101.36% | 110.58% | 64.32% | 0% | 99.5% |
| Limit | 85% | 85% | 85% | 85% | – | – |

| Accounts Denominated in Won | As of 31 March 2014 0-1 Months | 1-3 Months | 3-6 Months | 6-12 Months | 1-3 Years | Over 3 Years | Substandard or Below | Total |
|---|---|---|---|---|---|---|---|---|
| | (In billions of Won, except percentages) | | | | | | | |
| Assets | ₩27,941 | ₩12,404 | ₩13,179 | ₩18,266 | ₩15,754 | ₩21,030 | ₩859 | ₩109,433 |
| Liabilities | 23,032 | 15,559 | 10,736 | 18,543 | 10,494 | 31,082 | 0 | 109,447 |
| Liquidity gap | ₩4,909 | ₩(3,155) | ₩2,443 | ₩(277) | ₩5,260 | ₩(10,052) | ₩859 | ₩(14) |
| Liquidity ratio | 121.3% | 79.7% | 122.8% | 98.5% | 150.1% | 67.7% | – | 100.0% |
| Limit | 100.0% | – | – | – | – | – | – | – |

| Accounts Denominated in Foreign Currencies | As of 31 March 2014 0-3 Months | 3-6 Months | 6-12 Months | Over 1 Year | Substandard or Below | Total |
|---|---|---|---|---|---|---|
| | (In millions of U.S.$, except percentages) | | | | | |
| Assets | $32,507 | $7,593 | $9,719 | $12,816 | $109 | $62,744 |
| Liabilities | 26,795 | 7,379 | 8,372 | 20,303 | 0 | 62,849 |
| Liquidity ratio | 112.60% | 102.90% | 116.09% | 63.12% | 0% | 99.8% |
| Limit | 85% | 85% | 85% | 85% | – | – |

# MANAGEMENT AND EMPLOYEES

## Management

### *Board of Directors*

Our board of directors has the ultimate responsibility for managing our affairs. The board currently comprises 1 Standing Director, 1 Non-Standing Director and 6 Outside Directors.

Our articles of incorporation provide that the board must have at least five directors. Standing directors must comprise less than 50 per cent. of the total number of directors. Each standing director is elected for a three-year term of office and each outside director is elected for a two-year term of office. These terms are subject to the Korean Commercial Code, the Bank Act and related regulations. Each director may be re-elected, subject to these laws and regulations.

Our board of directors meets regularly on a quarterly basis to discuss and resolve various corporate matters. The board may also convene for additional extraordinary meetings at the request of any of the directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 181, 2-ka, Ulchiro, Chung-ku, Seoul, Korea.

*Standing Director*

As of the date of this Information Memorandum, we had one Standing Director, who is a full-time employee of the Bank and hold executive positions as below.

| Name | Age | Position | Officer Since | Date Term Ends |
|---|---|---|---|---|
| Han Jo KIM. . . . . | 58 | President and Chief Executive Officer | 21 March 2014 | March 2016 |

*Mr. Han Jo KIM*, President and Chief Executive Officer, age 58, has served as our CEO since 21 March 2014. Before working as our Standing Director, he worked as president for KEB Capital Inc. Mr. Kim has an undergraduate degree from Yonsei University in French language and literature.

*Non-Standing Director*

As of the date of this Information Memorandum, we had one Non-Standing Director who is neither a full-time employee of the Bank nor holds an executive position with the Bank but is otherwise affiliated with the Bank, as below.

| Name | Age | Position | Director Since | Date Term Ends |
|---|---|---|---|---|
| Woo Gong LEE . . | 59 | Non-standing Director | 20 March 2014 | 31 December 2014 |

*Outside Directors*

Our Outside Directors are selected based on their experience and knowledge in diverse areas, which include law, finance, economics, management and accounting. We currently have six Outside Directors. All were nominated by the Outside Director Candidate Recommendation Committee and approved by our shareholders. As of the date of this Information Memorandum, our outside directors are as follows:

| Name | Age | Position | Director Since | Date Term Ends |
|---|---|---|---|---|
| Joo Song KIM . . . . . . . . | 67 | Outside Director (Chairman) | 13 March 2012 | 31 December 2014 |
| Jin Seok CHUN . . . . . . . | 67 | Outside Director | 13 March 2012 | 31 December 2014 |
| Young Joon KWON. . . . . | 62 | Outside Director | 13 March 2012 | 31 December 2014 |
| Kyeon Pyo HAN. . . . . . . | 58 | Outside Director | 20 March 20144 | 31 December 2014 |
| Eun Joo HONG. . . . . . . . | 56 | Outside Director | 13 March 2012 | 31 December 2014 |
| Ki Jung HAN . . . . . . . . . | 50 | Outside Director | 31 March 2012 | 31 December 2014 |

***Board Practices***

*Committees of the Board of Directors*

We currently have five management committees that serve under the board:

- Board of Directors Steering Committee;
- Risk Management Committee;
- Audit Committee;
- Audit Committee Member Candidate Recommendation Committee; and
- Outside Director Candidate Recommendation Committee.

The board appoints each member of the above committees except for members of the Audit Committee, who are elected by our shareholders at the annual general meeting.

*Audit Committee*

The Audit Committee consists of three non-standing directors, Mr. Kyeon Pyo HAN, Mr. Young June KWON and Mr Ki Jung HAN. The chairman is Mr. Young June KWON. This committee reviews all audit and compliance-related matters and makes recommendations to our board. It is also responsible for the following:

- establishing, executing and evaluating of the results of our internal audit plan (including business, financial, management, compliance and IT audits);
- appointing and/or dismissing the general manager of our auxiliary audit division;
- evaluating our internal control system; and
- appointing and overseeing our outside auditors and setting internal procedures or making decisions on matters that are related to auditing.

The committee holds regular meetings quarterly.

The names and positions of our executive officers as of the date of this Information Memorandum are set out below. All of our executive officers are employed on a full-time basis.

| Name | Age | Position | Officer Since | Date Term Ends |
|---|---|---|---|---|
| Han Jo KIM . . . . . . . . . . . . | 58 | President and Chief Executive Officer | 21 March 2014 | March 2016 |
| Jin Ho CHU . . . . . . . . . . . . | 58 | Senior Managing Officer | 1 January 2014 | 31 December 2014 |
| Hyun Seung SHIN. . . . . . . . | 56 | Senior Managing Officer | 1 January 2014 | 31 December 2014 |
| Chang Han OH . . . . . . . . . . | 58 | Senior Managing Officer | 1 January 2014 | 31 December 2014 |
| Hyun Joo LEE . . . . . . . . . . | 55 | Senior Managing Officer | 1 January 2014 | 31 December 2014 |
| Moon Hwan BAE . . . . . . . . | 57 | Managing Officer | 1 January 2014 | 31 December 2014 |
| Byung Hyun ANN. . . . . . . . | 58 | Managing Officer | 7 February 2014 | 31 December 2014 |
| Sang Young OH . . . . . . . . . | 58 | Managing Officer | 1 January 2014 | 31 December 2014 |
| Hyuk Seung KWON . . . . . . | 57 | Managing Officer | 1 January 2014 | 31 December 2014 |
| Dong Sug CHOI . . . . . . . . . | 54 | Managing Officer | 1 January 2014 | 31 December 2014 |
| Gil Joo KWON . . . . . . . . . . | 54 | Managing Officer | 1 January 2014 | 31 December 2014 |
| In San HWANG . . . . . . . . . | 54 | Managing Officer | 1 January 2014 | 31 December 2014 |
| Jong Yeong PARK. . . . . . . . | 53 | Managing Officer | 1 January 2014 | 31 December 2014 |
| Jae Jung JOO . . . . . . . . . . . | 56 | Managing Officer | 6 March 2014 | 31 December 2014 |
| Oh Hoon KWON . . . . . . . . | 57 | Managing Officer | 6 March 2014 | 31 December 2014 |

Brief biographies of the members of our executive officers are set forth below:

*Mr. Jin Ho CHU*, Senior Managing Officer, age 58, has served as our Senior Managing Officer since 1 January 2014. Before working as our Senior Managing Officer, he worked as head of the management support department in Hana Financial Group. Mr. Chu has an undergraduate degree from Yeungnam University in business administration.

*Mr. Hyun Seung SHIN*, Senior Managing Officer, age 56, has served as our Senior Managing Officer since 1 January 2014. Before working as our Senior Managing Officer, he worked as director of the headquarters of our International Business Group. Mr. Shin has an undergraduate degree from Seoul National University in economics.

*Mr. Chang Han OH*, Senior Managing Officer, age 58, has served as our Senior Managing Officer since 1 January 2014. Before working as our Senior Managing Officer, he worked as director of the headquarters of our Credit Business Group. Mr. Oh has an undergraduate degree from Korea University in law.

*Mr. Hyun Joo LEE*, Managing Officer, age 55, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as vice president of the global strategy department in Hana Financial Group. Mr. Lee has an undergraduate degree from Korea University in business administration and a master's degree from the University of Michigan in business administration.

*Mr. Moon Hwan BAE*, Managing Officer, age 57, has served as our Senior Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as executive director of the development strategy division for Hana Financial Group. Mr. Bae has an undergraduate degree from Seoul National University in economics.

*Mr. Byung Hyun ANN*, Managing Officer, age 58, has served as our Managing Officer since 7 February 2014. Before working as our Managing Officer, he worked as executive director and as chief risk officer of Hana Financial Group. Mr. Ann has an undergraduate degree from Korea University in public administration and a master's degree from Seoul National University in business administration.

*Mr. Sang Young OH*, Managing Officer, age 58, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as director of the headquarters of our Management Support Group. Mr. Oh has an undergraduate degree from Konkuk University in economics.

*Mr. Hyuk Seung KWON*, Managing Officer, age 57, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as director of the headquarters of our Credit Card Business Division. Mr. Kwon has an undergraduate degree from Sungkyunkwan University in industrial psychology and a master's degree in Sungkyunkwan University in securities finance.

*Ms. Dong Sug CHOI*, Managing Officer, age 54, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, she worked as director of the headquarters of our Seocho Business Division. Ms. Choi graduated from Seoul Girls' Commercial High School.

*Mr. Gil Joo KWON*, Managing Officer, age 54, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as our compliance officer. Mr. Kwon has an undergraduate degree from Korea University in business administration.

*Mr. In San HWANG*, Managing Officer, age 54, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as executive director and director of the headquarters of our Retail Business Division One. Mr. Hwang has an undergraduate degree and a master's degree from Korea University in business administration.

*Mr. Jong Yeong PARK*, Managing Officer, age 53, has served as our Managing Officer since 1 January 2014. Before working as our Managing Officer, he worked as director of the headquarters of our Marketing Division. Mr. Park has an undergraduate degree from Pusan National University in economics.

*Mr. Jae Jung JOO*, Managing Officer, age 56, has served as our Managing Officer since 6 March 2014. Before working as our Managing Officer, he worked as chief financial officer of Hana Financial Group. Mr. Joo has an undergraduate degree from Seoul National University in business administration and a master's degree from Waseda University in business administration.

*Mr. Oh Hoon KWON*, Managing Officer, age 57, has served as our Managing Officer since 6 March 2014. Before working as our Managing Officer, he worked as executive director of the global strategy department for Hana Financial Group. Mr. Kwon has an undergraduate degree from Yonsei University in economics.

**Employees**

As of 31 March 2014, on a separate basis, we had a total of 7,831 employees consisting of 5,413 members of our regular staff and 2,418 contract-based employees. Employee compensation is based on a combination of base salary and wages, overtime and periodic bonuses. Bonuses are paid based on individual performance and business unit performance. We grant members of our regular staff annual increases in base salary. For the year ended 31 December 2013, salaries and wages, overtime and bonuses comprised approximately 63.8 per cent. of our total general and administrative expenses on a separate basis. For the three months ended 31 March 2014, salaries and wages, overtime and bonuses comprised approximately 65.4 per cent. of our total general and administrative expenses on a separate basis. We also provide a wide range of benefits to members of our regular staff, including medical insurance, employment insurance and life insurance. We believe that our compensation package is similar to that offered by our peer financial institutions.

As of 31 March 2014, we had 6,391 members of our regular staff who were members of a trade union.

Other than a 10 week strike by regular staff members of KEBCS beginning in December 2003 and ending in February 2004 to protest our decision to merge KEBCS into us, we have not experienced any general work stoppages in recent years and we consider labour relations with members of our regular staff to be good. The union and our management negotiate and enter into a new collective bargaining agreement on an annual basis. The annual collective bargaining agreement for 2014 is currently under discussion between the National Council of Employers of the Financial Industry and the National Trade Union of the Financial Industry and has not been completed yet.

In accordance with our internal policy and the Korean Labour Standard Act, members of our regular staff with one year or more of service are entitled, upon termination of their employment, to receive a lump-sum severance payment based upon the length of their service and their base salary at the time of termination. Such staff members are entitled to receive a lump-sum payment equivalent to the average of 30 days' salary for each year of service. We make provision for severance benefits based upon the assumption that all members of our regular staff terminate their employment with us at the same time. Under Korean law, we may not terminate members of our regular staff except under specified circumstances.

## Shareholders

*Acquisition by Hana Financial Group*

In November 2010, Hana Financial Group entered into a share purchase agreement with an affiliate of the Lone Star funds for the purchase of 51.02 per cent. of issued and outstanding shares of our common stock for approximately ₩4,689 billion, or ₩14,250 per share. In February 2011, Hana Financial Group entered into an agreement with the Export-Import Bank of Korea ("**KEXIM**"), which holds 6.25 per cent. of the issued and outstanding shares of our common stock, granting KEXIM a put option and Hana Financial Group a call option over such shares, in exchange for KEXIM declining to exercise its tag-along rights in the sale of shares by the Lone Star funds affiliate. In February 2012, Hana Financial Group completed this purchase for an aggregate purchase price of approximately ₩4.4 trillion. On 26 April 2013, Hana Financial Group acquired 40 per cent. of our shares through a Share Swap which was proceeded at an exchange rate of one share of Hana Financial Group to 0.1894302 share of Korea Exchange Bank. After such acquisition, our common shares have been de-listed on the KRX KOSPI Market and as of date of this Information Memorandum, Hana Financial Group is the beneficial owner of 100 per cent. of our issued and outstanding share capital.

Although we are a wholly-owned subsidiary of Hana Financial Group after the Share Swap, we still remain independent from Hana Financial Group with respect to our business, including our brand, employment and wage systems. However, Hana Financial Group may decide to merge Hana Bank or one of its subsidiaries with Korea Exchange Bank. See "*Investment Considerations – Risks Relating to Our Business – We may potentially merge or consolidate with Hana Bank or one of its subsidiaries, which would entail significant risks and challenges, including difficulties in integrating our existing operations, loss of overlapping customers, adverse tax consequences, decrease in employee morale and labour unrest*" and "*Investment Considerations – Risks Relating to the Instruments – The consent of Holders of the Instruments may not be necessary for a Qualifying Affiliate Merger*".

The following table presents information regarding the beneficial ownership of our shares as of 31 March 2014 by each person or entity known to us to own beneficially more than 5.0 per cent. of our outstanding shares.

Except as otherwise indicated, each shareholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

| Beneficial Owner | Number of Shares Owned | % of Ownership |
|---|---|---|
| Hana Financial Group | 644,906,826 | 100% |
| **Total** | 644,906,826 | 100% |

## THE KOREAN BANKING INDUSTRY

*Unless otherwise expressly stated, the information and statistics set out in this section are derived from publicly available information, including materials published by the FSC. No further verification has been made by the Issuer or any of its affiliates or advisers.*

The banking sector in Korea can be divided into two broad categories: commercial banks and specialised banks. Commercial banks serve both the general public and corporate sectors. As of 31 March 2014, commercial banks consisted of seven national commercial banks (including the Issuer), all of which have branch networks throughout Korea, six regional banks and 39 foreign banks operating in Korea. The names of national banks and regional banks are provided in the table set forth below. Regional banks provide services similar to national banks, but used to operate in a geographically restricted region until such restriction was abolished on 27 November 1998. Domestic branches of foreign banks have operated in Korea since 1967, but provide a relatively small proportion of Korea's banking services.

| Classification | Number | Bank Names |
|---|---|---|
| National banks . . . . . . . . . . . . . . . . . . . | 7 | Korea Exchange Bank, Hana Bank, Kookmin Bank, Shinhan Bank, Woori Bank, Citibank Korea, Standard Chartered First Bank Korea |
| Regional banks. . . . . . . . . . . . . . . . . . . | 6 | Daegu Bank, Pusan Bank, Jeonbuk Bank, Kwangju Bank, Kyongnam Bank, Jeju Bank |

Amongst these, Hana Bank, Shinhan Bank, Kookmin Bank and Woori Bank are the major banking flagships of their respective financial holding companies, established based on the Korean Commercial Code and the Financial Holding Company Act to facilitate cross-selling opportunities between traditional banking and non-banking operations and promoting improved resources allocation and capital efficiency.

As in most countries, commercial banks in Korea engage in a wide range of business. Their core activities include taking deposits, extending loans and discounts, remittances and collections. They also provide guarantees and acceptances, and conduct own-account securities investment. They must obtain specific authorisation from the FSC for each area of non-bank business in which they engage, such as the trust and credit card businesses. Bank funding in Korea has traditionally been deposit based since long-term domestic borrowings are limited, the short-term money market is relatively illiquid and foreign borrowings are regulated by the Government.

Specialised banks meet the needs of specific sectors of the economy in accordance with Korean government policy. These banks are organised under, or chartered by, special laws. There are five specialised banks:

- The Korea Development Bank;
- The Export-Import Bank of Korea;
- Industrial Bank of Korea;
- National Agricultural Cooperatives Federation; and
- National Federation of Fisheries Cooperatives.

The economic difficulties in 1997 and 1998 caused Korean banks' non-performing assets to increase and their capital adequacy ratios to decline. From 1998 to 2003, the FSC amended banking regulations several times to adopt more stringent definitions for non-performing loans that more closely followed international standards. These new definitions increased the level of non-performing loans held by banks and other financial institutions. The following table sets forth the total loans and non-performing assets of the banking sector (excluding specialised banks) at year-end from 2003 through 31 December 2012.

| | **Total Loans** | **Non-Performing Assets** | **% of Total** |
|---|---|---|---|
| | | **(In trillions of ₩)** | |
| 31 December 2003 | ₩499.5 | ₩10.8 | 2.2% |
| 31 December 2004 | 512.3 | 10.1 | 2.0% |
| 31 December 2005 | 548.0 | 7.0 | 1.3% |
| 31 December 2006 | 645.4 | 5.8 | 0.9% |
| 31 December 2007 | 733.5 | 5.4 | 0.7% |
| 31 December 2008 | 855.1 | 9.9 | 1.2% |
| 31 December 2009 | 842.6 | 9.8 | 1.2% |
| 31 December 2010 | 858.8 | 15.9 | 1.9% |
| 31 December 2011 | 900.0 | 11.5 | 1.3% |
| 31 December 2012 | ₩899.0 | ₩11.3 | 1.3% |

*Source: FSS.*

The aggregate net profit of the Korean banking sector (excluding specialised banks) decreased from ₩9.5 trillion in 2012 to ₩4.9 trillion in 2013. The average of return on assets in the Korean banking sector (excluding specialised banks) decreased from 6.3 per cent. in 2012 to 2.7 per cent. in 2013. The average of net income margin in the Korean banking sector was approximately 2.1 per cent. in 2012 and 1.9 per cent. in 2013.

In July 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, which came into effect on 4 February 2009, comprehensively regulates Korean capital markets, the financial investment business (including collective investment business and trust business) and financial investment products (such as securities and futures). It also permits financial organisations which are investment banks to engage in various types of financial business other than banking and insurance.

The FSCMA introduces the concept of the financial investment business units. This is a unit of business pursuant to which financial organisations shall be licenced. Such units are classified into a total of 90 categories depending on the type of (i) financial investment service, (ii) financial investment product, and (iii) target customers to which the financial investment product may be sold or dealt to (i.e., general investors or professional investors). Under the FSCMA, such financial organisations may engage in business other than financial investment business including settlement and remittance services. Furthermore, under the Enforcement Decree of the FSCMA, a dealer of securities investments (including underwriting services) may conduct corporate finance business; and a dealer of securities and over-the-counter derivatives (including underwriting services) may conduct payment guarantees business. Therefore, corporate finance business and payment guarantees business can be carried out by both banks and financial organisations which have received licences in respect of the relevant business units.

# REGULATION AND SUPERVISION

## Principal Regulations Applicable to Banks

### *Capital Adequacy and Allowances*

The Bank Act requires national banks, such as Korea Exchange Bank, to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10 per cent. of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Bank Act, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of shareholders' equity, capital surplus, retained earnings, the foreign exchange spread among the comprehensive aggregate of other profit/loss amounts, unissued stock dividends and hybrid Tier I capital instruments. Tier II capital (supplementary capital) includes revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares, 70 per cent. of the amount of tangible assets and investment real estate revaluation earnings subject to restrictions on dividend distributions by the board of directors, redeemable preferred shares with redemption rights after the fifth anniversary of their date of issuance and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with FSC requirements that have been formulated based on BIS standards. These standards were adopted and became effective in 1996. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8 per cent.

The FSC amended the Enforcement Detailed Rules on the Supervision of the Banking Business and, as a result, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

(1) for banks which adopted a standardised approach for calculating credit risk capital requirements, to the extent that a mortgage obtained in relation to a home mortgage loan is a first priority mortgage, a risk-weight ratio of 35 per cent. shall apply, provided that, for the exposure to a home mortgage loan where (a) the redemption is made (x) at maturity or (y) by instalment with a grace period or (b) it is made for three or more residential properties (other than a lease business), a risk weight ratio of 50 per cent. shall apply, except in cases where the principal amount of the home mortgage loan is ₩50,000,000 or less; and

(2) for banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default (each term as defined under the Enforcement Detailed Rules on the Supervision of the Banking Business).

Under the Regulation on the Supervision of the Banking Business, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including trust account loans) in an aggregate amount covering not less than:

- 0.85 per cent. in the case of normal credits comprising loans to corporate borrowers (0.9 per cent. in the case of normal credits comprising loans to borrowers in the "construction", "wholesale and retail", "accommodation and restaurant" and "real estate and rent" industries (as classified under the Korean Industry Classification Standard)), 1.0 per cent. in the case of normal credits comprising loans to individuals and households, 1.1 per cent. in the case of normal credits comprising outstanding credit card receivables and 2.5 per cent. in the case of normal credits comprising outstanding card loans and revolving loans;

- 7.0 per cent. of precautionary credits, 10 per cent. in the case of precautionary credits comprising loans to individuals and households, 40 per cent. in the case of precautionary credits comprising outstanding credit card receivables and 50 per cent. in the case of precautionary credits comprising outstanding card loans and revolving loans;

- 20 per cent. of substandard credits, 60 per cent. in the case of substandard credits comprising outstanding credit card receivables and 65 per cent. in the case of substandard credits comprising outstanding card loans and revolving loans;

- 50 per cent. of doubtful credits, 55 per cent. in the case of doubtful credits comprising loans to individuals and households and 75 per cent. in the case of doubtful credits comprising outstanding credit card receivables, card loans and revolving loans; and

- 100 per cent. of estimated loss credits.

Furthermore, under the Regulation on the Supervision of the Banking Business, Korean banks must establish allowances in respect of any confirmed guarantees (including confirmed acceptances) and outstanding unused credit lines as of the date of settlement in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set out above. See "*– Recent Regulations Relating to Retail Household Loans*" and "*– Credit Card Business*".

FSC amended the Regulations concerning the Supervision of the Banking Business as of 28 June 2007 in order to reflect the Basel II (or the new BIS standard) to the Regulations. The amendment became effective as of 1 January 2008. Under the amended Regulations, with respect to the evaluation of the Credit Risk for the calculation of the required capital ratio, banks may select either the Internal Rating-Based Approach ("**IRB**") established by themselves or the Standard Approach Provided by FSC. To select the IRB, a bank has to obtain the approval of the FSC. Under the new BIS standard, there is no change to the Market Risk, and the evaluation of the Operating Risk is required in addition to the Credit Risk and the Market Risk when calculating the required capital ratio. For the evaluation of the Operating Risk, banks may select either the Standard Approach, for which no governmental approval is required, or Advanced Measurement Approaches, for which the governmental approval is required.

In May 2013, the FSC announced its decision, in conjunction with the Ministry of Strategy and Finance, FSS and the Bank of Korea, to gradually implement Basel III by 1 December 2013. Under the regulations, which came into effect as of 1 December 2013, Korean banks are required to maintain a minimum ratio of Tier I common capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk weighted assets of 3.5 per cent. and Tier I capital to risk weighted assets of 4.5 per cent. from 2013. Such minimum ratios of Tier I common capital to risk weighted assets and Tier I capital to risk weighted assets will be increased to 4.0 per cent. and 5.5 per cent., respectively, from 2014 and 4.5 per cent. and 6.0 per cent., respectively, from 2015. These requirements would be in addition to the existing requirement for a total minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk weighted assets of 8.0 per cent., which will remain unchanged. The regulations also contemplate an additional capital conservation buffer of 0.625 per cent. starting from 2016, with such buffer to increase to 1.25 per cent. in 2017, 1.875 per cent. in 2018 and 2.5 per cent. in 2019, respectively.

***Liquidity***

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Bank Act. Banks may not invest an amount exceeding 60 per cent. of their Tier I and Tier II capital (less any capital deductions) in stocks, derivatives linked securities and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds, to bond principal and interest payments guaranteed by the Korean government or to Monetary Stabilisation Bonds issued by the Bank of Korea. The FSC also requires each Korean bank to:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100 per cent. and to make monthly reports to the FSS;

- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85 per cent.;

- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 3 per cent.;

- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not more than 10 per cent.; and

- submit monthly reports with respect to the maintenance of these ratios.

The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

- 7.0 per cent. of average balances for Won currency demand deposits outstanding;

- 0 per cent. of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and

- 2.0 per cent. of average balances for Won currency time deposits, mutual instalments, housing instalments and certificates of deposit outstanding.

Additionally, the FSC is separately empowered to establish minimum reserve ratio requirements that must be accumulated and maintained for certain types of obligations designated by the FSC from time to time.

For foreign currency deposit liabilities, a 2.0 per cent. minimum reserve ratio is applied to savings deposits outstanding and a 7.0 per cent. minimum reserve ratio is applied to demand deposits. A 1.0 per cent. minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

***Financial Exposure to Any Individual Customer and Major Shareholder***

Under the Bank Act, the sum of large exposures by a bank – in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) – generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

Recent amendments to the Bank Act, which became effective on 9 October 2009, strengthened restrictions on extending credits to a major shareholder. A "**major shareholder**" is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10 per cent. (or 15 per cent. in the case of regional banks) in the aggregate of the bank's total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4 per cent. in the aggregate of the bank's (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on "*non-financial business group companies*" as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25 per cent. of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than ₩2 trillion in aggregate; (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4 per cent. of the total issued and outstanding shares; or (iv) a private equity fund under the FSCMA which meets certain requirements as prescribed in the Bank Act.

In addition to the existing restrictions which prohibit banks from extending credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) and require that the total sum of credits granted to all major shareholders must not exceed 25 per cent. of the bank's Tier I and Tier II capital (less any capital deductions), under these amendments, banks may not extend credit to a major shareholder for the purpose of financing such shareholder's investment in other companies or on terms more advantageous to such shareholder. Furthermore, banks may not transfer its assets and/or properties to a major shareholder without being paid a consideration.

The Financial Holding Company Act imposes limits on extending credit to single borrowers and to major capital contributors similar to the limits imposed by the Bank Act with regard to extending credit to single borrowers and major shareholders. The definition of a "**major capital contributor**" under the Financial Holding Company Act, which is similar to the definition used in the Bank Act, is as follows:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10 per cent. (or 15 per cent. in the case of regional banks) in the aggregate of a bank holding company's total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4 per cent. in the aggregate of a bank holding company's (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on "non-financial business group companies″ under the Financial Holding Company Act), where the shareholder is the largest shareholder or has actual control over the major business affairs of a bank holding company and its subsidiaries, sub-subsidiaries and any subsidiaries thereof (and under the Financial Holding Company Act, this includes any foreign subsidiaries of sub-subsidiaries (as brought into the holding structure of the financial holding company') and companies controlled by them through, for example, appointment and dismissal of the officers, as determined pursuant to the provisions of an applicable Presidential Decree, and includes non-financial business group companies that participate in the business management of a relevant financial institution through, for example, appointment and dismissal of the officers, as determined pursuant to the provisions of an applicable Presidential Decree.

According to the Financial Holding Company Act, the total amount of credit that may be extended by a financial holding company and its subsidiaries, etc. ("financial holding company, etc.") to any single individual, juridical person or business group is not permitted to exceed an amount equal to 25 per cent. of the total net capital of the financial holding company, etc.

Additionally, the total amount of credit that may be extended by a bank holding company and its subsidiaries ("bank holding company, etc.") to a major capital contributor (including specially related persons thereof) is not permitted to exceed the lesser of (x) the amount equal to 25 per cent. of the total net capital of the bank holding company, etc. and (y) the relevant major capital contributors' shareholding ratio in the bank holding company. The total amount of credit that may be extended by a bank holding company, etc. to all of major capital contributors (including specially related persons thereof) is not permitted to exceed an amount equal to 25 per cent. of the total net capital of the bank holding company, etc.

A bank holding company, etc. is not permitted to extend credit to major capital contributors (including specially related persons thereof) in support of such major capital contributors' investments in other companies, and is not permitted to transfer assets to major capital contributors without consideration.

The above provisions will be applicable with regard to KEB extending credit to any major capital contributors of Hana Financial Group, since Hana Financial Group is a bank holding company and KEB is a subsidiary of Hana Financial Group.

***Interest Rates***

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans extended by the financial institutions in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the Bank of Korea. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank's interest expense.

***Lending to Small- and Medium-Sized Enterprises***

In order to obtain funding from the Bank of Korea at concessionary rates for their SME loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to SMEs. Currently, this minimum percentage is 45 per cent. in the case of national banks and 60 per cent. in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to SMEs; or
- lower the bank's credit limit.

*Disclosure of Management Performance*

In order to assist the general public, especially depositors and shareholders, in monitoring bank management performance, the FSC requires commercial banks to make mandatory public disclosures of the following:

- loans bearing no profit made to a single business group in an amount exceeding 10 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than ₩4 billion;

- the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than ₩1 billion as a result of that financial incident, or the governor of the FSS has made a public announcement regarding the incident; and

- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than ₩1 billion.

On 18 March 2010, the FSC issued an institutional warning due to incidents which occurred in our branches in Japan and our subsidiaries in Australia and Los Angeles, California where we suffered losses due to theft and other inappropriate actions by certain employees. Following such incidents in 2008 and 2009, we have strengthened our overseas business management and control system by:

- increasing the number of compliance seminars for the employees of our overseas branches and subsidiaries and the frequency of the International Compliance Officer's visits to our overseas branches and subsidiaries;

- implementing the Daily Business Monitoring System since June 2009 which enables us to spot any suspicious transactions by sending the records of all transactions conducted in our overseas branches and subsidiaries to our headquarter office in Seoul for a review on a daily basis;

- strengthening the monitoring system between front office and back office in our overseas branches and subsidiaries; and

- strengthening the level of control and increasing restrictive measures over our IT system.

On 5 March 2013, we received a warning from the FSS that we had applied the interest spreads on certain floating rate loans to a number of our corporate borrowers during the period from June 2006 to September 2012 without proper supporting documentation. In connection with this incident, seven former and current executives and staff members of us were charged for the irregular practice.

An institutional warning by the FSC does not have a direct impact on the operations of the bank. However, for a period of three years following the date of such warning, such bank may be restricted from acquiring a major equity interest in financial institutions regulated by the FSCMA, Insurance Business Act or Specialised Credit Financial Business Act and obtaining a licence for a new business which is subject to a licence requirement under the FSCMA.

### *Restrictions on Lending*

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank's own shares;
- loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans to any of the bank's officers or employees, other than petty loans of up to ₩20 million in the case of a general loan, ₩50 million in the case of a general loan plus a housing loan or ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than petty loans of up to ₩20 million in the case of a general loan, ₩50 million in the case of a general loan plus a housing loan or ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

### *Recent Regulations Relating to Retail Household Loans*

The FSC recently implemented a number of changes to the mechanisms by which a bank evaluates and reports its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, the FSC and the FSS increased the minimum provisioning requirements for retail household loans. These minimum requirements are set forth in the following table:

| | Provisioning Ratio on Retail Household Loans | |
|---|---|---|
| **Asset Quality Classification** | **Before (2005)** | **Current (as of 31 March 2014)** |
| Normal | 0.75% or above | 1.0% or above |
| Precautionary | 8.0% or above | 10.0% or above |
| Substandard | 20.0% or above | 20.0% or above |
| Doubtful | 55.0% or above | 55.0% or above |
| Estimated loss | 100.0% | 100.0% |

In addition, due to a rapid increase in loans secured by homes and other forms of housing, the FSC and the FSS implemented regulations designed to reduce the rate of increase in these loans. Effective from the third quarter of 2002, the FSC and the FSS raised minimum provisioning requirements for new loans secured by housing located in the areas of wide-spread real property speculation, with respect to the portion of the new loan that exceeds the loan-to-value ratio of 60.0 per cent., to 1.0 per cent. from 0.75 per cent. for normal loans and to 10.0 per cent. from 5.0 per cent. for precautionary loans. They also raised the minimum provisioning requirements for household loans classified as precautionary from 2.0 per cent. to 8.0 per cent. with effect from the fourth quarter of 2002.

In a further effort to curtail extension of new or refinanced loans secured by housing, the FSC and the FSS subsequently:

- reduced the average loan-to-value ratio (the aggregate principal amount of credit over the approval value of collateral) that Korean commercial banks must maintain for new loans secured by housing located in Korea to below 60 per cent.; and
- increased risk-weights for loans secured by housing meeting certain criteria in connection with the capital adequacy calculation for commercial banks.

On 8 November 2002, the FSC and the FSS issued guidelines that:

- require Korean commercial banks to implement stronger internal control systems and stricter credit review and approval policies with respect to loans secured by housing;

- introduce sharing of information on multiple housing loans to a single borrower within the financial industry;

- require Korean commercial banks to appoint two to three qualified market value appraisal institutions and to use the lowest of the appraisal valuations; and

- discourage the use of incentive-based compensation systems by Korean commercial banks.

Furthermore, on 29 October 2003, the FSC announced more stringent guidelines that require Korean commercial banks to maintain loan-to-value ratios equal to or less than 40 per cent. for new loans secured by real estate located in the areas of wide-spread real property speculation. On 30 August 2005, the FSC further announced another set of guidelines under which the Korean commercial banks are required to maintain the debt-to-income ratio of 40 per cent. or less for each new loan in addition to the loan-to-value ratio requirement in case such loan is borrowed for the purpose of financing each additional home exceeding the one home per household and secured by a home located in the wide-spread real property speculation areas.

Again on 30 March 2006, the FSC announced stronger guidelines that require Korean commercial banks to maintain debt-to-income ratio equal to 40 per cent. or less for any new loans secured by real estate of which value is 600 Million Won or more in the areas of wide-spread real property speculation.

In addition, due to a rapid increase in the number of loans secured by homes and other forms of housing, the FSC and the FSS amended the Regulation on the Supervision of the Banking Business in July 2007, November 2008, November 2010 and May 2013 to implement measures designed to reduce the rate of increase in these loans secured by housing, including the following:

- in respect of loans secured by collateral consisting of housing located in Korea, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 70 per cent.;

- in respect of loans secured by collateral consisting of housing (including apartments) located in areas of excessive investment as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50 per cent., (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60 per cent. and (iii) the loan-to-value ratio for loans to be amortized over the period of ten years should not exceed 70 per cent.;

- in respect of loans secured by collateral consisting of housing (excluding apartments) located in areas of high speculation as designated by the Government, (i) the loan to value ratio for loans with a maturity of not more than three years should not exceed 50 per cent., (ii) the loan to value ratio for loans with a maturity of more than three years should not exceed 60 per cent. and (iii) the loan-to-value ratio for loans to be amortized over the period of ten years should not exceed 70 per cent.;

- in respect of loans secured by collateral consisting of apartments located in areas of high speculation as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40 per cent.; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40 per cent., if the price of such apartment is over ₩600 million, and (b) 60 per cent., if the price of such apartment is ₩600 million or lower;

- in respect of loans extended for the acquisition of a new apartment and secured by such apartment with an appraisal value of more than ₩600 million in areas of high speculation as designated by the Government or in certain metropolitan areas designated as areas of excessive investment by the Government, the borrower's debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40 per cent.;

- in respect of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under the age of 30, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the Government should not exceed 40 per cent.;

- in respect of apartments located in areas of high speculation as designated by the Government, a borrower is permitted to have only one new loan secured by such apartment; and

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the Government, the loan with the earliest maturity date must be repaid first and the number of loans must eventually be reduced to one.

***Restrictions on Investments in Property***

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

***Restrictions on Shareholdings in Other Companies***

Under the Bank Act, a bank may not own more than 15 per cent. of shares outstanding with voting rights of another corporation, except where, among other reasons:

- that corporation engages in a category of financial businesses set forth by the FSC; or

- the acquisition is necessary for the corporate restructuring of the corporation and is approved by the FSC.

In the above exceptional cases, a bank must satisfy either of the following requirements:

- the total investment in corporations in which the bank owns more than 15 per cent. of the outstanding shares with voting rights does not exceed 15 per cent. of the sum of Tier I and Tier II capital (less any capital deductions); or

- if the application requirements set by the FSC are met, voting shares shall not exceed 30 per cent. of the sum of Tier I and Tier II capital.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1 per cent. of the sum of Tier I and Tier II capital (less any capital deductions).

The Financial Holding Company Act provides that a bank holding company, etc. using its bank accounts and its trust accounts may not acquire the shares issued by its major capital contributors in an amount greater than 1 per cent. of the total net capital of the bank holding company, etc.

### *Restrictions on Bank Ownership*

Under the Bank Act, a single shareholder, together with any persons who have a special relationship with that shareholder may acquire generally beneficial ownership of no more than 10 per cent. of a national bank's total issued and outstanding shares with voting rights and no more than 15 per cent. of a regional bank's total issued and outstanding shares with voting rights. The Government, KDIC and bank holding companies qualified under the Financial Holding Company Act are not subject to this limit. However, by obtaining an approval from the FSC, a person (whether a Korean national or a foreign investor), with the exception of non-financial business group company as described below, may acquire more than 10 per cent. of a national bank's total voting shares issued and outstanding (or 15 per cent. in the case of regional banks) and such approval from the FSC is required in each instance where the total holding of such person will exceed 10 per cent. (or 15 per cent. in the case of regional banks), 25 per cent. or 33 per cent. of the bank's total voting shares issued. In addition, if (i) a person's shareholding in a national bank reaches 4 per cent. of that bank's outstanding voting shares, (ii) such person becomes the largest shareholder of the bank, (iii) there is a change in the shareholding of such person by 1 per cent. or more or (iv) where a private equity fund or special purpose company under the FSCMA holds in excess of 4 per cent. of that bank's outstanding voting shares and there is a change in the members and/or shareholder of the private equity fund or special purpose company, such person or the private equity fund or the special purpose company shall file a report to the FSC. Furthermore, according to the Financial Holding Company Act, a single shareholder is not permitted to hold more than 10 per cent. of the total issued and outstanding voting shares of a bank holding company (or 15 per cent. in the case of a regional bank holding company's shares). The Government and the KDIC are not subject to this limit. Such limit also does not apply to a financial holding company's holding of shares of a bank holding company under its control. The FSC may grant approval for exceptions to the above-referenced 10 per cent. holding limit (or 15 per cent. in the case of regional bank holding companies).

Meanwhile, a non-financial business group company is not allowed to own more than 4 per cent. or 15 per cent., respectively, of the total issued and outstanding shares with voting rights of a national bank or a regional bank. However, the non-financial business group company may be permitted to own up to 10 per cent. of the total issued and outstanding shares of a national bank by obtaining an approval from the FSC on condition that such non-financial business group company will not exercise voting rights in excess of the 4 per cent. threshold.

### *Deposit Insurance System*

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5 per cent. of the bank's insurable deposits in any given year. The current insurance premium is 0.02 per cent. of insurable deposits for each quarter. If the KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The KDIC insures a maximum of ₩50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from 1 January 2001 to 31 December 2003 and therefore the whole amount deposited in such accounts is protected.

### *Restrictions on Foreign Exchange Position*

Under the Korean Foreign Exchange Transaction Law, each of a bank's net overpurchased and oversold positions may not exceed 50 per cent. of its shareholders' equity as of the end of the prior month.

### *Laws and Regulations Governing Other Business Activities*

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. Under the FSCMA, which became effective as of 4 February 2009 (replacing the Securities and Exchange Act), a bank wishing to engage in

(i) the purchase, sale or underwriting of financial investment products for its own account is required to obtain a licence for dealing business from the FSC and (ii) the purchase and sale of financial investment products for the account of another person is required to obtain a licence for brokerage business. Financial investment products are classified into two categories (securities products and derivatives products) depending on the nature of the risk involved. Securities products refer to any investment product (e.g. a stock or bond) which has a possibility of loss up to the amount of the principal invested. Derivatives products refer to any investment product which has a possibility of loss over and above the amount of the principal invested. If a bank previously had a licence to engage in the securities business from the FSC under the Securities Exchange Act, such licence will remain effective so long as the bank satisfied its reporting requirements to the FSC in accordance with the FSCMA for a certain period of time prior to the FSCMA becoming effective.

***Trust Business***

A bank must obtain a licence for trust business from the FSC to engage in trust business pursuant to the FSCMA (which replaced the Trust Business Act and Indirect Investment Asset Management Business Act). A licence for trust business obtained by a bank under the Trust Business Act remains effective so long as the bank satisfied its reporting requirements to the FSC in accordance with the FSCMA for a certain period of time prior to the FSCMA becoming effective.

Under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from the other assets in the accounts of such bank. This requires banks engaged in both banking and trust businesses to maintain two separate sets of accounts and two separate sets of records. The depositors and other general creditors of a bank cannot obtain or assert claims against the assets comprising the trust accounts in the event such bank is liquidated or wound up.

Under the FSCMA, a bank is not permitted to offer "unspecified money trust account products" (which were created and offered under the Trust Business Act) except in certain limited circumstances. In addition, under the FSCMA, a bank must obtain a licence for collective investment business from the FSC to offer such products.

The bank must make a special reserve of 25 per cent. or more of fees received from each unspecified money trust account in respect of which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5 per cent. of the trust amount. Since January 1999, the Government has prohibited Korean banks from offering new guaranteed fixed rate trust account products that guarantee the principal invested and interest payments. In the event that a bank qualifies and operates as a collective investment business servicer, a trustee or a custodian under the FSCMA, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the collective investment business and the trustee or custodian business. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation;

- prohibitions against the joint use or sharing of computer equipment or office equipment; and

- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

In addition, under the FSCMA, a bank is also required to establish a Collective Investment Property Management Committee consisting of three directors, two of whom must be non-standing directors of such bank.

***Credit Card Business***

*General*

In order to enter the credit card business, a bank must obtain an approval from the FSC. Credit card businesses are governed by the Specialised Credit Financial Business Act, enacted on 28 August 1997 and last amended on 5 April 2013. A licenced bank engaging in the credit card business is regulated by the FSC and the FSS.

*Disclosure and Reports*

Pursuant to the Specialised Credit Financial Business Act, a registered bank engaging in the credit card business must submit its business reports and reports with respect to its results of operations to the Governor of the FSS.

*Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards*

Under the Specialised Credit Financial Business Act, a licenced bank engaging in the credit card business is liable for any loss arising from the unauthorised use of credit cards or debit cards after it has received notice from the holder of the loss or theft of the card. A licenced bank engaging in the credit card business is also responsible for any losses resulting from (i) the use of forged or altered credit cards, debit cards and pre-paid cards, (ii) the misuse of a holder's credit card, debit card or pre-paid card data (e.g. PINs, verification codes, card numbers, account names, etc.) obtained through computer hacking or other means and (iii) the use of credit cards, debit cards or pre-paid card fraudulently obtained in the name of another by means of identity theft or similar fraudulent means. A licenced bank engaging in the credit card business may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of wilful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the licenced bank engaging in the credit card business and members of such cards specifically provide for that transfer.

For these purposes, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered wilful misconduct or gross negligence. However, a disclosure of a cardholder's password that is made under irresistible force or threat to cardholder or his/her relatives' life or health will not be deemed as wilful misconduct or negligence of the cardholder.

Each licenced bank engaging in the credit card business must institute appropriate measures to fulfil these obligations, such as establishing provisions, purchasing insurance or joining a co-operative association.

The amended Enforcement Decree to the Specialised Credit Financial Business Act, which became effective as of April 2004, provides that a licenced bank engaging in the credit card business will be liable for any losses arising from loss or theft of a credit card (which was not from the holder's wilful misconduct or negligence) during the period beginning 60 days before the notice by the holder to the licenced bank engaging in the credit card business.

Pursuant to the Specialised Credit Financial Business Act, the FSC may either restrict the limit or take other necessary measures against the registered bank engaging in the credit card business with respect to the following:

- maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage; or
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

*Lending Ratio in Ancillary Business*

Pursuant to the amended Enforcement Decree to the Specialised Credit Financial Business Act, a licenced bank engaging in the credit card business must maintain an aggregate quarterly average outstanding lending balance to credit card holders (including cash advances and credit card loans, but excluding restructured loans and certain housing mortgage credit) no greater the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume; **provided that**, in the case that any bank engaged in the credit card business was unable to meet this lending ratio as of 21 April 2004, such bank would have been granted an extended compliance period until 31 December 2008 during which to achieve such lending ratio. Any bank availing itself of such extended compliance period would also be required to submit to the FSC, no later than 30 June 2004, a detailed plan setting forth how such bank intended to achieve compliance by 31 December 2008.

*Issuance of New Cards and Solicitation of New Card Holders*

The amended Enforcement Decree to the Specialised Credit Financial Business Act establishes the conditions under which a licenced bank engaging in the credit card business may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

- persons who are 18 years old or above when they apply for a credit card, **provided that** in the case of minors who are 18 years old or above and younger than 19 years old, verification of employment is also required; and

- persons with private credit ratings that meet the criteria set by the FSC.

In addition, a licenced bank engaging in the credit card business may not solicit credit card members by:

- providing economic benefits or promising to provide economic benefits in excess of 10 per cent. of the annual credit card fee (in the case of no-annual-fee credit cards, the average annual fees will be deemed to be ₩10,000) in connection with issuing a credit card;

- soliciting applicants on roads, public places or along corridors used by the general public; and

- soliciting applicants through visits, except those visits made upon prior consent and visits to a business area.

*Compliance Rules on Collection of Receivable Claims*

Pursuant to Supervisory Regulation on the Specialised Credit Financial Business, a licenced bank engaging in the credit card business may not:

- exert violence or threaten violence;

- demand payment from or impose pressure a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) without just cause with respect to payment for the debtor's obligations;

- provide false information relating to the debtor's obligation to the debtor or his or her related parties;

- threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

- visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and

- utilise other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

## Financial Investment Services and Capital Markets Act

On 3 July 2007, the National Assembly of Korea passed the FSCMA. This new legislation consolidated six Acts regulating capital markets and financial investment business and products in Korea into one Act. The FSCMA became effective as of 4 February 2009. The following is a summary of the major changes introduced by the FSCMA.

### *Consolidation of Capital Markets-Related Laws*

Prior to the effective date of the FSCMA, there were separate laws regulating each type of financial organisation (e.g., the Securities and Exchange Act for securities companies, the Futures Business Act for companies dealing in futures, the Trust Business Act for trust business companies and the Indirect Investment Asset Management Business Act for asset management companies) and subjecting financial organisations to different licensing and on-going regulatory requirements. By applying one uniform set of rules to financial businesses carrying out the same economic function, the FSCMA intends to improve the capital markets system and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related businesses was governed by several different sets of rules. To this end, the FSCMA categorises capital markets-related businesses into six different functions (collectively, the "**Financial Investment Businesses**" and each a "**Financial Investment Business**"), as follows:

- dealing (trading and underwriting of financial investment products),
- brokerage (brokerage of financial investment products),
- collective investment (establishment of collective investment schemes and the management thereof),
- investment advice,
- discretionary investment management, and
- trusts.

Therefore, all previous financial businesses relating to financial investment products have been reclassified as one or more of the Financial Investment Businesses described above and financial organisations are now subject to the regulations applicable to their relevant Financial Investment Business(es), irrespective of the type of financial organisation.

Banking and insurance are not subject to the FSCMA and continue to be regulated under separate laws. However, Korean banks and insurance companies are subject to the FSCMA if they intend to engage in Financial Investment Businesses and may need to obtain appropriate licences under the FSCMA.

### *Comprehensive Definition of Financial Investment Products*

In an effort to encompass the various types of securities and derivative products available in the capital markets, the FSCMA sets forth a comprehensive term "**financial investment products**", defined to mean all financial products with a risk of loss in respect of the amount invested (in contrast to deposits where the principal is protected). Under the FSCMA, financial investment products are classified into two major categories: (i) "**securities**" (meaning financial investment products in respect of which the risk of loss is limited to the amount invested) and (ii) "**derivatives**" (meaning financial investment products of which the risk of loss may exceed the amount invested).

As a result of the general and open-ended manner in which financial investment products are defined, any future financial product could potentially fall within the scope of the definition of financial investment products, thereby enabling the financial organisation licenced under the FSCMA ("**Financial Investment**

**Business Entity**") to handle a broader range of financial products. Under the FSCMA, securities companies, asset management companies, companies dealing in futures and other entities engaging in any Financial Investment Business are classified as Financial Investment Business Entities.

***New Licence System and the Conversion of Existing Licences***

Under the FSCMA, the financial investment business units (each being a unit of business pursuant to which financial organisations shall be licenced) are classified into a total of 90 categories depending on the type of (i) financial investment service, (ii) financial investment product, and (iii) target customers to which financial investment products may be sold or dealt (i.e., general investors or professional investors). Financial Investment Business Entities are able to choose which Financial Investment Business(es) to engage in (via a "check the box" method set forth in the relevant licence application) by specifying the desired financial investment business unit or units. Under the FSCMA, Financial Investment Business Entities are permitted to engage in multiple types of Financial Investment Businesses, subject to satisfying relevant regulations (such as minimum capital requirements and maintaining an adequate "Chinese Wall").

Financial organisations previously engaging in business activities constituting a Financial Investment Business were required to take certain steps, such as renewal of their licence or registration, in order to continue engaging in such business activities. Certain financial organisations are permitted to engage in Financial Investment Business without a licence under the FSCMA in the following circumstances: (i) banks and insurance companies are permitted to engage in certain categories of Financial Investment Business upon obtaining the appropriate licence(s) under the FSCMA, to the extent permitted under the Banking Act or the Insurance Business Act, as the case may be; and (ii) other financial organisations that engaged in any Financial Investment Business prior to the effective date of the FSCMA (whether in the form of a concurrent business or an incidental business) are permitted to continue such Financial Investment Business for a period not exceeding six months commencing on the effective date of the FSCMA.

***Expanded Business Scope of Financial Investment Business Entities***

Under the FSCMA, by integrating businesses involving financial investment products into a single Financial Investment Business and allowing Financial Investment Business Entities to choose multiple Financial Investment Businesses to engage in, the business scope and opportunities of the licenced Financial Investment Business Entities are expanded.

Under the FSCMA, Financial Investment Business Entities may engage in business other than the Financial Investment Business ("**incidental businesses**"), including settlement and remittance services. Furthermore, under the Enforcement Decree of FSCMA, a dealer of securities investments (including underwriting services) may conduct corporate finance business; and a dealer of securities and over-the-counter derivatives (including underwriting services) may conduct payment guarantees business. Therefore, corporate finance business and payment guarantees business can be carried out by both banks and financial organisations which has received licences on respect of the relevant business units. In addition, a Financial Investment Business Entity is permitted to outsource marketing activities by contracting "introducing brokers" that are individuals but not employees of the Financial Investment Business Entity.

***Improvement in Investor Protection Mechanism***

While the FSCMA widens the scope of Financial Investment Businesses, a more rigorous investor protection mechanism is imposed upon Financial Investment Business Entities dealing in financial investment products. The FSCMA distinguishes general investors from professional investors and provides the former with new or enhanced protections. The FSCMA expressly provides for a strict know-your-customer rule for general investors and imposes an obligation on Financial Investment Business Entities to market financial investment products that are suitable for each general investor, using written explanatory materials. Under the FSCMA, a Financial Investment Business Entity could be liable if a general investor proves (i) the absence of the requisite written explanatory materials and (ii) damage or loss resulting from the general investor's investment in financial investment products solicited by such Financial Investment Business Entity (without having to prove fault or causation). With respect to conflicts of interest between Financial Investment Business Entities and investors, the FSCMA expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to an acceptable level or abstaining from the relevant transaction.

**Regulations on the Class Actions Regarding Securities**

The Law on Class Actions Regarding Securities was enacted as of 20 January 2004 and an amendment to such law was enacted as of 10 March 2005, 31 March 2010 and 28 May 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in, or material fact omitted from, a registration statement or investment prospectus;

- claims for damages caused by the filing of a misleading business report, semi-annual report, quarterly report, material fact report or a document attached thereto or by an omission of a description or representation of a material fact therein;

- claims for damages caused by insider trading, market manipulation or unfair trading; and

- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

The Law on Class Actions Regarding Securities came into effect on 1 January 2007 with respect to companies with a total asset value of less than ₩2 trillion, and on 1 January 2005 for all other companies and will apply to all applicable claims arising out of acts committed since its enactment.

## TAXATION

### Korea

**The Information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisers.**

The taxation of non-resident individuals and non-Korean corporations ("**Non-Residents**") generally depends on whether they have a "permanent establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

***Tax on Interest***

Interest payable to Non-Residents in respect of the Instruments, if qualified as certain foreign currency-denominated bonds issued outside of Korea pursuant to the Special Tax Treatment Control Law ("**STTCL**"), is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the STTCL.

If the tax exemption under the STTCL referred to above were to cease to be in effect the rate of income tax or corporation tax applicable to interest on the Instruments without the tax exemption under the STTCL, for a Non-Resident without a permanent establishment in Korea, is currently 14 per cent. of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

In addition, in order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for reduced rate to either the payor or the entity obligated to withhold such tax liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within three years thereafter), together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's resident country. If the Non-resident holder was unable to receive the benefit of a reduced rate due to his or her failure to timely submit the aforementioned application, the Non-Resident holder may still receive a tax return if the submission to the relevant tax office is made within three years from the last day of the month in which the date of withholding occurs.

The tax rates may be reduced or exempted by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income. The relevant tax treaties are discussed below.

***Tax on Capital Gains***

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of Instruments to Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents from the transfer outside Korea of Instruments to Non-Residents are currently exempt from taxation by virtue of the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty or any other special tax laws reducing or eliminating tax on capital gains, the applicable rate of tax is the lower of 11 per cent. of the gross realisation proceeds and (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Instrument) 22 per cent. of the realised gain (i.e., the excess of the gross realisation proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of instruments issued by Korean companies. The purchaser or any other designated withholding agent of Instruments is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11 per cent. of the gross realisation proceeds. Any amounts withheld by the purchaser or withholding agent must be paid to the relevant Korean tax authority. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax, either as a seller of Instruments or as a purchaser or withholding agent who is obliged to withhold such tax through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies according to the identity of the persons involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned.

***Stamp Duty and Securities Transaction Tax***

No stamp, issue or registration duties will be payable in Korea by the Holders in connection with the issue of the Instruments except for nominal amount of stamp duty on certain documents executed in Korea. No securities transaction tax will be imposed on the transfer of Instruments.

***Tax Treaties***

At the date of this Information Memorandum, Korea has tax treaties with, *inter alia*, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America under which the rate of withholding tax on interest (including local income tax) is reduced, generally to between 5 and 16.5 per cent. and the tax on capital gains is often eliminated.

Each Holder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to any transaction involving Instruments. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the payer or the Issuer a certificate as to his residence. In the absence of sufficient proof, the payer or the Issuer must withhold taxes in accordance with the above discussion. Each Holder must submit an application for entitlement to reduced tax rate on domestic source income in order to benefit from reduced rates under a tax treaty for any income (e.g., interest).

Further, in order for a non-resident to obtain the benefit of a tax exemption under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under a tax treaty along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax authority by the ninth day of the month following the date of the first payment of such income. However, this requirement does not apply to tax exemptions under Korean tax laws.

***Withholding and Gross Up***

As mentioned above, interest under the Instruments is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL. However, in the event that the payer or the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in Condition 8), the Issuer has agreed to pay (subject to the customary exceptions as set out in such Condition 8) such additional amounts as may be necessary in order that the net amounts receivable by the Holder of any Instrument or Coupon after such withholding or deduction shall equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction.

***United States***

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROGRAMME IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

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The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Instruments by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Instrument which may be issued under the Programme, and the relevant Final Terms may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Instrument as appropriate. This summary deals only with purchasers of Instruments that are U.S. Holders and that will hold the Instruments as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Instruments by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Instruments as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Instruments with a term of 30 years or less. The U.S. federal income tax consequences of owning Instruments with a longer term will be discussed in the applicable Final Terms.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Instruments that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, or any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Instruments will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax adviser concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Instruments by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

Bearer Instruments are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Instrument may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the United States Internal Revenue Code.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE INSTRUMENTS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

***Payments of Interest***

*General*

Interest on an Instrument, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a "**foreign currency**"), other than interest on a "Discount Instrument" that is not "qualified stated interest" (each as defined below under "– *Original Issue Discount – General*"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Instruments and OID, if any, accrued with respect to the Instruments (as described below under "– *Original Issue Discount*") generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Instruments.

***Original Issue Discount***

*General*

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Instruments issued with original issue discount ("**OID**"). The following summary does not discuss Instruments that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments the applicable Final Terms may describe the material U.S. federal income tax consequences thereof.

An Instrument, other than an Instrument with a term of one year or less (a "**Short-Term Instrument**"), will be treated as issued with OID (a "**Discount Instrument**") if the excess of the Instrument's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Instrument's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "**instalment obligation**") will be treated as a Discount Instrument if the excess of the Instrument's stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Instrument's stated redemption price at maturity multiplied by the weighted average maturity of the Instrument. An Instrument's weighted average maturity is the sum of the following amounts determined for each payment on an Instrument (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Instrument's stated redemption price at maturity. Generally, the issue price of an Instrument will be the first price at which a substantial amount of Instruments included in the issue of which the Instrument is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of an Instrument is the total of all payments provided by the Instrument that are not payments of "qualified stated interest". A qualified stated interest payment is generally any one of a series of stated interest payments on an Instrument that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "– *Variable Interest Rate Instruments*"), applied to the outstanding principal amount of the Instrument. Solely for the purposes of determining whether an Instrument has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Instrument, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Instrument.

U.S. Holders of Discount Instruments must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Instruments. The amount of OID includible in income by a U.S. Holder of a Discount Instrument is the sum of the daily portions of OID with respect to the Discount Instrument for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Instrument. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to an Instrument may be of any length selected by the U.S. Holder and may vary in length over the term of the Instrument as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Instrument occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Instrument's adjusted issue price at the beginning of the accrual period and the Discount Instrument's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Instrument allocable to the accrual period. The "**adjusted issue price**" of a Discount Instrument at the beginning of any accrual period is the issue price of the Instrument increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Instrument that were not qualified stated interest payments.

*Acquisition Premium*

A U.S. Holder that purchases a Discount Instrument for an amount less than or equal to the sum of all amounts payable on the Instrument after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**") and that does not make the election described below under "– *Election to Treat All Interest as Original Issue Discount*", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Instrument immediately after its purchase over the Instrument's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Instrument after the purchase date, other than payments of qualified stated interest, over the Instrument's adjusted issue price.

*Short-Term Instruments*

In general, an individual or other cash basis U.S. Holder of a Short-Term Instrument is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Instruments on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Instrument will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Instruments will be required to defer deductions for interest on borrowings allocable to Short-Term Instruments in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Instrument are included in the Short-Term Instrument's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Instrument as if the Short-Term Instrument had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Instrument. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

*Fungible Issue*

The Issuer may, without the consent of the Holders of outstanding Instruments, issue additional Instruments with identical terms. These additional Instruments, even if they are treated for non-tax purposes as part of the same series as the original Instruments, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Instruments may be considered to have been issued with OID even if the original Instruments had no OID, or the additional Instruments may have a greater amount of OID than the original Instruments. These differences may affect the market value of the original Instruments if the additional Instruments are not otherwise distinguishable from the original Instruments.

*Market Discount*

An Instrument, other than a Short-Term Instrument, generally will be treated as purchased at a market discount (a "**Market Discount Instrument**") if the Instrument's stated redemption price at maturity or, in the case of a Discount Instrument, the Instrument's "revised issue price", exceeds the amount for which the U.S. Holder purchased the Instrument by at least 0.25 per cent. of the Instrument's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Instrument's maturity (or, in the case of an Instrument that is an instalment obligation, the Instrument's weighted average maturity). If this excess is not sufficient to cause the Instrument to be a Market Discount Instrument, then the excess constitutes "*de minimis* market discount". For this purpose, the "**revised issue price**" of an Instrument generally equals its issue price, increased by the amount of any OID that has accrued on the Instrument and decreased by the amount of any payments previously made on the Instrument that were not qualified stated interest payments.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Instrument (including any payment on an Instrument that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Instrument. Alternatively, a U.S. Holder of a Market Discount Instrument may elect to include market discount in income currently over the life of the Instrument. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the Internal Revenue Service (the "**IRS**"). A U.S. Holder of a Market Discount Instrument that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Instrument that is in excess of the interest and OID on the Instrument includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Instrument was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Instrument with respect to which it is made and is irrevocable.

*Variable Interest Rate Instruments*

Instruments that provide for interest at variable rates ("**Variable Interest Rate Instruments**") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Instrument will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Instrument by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A "**qualified floating rate**" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Instrument is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Instrument (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Instrument's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An "**objective rate**" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Instrument will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Instrument's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Instrument's term. A "**qualified inverse floating rate**" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Instrument provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Instrument's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "**current value**" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Instrument that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument", then any stated interest on the Instrument which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Instrument that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Instrument is issued at a "true" discount (i.e., at a price below the Instrument's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Instrument arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Instrument.

In general, any other Variable Interest Rate Instrument that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Instrument. Such a Variable Interest Rate Instrument must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Instrument with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Instrument's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Instrument is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Instrument. In the case of a Variable Interest Rate Instrument that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Instrument provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Instrument as of the Variable Interest Rate Instrument's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Instrument is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Instrument is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Instrument will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Instrument during the accrual period.

If a Variable Interest Rate Instrument, such as an Instrument the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Instrument will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Instruments that are treated as contingent payment debt obligations will be more fully described in the applicable Final Terms.

### *Instruments Purchased at a Premium*

A U.S. Holder that purchases an Instrument for an amount in excess of its principal amount, or for a Discount Instrument, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium", in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Instrument will be reduced by the amount of amortisable bond premium allocable (based on the Instrument's yield to maturity) to that year. Any election to amortise bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also "*– Election to Treat All Interest as Original Issue Discount*".

***Election to Treat All Interest as Original Issue Discount***

A U.S. Holder may elect to include in gross income all interest that accrues on an Instrument using the constant-yield method described above under "– *Original Issue Discount – General*," with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described above under "– *Instruments Purchased at a Premium*") or acquisition premium. This election will generally apply only to the Instrument with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on an Instrument is made with respect to a Market Discount Instrument, the electing U.S. Holder will be treated as having made the election discussed above under "– *Foreign Currency Instruments – Market Discount*" to include market discount in income currently over the life of all debt instruments having market discount that are acquired on or after the first day of the first taxable year to which the election applies. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

***Purchase, Sale and Retirement of Instruments***

A U.S. Holder's tax basis in an Instrument will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Instrument and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Instrument, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Instrument.

A U.S. Holder will generally recognise gain or loss on the sale or retirement of an Instrument equal to the difference between the amount realised on the sale or retirement and the tax basis of the Instrument. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described below under "– *Original Issue Discount – Market Discount*" or "– *Original Issue Discount – Short Term Instruments*" or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of an Instrument will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Instruments exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of an Instrument generally will be U.S. source.

***Foreign Currency Instruments***

*Interest*

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of an Instrument) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

*OID*

OID for each accrual period on a Discount Instrument that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Instrument or a sale or disposition of the Instrument), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

*Market Discount*

Market discount on an Instrument that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Instrument, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

*Bond Premium*

Bond premium (including acquisition premium) on an Instrument that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income (or OID) in units of the foreign currency. On the date bond premium offsets interest income (or OID), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the amount offset multiplied by the difference between the spot rate in effect on the date of the offset, and the spot rate in effect on the date the Instruments were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a capital loss when the Instrument matures.

*Sale or Retirement*

As discussed above under "– *Purchase, Sale and Retirement of Instruments*", a U.S. Holder will generally recognise gain or loss on the sale or retirement of an Instrument equal to the difference between the amount realised on the sale or retirement and its tax basis in the Instrument. A U.S. Holder's tax basis in an Instrument that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Instrument. The U.S. dollar cost of an Instrument purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Instruments traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Instruments traded on an established securities market, within the meaning of the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of an Instrument equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Instrument (or, if less, the principal amount of the Instrument) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Instrument. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest).

*Disposition of Foreign Currency*

Foreign currency received as interest on an Instrument or on the sale or retirement of an Instrument will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Instruments or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

***Backup Withholding and Information Reporting***

In general, payments of interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Instruments, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

***Reportable Transactions***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, if the Instruments are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Instruments as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

***Foreign Financial Asset Reporting***

Reporting requirements are imposed on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds an applicable threshold. The Instruments are expected to constitute foreign financial assets subject to these requirements unless the Instruments are regularly traded on an established securities market or held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisers regarding the application of this legislation.

***United States Foreign Account Tax Compliance Act***

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to any non-U.S. financial institution (a foreign financial institution, or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the IRS to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA. The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "**Model 1**" and "**Model 2**" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership," or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might be required to withhold as a Participating FFI on foreign passthru payments. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States has announced an intention to enter into an intergovernmental agreement with Korea.

If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Instruments are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Instruments is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Instruments, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Instruments, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

Whilst the Instruments are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Instruments by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Instruments. The documentation expressly contemplates the possibility that the Instruments may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, Definitive Instruments will only be printed in remote circumstances.

**FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION IS UNCERTAIN AT THIS TIME. THE ABOVE DESCRIPTION IS BASED IN PART ON REGULATIONS, OFFICIAL GUIDANCE AND MODEL IGAS, ALL OF WHICH ARE SUBJECT TO CHANGE OR MAY BE IMPLEMENTED IN A MATERIALLY DIFFERENT FORM. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISERS ON HOW THESE RULES MAY APPLY TO THE ISSUER AND TO PAYMENTS THEY MAY RECEIVE IN CONNECTION WITH THE INSTRUMENTS.**

**Europe**

***European Union Directive on Taxation of Savings Income***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. In April 2013, the Luxembourg government announced its intention to elect out of the withholding system in favour of automatic exchange of information with effect from 1 January 2015.

Also with effect from 1 July 2005, a number of non-EU countries including Switzerland, Andorra, Liechtenstein, Monaco and San Marino, and certain dependent or associated territories of certain Member States including Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles, Aruba, Anguilla, Cayman Islands, Turks and Caicos Islands and Gibraltar, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

***The proposed financial transactions tax***

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transactions tax ("FTT") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The proposed FTT has very broad scope. If introduced in the form proposed on 14 February 2013, it could apply to certain dealings in Instruments (including secondary market transactions) in certain circumstances. The issuance and subscription of Instruments should, however, be exempt.

Under the 14 February 2013 proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Instruments where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. Additional EU Member States may decide to participate, although certain other Member States have expressed strong objections to the proposal. The FTT proposal may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of Instruments are advised to seek their own professional advice in relation to the FTT.

# CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Instruments by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**"), and entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each a "**Plan**").

## General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "**ERISA Plan**") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Instruments of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan, including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

## Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest", within the meaning of ERISA, or "disqualified persons", within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Instruments by an ERISA Plan with respect to which the Issuer or a Dealer is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labour has issued prohibited transaction class exemptions, or "PTCEs", that may apply to the acquisition and holding of the Instruments. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Instruments should not be purchased or held by any person investing "plan assets" of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

**Representation**

Accordingly, by acceptance of an Instrument or any beneficial interest therein, unless otherwise specified in the relevant Pricing Supplement, each purchaser and subsequent transferee of an Instrument or any beneficial interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Instrument or any beneficial interest therein constitutes assets of any Plan or (ii) the purchase and holding of the Instruments or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Instruments on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Instruments.

## SUBSCRIPTION AND SALE

Instruments may be issued from time to time by the Issuer to any one or more of Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Hana Daetoo Securities, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Singapore Branch, KEB Asia Finance Limited, Merrill Lynch International, Mizuho Securities Asia Limited and Morgan Stanley & Co. International plc (the "**Dealers**"). Instruments may also be sold by the Issuer directly to institutions who are not Dealers, subject to the same selling restrictions as would be applicable to Dealers. The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated 17 May 1995 as most recently amended and restated on 16 October 2013 and further amended and supplemented on 26 May 2014 (the "**Dealership Agreement**") and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Some of the Dealers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer. The Dealers have received, or may in the future receive, customary fees and commissions for these transactions.

In connection with the offering of the Instruments issued under the Programme, the Dealers and/or their respective affiliates, or affiliates of the Issuer, may place orders, receive allocations and purchase Instruments for their own account (without a view to distributing such Instruments) and such orders and/or allocations of the Instruments may be material. Such entities may hold or sell such Instruments or purchase further Instruments for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Instruments or other securities otherwise than in connection with the offering of Instruments. Accordingly, references herein to the Instruments being 'offered' should be read as including any offering of the Instruments to the Dealers and/or their respective affiliates, or affiliates of the Issuer for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Instruments. If this is the case, liquidity of trading in the Instruments may be constrained (see "*Investment Considerations – Risks Relating to the Instruments – The Instruments may have limited liquidity*"). The Issuer and the Dealers are under no obligation to disclose the extent of the distribution of the Instruments amongst individual investors.

In the ordinary course of their various business activities, the Dealers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer, including the Instruments. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Instruments offered hereby. Any such short positions could adversely affect future trading prices of the Instruments offered hereby. The Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Instruments or other financial instruments of the Issuer, and may recommend to their clients that they acquire long and/or short positions in the Instruments or other financial instruments.

**United States of America**

***Regulation S Category 2; Rule 144A Eligible if so specified in the relevant Pricing Supplement.***

Instruments have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, except as permitted by the Dealership Agreement, it will not offer, sell or in the case of Bearer Instruments, deliver Instruments, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Instruments comprising the relevant Tranche, as certified to the Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Instruments to or through more than one Dealer, by each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case the Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to or for the account or benefit of U.S. persons, and such Dealer will have sent to each dealer to which it sells Instruments during the distribution compliance period relating thereto (other than sales pursuant to Rule 144A under the Securities Act) a confirmation or other notice setting forth the restrictions on offers and sales of the Instruments within the United States or to or for the account or benefit of U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act.

The Instruments are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Notwithstanding the foregoing, each Dealer may arrange for the offer and sale of Instruments in the United States pursuant to Rule 144A. Each purchaser of such Instruments is hereby notified that the offer and sale of such Instruments is being made in reliance upon the exemption from the registration requirements of the Securities Act available for transactions complying with Rule 144A.

This Information Memorandum has been prepared by the Issuer for use in connection with the offer and sale of the Instruments outside the United States and for the resale of the Instruments in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Instruments, in whole or part, for any reason. This Information Memorandum does not constitute an offer to any person in the United States or to any U.S. person, other than any Qualified Institutional Buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Information Memorandum by any non-U.S. person outside the United States or by any Qualified Institutional Buyer in the United States to any U.S. person or to any other person within the United States, other than any Qualified Institutional Buyer and those persons, if any, retained to advise such non-U.S. person or Qualified Institutional Buyer with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any Qualified Institutional Buyer and those persons, if any, retained to advise such non-U.S. person or Qualified Institutional Buyer, is prohibited. See "*Transfer Restrictions*" above.

Each issuance of index-, commodity- or currency-linked Instruments will be subject to such additional U.S. selling restrictions as the relevant Dealer(s) may agree, as indicated in the applicable Pricing Supplement. Each Dealer has agreed that it will offer, sell or deliver such Instruments only in compliance with such additional U.S. selling restrictions.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer, sale and purchase of the Instruments, including certain liabilities arising under the Securities Act, as more particularly set out in the Dealership Agreement.

**United Kingdom**

In relation to each Tranche of Instruments, each Dealer subscribing for or purchasing such Instruments has represented to and agreed with, or will represent to and agree with, the Issuer and each other such Dealer (if any) that:

(a) ***No deposit-taking***: in relation to any Instruments which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Instruments in, from or otherwise involving the United Kingdom; and

(c) ***Financial Promotion***: it has only communicated or caused to be communicated and will only communicate or caused to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Instruments in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

**Hong Kong**

In relation to each Tranche of Instruments, each Dealer represents and agrees that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Instruments except for Instruments which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**Securities and Futures Ordinance**") other than (a) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere any advertisement, invitation or document relating to the Instruments, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Instruments which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Law**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Instruments in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other relevant laws and regulations of Japan.

## Korea

Each Dealer has represented and agreed and each Dealer further appointed under the Programme will be required to represent and agree, that the Instruments have not been and will not be offered, delivered or sold directly or indirectly in Korea or to any resident of Korea or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) except as otherwise permitted under applicable Korean laws and regulations.

In addition, until the expiration of one year after the issuance of the Instruments, a holder of Instruments will be prohibited from offering, delivering or selling any Instruments, directly or indirectly, in Korea or to any Korean resident except (i) in the case where the Instruments are issued as bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, the Instruments may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of qualified institutional investors as specified in the Financial Investment Services and Capital Market Act of Korea, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, provided that (x) the Instruments are registered with the Korea Financial Investment Association ("**KOFIA**") by the Issuer and (y) the qualified institutional investors are registered with the KOFIA in advance and complies with the requirement for monthly reports to the KOFIA of their holding of the Instruments, and further provided that all of the following requirements are satisfied: (1) the Instruments shall be issued in a currency other than Korean Won and the principal and interest shall be paid in a currency other than Korean Won, (2) at least 80 per cent. of the Instruments shall be allocated to non-residents of Korea (which applies only to the Instruments acquired from the Issuer or any underwriter at the time of issuance), (3) the Instruments shall be those listed on a major overseas securities market specified by the governor of the Financial Supervisory Service, those registered with or reported to a foreign financial investment supervisory agency of the country in which a major overseas market is established, or those for which any other procedure that may be deemed a public offering is completed, (4) measures shall be taken to state the condition that the Instruments shall not be transferred to any Korean resident other than qualified institutional investors at the time of issuance or within one year from the issuance date on the face of such Instruments (limited to cases where any physical instrument is issued), the underwriting agreement, subscription agreement or offering document and (5) the Issuer and Dealer (limited to cases where a Dealer is appointed) shall take measures under foregoing items (1) to (4) and the Issuer and Dealer shall severally or jointly preserve evidential documents in relation thereto; or (ii) as otherwise permitted under applicable Korean laws and regulations.

Each Dealer has undertaken, and each Dealer further appointed under the Programme will be required to undertake, to use commercially reasonable best measures as a Dealer in the ordinary course of its business so that any securities dealer to which it sells the Instruments confirms that it is purchasing such Instruments as principal and agrees with such Dealer that it will comply with the restrictions described above.

**Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Information Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Dealer has represented and agreed that it has not offered or sold any Instruments or caused the Instruments to be made the subject of an invitation for subscription or purchase and will not offer or sell the Instruments or cause the Instruments to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Instruments, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Information Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Information Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Instruments may not be circulated or distributed, nor may any Instruments be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Instruments are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months of that corporation or that trust acquiring the Instruments pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

**Public Offer Selling Restriction Under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by this Information Memorandum as completed by the Pricing Supplements in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

(i) if the final terms in relation to the Instruments specify that an offer of those Instruments may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Instruments which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, **provided that** any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(iii) at any time to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealers or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

**provided that** no such offer of Instruments referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

**General**

Other than with respect to the admission of the Instruments to listing, trading and/or quotation by the relevant listing authorities, stock exchanges and/or quotation systems, no action has been or will be taken in any jurisdiction by the Issuer or the Dealers that would permit a public offering of Instruments, or possession or distribution of any offering material in relation thereto, in any jurisdiction where action for that purpose is required. Persons into whose hands this Information Memorandum or any Pricing Supplement comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each jurisdiction in or from which they purchase, offer, sell or deliver Instruments or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in this paragraph.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Instruments) or (in any other case) in a supplement to this document.

## GENERAL INFORMATION

(1) Approval in-principle has been received from the Singapore Exchange for the listing and quotation of Instruments that may be issued under the Programme and which Instruments are agreed, at or prior to the time of issue thereof, to be so listed on the Singapore Exchange. Such permission will be granted when such Instruments have been admitted to the Official List of the Singapore Exchange.

(2) However, Instruments may be issued pursuant to the Programme which will not be listed on the Singapore Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

(3) All consents, approvals and authorisations necessary under the laws of Korea for the Issuer to constitute the Programme and to perform its obligations under the Dealership Agreement, the Issue and Paying Agency Agreement, the Deed of Covenant and the Instruments have been obtained, except that before each issue of Instruments under the Programme, the Issuer must submit a report to, the Minister of Strategy and Finance if (i) the term of such Instruments exceeds one year, and (ii) the total principal amount of such Instruments exceeds U.S.$50,000,000 (or its equivalent in foreign currencies). The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments.

(4) The Issuer hereby notifies the recipients of this Information Memorandum that it has been advised by Lee & Ko that not all judgments obtained against the Issuer in non-Korean courts may be recognised and enforced by the courts of Korea. Judgments may be recognised and enforced by the courts of Korea only if (i) such judgment was finally and conclusively given by a court having valid jurisdiction in accordance with the international jurisdiction principles under the Korean law and applicable treaties, (ii) the Issuer receives service of process in conformity with the laws of the jurisdiction of the court rendering judgement with sufficient time to enable the Issuer to prepare its defence other than by publication (or if the Issuer receives service of process in Korea, in conformity with the laws of Korea) or voluntarily responded to the legal action without being served with process, (iii) such judgment was not obtained by fraud, is not contrary to the public policy of Korea and was not obtained in proceedings that were contrary to natural justice and (iv) Korean judgments would reciprocally be recognised and enforced by jurisdiction of the court passing judgments. As at the date of this Information Memorandum, the Issuer is not aware of any Korean court precedent which holds that such reciprocal recognition of judgments exists or does not exist between the courts of England and the courts of Korea.

(5) The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 12 May 1995. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments.

(6) The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg and/or DTC. The appropriate common code, International Securities Identification Number and CUSIP in relation to the Instruments of each Series will be specified in the Pricing Supplement relating thereto. The relevant Pricing Supplement shall specify any other clearing system (including DTC) as shall have accepted the relevant Instruments for clearance together with any further appropriate information.

(7) Bearer Instruments (other than Temporary Global Instruments) and any Coupon appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in such legend provide that a United States person who holds a Bearer Instrument or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Instrument or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

(8) Settlement arrangements will be agreed between the Issuer, the relevant Dealer(s) and the Issue and Paying Agent or, in the case of Registered Instruments, the Registrar or the DTC Registrar, as the case may be, in relation to each Tranche of Instruments.

(9) To the extent that the Issuer, the directors and officers of the Issuer and certain experts named herein, and the assets of these persons and of the Issuer, are located outside the United States, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce in the United States against such persons or the Issuer judgments obtained in the United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

(10) For so long as the Programme remains in effect or any Instruments shall be outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified offices of the Paying Agents, namely:

(a) the Issue and Paying Agency Agreement;

(b) the Deed of Covenant;

(c) the most recent publicly available audited consolidated and separate financial statements of the Issuer beginning with such financial statements as of and for the years ended 31 December 2011, 2012 and 2013;

(d) the most recent publicly available unaudited consolidated and separate interim financial statements of the Issuer beginning with such financial statements as of and for the three months ended 31 March 2013 and 2014; and

(e) any Pricing Supplement relating to Instruments which are listed on any stock exchange, the Information Memorandum and all supplements and amendments to the Information Memorandum. (In the case of any Instruments which are not listed on any stock exchange, copies of the relevant Pricing Supplement will only be available by the relevant Holders of Instruments.)

## INDEX TO FINANCIAL STATEMENTS

Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

## Report on review of interim consolidated financial statements

The Board of Directors and Shareholders
Korea Exchange Bank and its subsidiaries

### Report on review of interim consolidated financial statements

We have reviewed the accompanying interim consolidated financial statements of Korea Exchange Bank (the "KEB") and its subsidiaries (collectively, the "Company"), which comprises the interim consolidated statements of financial position as at March 31, 2014, and the related interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month periods ended March 31, 2014 and 2013, and a summary of significant accounting policies and explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with Korea International Financial Reporting Standards 1034 *Interim Financial Reporting* (KIFRS 1034). Also, the management is responsible for the design and operation of the Company's internal control to prevent and detect any error or fraud which may cause material misstatement of the interim consolidated financial statements.

### Independent accountants' responsibility

Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review. We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements were not prepared, in all material respects, in accordance with KIFRS 1034.

Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

**Other matters**

We have audited the consolidated statement of financial position of the Company as at December 31, 2013, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea and our report dated March 4, 2014 expressed an unqualified opinion thereon. The accompanying consolidated statement of financial position as at December 31, 2013, presented for comparative purpose are not different, in all material respects, from the above audited separate statement of financial position.

Ernst & Young Han Young

May 12, 2014

This review report is effective as at May 12, 2014, the independent accountants' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent accountants' review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim consolidated financial statements and may result in modification to this review report.

**Korea Exchange Bank**
**Interim consolidated statements of financial position**
**As at March 31, 2014 and December 31, 2013**
(Korean won in millions)

| | Notes | | March 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and due from banks | 5, 6, 7, 10, 47 | ₩ | 9,437,295 | ₩ | 8,247,437 |
| Financial assets at FVTPL | 5, 6, 7, 8, 11, 18, 48 | | 1,779,090 | | 2,133,946 |
| Derivative assets used for hedging purposes | 5, 6, 7, 8, 18 | | 20,662 | | 23,070 |
| Available-for-sale financial assets | 5, 6, 7, 8, 12, 14, 15, 17 | | 10,148,580 | | 9,203,594 |
| Held-to-maturity investments | 5, 6, 7, 8, 13, 14, 15 | | 1,586,441 | | 2,330,877 |
| Loans receivable | 5, 6, 7, 8, 16, 17, 48 | | 78,076,446 | | 73,684,397 |
| Investments in associates | 19 | | 771 | | 771 |
| Property and equipment | 20 | | 1,211,502 | | 1,219,586 |
| Investment property | 21 | | 182,859 | | 183,262 |
| Intangible assets | 22 | | 70,330 | | 73,500 |
| Current income tax assets | | | 2,127 | | 2,087 |
| Deferred income tax assets | 44 | | 48,991 | | 38,008 |
| Other assets | 5, 6, 7, 8, 23, 48 | | 9,528,047 | | 6,776,785 |
| Merchant banking account assets | 5, 6, 7, 8, 23 | | 2,706,123 | | 2,715,835 |
| Non-current assets held for sale | 24 | | 692 | | 660 |
| **Total assets** | | ₩ | 114,799,956 | ₩ | 106,633,815 |
| **Liabilities and equity** | | | | | |
| **Liabilities** | | | | | |
| Deposits | 6, 7, 8, 26, 48 | ₩ | 71,807,439 | ₩ | 69,777,325 |
| Financial liabilities at FVTPL | 5, 6, 7, 8, 25, 48 | | 986,743 | | 1,286,745 |
| Derivative liabilities used for hedging purposes | 5, 6, 7, 8, 18 | | 8,382 | | 12,562 |
| Borrowings | 5, 6, 7, 8, 27 | | 8,963,635 | | 6,832,731 |
| Debentures | 5, 6, 7, 8, 28 | | 6,547,336 | | 6,769,818 |
| Provisions | 29, 48, 49 | | 276,164 | | 274,038 |
| Current income tax liabilities | | | 111,105 | | 38,309 |
| Deferred income tax liabilities | 44 | | 31,100 | | 91,905 |
| Other liabilities | 5, 6, 7, 8, 30 , 31, 46, 48 | | 14,123,877 | | 10,286,614 |
| Merchant banking account liabilities | 5, 6, 7, 8, 30 | | 2,511,582 | | 1,680,804 |
| **Total liabilities** | | | 105,367,363 | | 97,050,851 |
| **Equity** | | | | | |
| Common stock | 32 | | 3,224,534 | | 3,224,534 |
| Capital surplus | 32 | | 940 | | 940 |
| Hybrid equity securities | 32 | | 179,737 | | 429,509 |
| Capital adjustments | 32 | | (20,215) | | (18,724) |
| Retained earnings | 33 | | 5,764,732 | | 5,796,603 |
| (Regulatory reserve for bad debts in the amount of ₩794,762 and ₩737,322 as at March 31, 2014 and December 31, 2013, respectively) | 34 | | | | |
| (Required reserve for bad debts in the amount of ₩32,627 and ₩57,440 as at March 31, 2014 and December 31, 2013, respectively) | | | | | |
| (Planned reserve for bad debts in the amount of ₩32,627 and ₩57,440 as at March 31, 2014 and December 31, 2013, respectively) | | | | | |
| Accumulated other comprehensive income | 35 | | 151,099 | | 148,587 |
| Equity attributable to equity holders of the parent | | | 9,300,827 | | 9,581,449 |
| Non-controlling shareholder's equity | | | 131,766 | | 1,515 |
| **Total equity** | | | 9,432,593 | | 9,582,964 |
| **Total liabilities and equity** | | ₩ | 114,799,956 | ₩ | 106,633,815 |

The accompanying notes are an integral part of the interim financial statements.

**Korea Exchange Bank**
**Interim consolidated statements of profit or loss and other comprehensive income**
**For the three-month periods ended March 31, 2014 and 2013**
(Korean won in millions, except per share amounts)

| | Notes | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|---|
| **Net interest income** | 37,48 | | |
| Interest income | | ₩ 963,213 | ₩ 990,394 |
| Interest expenses | | (397,028) | (437,276) |
| | | 566,185 | 553,118 |
| **Net fee and commission income** | 38,48 | | |
| Fee and commission income | | 128,958 | 137,216 |
| Fee and commission expenses | | (90,875) | (80,786) |
| | | 38,083 | 56,430 |
| **Net gain (loss) on financial instruments at FVTPL** | 39,48 | | |
| Gain on financial instruments at FVTPL | | 607,262 | 1,313,087 |
| Loss on financial instruments at FVTPL | | (578,819) | (1,358,125) |
| | | 28,443 | (45,038) |
| **Net gain on derivative financial instruments used for hedging purposes** | 39 | | |
| Gain on derivative financial instruments used for hedging purposes | | 8,164 | 4,920 |
| Loss on derivative financial instruments used for hedging purposes | | (8,055) | (3,262) |
| | | 109 | 1,658 |
| **Net gain on available-for-sale financial assets** | 39 | | |
| Gain on available-for-sale financial assets | | 21,031 | 19,176 |
| Loss on available-for-sale financial assets | | (15) | (4,409) |
| | | 21,016 | 14,767 |
| **Impairment loss** | 40,48 | | |
| Impairment loss on financial assets | | (187,872) | (134,834) |
| | | (187,872) | (134,834) |
| **General and administrative expenses** | 41,46 | (357,237) | (378,777) |
| **Net other operating income (expenses)** | 42,48 | | |
| Other operating income | | 446,816 | 474,847 |
| Other operating expenses | | (469,695) | (428,006) |
| | | (22,879) | 46,841 |
| **Operating income** | | 85,848 | 114,165 |
| **Non-operating income** | 43 | | |
| Non-operating income | | 6,677 | 5,323 |
| Non-operating expenses | | (5,398) | (3,230) |
| | | 1,279 | 2,093 |
| **Net income before income tax expense** | | 87,127 | 116,258 |
| **Income tax expense** | 44 | (15,413) | (40,996) |
| **Net income** | | 71,714 | 75,262 |
| (Adjusted income after deducting regulatory reserve for bad debt in the amount of ₩37,915 and ₩17,837 for the three-month periods ended March 31, 2014 and 2013, respectively) | 34 | | |
| **Other comprehensive income** | 35 | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Gain (loss) on valuation of available-for-sale financial assets | | (29,780) | 56,350 |
| Exchange differences on translation of available-for-sale financial assets | | 29 | 81 |
| Exchange differences on translation of foreign operations | | 29,827 | 48,781 |
| Tax effect | | 7,028 | (13,669) |
| | | 7,104 | 91,543 |

(Continued)

**Korea Exchange Bank**
**Interim consolidated statements of profit or loss and other comprehensive income**
**For the three-month periods ended March 31, 2014 and 2013**

(Korean won in millions, except per share amounts)

| | Notes | For the three-month periods ended March 31, | | | |
|---|---|---|---|---|---|
| | | 2014 | | 2013 | |
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Remeasurements of the net defined benefit liability | | | (1,060) | | 16 |
| Tax effect | | | 256 | | (4) |
| | | | (804) | | 12 |
| **Total comprehensive income** | | ₩ | 78,014 | ₩ | 166,817 |
| Equity holders of the parent | | | 73,054 | | 166,786 |
| Non-controlling interests | | | 4,960 | | 31 |
| **Earnings per share** | 45 | | | | |
| Basic earnings per share | | ₩ | 99 | ₩ | 111 |
| Diluted earnings per share | | ₩ | 99 | ₩ | 111 |

The accompanying notes are an integral part of the interim financial statements.

## Korea Exchange Bank
## Interim consolidated statements of changes in equity
## For the three-month periods ended March 31, 2014 and 2013

(Korean won in millions)

| | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Equity attributable to equity holders of the parent | Non-controlling shareholders' equity | Total |
|---|---|---|---|---|---|---|---|---|---|
| As at January 1, 2013 | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,404,592 | ₩ 176,893 | ₩ 9,056,771 | ₩ 2,087 | ₩ 9,058,858 |
| Dividends | - | - | - | - | (32,245) | - | (32,245) | - | (32,245) |
| Dividends on hybrid equity securities | - | - | - | - | (4,563) | - | (4,563) | - | (4,563) |
| Share-based payment transactions | - | - | - | (112) | - | - | (112) | - | (112) |
| Other capital adjustments | - | - | - | (497,072) | - | - | (497,072) | - | (497,072) |
| | 3,224,534 | 940 | 249,772 | (497,144) | 5,367,784 | 176,893 | 8,522,779 | 2,087 | 8,524,866 |
| Net income for the period | - | - | - | - | 75,277 | - | 75,277 | (15) | 75,262 |
| Gain on valuation of available-for-sale financial assets | - | - | - | - | - | 42,701 | 42,701 | (1) | 42,700 |
| Exchange differences on transaction of foreign operations | - | - | - | - | - | 48,734 | 48,734 | 47 | 48,781 |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | - | - | 62 | 62 | - | 62 |
| Changes in remeasurement of the net defined benefit liability | - | - | - | - | - | 12 | 12 | - | 12 |
| Total comprehensive income for the period | - | - | - | - | 75,277 | 91,509 | 166,786 | 31 | 166,817 |
| As at March 31, 2013 | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ (497,144) | ₩ 5,443,061 | ₩ 268,402 | ₩ 8,689,565 | ₩ 2,118 | ₩ 8,691,683 |

| | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Equity attributable to equity holders of the parent | Non-controlling shareholders' equity | Total |
|---|---|---|---|---|---|---|---|---|---|
| As at January 1, 2014 | ₩ 3,224,534 | ₩ 940 | ₩ 429,509 | ₩ (18,724) | ₩ 5,796,603 | ₩ 148,587 | ₩ 9,581,449 | ₩ 1,515 | ₩ 9,582,964 |
| Dividends | - | - | - | - | (77,433) | - | (77,433) | - | (77,433) |
| Redemption of hybrid equity securities | - | - | (249,772) | (228) | - | - | (250,000) | - | (250,000) |
| Dividends on hybrid equity securities | - | - | - | - | (6,951) | - | (6,951) | - | (6,951) |
| Share-based payment transactions | - | - | - | (15) | - | - | (15) | - | (15) |
| Appropriation to loss on sale of treasury stock | - | - | - | 17,869 | (17,869) | - | - | - | - |
| Appropriation to other capital adjustments | - | - | - | 160 | (160) | - | - | - | - |
| Other capital adjustments | - | - | - | 167 | - | - | 167 | - | 167 |
| Issuance of hybrid equity securities | - | - | - | - | - | - | - | - | - |
| Acquisition of subsidiary | - | - | - | (19,444) | - | - | (19,444) | 125,291 | 105,847 |
| | 3,224,534 | 940 | 179,737 | (20,215) | 5,694,190 | 148,587 | 9,227,773 | 126,806 | 9,354,579 |
| Net income for the period | - | - | - | - | 70,542 | - | 70,542 | 1,172 | 71,714 |
| Loss on valuation of available-for-sale financial assets | - | - | - | - | - | (22,824) | (22,824) | 79 | (22,745) |
| Exchange differences on transaction of foreign operations | - | - | - | - | - | 26,118 | 26,118 | 3,709 | 29,827 |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | - | - | 22 | 22 | - | 22 |
| Changes in remeasurement of the net defined benefit liability | - | - | - | - | - | (804) | (804) | - | (804) |
| Total comprehensive income for the period | - | - | - | - | 70,542 | 2,512 | 73,054 | 4,960 | 78,014 |
| As at March 31, 2014 | ₩ 3,224,534 | ₩ 940 | ₩ 179,737 | ₩ (20,215) | ₩ 5,764,732 | ₩ 151,099 | ₩ 9,300,827 | ₩ 131,766 | ₩ 9,432,593 |

The accompanying notes are an integral part of the interim financial statements.

**Korea Exchange Bank**
**Interim consolidated statements of cash flows**
**For the three-month periods ended March 31, 2014 and 2013**
(Korean won in millions)

| | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| **Operating activities** | | |
| Net income | ₩ 71,714 | ₩ 75,262 |
| Adjustments to reconcile net income to net cash flows: | | |
| Income tax expense | 15,413 | 40,996 |
| Interest income, net | (566,185) | (553,118) |
| Gain on valuation of financial assets held-for-trading, net | (1,789) | (1,962) |
| Loss (gain) on valuation of trading derivatives, net | 14,248 | (8,202) |
| Gain on valuation of derivatives used for hedging purposes, net | (108) | (1,658) |
| Gain on disposal of available-for-sale financial assets, net | (21,016) | (14,767) |
| Impairment loss on available-for-sale financial assets | 44,248 | 1,166 |
| Provision for possible loan losses | 143,624 | 133,668 |
| Depreciation on property and equipment | 18,392 | 18,895 |
| Depreciation on investment property | 655 | 633 |
| Amortization | 6,370 | 6,075 |
| Loss (gain) on disposal of property and equipment, net | 56 | (25) |
| Impairment loss on intangible assets | - | 75 |
| Gain on disposal of property and equipment not used for business purposes | - | (98) |
| Gain on disposal of intangible assets | (36) | (297) |
| Provision for post-employment benefit obligation | 14,061 | 12,744 |
| Long-term compensation expense for performance bonus | 718 | 7,675 |
| Provision for (reversal of) acceptances and guarantees | (1,961) | 3,514 |
| Provision for (reversal of) unused commitments | 934 | (3,959) |
| Provision for other allowances | 7,166 | 7,104 |
| Loss on foreign currency transactions, net | 42,196 | 20,186 |
| Dividend income | (4,958) | (3,809) |
| Rental income | (708) | (819) |
| Provision for (reversal of) share based payment expense | 8 | (64) |
| Loss (gain) on valuation of financial assets held-for-trading (Merchant banking account), net | 85 | (80) |
| Provision for (reversal of) possible loan losses (Merchant banking account), net | (315) | 43 |
| Provision for unused commitments (Merchant banking account), net | 63 | 283 |
| Loss (gain) on valuation of CMA securities (Merchant banking account), net | 1 | (14) |
| | (288,838) | (335,815) |
| Changes in operating assets and liabilities: | | |
| Financial assets held-for-trading | 11,301 | (118,824) |
| Derivative assets held-for-trading | 330,974 | 199,498 |
| Derivative assets used for hedging purposes | 2,707 | 62 |
| Loans receivable | (4,063,469) | (855,166) |
| Other assets | (43,134) | (556,364) |
| Merchant banking account assets | 9,942 | 959,898 |
| Deposits | 1,769,607 | (822,363) |
| Derivative liabilities held-for-trading | (299,964) | (251,086) |
| Derivative liabilities used for hedging purposes | (4,180) | 176 |
| Pension benefits | (566) | (1,627) |
| Contribution to plan assets | - | (363) |
| Provisions | (4,811) | (3,133) |
| Other liabilities | 1,200,446 | (462,560) |
| Merchant banking account liabilities | 830,715 | 1,029,291 |
| | (260,432) | (882,561) |

(Continued)

**Korea Exchange Bank**
**Interim consolidated statements of cash flows**
**For the three-month periods ended March 31, 2014 and 2013**
(Korean won in millions)

| | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Cash received from operating activities: | | |
| Interest receipts | 957,131 | 954,342 |
| Dividend receipts | 4,958 | 3,563 |
| Income tax refunds | 26,763 | 4 |
| | 988,852 | 957,909 |
| Cash payment for operating activities: | | |
| Interest payments | 434,966 | 483,333 |
| Payment of income tax | 33,921 | 2,420 |
| | (468,887) | (485,753) |
| **Net cash flows provided by (used in) operating activities** | 42,409 | (670,958) |
| **Investing activities** | | |
| Cash inflow related to investing activities: | | |
| Decrease in restricted due from banks, net | - | 389,317 |
| Proceeds from disposal of available-for-sale financial assets | 3,119,486 | 610,463 |
| Proceeds from disposal of held-to-maturity investments | 771,470 | 318,404 |
| Proceeds from disposal of property and equipment | 184 | 288 |
| Proceeds from disposal of intangible assets | 613 | 2,425 |
| Proceeds from disposal of investment property | 344 | - |
| Net cash flow used in purchasing subsidiary | 87,368 | - |
| Decrease in property and equipment not used for business purposes, net | - | 1,336 |
| Decrease in guarantee deposits paid, net | 6,148 | - |
| Cash inflow related to lease | 139 | 1,517 |
| | 3,985,752 | 1,323,750 |
| Cash outflow related to investing activities: | | |
| Increase in restricted due from banks, net | 1,133,621 | - |
| Purchase of available-for-sale financial assets | 4,101,661 | 1,374,025 |
| Purchase of held-to-maturity investments | 716 | 137,087 |
| Acquisition of intangible assets | 2,546 | 2,188 |
| Acquisition of property and equipment | 5,064 | 7,545 |
| Increase in guarantee deposits paid, net | | 2,008 |
| | (5,243,608) | (1,522,853) |
| **Net cash flows used in investing activities** | (1,257,856) | (199,103) |
| **Financing activities** | | |
| Cash inflow related to financing activities: | | |
| Increase in call money, net | 549,141 | 311,033 |
| Increase in bills sold, net | 11,709 | 8,283 |
| Increase in borrowings | 1,370,877 | 557,941 |
| Issuance of debentures | 118,577 | 1,076,275 |
| | 2,050,304 | 1,953,532 |

(Continued)

**Korea Exchange Bank**
**Interim consolidated statements of cash flows**
**For the three-month periods ended March 31, 2014 and 2013**
(Korean won in millions)

| | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Cash outflow related to financing activities: | | |
| Decrease in borrowings | - | 259,609 |
| Redemption of debentures | 399,968 | 949,516 |
| Dividends paid | 77,433 | 32,245 |
| Redemption of hybrid equity securities | 250,000 | - |
| Dividends on hybrid equity securities | 6,951 | 4,563 |
| | (734,352) | (1,245,933) |
| **Net cash flows provided by financing activities** | 1,315,952 | 707,599 |
| **Net increase (decrease) in cash and cash equivalents** | 100,505 | (162,462) |
| **Cash and cash equivalents at the beginning of the period** | 4,726,835 | 4,484,904 |
| **Effect of exchange rate changes on cash and cash equivalents** | (44,268) | (325,669) |
| **Cash and cash equivalents at the end of the period** | ₩ 4,783,072 | ₩ 3,996,773 |

The accompanying notes are an integral part of the interim financial statements.

## 1. Company information

The accompanying consolidated financial statements include Korea Exchange Bank (the "KEB") and its controlled subsidiaries (collectively, the "Company"). General information describing KEB, the Company and joint ventures is provided below.

KEB was established on January 30, 1967, as a government-invested bank which primarily engages in foreign exchange and trade finance business under the Korea Exchange Bank Act published on July 28, 1966. On December 30, 1989, the Korea Exchange Bank Act was repealed and KEB was reorganized as a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, KEB was listed on the Korean Stock Exchange. The merger between KEB and the Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004.

KEB primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business as a result of the merger with Korea International Merchant Bank, a domestic subsidiary KEB, and other related operations as permitted under the Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As at March 31, 2014, KEB operates 350 branches (including 33 depositary offices) and 3 subsidiaries in the R epublic of Korea and 23 branches (including 3 depositary offices and 6 offices) and 10 subsidi aries overseas.

As at March 31, 2014, KEB is authorized to issue 1,000 million shares (at ₩5,000 per value) and has issued 644,906,826 ordinary shares amounting to ₩3,224,534 million in issued capital.

On April 5, 2013, KEB became a wholly-owned subsidiary of Hana Financial Group resulting from a share-for-share exchange.

Details of the Company's scope of consolidation as at March 31, 2014 and December 31, 2013 are as follows (shares in thousands):

| | | | | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|---|---|
| Subsidiaries | Business | Location | Financial statements date | Number of shares | Percentage of ownership (%) | Number of shares | Percentage of ownership (%) |
| KEB's subsidiaries: | | | | | | | |
| KEB F&I (formerly, KEB Capital Inc.) (*1) | Finance and banking service | Korea | December 31, 2014 | 14,976 | 99.31 | 14,976 | 99.31 |
| KEB Futures Co., Ltd. ("KEBF") | Finance and banking service | Korea | December 31, 2014 | 3,000 | 100.00 | 3,000 | 100.00 |
| KEB Fund Services Co., Ltd. ("KEBIS") | Finance and banking service | Korea | December 31, 2014 | 510 | 100.00 | 510 | 100.00 |
| Korea Exchange Bank of Canada ("KEBOC") | Finance and banking service | Canada | December 31, 2014 | 334 | 100.00 | 334 | 100.00 |
| KEB (Australia) Holdings ("KEBH") (*3) | Finance and banking service | Australia | December 31, 2014 | - | - | - | - |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | Finance and banking service | Germany | December 31, 2014 | 20 | 100.00 | 20 | 100.00 |

## 1. Company information (cont'd)

| | | | | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|---|---|
| Subsidiaries | Business | Location | Financial statements date | Number of shares | Percentage of ownership (%) | Number of shares | Percentage of ownership (%) |
| PT. Bank KEB Hana (formerly, PT. Bank KEB Indonesia ("KEBI"))(*2) | Finance and banking service | Indonesia | March 31, 2014 | 573,462 | 49.87 | 1 | 99.00 |
| Banco KEB do Brazil S. A. ("KEBB") | Finance and banking service | Brazil | March 31, 2014 | 69,726 | 100.00 | 69,726 | 100.00 |
| KEB NY Financial Corp.("NYFinCo") | Finance and banking service | USA | March 31, 2014 | 0.1 | 100.00 | 0.1 | 100.00 |
| KEB LA Financial Corp.("LAFinCo") | Finance and banking service | USA | March 31, 2014 | 0.2 | 100.00 | 0.2 | 100.00 |
| KEB USA Int'l Corp. ("USAI") | Finance and banking service | USA | March 31, 2014 | 0.1 | 100.00 | 0.1 | 100.00 |
| KEB Asia Finance Limited ("KAF") | Finance and banking service | Hong Kong | March 31, 2014 | 50,000 | 100.00 | 50,000 | 100.00 |
| KEB Bank (China) Co., Ltd. ("KEB China") (*3) | Finance and banking service | China | March 31, 2014 | - | 100.00 | - | 100.00 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal (*4) | Trust service | Korea | March 31, 2014 | - | - | - | - |
| Trust accounts guaranteeing the repayment of principal (*4) | Trust service | Korea | March 31, 2014 | - | - | - | - |
| Athenae 1st (*3,4) | Asset liquidation | Korea | March 31, 2014 | - | - | - | - |
| Athenae 2nd (*3,4) | Asset liquidation | Korea | March 31, 2014 | - | - | - | - |
| KEB (Australia) Holding's subsidiaries: | | | | | | | |
| KEB Australia Ltd. ("KEBA") | Finance and banking service | Australia | March 31, 2014 | 55,000 | 100.00 | 55,000 | 100.00 |
| KEBF&I subsidiaries: | | | | | | | |
| KEBW First Securitization Specialty Co., Ltd. | Asset liquidation | Korea | March 31, 2014 | 0.1 | 5.00 | - | - |

(*1) At the Board of Directors' meeting held on October 17, 2013, the Company voted to change its operations to asset management and investments regarding insolvent assets under the Asset-Backed Securitization Act and changed its name to KEB F&I.
(*2) PT. Bank KEB Indonesia and PT. Bank Hana have completed their merger process and changed the name to PT. Bank KEB Hana on February, 2014.
(*3) These investees do not maintain any shares as they were incorporated as either a private equity investment vehicle or others.
(*4) Included in the scope of consolidation under consideration of the control model.

## 1. Company information (cont'd)

Summary of the financial information of subsidiaries as at March 31, 2014 and December 31, 2013 is as follows. (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Subsidiaries | Asset | Liabilities | Equity | Net income (loss) |
| KEB F&I (formerly, KEB Capital Inc.)(*1) | ₩ 261,372 | ₩ 233,835 | ₩ 27,537 | ₩ 12 |
| KEB Futures Co., Ltd. ("KEBF") | 600,747 | 535,373 | 65,374 | 217 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 17,911 | 1,820 | 16,091 | 821 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,272,264 | 1,124,576 | 147,688 | 2,537 |
| KEB (Australia) Holdings ("KEBH")(*1) | 61,747 | 3,183 | 58,564 | 609 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 630,329 | 550,149 | 80,180 | 1,807 |
| PT. Bank KEB Indonesia ("KEBI") (formerly, PT. Bank KEB Indonesia ("KEBI")) | 1,238,669 | 976,218 | 262,451 | 4,760 |
| Banco KEB do Brasil S. A. ("KEBB") | 164,267 | 118,876 | 45,391 | 909 |
| KEB NY Financial Corp. ("NYFinCo") | 484,819 | 442,962 | 41,857 | 1,298 |
| KEB LA Financial Corp. ("LAFinCo") | 281,426 | 235,782 | 45,644 | 834 |
| KEB USA Int'l Corp. ("USAI") | 7,120 | 2 | 7,118 | (7) |
| KEB Asia Finance Limited ("KAF") | 145,660 | 89,914 | 55,746 | 96 |
| KEB Bank (China) Co., Ltd. ("KEB China") | 3,221,754 | 2,766,507 | 455,247 | 5,858 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | 97 | 94 | 3 | - |
| Trust accounts guaranteeing the repayment of principal | 734,007 | 722,352 | 11,655 | (543) |
| Athenae 1st | 11,507 | 11,500 | 7 | 5 |
| Athenae 2nd | 5,163 | 5,150 | 13 | 12 |

(*1) The amounts are represented on a consolidated basis.

| | December 31,2013 | | | |
|---|---|---|---|---|
| Subsidiaries | Asset | Liabilities | Equity | Net income (loss) |
| KEB Capital Inc. ("KEBC") | ₩ 259,926 | ₩ 232,348 | ₩ 27,578 | ₩ (47,927) |
| KEB Futures Co.,Ltd. ("KEBF") | 546,310 | 480,759 | 65,551 | 19 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 17,346 | 2,073 | 15,273 | 3,207 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,304,312 | 1,155,571 | 148,741 | 14,926 |
| KEB (Australia) Holdings ("KEBH")(*1) | 394,551 | 316,747 | 77,804 | 7,456 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 765,741 | 688,074 | 77,667 | 2,646 |
| PT. Bank KEB Indonesia ("KEBI") | 507,969 | 375,422 | 132,547 | 13,289 |
| Banco KEB do Brasil S. A. ("KEBB") | 160,226 | 118,179 | 42,047 | 5,399 |
| KEB NY Financial Corp. ("NYFinCo") | 465,773 | 425,715 | 40,058 | 4,374 |
| KEB LA Financial Corp. ("LAFinCo") | 278,932 | 234,688 | 44,244 | 3,026 |
| KEB USA Int'l Corp. ("USAI") | 7,038 | 3 | 7,035 | 47 |
| KEB Asia Finance Limited ("KAF") | 126,584 | 71,637 | 54,947 | 1,873 |
| KEB Bank (China) Co., Ltd. ("KEB China") | 2,630,733 | 2,205,309 | 425,424 | 10,637 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | 86 | 84 | 2 | - |
| Trust accounts guaranteeing the repayment of principal | 719,831 | 707,633 | 12,198 | (728) |
| Athenae 1st | 11,502 | 11,500 | 2 | 2 |
| Athenae 2nd | 5,152 | 5,150 | 2 | 2 |

(*1) The amounts are represented on a consolidated basis.

**1. Company information (cont'd)**

There is no entity excluded from the Company's scope of consolidation as at March 31, 2014 even though the Company holds a majority of voting rights.

Details of subsidiaries newly included in the company's scope of consolidation for the three-month period ended March 31, 2014 are as follows :

| Company | Reasons |
|---|---|
| KEBW First Securitization Specialty Co., Ltd. | Newly invested |

Details of subsidiaries that have significant non-controlling interests are as follows:

| Classification | Profit or loss allocated to non-controlling interests of the subsidiary | Accumulated non-controlling interests of the subsidiary | Dividends paid to non-controlling interests |
|---|---|---|---|
| Hana Bank | ₩ 853 | ₩ 97,821 | ₩ - |
| Others | 319 | 33,945 | - |
| | ₩ 1,172 | ₩ 131,766 | ₩ - |

There were no significant restrictions and defence rights of non-controlling interests that can significantly restrict the ability to approach or use the assets of the Company to repay the Company's liabilities.

Nature and reason of the contractual arrangements for providing the financial support to a consolidated structured entity as at March 31, 2014 are as follows:

| Company | Contractual arrangement to financially support | Intended to provide support |
|---|---|---|
| Athenae 1st | The Company executed a loan in the amount of ₩11.5 billion to Athenae 1st which acquired privately-placed corporate bonds issued by other banks in the amount of ₩10.2 billion. The Company establishes the right of pledge on privately-placed corporate bonds. | Operating activities |
| Athenae 2nd | The Company executed a loan in the amount of ₩5.2 billion to Athenae 1st which acquired privately-placed corporate bonds issued by other banks in the amount of ₩4.8 billion. The Company establishes the right of pledge on privately-placed corporate bonds. | Operating activities |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | The Company is exposed to the risk that the Company shall guarantee a fixed rate of return and the repayment of principal to the trustee for which the Company manages the trustee's assets. | Credit enhancement of the fund management of trust accounts |
| Trust accounts guaranteeing the repayment of principal | The Company is exposed to the risk that the Company shall make up a loss occurring when there is a loss in the principle of trustee's assets which are managed by the Company. | Credit enhancement of the fund management of trust accounts |
| KEBW First Securitization Specialty Co., Ltd. | The company purchased the unsubordinated securities and subordinated securities issued by KEBW First Securitization Specialty Co., Ltd. in the amount of ₩347 million, respectively. | Operating activities |

## 2. Basis of preparation

The Company prepares statutory interim consolidated financial statements for the three-month period ended March 31, 2014 in accordance with *KIFRS 1034 Interim Financial Reporting* enacted by the Corporate External Audit Law.

The accompanying interim consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent accountants' review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

## 3. Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations as at January 1, 2014. The nature and impact of each new standard and amendment are described below:

***Investment Entities (*Amendments to *KIFRS 1110, KIFRS 1112 and KIFRS 1027)***

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company since none of the entities in the Company would qualify to be an investment entity under *KIFRS 1110*.

***KIFRS 1032 Offsetting Financial Assets and Financial Liabilities – Amendments***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not expected to be relevant to the Company.

***KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments***

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

## 3. Significant accounting policies (cont'd)

### Recoverable Amount Disclosures for Non-Financial Assets – Amendments to *KIFRS 1036 Impairment of Assets*

These amendments remove the unintended consequences of *KIFRS 1113* on the disclosures required under *KIFRS 1036*. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are not expected to be relevant to the Company.

### *KIFRS 2121 Levies – Amendments*

*KIFRS 2121* clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Company does not expect that *KIFRS 2121* will have material financial impact in future financial statements.

The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

### Principles of consolidation

The consolidated financial statements incorporated the financial statements of the Company and entities controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries are no longer consolidated from the date on which the Company loses control over them.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

The difference between the cost of investment and the Company's share of fair value of identifiable net assets and liabilities of the subsidiaries at the date of the application of the purchase accounting method is presented as goodwill or negative goodwill. A review of impairment is performed at the end of each reporting date.

## 3. Significant accounting policies (cont'd)

### Principles of consolidation (cont'd)

Changes in the Company's ownership interests in subsidiaries, without loss of control, are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under *KIFRS 1039*, Financial Instruments: Recognition and Measurement, or, when applicable, recognized as the cost on initial recognition of an investment in an associate or a jointly controlled entity.

All significant intercompany transactions and account balances among consolidated companies are eliminated on consolidation. Unrealized gains or losses included in loans and borrowings arising from transactions between consolidated companies are eliminated on consolidation. The related accounts receivable and payable are also eliminated on consolidation.

Investments in entities over which the Company has control or significant influence are accounted for using the equity method. Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of profit or loss and other comprehensive income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests. The Company resumes the application of the equity method if the Company's share of income or change in equity of an investee exceeds the Company's share of losses accumulated during the period of suspension of the equity method of accounting.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill or negative goodwill. The amortization expense is included as a part of valuation gain or loss on the equity method investments in the statement of profit or loss and other comprehensive income. The difference related to goodwill is recorded as the carrying amount. Goodwill is reviewed for impairment when signs of damage arise and is not amortized over its useful life.

3. **Significant accounting policies (cont'd)**

**Principles of consolidation (cont'd)**

Further, the Company's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the net book value of such assets and liabilities are amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to the valuation gain or loss on the equity method investments in the statement of profit or loss and other comprehensive income.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee.

**Revenue recognition**

Interest income (expense)

Interest income (expense) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or interest expense over the relevant period.

Fee and commission income

Based on the purpose of the fee and commission and related accounting standards for financial instruments, fee and commission income are classified as and accounted for as follows:

| Classification | Details |
|---|---|
| Fee and commission composing effective income of the financial instruments | Accounted for as an adjustment to the effective interest rate |
| Fee and commission by rendering services | Recognized when the services are provided |
| Fee and commission by performing significant activities | Recognized when significant activities have been completed |

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

**Financial assets**

Financial assets, except for those financial assets classified as at FVTPL which are initially measured at fair value, are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets. Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments are generally determined from a quoted price in an active market for identical financial assets or financial liabilities where these are available.

**3. Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss ("FVTPL"),' 'held-to-maturity investments,' 'available-for-sale financial assets,' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract with terms that require delivery of the financial asset within the period established by the market concerned.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held-for-trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held-for-trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held-for-trading if:

- It has been acquired principally for the purpose of selling it in the near term,
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or,
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- In accordance with the Company's documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, and performance is evaluated based on its fair value, and this information is provided internally on that basis, or,
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039 Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

**3. Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Available-for-sale financial assets

Non-derivative financial assets that are not classified as held-to-maturity, held-for-trading, designated at FVTPL, or loans and receivables are classified as available-for-sale financial assets.

Available-for-sale financial assets are subsequently measured at fair value at the closing date. Gains and losses arising from changes in fair value are recognized in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income.

Dividends on available-for-sale equity securities are recognized in net income when the Bank's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the rate prevailing at the end of the reporting period. Available-for-sale non-monetary assets measured at amortized cost are translated with the exchange rate at the trade date, while assets measured at fair value are translated with the exchange rate when the fair value is determined.

Unquoted equity investments of which fair values cannot be measured reliably and derivative instruments which are related to the unquoted equity investments that will be settled by delivering those investments are carried at cost after deducting the amount of impairment losses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment, with income recognized on an effective yield basis.

Loans and receivables

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. 'Loans and receivables' are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized based on the application of the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Loans, due from banks, and guarantee money for business premise are classified as 'loans and receivables.

**3. Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Deferred loan origination fees ("LOF"s) and loan origination costs ("LOC"s)

The Company defers LOF\LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF\LOCs. The deferred LOF\LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, the impairment losses, expected as a result of future events, are not recognized.

For equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

Objective evidence that a financial asset is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor,
- A breach of contract, such as a default or delinquency in interest or principal payments,
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It is probable that the borrower will enter bankruptcy or other financial reorganization,
- The disappearance of an active market for the financial asset due to the financial difficulties,
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, or
- Significant changes that bring negative effects caused by the changes in technology, market, economic, and legal environment where the issuer carries on business.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

**3. Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Available-for-sale financial assets

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease for available-for-sale debt instruments can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Held-to-maturity investments

For held-to-maturity investments measured at amortized cost, impairment loss is measured based on the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events that occurred after recognition of impairment, the impairment loss previously recognized is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Loans and receivables

For loans and receivables measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The Company first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (Individual assessment of impairment).

For financial assets that are not individually significant, the Company assesses whether the objective evidence of impairment exists individually or collectively. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (Collective assessment of impairment).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

**3. Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognized based on the difference between the asset's carrying amount and the present value of future cash flows expected to be collected considering the borrower's management performance, financial position, overdue period, and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognized by adjusting Probability of Default ("PD") and Loss Given Default ("LGD") according to Basel III for the purpose of accounting and applying to the carrying amount. Such approach considers various elements, including borrower type, credit rating, and size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the transfer of a partial financial asset is qualified for derecognition, the entire carrying amount of the transferred financial asset shall, between the portion which is derecognized and the portion which is still recognized, be apportioned according to their respective relative fair value. The difference between the amounts of (1) the book value of the portions that is derecognized and (2) the sum of consideration of the portion that is still recognized and the portion of the accumulated gain or loss recognized in other comprehensive income previously related to the portion that is derecognized are recognized as profit or loss of the current year.

Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Company has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. **Significant accounting policies (cont'd)**

**Financial liabilities and equity instruments**

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when the financial liability is either held-for-trading or designated at FVTPL.

A financial liability is classified as held-for-trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- In accordance with the Company's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039*, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. In addition, the transaction costs incurred related to issuance upon initial recognition is recognized in net income.

**3. Significant accounting policies (cont'd)**

**Financial liabilities and equity instruments (cont'd)**

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost based on the effective interest rate method, with interest expense recognized on an effective yield basis.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. The difference between the paid price and the book value of a derecognized financial liability is recognized in net income for the period.

Hybrid equity securities

Hybrid equity securities are classified as an equity when all requirements for equity classification are satisfied in conformity with the contract terms.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at fair value and, if not designated at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with *KIFRS 1037, Provisions, Contingent Liabilities and Contingent Assets*
- The amount initially recognized, less cumulative amortization recognized in accordance with the *KIFRS 1018, Revenue*

3. **Significant accounting policies (cont'd)**

**Fair values**

Fair values of financial assets or liabilities are determined as follows:

- Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where they are available under standard requirements for transactions.
- For other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are taken from observable market data.
- The quoted market prices are used for derivatives if it is traded in an active market. All other derivatives of which quoted market price is not available are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis with option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using the yield curve derived from the interest rate corresponding to published future exchange rate and maturity.

The Company classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

| Classification | Details |
|---|---|
| (Level 1) | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| (Level 2) | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| (Level 3) | Inputs for the asset or liability that are not based on the observable market data (unobservable inputs) |

**Derivative financial instruments**

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

## 3. Significant accounting policies (cont'd)

### Derivative financial instruments (cont'd)

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL.

Hedge accounting

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument is expired or sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

Deferred Day 1 profit

The Company assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) coincides with a theoretical methodology commonly used for determining the price of financial instruments.

However, the Company defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology does not satisfy the above requirements.

Deferred Day 1 profit is recognized in net income for the period when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

**3. Significant accounting policies (cont'd)**

**Investments in associates**

Associates are the entities that the Company has significant effect on, but neither their subsidiaries nor investments are joint ventures. The company has significant effect on the associates by participating in the decision-making of investees' financial and operating policies, but has neither control nor joint control.

The financial results and assets and liabilities of associates are incorporated in these interim consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with *KIFRS 1105, Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the consolidated Group's share of net income and other comprehensive income of the associate. When the consolidated Group's share of losses of an associate exceeds the consolidated Group's interest in that associate (which includes any long-term interests that, in substance, form a part of the consolidated Group's net investment in the associate), the consolidated Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the consolidated Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of *KIFRS 1039* are applied to determine whether it is necessary to recognize any impairment loss with respect to the consolidated Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with *KIFRS 1036*, Impairment of Assets, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with *KIFRS 1036* to the extent that the recoverable amount of the investment subsequently increases.

When the consolidated entity transacts with its associate, net income resulting from the transactions with the associate is recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

**Foreign currencies**

Functional currency and presentation currency

The individual financial statements of each branch are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial results and position of each branch are expressed in Korean won, which is the presentation currency of the Company and the presentation currency for the consolidated financial statements.

**3. Significant accounting policies (cont'd)**

**Investments in associates (cont'd)**

Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized based on the exchange rate prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognized in net income for the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (5) above for hedging accounting policies)
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment

Overseas branch

The Company identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at foreign exchange rates at the end of each reporting date while the income and expenses are translated into Korean won at average exchange rates for the period unless it does not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising from the translation of a foreign operation are recognized directly in other comprehensive income and included in net income for the period on its liquidation.

**3. Significant accounting policies (cont'd)**

**Retirement benefit costs**

For defined benefit plans, the cost of retirement benefits is measured by an actuary services company, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

The Company enters into agreements such as retirement insurance, retirement trust, and retirement annuity in order to meet severance pay. The retirement benefit obligation recognized in the interim consolidated statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**Share-based payment**

For equity-settled share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice of whether to settle in cash or by issuing equity instruments, the Company shall determine whether it has a present obligation to settle in cash. If no obligation exists, it shall be accounted for in accordance with the requirements applying to equity-settled share-based transactions. However, if the Company has a present obligation to settle in cash, it shall be accounted for in accordance with the requirements applying to cash-settled share-based transactions.

**Property and equipment**

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

## 3. Significant accounting policies (cont'd)

### Property and equipment (cont'd)

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the depreciation method over the estimated useful lives of the assets as follows except for land which is not depreciated:

| Classification | Estimated useful life | Depreciation method |
|---|---|---|
| Buildings | 40 years | Straight-line |
| Leasehold improvements | 3~10 years | Straight-line |
| Equipment and vehicles | 3~20 years | Declining-balance |

Property and equipment are derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

### Investment property

Investment property is property held to earn rental income and\or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at depreciated cost. Gains and losses arising from changes in the fair value of investment property are included in net income for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated based on the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income for the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income for the period of the occurrence.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case there is effect from any changes in estimation.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

**3. Significant accounting policies (cont'd)**

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the period of 5 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period and accounted for on a prospective basis in case there is effect from any changes in estimation. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

Expenditure on research activities is recognized as an expense for the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- The ability to reliably measure the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income for the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

3. **Significant accounting policies (cont'd)**

**Non-current assets held-for-sale**

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

**Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss . Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. Reversal of an impairment loss is recognized immediately in net income for the period.

## 3. Significant accounting policies (cont'd)

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Company does not recognize provisions for future operating losses.

The Company recognizes provisions related to unused credit card points amount, guarantee and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are recognized as property and equipment. Decommissioning or restoration costs are provided at the present value of expected costs of restoration using future cash outflows.

### Accounting for trust accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Company's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Company and are recorded as due to trust accounts of the Company's accounts. Also, the borrowings from the Company's accounts are recorded as due from trust accounts of the Company's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Company's accounts and receiving compensation contributions from the Company's accounts. If the Company pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Company's interim consolidated statements of profit or loss and other comprehensive income.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recognized as receivables at the amount of Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

3. **Significant accounting policies (cont'd)**

**Merchant banking accounts**

As permitted by the Restructuring of Financial Institutions Act, the Company may continue its merchant banking operations, including leasing business, until the existing contracts acquired from the Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Company's merchant banking operations are summarized as follows:

Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of transaction based on the difference between the purchase prices and sales prices of the notes, adjusted for interest earned during the holding period.

Cash Management Accounts ("CMA")

The Company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

**Income tax expenses**

Income tax consists of current tax and deferred tax.

Current tax liabilities are calculated based on the taxable profit for the year. Taxable profit differs from profit as reported in the interim consolidated statements of profit or loss and other comprehensive income because taxable profit excludes items taxable or deductible for different tax years or not taxable or deductible permanently. The Company's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Bank has adopted a Consolidated Tax Return which is calculated based on the consolidated taxable income since the Bank became a wholly-owned subsidiary of Hana Financial Group. Under the Consolidated Tax Return, the Bank recognizes the amount to be collected from or to be paid to Hana Financial Group as the current tax assets or liabilities, respectively, for its share of the consolidated taxation.

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

3. Significant accounting policies (cont'd)

Income tax expenses (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Common control transaction

The Company measures the assets and liabilities acquired through common control transaction at the pre-combination carrying amount, and recognizes the differences between consideration transferred and the interest acquired from the acquire as equity.

## 4. Estimation and accounting judgment

In the application of the Company's accounting policies described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

### Determination of fair values

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors and, assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

### Allowance for possible losses on credits

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees\unused credit limit liabilities by collective method.

### Measurement of defined benefit obligation

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term.

## 5. Fair value measurement of financial assets and liabilities

The standards the Company applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.

B. If a market for a financial instrument is not active, the Company establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.

D. For an investment in equity instruments which quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Fair value hierarchy of financial instruments as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| Classification | March 31, 2014 Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 320,303 | ₩ 393,244 | ₩ - | ₩ 713,547 |
| Equity securities | 54,193 | - | - | 54,193 |
| Derivative assets held-for-trading | 22 | 1,010,033 | 1,295 | 1,011,350 |
| | 374,518 | 1,403,277 | 1,295 | 1,779,090 |
| Derivative assets used for hedging purposes | - | 20,662 | - | 20,662 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 4,244,218 | 5,127,200 | 22,047 | 9,393,465 |
| Equity securities | 473,482 | - | 268,846 | 742,328 |
| Others | - | - | 12,787 | 12,787 |
| | 4,717,700 | 5,127,200 | 303,680 | 10,148,580 |
| | ₩ 5,092,218 | ₩ 6,551,139 | ₩ 304,975 | ₩ 11,948,332 |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 986,743 | ₩ - | ₩ 986,743 |
| Derivative liabilities used for hedging purposes | - | 8,382 | - | 8,382 |
| | ₩ - | ₩ 995,125 | ₩ - | ₩ 995,125 |

| Classification | December 31, 2013 Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 379,896 | ₩ 369,673 | ₩ - | ₩ 749,569 |
| Equity securities | 27,768 | - | - | 27,768 |
| Derivative assets held-for-trading | - | 1,354,903 | 1,706 | 1,356,609 |
| | 407,664 | 1,724,576 | 1,706 | 2,133,946 |
| Derivative assets used for hedging purposes | - | 23,070 | - | 23,070 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 2,661,212 | 5,545,883 | 21,197 | 8,228,292 |
| Equity securities | 674,443 | - | 293,257 | 967,700 |
| Others | - | - | 7,602 | 7,602 |
| | 3,335,655 | 5,545,883 | 322,056 | 9,203,594 |
| | ₩ 3,743,319 | ₩ 7,293,529 | ₩ 323,762 | ₩ 11,360,610 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | December 31, 2013<br>Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ 20 | ₩ 1,286,725 | ₩ - | ₩ 1,286,745 |
| Derivative liabilities used for hedging purposes | - | 12,562 | - | 12,562 |
| | ₩ 20 | ₩ 1,299,287 | ₩ - | ₩ 1,299,307 |

Details of inputs used in fair value, valuation technique, and measurement of fair value classified into level 2 among financial assets and liabilities, currently measured at fair value as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014<br>Fair value | Valuation technique | Inputs |
|---|---|---|---|
| Financial assets: | | | |
| Financial assets at FVTPL | | | |
| Debt securities | ₩ 393,244 | DCF model | Discount rate |
| Derivative assets held-for-trading | 1,010,033 | DCF model, option model | Discount rate, volatility, exchange rate, stock price, etc. |
| | 1,403,277 | | |
| Derivative assets used for hedging purposes | 20,662 | DCF model | Discount rate, exchange rate, etc. |
| Available-for-sale financial assets | | | |
| Debt securities | 5,127,200 | DCF model | Discount rate |
| | ₩ 6,551,139 | | |
| Financial liabilities: | | | |
| Financial liabilities at FVTPL | ₩ 986,743 | DCF model | Discount rate, volatility, exchange rate, stock price, etc. |
| Derivative liabilities used for hedging purposes | 8,382 | DCF model | Discount rate, exchange rate, etc. |
| | ₩ 995,125 | | |

| Classification | December 31, 2013<br>Fair value | Valuation technique | Inputs |
|---|---|---|---|
| Financial assets: | | | |
| Financial assets at FVTPL | | | |
| Debt securities | ₩ 369,673 | DCF model | Discount rate |
| Derivative assets held-for-trading | 1,354,903 | DCF model, option model | Discount rate, volatility, exchange rate, stock price, etc. |
| | 1,724,576 | | |
| Derivative assets used for hedging purposes | 23,070 | DCF model | Discount rate, exchange rate, etc. |
| Available-for-sale financial assets | | | |
| Debt securities | 5,545,883 | DCF model | Discount rate |
| | ₩ 7,293,529 | | |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | December 31, 2013 Fair value | | Valuation technique | Inputs |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ | 1,286,725 | DCF model | Discount rate, volatility, exchange rate, stock price, etc. |
| Derivative liabilities used for hedging purposes | | 12,562 | DCF model | Discount rate, exchange rate, etc. |
| | ₩ | 1,299,287 | | |

Details of inputs used in fair value, valuation technique, measurement of fair value, and inputs that are significant but unobservable classified into level 3 among financial assets and liabilities currently measured at fair value as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 Fair value | | Valuation technique | Inputs | Significant but unobservable inputs | Range | Sensitivity of the input to fair value |
|---|---|---|---|---|---|---|---|
| Financial assets: | | | | | | | |
| Financial assets at FVTPL | | | | | | | |
| Derivative assets held-for-trading | ₩ | 1,295 | Binomial model | Risk free rate, volatility of stock price | Volatility of stock price | 6.80%~ 32.50% | Fair value increased due to the increase in its volatility |
| Available-for-sale financial assets | | | | | | | |
| Debt securities | | 22,047 | NAV Method | (*1) | - | - | Fair value increased due to the increase in value of portfolio |
| Equity securities | | 268,846 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 7.46%~ 20.77% | Fair value increased due to the decrease in its discount rate |
| | | | | Growth rate | Growth rate | 0% | Fair value increased due to the increase in its growth rate |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs | Significant but unobservable inputs | Range | Sensitivity of the input to fair value |
| Others | 12,787 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 6.46%~ 13.81% | Fair value increased due to the decrease in its discount rate |
| | | | Bid rate | Bid rate | 55.12% | Fair value increased due to the increase in its bid rate |
| | 303,680 | | | | | |
| | ₩ 304,975 | | | | | |

(*1) The Company used soundness of individual assets composing portfolio as inputs.

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs | Significant but unobserva-ble inputs | Range | Sensitivity of the input to fair value |
| Financial assets: | | | | | | |
| Financial assets at FVTPL | | | | | | |
| Derivative assets held-for-trading | ₩ 1,706 | Binomial model | Risk free rate, volatility of stock price | Volatility of stock price | 33.25% | Fair value increased due to the increase in its volatility |
| Available-for-sale financial assets | | | | | | |
| Debt securities | 21,197 | NAV Method | (*1) | - | - | Fair value increased due to the increase in value of portfolio |
| Equity securities | 293,257 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 7.46% ~ 20.77% | Fair value increased due to the decrease in its discount rate |
| | | | Growth rate | Growth rate | 0% | Fair value increased due to the increase in its growth rate |
| | 322,056 | | | | | |
| | ₩ 323,762 | | | | | |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs | Significant but unobservable inputs | Range | Sensitivity of the input to fair value |
| Others | 7,602 | DCF Method, comparative on similar business, | Discount rate | Discount rate | 6.46% | Fair value increased due to the decrease in its discount rate |
| | | risk adjusted discount rate method | Bid rate | Bid rate | 55.12% | Fair value increased due to the increase in its bid rate |
| | 322,056 | | | | | |
| | ₩ 323,762 | | | | | |

(*1) The Company used soundness of individual assets composing portfolio as inputs.

**5. Fair value measurement of financial assets and liabilities (cont'd)**

Changes in level 3 financial instruments measured at fair value for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Transfer out/ into | | | | Valuation | | | |
| Classification | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Profit (loss) | Other comprehens - ive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 1,706 | ₩ - | ₩ - | ₩ 605 | ₩ - | ₩ (1,016) | ₩ - | ₩ - | ₩ 1,295 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 21,197 | - | - | - | - | 271 | 579 | - | 22,047 |
| Equity securities | 293,257 | - | 18,672 | 3,178 | (1,230) | (38,735) | (6,296) | - | 268,846 |
| Others | 7,602 | - | - | 5,229 | - | - | (44) | - | 12,787 |
| | 322,056 | - | 18,672 | 8,407 | (1,230) | (38,464) | (5,761) | - | 303,680 |
| | ₩ 323,762 | ₩ - | ₩ 18,672 | ₩ 9,012 | ₩ (1,230) | ₩ (39,480) | ₩ (5,761) | ₩ - | ₩ 304,975 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| | Year ended December 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/ into | | | | Valuation | | | |
| Classification | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Profit (loss) | Other comprehens - ive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 15,380 | ₩ - | ₩ - | ₩ 775 | ₩ (11,961) | ₩ (2,488) | ₩ - | ₩ - | ₩ 1,706 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 21,490 | - | - | - | - | (317) | 24 | - | 21,197 |
| Equity securities | 568,675 | (293,889) | | 73,352 | (21,155) | (22,093) | (10,028) | (1,605) | 293,257 |
| Others | - | - | - | 7,288 | - | - | 314 | - | 7,602 |
| | 590,165 | (293,889) | - | 80,640 | (21,155) | (22,410) | (9,690) | (1,605) | 322,056 |
| | ₩ 605,545 | ₩ (293,889) | ₩ - | ₩ 81,415 | ₩ (33,116) | ₩ (24,898) | ₩ (9,690) | ₩ (1,605) | ₩ 323,762 |
| Financial liabilities: | | | | | | | | | |
| Financial liabilities at FVTPL | ₩ 171 | ₩ - | ₩ - | ₩ (294) | ₩ - | ₩ 123 | ₩ - | ₩ - | ₩ - |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Total gains or losses recognized in profit or loss from changes in level 3 financial instruments measured at fair value for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Classification | Total gains or losses recognized in profit or loss | The line item in profit or loss in which those gains or losses are recognized | Total gains or losses recognized in profit or loss | The line item in profit or loss in which those gains or losses are recognized |
| Gain (loss) on financial assets at FVTPL | ₩ (1,016) | ₩ (1,016) | ₩ 274 | ₩ 274 |
| Other gain on financial instruments | 1,361 | 271 | 7,430 | 823 |
| Impairment loss on financial instruments | (39,825) | (39,825) | (1,166) | (1,166) |
| | ₩ (39,480) | ₩ (40,570) | ₩ 6,538 | ₩ (69) |

Details of the amounts of any transfers into or out of level 3 of the fair value hierarchy for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Transfers out of level 3 into level 1 | ₩ - | ₩ 293,889 |
| Transfers out of level 1 into level 3 | ₩ 18,672 | ₩ - |

Fair value hierarchy of financial instruments disclosed but not measured at fair value as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Cash and due from banks (*1) | ₩ 1,697,439 | ₩ 7,739,856 | ₩ - | ₩ 9,437,295 |
| Held-to-maturity investments | 591,625 | 1,003,145 | - | 1,594,770 |
| Loans receivable | - | - | 78,094,010 | 78,094,010 |
| Other financial assets | - | - | 9,303,409 | 9,303,409 |
| Merchant banking account assets | - | - | 2,709,782 | 2,709,782 |
| | ₩ 2,289,064 | ₩ 8,743,001 | ₩ 90,107,201 | ₩ 101,139,266 |
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 72,357,974 | ₩ 72,357,974 |
| Borrowings | - | - | 8,971,057 | 8,971,057 |
| Debentures | - | 6,722,907 | - | 6,722,907 |
| Other financial liabilities | - | - | 13,793,145 | 13,793,145 |
| Merchant banking account liabilities | - | - | 2,510,080 | 2,510,080 |
| | ₩ - | ₩ 6,722,907 | ₩ 97,632,256 | ₩ 104,355,163 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | March 31, 2014<br>Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 72,357,974 | ₩ 72,357,974 |
| Borrowings | - | - | 8,971,057 | 8,971,057 |
| Debentures | - | 6,722,907 | - | 6,722,907 |
| Other financial liabilities | - | - | 13,793,145 | 13,793,145 |
| Merchant banking account liabilities | - | - | 2,510,080 | 2,510,080 |
| | ₩ - | ₩ 6,722,907 | ₩ 97,632,256 | ₩ 104,355,163 |

(*1) Fair value of level 2 is measured at book value, presuming that the book value is the reasonable value for the fair value measurement.

| Classification | December 31, 2013<br>Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and due from banks (*1) | ₩ 1,691,037 | ₩ 6,556,400 | ₩ - | ₩ 8,247,437 |
| Held-to-maturity investments | 1,163,811 | 1,176,582 | - | 2,340,393 |
| Loans receivable | - | - | 73,604,072 | 73,604,072 |
| Other financial assets | - | - | 6,614,524 | 6,614,524 |
| Merchant banking account assets | - | - | 2,717,717 | 2,717,717 |
| | ₩ 2,854,848 | ₩ 7,732,982 | ₩ 82,936,313 | ₩ 93,524,143 |
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 70,351,972 | ₩ 70,351,972 |
| Borrowings | - | - | 6,840,247 | 6,840,247 |
| Debentures | - | 6,936,426 | - | 6,936,426 |
| Other financial liabilities | - | - | 9,957,335 | 9,957,335 |
| Merchant banking account liabilities | - | - | 1,679,336 | 1,679,336 |
| | ₩ - | ₩ 6,936,426 | ₩ 88,828,890 | ₩ 95,765,316 |

(*1) Fair value of level 2 is measured at book value, presuming that the book value is the reasonable value for the fair value measurement.

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Details of inputs used in fair value, valuation technique, and measurement of fair value that are classified into level 2 among financial assets and liabilities not measured but disclosed at fair value at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | | Fair value | Valuation technique | Inputs |
| Financial assets: | | | | |
| Cash and due from banks | ₩ | 7,739,856 | DCF model | Discount rate |
| Held-to-maturity investments | | 1,003,145 | DCF model | Discount rate |
| | ₩ | 8,743,001 | | |
| Financial liabilities: | | | | |
| Debentures | ₩ | 6,722,907 | DCF model | Discount rate |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | | Fair value | Valuation technique | Inputs |
| Financial assets: | | | | |
| Cash and due from banks | ₩ | 6,556,400 | DCF model | Discount rate |
| Held-to-maturity investments | | 1,176,582 | DCF model | Discount rate |
| | ₩ | 7,732,982 | | |
| Financial liabilities: | | | | |
| Debentures | ₩ | 6,936,426 | DCF model | Discount rate |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Details of inputs used in fair value, valuation technique, and measurement of fair value that are classified into level 3 among financial assets and liabilities disclosed but not measured at fair value as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | |
|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs |
| Financial assets: | | | |
| Loans receivable | ₩ 78,094,010 | DCF model | Discount rate |
| Other financial assets | 9,303,409 | DCF model | Discount rate |
| Merchant banking account assets | 2,709,782 | DCF model | Discount rate |
| | ₩ 90,107,201 | | |
| Financial liabilities: | | | |
| Deposits | ₩ 72,357,974 | DCF model | Discount rate |
| Borrowings | 8,971,057 | DCF model | Discount rate |
| Other financial liabilities | 13,793,145 | DCF model | Discount rate |
| Merchant banking account liabilities | 2,510,080 | DCF model | Discount rate |
| | ₩ 97,632,256 | | |

| | December 31, 2013 | | |
|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs |
| Financial assets: | | | |
| Loans receivable | ₩ 73,604,072 | DCF model | Discount rate |
| Other financial assets | 6,614,524 | DCF model | Discount rate |
| Merchant banking account assets | 2,717,717 | DCF model | Discount rate |
| | ₩ 82,936,313 | | |
| Financial liabilities: | | | |
| Deposits | ₩ 70,351,972 | DCF model | Discount rate |
| Borrowings | 6,840,247 | DCF model | Discount rate |
| Other financial liabilities | 9,957,335 | DCF model | Discount rate |
| Merchant banking account liabilities | 1,679,336 | DCF model | Discount rate |
| | ₩ 88,828,890 | | |

## 6. Fair value of financial instruments

Fair values of financial instruments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | |
| Cash and due from banks | ₩ 9,437,295 | ₩ 9,437,295 | ₩ 8,247,437 | ₩ 8,247,437 |
| Financial assets at FVTPL | | | | |
| Debt securities | 713,547 | 713,547 | 749,569 | 749,569 |
| Equity securities | 54,193 | 54,193 | 27,768 | 27,768 |
| Derivative assets held-for-trading | 1,011,350 | 1,011,350 | 1,356,609 | 1,356,609 |
| | 1,779,090 | 1,779,090 | 2,133,946 | 2,133,946 |
| Derivative assets used for hedging purposes | 20,662 | 20,662 | 23,070 | 23,070 |
| Available-for-sale financial assets | | | | |
| Debt securities | 9,393,465 | 9,393,465 | 8,228,292 | 8,228,292 |
| Equity securities | 742,328 | 742,328 | 967,700 | 967,700 |
| Other | 12,787 | 12,787 | 7,602 | 7,602 |
| | 10,148,580 | 10,148,580 | 9,203,594 | 9,203,594 |
| Held-to-maturity investments | 1,586,441 | 1,594,770 | 2,330,877 | 2,340,393 |
| Loans receivable (*1) | 78,076,446 | 78,094,010 | 73,684,397 | 73,604,072 |
| Other financial assets (*2) | 9,301,467 | 9,303,409 | 6,612,668 | 6,614,524 |
| Merchant banking account assets (*3) | 2,706,123 | 2,709,782 | 2,715,835 | 2,717,717 |
| | ₩ 113,056,104 | ₩ 113,087,598 | ₩ 104,951,824 | ₩ 104,884,753 |
| Financial liabilities: | | | | |
| Deposits | ₩ 71,807,439 | ₩ 72,357,974 | ₩ 69,777,325 | ₩ 70,351,972 |
| Financial liabilities at FVTPL | 986,743 | 986,743 | 1,286,745 | 1,286,745 |
| Derivative liabilities used for hedging purposes | 8,382 | 8,382 | 12,562 | 12,562 |
| Borrowings | 8,963,635 | 8,971,057 | 6,832,731 | 6,840,247 |
| Debentures | 6,547,336 | 6,722,907 | 6,769,818 | 6,936,426 |
| Other financial liabilities (*4) | 13,793,563 | 13,793,145 | 9,957,861 | 9,957,335 |
| Merchant banking account liabilities (*5) | 2,510,080 | 2,510,080 | 1,679,336 | 1,679,336 |
| | ₩ 104,617,178 | ₩ 105,350,288 | ₩ 96,316,378 | ₩ 97,064,623 |

(*1) Net carrying amount after deduction of allowance for possible loan losses and LOF/LOC.
(*2) Including receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances, including merchant banking loans, merchant banking account trading securities, and CMA assets.
(*4) Including payables spot exchange, domestic exchange settlement credit, trust accounts payable etc.
(*5) Including merchant banking account deposits and accrual expenses.

## 7. Classification of financial assets and liabilities by category

Financial assets and liabilities by category as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 9,437,295 | ₩ - | ₩ 9,437,295 |
| Financial assets at FVTPL | 1,779,090 | - | - | - | - | 1,779,090 |
| Derivative assets used for hedging purposes | - | - | - | - | 20,662 | 20,662 |
| Available-for-sale financial assets | - | 10,148,580 | - | - | - | 10,148,580 |
| Held-to-maturity investments | - | - | 1,586,441 | - | - | 1,586,441 |
| Loans receivable | - | - | - | 78,076,446 | - | 78,076,446 |
| Other financial assets | - | - | - | 9,301,467 | - | 9,301,467 |
| Merchant banking account assets | 2,130,998 | - | - | 575,125 | - | 2,706,123 |
| | ₩ 3,910,088 | ₩ 10,148,580 | ₩ 1,586,441 | ₩ 97,390,333 | ₩ 20,662 | ₩ 113,056,104 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 71,807,439 | ₩ - | ₩ 71,807,439 |
| Financial liabilities at FVTPL | 986,743 | - | - | - | - | 986,743 |
| Derivative liabilities used for hedging purposes | - | - | - | - | 8,382 | 8,382 |
| Borrowings | - | - | - | 8,963,635 | - | 8,963,635 |
| Debentures | - | - | - | 6,547,336 | - | 6,547,336 |
| Other financial liabilities | - | - | - | 13,793,563 | - | 13,793,563 |
| Merchant banking liabilities | - | - | - | 2,510,080 | - | 2,510,080 |
| | ₩ 986,743 | ₩ - | ₩ - | ₩ 103,622,053 | ₩ 8,382 | ₩ 104,617,178 |

## 7. Classification of financial assets and liabilities by category (cont'd)

| Classification | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 8,247,437 | ₩ - | ₩ 8,247,437 |
| Financial assets at FVTPL | 2,133,946 | - | - | - | - | 2,133,946 |
| Derivative assets used for hedging purposes | - | - | - | - | 23,070 | 23,070 |
| Available-for-sale financial assets | - | 9,203,594 | - | - | - | 9,203,594 |
| Held-to-maturity investments | - | - | 2,330,877 | - | - | 2,330,877 |
| Loans receivable | - | - | - | 73,684,397 | - | 73,684,397 |
| Other financial assets | - | - | - | 6,612,668 | - | 6,612,668 |
| Merchant banking account assets | 2,166,515 | - | - | 549,320 | - | 2,715,835 |
| | ₩ 4,300,461 | ₩ 9,203,594 | ₩ 2,330,877 | ₩ 89,093,822 | ₩ 23,070 | ₩ 104,951,824 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 69,777,325 | ₩ - | ₩ 69,777,325 |
| Financial liabilities at FVTPL | 1,286,745 | - | - | - | - | 1,286,745 |
| Derivative liabilities used for hedging purposes | - | - | - | - | 12,562 | 12,562 |
| Borrowings | - | - | - | 6,832,731 | - | 6,832,731 |
| Debentures | - | - | - | 6,769,818 | - | 6,769,818 |
| Other financial liabilities | - | - | - | 9,957,861 | - | 9,957,861 |
| Merchant banking liabilities | - | - | - | 1,679,336 | - | 1,679,336 |
| | ₩ 1,286,745 | ₩ - | ₩ - | ₩ 95,017,071 | ₩ 12,562 | ₩ 96,316,378 |

## 8. Risk management

The Company's risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management group which is composed of risk management group (integrated risk management division, credit risk management division, loan review division and treasury settlement division).

Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors. The committee deliberates and determines major issues, such as risk management policies and strategies and risk tolerance limit. Risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Company distributes economic capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Company retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of economic capital.

The Company classifies risks as significant risks and residual risks.

- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined internal capital. The Company consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports this information to the management.

The Company defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level of economic capital. It regularly assesses and manages the reasonableness of economic capital by comparing available capital and combined internal capital. Economic capital as a capital buffer is determined by the risk management committee so as to prepare for additional possibility of losses, emergency situations, and incompleteness of information systems and fluctuation of available capital and strictly managed by a risk propensity index.

In addition, the Company assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate regulated by the Financial Supervisory Service on a semi-annual basis.

The Company efficiently manages through preparing principles for assessment and management in order to maximize shareholders' profits and constructs a combined risk management system considering risks, profits and growth.

8. Risk management (cont'd)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that cause damage to the Company's soundness by improving assets soundness through setup of credit ratings, credit screening, and quantifying and managing credit risks on a regular basis.

The Company implements a system that divides and operates marketing and screening for management purpose. It also employs a total exposure limit system for solving weighted credits and hedging risks and an early alert system for monitoring an insolvent company and establishing countermeasures.

The Company measures expected losses and unexpected losses separately. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses computed through advanced internal ratings-based approach ("AIRB") under the Bank for International Settlements ("BIS") Basel III.

The Company's level of exposure to credit risk as at March 31, 2014 and December 31, 2013 is summarized as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| On balance: | | | | |
| Due from banks | ₩ | 7,739,856 | ₩ | 6,556,400 |
| Financial assets at FVTPL | | 1,724,897 | | 2,106,178 |
| Derivative assets used for hedging purposes | | 20,662 | | 23,070 |
| Available-for-sale financial assets | | 9,393,465 | | 8,228,292 |
| Held-to-maturity investments | | 1,586,441 | | 2,330,877 |
| Loans receivable | | | | |
| Household loans | | 21,881,947 | | 22,562,756 |
| Corporate loans | | | | |
| Large business | | 24,372,923 | | 22,937,718 |
| Small and medium business | | 21,324,693 | | 19,293,512 |
| Public sector and others | | 7,898,632 | | 6,327,395 |
| Credit card loans | | 2,598,251 | | 2,563,016 |
| | | 78,076,446 | | 73,684,397 |
| Other financial assets | | 9,301,467 | | 6,612,668 |
| Merchant banking account assets | | 2,706,123 | | 2,715,835 |
| | ₩ | 110,549,357 | ₩ | 102,257,717 |
| Off balance: | | | | |
| Loans and credit commitments | ₩ | 57,501,712 | ₩ | 59,727,693 |
| Guarantees and endorsed notes | | 19,085,976 | | 17,623,509 |
| | ₩ | 76,587,688 | ₩ | 77,351,202 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 856,362 | ₩ - | ₩ 856,362 | ₩ 507,623 | ₩ 14,083 | ₩ 334,656 |
| Bonds purchased under resale agreement | 640,000 | - | 640,000 | - | 640,000 | - |
| Domestic exchange settlement debits | 9,857,282 | 8,792,008 | 1,065,274 | - | - | 1,065,274 |
| Securities lent | 310,616 | - | 310,616 | - | 310,616 | - |
| | ₩ 11,664,260 | ₩ 8,792,008 | ₩ 2,872,252 | ₩ 507,623 | ₩ 964,699 | ₩ 1,399,930 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 1,137,950 | ₩ - | ₩ 1,137,950 | ₩ 645,996 | ₩ 57,818 | ₩ 434,136 |
| Bonds purchased under resale agreement | 700,000 | - | 700,000 | - | 700,000 | - |
| Domestic exchange settlement debits | 10,101,204 | 8,904,778 | 1,196,426 | - | - | 1,196,426 |
| Securities lent | 229,920 | - | 229,920 | - | 229,920 | - |
| | ₩ 12,169,074 | ₩ 8,904,778 | ₩ 3,264,296 | ₩ 645,996 | ₩ 987,738 | ₩ 1,630,562 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 687,892 | ₩ - | ₩ 687,892 | ₩ 507,623 | ₩ 12,259 | ₩ 168,010 |
| Bonds sold under repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 9,708,817 | 8,792,008 | 916,809 | - | 916,809 | - |
| | ₩ 10,396,899 | ₩ 8,792,008 | ₩ 1,604,891 | ₩ 507,813 | ₩ 929,068 | ₩ 168,010 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 852,350 | ₩ - | ₩ 852,350 | ₩ 645,996 | ₩ 4,620 | ₩ 201,734 |
| Bonds sold under repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 9,879,019 | 8,904,777 | 974,242 | - | 974,242 | - |
| | ₩ 10,731,559 | ₩ 8,904,777 | ₩ 1,826,782 | ₩ 646,186 | ₩ 978,862 | ₩ 201,734 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of collateral management and credit risk mitigation as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 144,901 | ₩ 41,325 | ₩ 8,555 | ₩ 6,990,822 | ₩ 7,185,603 |
| Deposit | 90 | 2,469 | 915 | 1,295,882 | 1,299,356 |
| Movable assets | 20,304 | - | - | 4,181 | 24,485 |
| Real estate | 158,121 | 81,099 | 45,768 | 22,254,547 | 22,539,535 |
| Securities | 55,642 | 3,658 | 14,713 | 2,359,773 | 2,433,786 |
| Others | - | - | - | 4,027 | 4,027 |
| | ₩ 379,058 | ₩ 128,551 | ₩ 69,951 | ₩ 32,909,232 | ₩ 33,486,792 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 139,617 | ₩ 50,282 | ₩ 7,793 | ₩ 5,932,533 | ₩ 6,130,225 |
| Deposit | 6,751 | 691 | 284 | 1,173,567 | 1,181,293 |
| Movable assets | 21,602 | - | - | 5,628 | 27,230 |
| Real estate | 175,744 | 90,528 | 33,083 | 21,315,975 | 21,615,330 |
| Securities | 22,857 | 2,059 | 93 | 2,131,516 | 2,156,525 |
| Others | - | - | - | 3,825 | 3,825 |
| | ₩ 366,571 | ₩ 143,560 | ₩ 41,253 | ₩ 30,563,044 | ₩ 31,114,428 |

Details of delinquency rates on loans and receivable as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Neither past due nor impaired | ₩ 21,752,416 | ₩ 24,002,492 | ₩ 21,148,052 | ₩ 7,853,445 | ₩ 2,563,016 | ₩ 77,319,421 |
| Past due but unimpaired | 30,898 | 9,875 | 47,056 | 38,641 | 64,002 | 190,472 |
| Impaired | 122,925 | 658,908 | 417,607 | 42,337 | 64,930 | 1,306,707 |
| | 21,906,239 | 24,671,275 | 21,612,715 | 7,934,423 | 2,691,948 | 78,816,600 |
| Deferred loan fees | 40,226 | (10,153) | (2,447) | 682 | (52) | 28,256 |
| Allowance for possible loan losses | (64,518) | (288,199) | (285,575) | (36,473) | (93,645) | (768,410) |
| | ₩ 21,881,947 | ₩ 24,372,923 | ₩ 21,324,693 | ₩ 7,898,632 | ₩ 2,598,251 | ₩ 78,076,446 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | December 31, 2013 | | | | | |
| | | Corporate loans | | | | |
| Neither past due nor impaired | ₩ 22,415,065 | ₩ 22,491,671 | ₩ 19,155,250 | ₩ 6,309,933 | ₩ 2,521,564 | ₩ 72,893,483 |
| Past due but unimpaired | 20,803 | 1,054 | 30,494 | 11,342 | 65,941 | 129,634 |
| Impaired | 135,275 | 725,339 | 390,484 | 37,631 | 62,028 | 1,350,757 |
| | 22,571,143 | 23,218,064 | 19,576,228 | 6,358,906 | 2,649,533 | 74,373,874 |
| Deferred loan fees | 44,729 | (11,002) | 1,609 | 689 | (81) | 35,944 |
| Allowance for possible loan losses | (53,116) | (269,344) | (284,325) | (32,200) | (86,436) | (725,421) |
| | ₩ 22,562,756 | ₩ 22,937,718 | ₩ 19,293,512 | ₩ 6,327,395 | ₩ 2,563,016 | ₩ 73,684,397 |

Delinquency occurs when counterparty is unable to make principle and interest payments at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, and damages incurred due to poor exposure.

Details on loans with no impairment or overdue payments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | March 31, 2014 | | | | | |
| | | Corporate loans | | | | |
| Grade 1 | ₩ 15,906,310 | ₩ 16,349,147 | ₩ 4,323,279 | ₩ 2,718,166 | ₩ 772,923 | ₩ 40,069,825 |
| Grade 2 | 5,697,179 | 6,206,996 | 12,885,873 | 3,471,203 | 1,705,363 | 29,966,614 |
| Grade 3 | 119,189 | 1,143,857 | 2,927,727 | 1,494,902 | 84,729 | 5,770,404 |
| Others | 29,738 | 302,492 | 1,011,173 | 169,174 | 1 | 1,512,578 |
| | ₩ 21,752,416 | ₩ 24,002,492 | ₩ 21,148,052 | ₩ 7,853,445 | ₩ 2,563,016 | ₩ 77,319,421 |

| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | December 31, 2013 | | | | | |
| | | Corporate loans | | | | |
| Grade 1 | ₩ 17,098,594 | ₩ 14,894,290 | ₩ 4,752,595 | ₩ 2,165,196 | ₩ 705,912 | ₩ 39,616,587 |
| Grade 2 | 5,230,364 | 6,184,138 | 11,371,938 | 3,037,014 | 1,733,278 | 27,556,732 |
| Grade 3 | 86,107 | 1,008,443 | 2,910,631 | 935,514 | 82,368 | 5,023,063 |
| Others | - | 404,800 | 120,086 | 172,209 | 6 | 697,101 |
| | ₩ 22,415,065 | ₩ 22,491,671 | ₩ 19,155,250 | ₩ 6,309,933 | ₩ 2,521,564 | ₩ 72,893,483 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

The Company classifies the grades of loans in accordance with the credit rating chart below, based on the characteristics of borrowers

| Classification | Household loans / Credit card loans | Corporate loans |
|---|---|---|
| Grade 1 | Less or equal to 0.36% of PD | 1+ ~ 4 |
| Grade 2 | From 0.36% to 8.79% of PD | 5+ ~ 6 |
| Grade 3 | From 8.79% to 100% of PD | 6- ~ 7 |

The Company regards loans and receivable with delinquent payments of less than 90 days as unimpaired in case there is no credit information indicating its loss event. Classes of unimpaired loans and receivable with delinquent payments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 19,154 | ₩ 9,611 | ₩ 38,893 | ₩ 474 | ₩ 49,301 | ₩ 117,433 |
| 31 to 60 days | 10,222 | - | 6,604 | 109 | 8,613 | 25,548 |
| 61 to 90 days | 1,522 | 264 | 1,559 | 38,058 | 6,088 | 47,491 |
| | ₩ 30,898 | ₩ 9,875 | ₩ 47,056 | ₩ 38,641 | ₩ 64,002 | ₩ 190,472 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 11,904 | ₩ 1,054 | ₩ 17,632 | ₩ 387 | ₩ 52,233 | ₩ 83,210 |
| 31 to 60 days | 6,419 | - | 8,522 | 160 | 7,493 | 22,594 |
| 61 to 90 days | 2,480 | - | 4,340 | 10,795 | 6,215 | 23,830 |
| | ₩ 20,803 | ₩ 1,054 | ₩ 30,494 | ₩ 11,342 | ₩ 65,941 | ₩ 129,634 |

**8. Risk management (cont'd)**

**Credit risk (cont'd)**

Classes of impaired loans and receivable as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ 407 | ₩ 655,964 | ₩ 340,713 | ₩ 34,996 | ₩ - | ₩ 1,032,080 |
| Allowance for possible loan losses | 318 | (173,581) | (109,982) | (5,236) | - | (288,481) |
| | 725 | 482,383 | 230,731 | 29,760 | - | 743,599 |
| Collective impairment: | | | | | | |
| Book value | 122,518 | 2,944 | 76,894 | 7,341 | 64,930 | 274,627 |
| Allowance for possible loan losses | (31,807) | (583) | (26,920) | (1,179) | (51,862) | (112,351) |
| | 90,711 | 2,361 | 49,974 | 6,162 | 13,068 | 162,276 |
| | ₩ 91,436 | ₩ 484,744 | ₩ 280,705 | ₩ 35,922 | ₩ 13,068 | ₩ 905,875 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ 377 | ₩ 721,956 | ₩ 324,441 | ₩ 30,547 | ₩ - | ₩ 1,077,321 |
| Allowance for possible loan losses | (16) | (195,623) | (125,069) | (4,903) | - | (325,611) |
| | 361 | 526,333 | 199,372 | 25,644 | - | 751,710 |
| Collective impairment: | | | | | | |
| Book value | 134,898 | 3,383 | 66,043 | 7,084 | 62,028 | 273,436 |
| Allowance for possible loan losses | (27,474) | (643) | (22,828) | (1,685) | (48,742) | (101,372) |
| | 107,424 | 2,740 | 43,215 | 5,399 | 13,286 | 172,064 |
| | ₩ 107,785 | ₩ 529,073 | ₩ 242,587 | ₩ 31,043 | ₩ 13,286 | ₩ 923,774 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Overdue payments on debt securities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Neither past due nor impaired | ₩ 713,547 | ₩ 9,393,465 | ₩ 1,586,441 | ₩ 11,693,453 |
| Impaired | - | - | - | - |
| | ₩ 713,547 | ₩ 9,393,465 | ₩ 1,586,441 | ₩ 11,693,453 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Financial assets held- for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Neither past due nor impaired | ₩ 749,569 | ₩ 8,228,292 | ₩ 2,330,877 | ₩ 11,308,738 |
| Impaired | - | - | - | - |
| | ₩ 749,569 | ₩ 8,228,292 | ₩ 2,330,877 | ₩ 11,308,738 |

Internal credit ratings of debt securities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Grade 1 | ₩ 713,547 | ₩ 9,371,131 | ₩ 1,473,709 | ₩ 11,558,387 |
| Grade 2 | - | 22,334 | 112,732 | 135,066 |
| | ₩ 713,547 | ₩ 9,393,465 | ₩ 1,586,441 | ₩ 11,693,453 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Grade 1 | ₩ 746,388 | ₩ 8,222,474 | ₩ 2,218,010 | ₩ 11,186,872 |
| Grade 2 | 3,181 | 5,818 | 56,840 | 65,839 |
| Grade 3 | - | - | 56,027 | 56,027 |
| | ₩ 749,569 | ₩ 8,228,292 | ₩ 2,330,877 | ₩ 11,308,738 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

The credit rating classification of debt securities which are rated by external rating agencies is as follows:

| Classification | Domestic Rating Agencies | Overseas Rating Agencies: Moody's | S&P | Fitch |
|---|---|---|---|---|
| Grade 1 | AAA ~ A- | Aaa ~ Baa2 | AAA ~ BBB | AAA ~ BBB |
| Grade 2 | BBB+ ~ BB | Baa3 ~ B3 | BBB- ~ B- | BBB- ~ B- |
| Grade 3 | BB ~ B- | Caa1 ~ Caa3 | CCC+ ~ CCC- | CCC+ ~ CCC- |

Credit risk concentration in each major industry as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | | March 31, 2014 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 3,471,779 | ₩ 4,068,562 | ₩ 7,540,341 | 97.42 |
| | Others | - | 199,515 | 199,515 | 2.58 |
| | | 3,471,779 | 4,268,077 | 7,739,856 | 100.00 |
| Financial assets held-for-trading | Financial services | 430,628 | 60,559 | 491,187 | 68.84 |
| | Public administration | 210,258 | 2,143 | 212,401 | 29.77 |
| | Others | 9,959 | - | 9,959 | 1.39 |
| | | 650,845 | 62,702 | 713,547 | 100.00 |
| Available-for-sale financial assets | Financial services | 3,134,415 | 518,186 | 3,652,601 | 38.88 |
| | Manufacturing | 50,166 | 10,519 | 60,685 | 0.65 |
| | Public administration | 5,039,142 | 272,559 | 5,311,701 | 56.55 |
| | Others | 363,204 | 5,274 | 368,478 | 3.92 |
| | | 8,586,927 | 806,538 | 9,393,465 | 100.00 |
| Held-to-maturity investments | Financial services | 662,670 | 27,637 | 690,307 | 43.51 |
| | Public administration | 760,118 | 85,871 | 845,989 | 53.33 |
| | Others | 50,145 | - | 50,145 | 3.16 |
| | | 1,472,933 | 113,508 | 1,586,441 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | March 31, 2014 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| | | Korean won | Foreign currency | Amount | Ratio (%) |
| Loans receivable: | | | | | |
| Household loans | | 21,253,450 | 652,789 | 21,906,239 | 28.06 |
| Credit card loans | | 2,689,756 | 2,192 | 2,691,948 | 3.45 |
| Business loans | Manufacturing | 12,625,420 | 10,696,565 | 23,321,985 | 29.87 |
| | Construction | 1,759,608 | 218,197 | 1,977,805 | 2.53 |
| | Wholesale & retail | 3,365,428 | 4,286,294 | 7,651,722 | 9.80 |
| | Financial services | 2,359,996 | 2,096,069 | 4,456,065 | 5.71 |
| | Real estate rental | 5,135,069 | 662,597 | 5,797,666 | 7.43 |
| | Others | 6,295,540 | 4,717,630 | 11,013,170 | 14.10 |
| | | 55,484,267 | 23,332,333 | 78,816,600 | 100.95 |
| Deferred loan fees and expenses | | 33,057 | (4,801) | 28,256 | 0.03 |
| Allowance for possible loan losses | | (626,706) | (141,704) | (768,410) | (0.98) |
| | | 54,890,618 | 23,185,828 | 78,076,446 | 100.00 |
| | | ₩ 69,073,102 | ₩ 28,436,653 | ₩ 97,509,755 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 33,074 | ₩ 736,659 | ₩ 769,733 | 53.55 |
| | Construction | 2,529 | 75,435 | 77,964 | 5.42 |
| | Wholesale & retail | 4,760 | 223,157 | 227,917 | 15.86 |
| | Real estate rental | 82,000 | 11,329 | 93,329 | 6.49 |
| | Others | 9,303 | 259,114 | 268,417 | 18.68 |
| | | 131,666 | 1,305,694 | 1,437,360 | 100.00 |
| Guarantee contracts | Manufacturing | 577,324 | 6,435,393 | 7,012,717 | 39.74 |
| | Construction | 175,933 | 4,306,677 | 4,482,610 | 25.40 |
| | Wholesale & retail | 288,505 | 2,837,024 | 3,125,529 | 17.71 |
| | Financial services | 940 | 988,903 | 989,843 | 5.61 |
| | Real estate rental | 12,682 | 117,543 | 130,225 | 0.74 |
| | Others | 512,175 | 1,395,517 | 1,907,692 | 10.80 |
| | | 1,567,559 | 16,081,057 | 17,648,616 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | March 31, 2014 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| Commitment | Manufacturing | 16,245,376 | 3,939,219 | 20,184,595 | 35.10 |
| | Construction | 1,406,695 | 532,919 | 1,939,614 | 3.37 |
| | Wholesale & retail | 4,586,922 | 1,577,801 | 6,164,723 | 10.72 |
| | Financial services | 3,531,252 | 33,253 | 3,564,505 | 6.20 |
| | Real estate rental | 2,009,906 | 21,119 | 2,031,025 | 3.53 |
| | Others | 22,494,279 | 1,122,971 | 23,617,250 | 41.08 |
| | | 50,274,430 | 7,227,282 | 57,501,712 | 100.00 |
| | | ₩ 51,973,655 | ₩ 24,614,033 | ₩ 76,587,688 | |

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 2,157,178 | ₩ 4,143,394 | ₩ 6,300,572 | 96.13 |
| | Others | - | 255,828 | 255,828 | 3.87 |
| | | 2,157,178 | 4,399,222 | 6,556,400 | 100.00 |
| Financial assets held-for-trading | Financial services | 540,559 | 30,257 | 570,816 | 76.15 |
| | Wholesale & retail | 159,742 | 5,961 | 165,703 | 22.11 |
| | Public administration | 9,868 | 3,182 | 13,050 | 1.74 |
| | | 710,169 | 39,400 | 749,569 | 100.00 |
| Available-for-sale financial assets | Financial services | 2,806,544 | 510,905 | 3,317,449 | 40.32 |
| | Manufacturing | 109,845 | 5,818 | 115,663 | 1.41 |
| | Public administration | 4,075,387 | 51,956 | 4,127,343 | 50.16 |
| | Others | 662,684 | 5,153 | 667,837 | 8.11 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity investments | Financial services | 1,053,020 | 90,996 | 1,144,016 | 49.08 |
| | Manufacturing | - | 10,553 | 10,553 | 0.45 |
| | Public administration | 1,103,440 | 22,641 | 1,126,081 | 48.31 |
| | Others | 50,227 | - | 50,227 | 2.16 |
| | | 2,206,687 | 124,190 | 2,330,877 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | December 31, 2013 Korean won | Foreign currency | Total Amount | Ratio (%) |
|---|---|---|---|---|---|
| Loans receivable: | | | | | |
| Household loans | | ₩ 21,943,495 | ₩ 627,648 | ₩ 22,571,143 | 30.63 |
| Credit card loans | | 2,645,741 | 3,792 | 2,649,533 | 3.60 |
| Business loans | Manufacturing | 11,494,198 | 8,868,872 | 20,363,070 | 27.63 |
| | Construction | 1,659,309 | 421,448 | 2,080,757 | 2.82 |
| | Wholesale & retail | 3,201,835 | 3,494,604 | 6,696,439 | 9.09 |
| | Financial services | 2,223,793 | 1,954,789 | 4,178,582 | 5.67 |
| | Real estate rental | 4,769,065 | 667,506 | 5,436,571 | 7.38 |
| | Others | 6,005,485 | 4,392,294 | 10,397,779 | 14.11 |
| | | 53,942,921 | 20,430,953 | 74,373,874 | 100.93 |
| Deferred loan fees and expenses | | 38,163 | (2,219) | 35,944 | 0.05 |
| Allowance for possible loan losses | | (597,282) | (128,139) | (725,421) | (0.98) |
| | | 53,383,802 | 20,300,595 | 73,684,397 | 100.00 |
| | | ₩ 66,112,296 | ₩ 25,437,239 | ₩ 91,549,535 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 33,539 | ₩ 627,347 | ₩ 660,886 | 56.64 |
| | Construction | 43,989 | 43,079 | 87,068 | 7.46 |
| | Wholesale & retail | 4,061 | 89,224 | 93,285 | 8.00 |
| | Real estate rental | 22,000 | 11,186 | 33,186 | 2.84 |
| | Others | 11,706 | 280,589 | 292,295 | 25.06 |
| | | 115,295 | 1,051,425 | 1,166,720 | 100.00 |
| Guarantee contracts | Manufacturing | 574,713 | 6,154,047 | 6,728,760 | 40.89 |
| | Construction | 244,555 | 3,954,263 | 4,198,818 | 25.51 |
| | Wholesale & retail | 288,772 | 2,333,589 | 2,622,361 | 15.93 |
| | Real estate rental | 940 | 1,038,980 | 1,039,920 | 6.32 |
| | Others | 510,492 | 1,356,438 | 1,866,930 | 11.35 |
| | | 1,619,472 | 14,837,317 | 16,456,789 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| Commitment | Manufacturing | 17,714,188 | 4,287,457 | 22,001,645 | 36.84 |
| | Construction | 1,790,207 | 523,223 | 2,313,430 | 3.87 |
| | Wholesale & retail | 4,456,176 | 1,570,236 | 6,026,412 | 10.09 |
| | Financial services | 4,584,643 | 34,544 | 4,619,187 | 7.73 |
| | Real estate rental | 2,369,679 | 17,408 | 2,387,087 | 4.00 |
| | Others | 21,334,755 | 1,045,177 | 22,379,932 | 37.47 |
| | | 52,249,648 | 7,478,045 | 59,727,693 | 100.00 |
| | | ₩ 53,984,415 | ₩ 23,366,787 | ₩ 77,351,202 | |

Credit risk concentration in each country as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | | March 31, 2014 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Country | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 3,471,779 | ₩ 419,363 | ₩ 3,891,142 | 50.27 |
| | U.S | - | 1,182,171 | 1,182,171 | 15.27 |
| | China | - | 1,468,942 | 1,468,942 | 18.98 |
| | Japan | - | 128,972 | 128,972 | 1.67 |
| | Singapore | - | 110,279 | 110,279 | 1.42 |
| | Hong Kong | - | 31,551 | 31,551 | 0.41 |
| | Brazil | - | 4,077 | 4,077 | 0.05 |
| | Others | - | 922,722 | 922,722 | 11.93 |
| | | 3,471,779 | 4,268,077 | 7,739,856 | 100.00 |
| Financial assets held-for-trading | Korea | 650,845 | 62,702 | 713,547 | 100.00 |
| Available-for-sale financial assets | Korea | 8,586,927 | 613,701 | 9,200,628 | 97.95 |
| | Hong Kong | - | 85,986 | 85,986 | 0.92 |
| | Others | - | 106,851 | 106,851 | 1.13 |
| | | 8,586,927 | 806,538 | 9,393,465 | 100.00 |
| Held-to-maturity Investments | Korea | 1,472,933 | 27,636 | 1,500,569 | 94.59 |
| | Brazil | - | 26,822 | 26,822 | 1.69 |
| | Others | - | 59,050 | 59,050 | 3.72 |
| | | 1,472,933 | 113,508 | 1,586,441 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | March 31, 2014 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Country | Korean won | Foreign currency | Amount | Ratio (%) |
| Loans receivable | Korea | 53,549,685 | 12,634,983 | 66,184,668 | 84.77 |
| | U.S | 104,345 | 830,061 | 934,406 | 1.20 |
| | China | 7,494 | 1,218,867 | 1,226,361 | 1.57 |
| | Hong Kong | 2,792 | 673,972 | 676,764 | 0.87 |
| | Singapore | 2,155 | 610,893 | 613,048 | 0.79 |
| | Others | 1,817,796 | 7,363,557 | 9,181,353 | 11.75 |
| | | 55,484,267 | 23,332,333 | 78,816,600 | 100.95 |
| Deferred loan fees and expenses | | 33,057 | (4,801) | 28,256 | 0.03 |
| Allowance for possible loan losses | | (626,706) | (141,704) | (768,410) | (0.98) |
| | | 54,890,618 | 23,185,828 | 78,076,446 | 100.00 |
| | | ₩ 69,073,102 | 28,436,653 | ₩ 97,509,755 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 131,666 | ₩ 1,305,694 | ₩ 1,437,360 | 100.00 |
| Guarantee contracts | Korea | 1,567,009 | 14,281,857 | 15,848,866 | 89.80 |
| | U.S | - | 583,034 | 583,034 | 3.30 |
| | China | - | 534,982 | 534,982 | 3.03 |
| | Hong Kong | - | 113,107 | 113,107 | 0.64 |
| | Singapore | - | 123,957 | 123,957 | 0.70 |
| | Others | 550 | 444,120 | 444,670 | 2.53 |
| | | 1,567,559 | 16,081,057 | 17,648,616 | 100.00 |
| Commitment | Korea | 50,274,430 | 5,578,407 | 55,852,837 | 97.13 |
| | U.S | - | 348,209 | 348,209 | 0.61 |
| | Singapore | - | 283,533 | 283,533 | 0.49 |
| | Hong Kong | - | 126,597 | 126,597 | 0.22 |
| | Others | - | 890,536 | 890,536 | 1.55 |
| | | 50,274,430 | 7,227,282 | 57,501,712 | 100.00 |
| | | ₩ 51,973,655 | ₩ 24,614,033 | ₩ 76,587,688 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Country | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 2,157,178 | ₩ 451,821 | ₩ 2,608,999 | 39.79 |
| | U.S | - | 1,720,851 | 1,720,851 | 26.25 |
| | China | - | 1,065,823 | 1,065,823 | 16.26 |
| | Japan | - | 163,324 | 163,324 | 2.49 |
| | Singapore | - | 150,902 | 150,902 | 2.30 |
| | Hong Kong | - | 28,082 | 28,082 | 0.43 |
| | Brazil | - | 2,054 | 2,054 | 0.03 |
| | Hungary | - | 1,888 | 1,888 | 0.03 |
| | Others | - | 814,477 | 814,477 | 12.42 |
| | | 2,157,178 | 4,399,222 | 6,556,400 | 100.00 |
| Financial assets held-for-trading | Korea | 710,169 | 39,400 | 749,569 | 100.00 |
| Available-for-sale financial assets | Korea | 7,654,460 | 547,483 | 8,201,943 | 99.68 |
| | Hong Kong | - | 5,153 | 5,153 | 0.06 |
| | Others | - | 21,196 | 21,196 | 0.26 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity Investments | Korea | 2,206,687 | 27,324 | 2,234,011 | 95.84 |
| | U.S | - | 10,553 | 10,553 | 0.45 |
| | Brazil | - | 27,146 | 27,146 | 1.16 |
| | Others | - | 59,167 | 59,167 | 2.55 |
| | | 2,206,687 | 124,190 | 2,330,877 | 100.00 |
| Loans receivable | Korea | 53,549,685 | 12,634,983 | 66,184,668 | 89.82 |
| | U.S | 104,345 | 830,061 | 934,406 | 1.27 |
| | China | 7,494 | 1,218,867 | 1,226,361 | 1.66 |
| | Hong Kong | 2,792 | 673,972 | 676,764 | 0.92 |
| | Singapore | 2,155 | 610,893 | 613,048 | 0.83 |
| | Others | 276,450 | 4,462,177 | 4,738,627 | 6.43 |
| | | 53,942,921 | 20,430,953 | 74,373,874 | 100.93 |
| Deferred loan fees and expenses | | 38,163 | (2,219) | 35,944 | 0.05 |
| Allowance for possible loan losses | | (597,282) | (128,139) | (725,421) | (0.98) |
| | | 53,383,802 | 20,300,595 | 73,684,397 | 100.00 |
| | | ₩ 66,112,296 | ₩ 25,437,239 | ₩ 91,549,535 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Country | Korean won | Foreign currency | Amount | Ratio (%) |
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 115,295 | ₩ 1,051,425 | ₩ 1,166,720 | 100.00 |
| Guarantee contracts | Korea | 1,618,922 | 13,147,604 | 14,766,526 | 89.73 |
| | U.S | - | 567,848 | 567,848 | 3.45 |
| | China | - | 473,180 | 473,180 | 2.88 |
| | Hong Kong | - | 131,843 | 131,843 | 0.80 |
| | Singapore | - | 143,999 | 143,999 | 0.88 |
| | Others | 550 | 372,843 | 373,393 | 2.26 |
| | | 1,619,472 | 14,837,317 | 16,456,789 | 100.00 |
| Commitment | Korea | 52,246,688 | 5,868,434 | 58,115,122 | 97.30 |
| | U.S | - | 303,696 | 303,696 | 0.51 |
| | Singapore | - | 258,480 | 258,480 | 0.43 |
| | Hong Kong | - | 140,017 | 140,017 | 0.23 |
| | Others | 2,960 | 907,418 | 910,378 | 1.53 |
| | | 52,249,648 | 7,478,045 | 59,727,693 | 100.00 |
| | | ₩ 53,984,415 | ₩ 23,366,787 | ₩ 77,351,202 | |

### Market risk

Market risk is the uncertainty and possibility of losses arising from overall management activities which is divided into general market risk and specific risk. General market risk is the risk to the loss on the Company's earnings arising from the changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of the loss on trading position arising from the changes in credit risks.

Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The targets of the market risk management are interest rate, stock price, foreign currencies, and derivatives as follows:

- Assets classified as financial assets held-for-trading in accordance with KIFRS
- Derivative instruments held-for-trading and derivative instruments used for hedging purposes for which hedge accounting is not applied
- Trust account securities with agreements to guarantee principal or interest
- Foreign currency exchange position regulated by Korean Banking Laws

## 8. Risk management (cont'd)

### Market risk (cont'd)

The Company uses an internal model for measurement of market risk. The purpose of the internal model is to compute required capital by VaR using a historical simulation with a confidence level of 99.0 percent and 10-day (1day) retaining period. VaR using historical simulation sets up 10 business days' (1 business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and arranges in order of values and computes the difference between the value of low second ranked portfolio and current portfolio. In addition, the Company reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by the Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Company performs back testing on a daily basis so as to procure the suitability of the internal model and stress testing to prepare for emergency situations not reflected in the recent market situation.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group or department is reported to the management on a daily basis and to the risk management operating committee on a monthly basis.

Market risk VaR for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 17,385 | ₩ 9,080 | ₩ 13,273 | ₩ 11,158 | ₩ 13,057 | ₩ 5,361 | ₩ 9,119 | ₩ 10,606 |
| Stock price risk | 39,735 | 4,942 | 17,665 | 24,347 | 40,079 | 4,180 | 16,047 | 12,140 |
| Foreign currency risk | 79,682 | 21,184 | 52,202 | 48,857 | 81,264 | 20,790 | 41,700 | 50,364 |
| Option risk | 7,388 | 2,240 | 4,604 | 4,286 | 7,858 | 535 | 2,845 | 1,964 |
| Total risks (*) | ₩ 100,913 | ₩ 35,253 | ₩ 67,523 | ₩ 67,877 | ₩ 103,651 | ₩ 24,080 | ₩ 54,301 | ₩ 62,671 |

(*) The total portfolio risk is not equal to the sum of the individual component risks because the calculation includes consideration of the correlations of the risks.

**8. Risk management (cont'd)**

**Market risk (cont'd)**

Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in the exposures of interest-rate-sensitive assets or liabilities and derivative instruments, using the VaR methodology, a key measuring method of market risk.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index.

The result of interest rate measurement is reported to the risk management operating committee on a monthly basis.

Details of interest rate VaR except for trading portfolio for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 174,494 | ₩ 152,359 | ₩ 163,776 | ₩ 152,359 | ₩ 335,842 | ₩ 153,916 | ₩ 230,006 | ₩ 161,273 |

**Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its payment obligations arising from financial liabilities as they fall due.

The Company proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Moreover, the Company regularly performs liquidity stress test, comprehends deficit, and reflects in the emergency funding plan on a regular basis.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as the Basel III liquidity risk regulation ratio.

Liquidity risk management targets on and off balance assets, liabilities and derivatives, and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

## 8. Risk management (cont'd)

### Liquidity risk (cont'd)

Maturity structures of liabilities as at March 31, 2014 and December 31, 2013 are as follow (Korean won in millions):

| | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| Deposits | ₩ 31,141,923 | ₩ 6,875,171 | ₩ 9,449,957 | ₩ 23,195,357 | ₩ 2,061,523 | ₩ 274,227 | ₩ 72,998,158 |
| Financial liabilities at FVTPL | 986,743 | - | - | - | - | - | 986,743 |
| Derivative liabilities used for hedging purposes | 8,382 | - | - | - | - | - | 8,382 |
| Borrowings | 1,653,574 | 3,174,265 | 916,610 | 2,384,177 | 773,697 | 156,305 | 9,058,628 |
| Debentures | 122 | 14,226 | 889,499 | 639,129 | 4,435,618 | 1,338,574 | 7,317,168 |
| Other liabilities | 1,993 | 13,768,161 | 6,703 | 14,017 | 2,689 | - | 13,793,563 |
| Merchant banking account assets | 1,714,980 | 240,100 | 555,000 | - | - | - | 2,510,080 |
| | 35,507,717 | 24,071,923 | 11,817,769 | 26,232,680 | 7,273,527 | 1,769,106 | 106,672,722 |
| Loan commitment | 57,501,712 | - | - | - | - | - | 57,501,712 |
| Finance guarantee | 1,437,360 | - | - | - | - | - | 1,437,360 |
| | 58,939,072 | - | - | - | - | - | 58,939,072 |
| | ₩ 94,446,789 | ₩ 24,071,923 | ₩ 11,817,769 | ₩ 26,232,680 | ₩ 7,273,527 | ₩ 1,769,106 | ₩ 165,611,794 |

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| Deposits | ₩ 29,262,525 | ₩ 7,264,185 | ₩ 9,281,791 | ₩ 22,239,566 | ₩ 2,244,050 | ₩ 668,460 | ₩ 70,960,577 |
| Financial liabilities at FVTPL | 1,286,745 | - | - | - | - | - | 1,286,745 |
| Derivative liabilities used for hedging purposes | 12,562 | - | - | - | - | - | 12,562 |
| Borrowings | 1,204,977 | 1,720,420 | 1,165,701 | 2,043,157 | 655,261 | 139,956 | 6,929,472 |
| Debentures | 122 | 218,993 | 242,945 | 1,499,424 | 4,283,194 | 1,343,476 | 7,588,154 |
| Other liabilities | 928 | 9,931,644 | 2,717 | 20,216 | 2,356 | - | 9,957,861 |
| Merchant banking account assets | 1,526,676 | 52,660 | 100,000 | - | - | - | 1,679,336 |
| | 33,294,535 | 19,187,902 | 10,793,154 | 25,802,363 | 7,184,861 | 2,151,892 | 98,414,707 |
| Loan commitment | 59,727,693 | - | - | - | - | - | 59,727,693 |
| Finance guarantee | 1,166,720 | - | - | - | - | - | 1,166,720 |
| | 60,894,413 | - | - | - | - | - | 60,894,413 |
| | ₩ 94,188,948 | ₩ 19,187,902 | ₩ 10,793,154 | ₩ 25,802,363 | ₩ 7,184,861 | ₩ 2,151,892 | ₩ 159,309,120 |

## 8. Risk management (cont'd)

### Currency risk

Currency risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in foreign exchange rates. Currency risk arises in financial instruments expressed in currencies other than the functional currency. Currency risk does not arise in financial instruments expressed in the functional currency or in non-monetary items measured using historical foreign exchange rates. In order to establish stop loss and limits, the Company manages the foreign exchange net exposure amount of the trading and non-trading portfolios by each currency.

Significant assets and liabilities denominated in foreign currencies as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions or U.S. dollar in thousands):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Assets: | | | | |
| Cash and due from banks | USD | 1,829,929,995 | 1,829,930 | ₩ 1,955,829 |
| | JPY | 18,038,872,675 | 175,311 | 187,373 |
| | EUR | 241,253,897 | 331,673 | 354,493 |
| | CNY | 8,544,583,013 | 1,377,462 | 1,472,232 |
| | HKD | 415,378,714 | 53,543 | 57,226 |
| | Others | | 701,946 | 750,240 |
| | | | 4,469,865 | 4,777,393 |
| Financial assets held-for-trading | USD | 118,545,291 | 118,545 | 126,701 |
| Available-for-sale financial assets | USD | 659,599,312 | 659,599 | 704,603 |
| | IDR | 181,287,925,000 | 15,961 | 17,059 |
| | Others | | 87,895 | 93,943 |
| | | | 763,455 | 815,605 |
| Held-to-maturity investments | USD | 25,891,935 | 25,892 | 27,673 |
| | EUR | 528,569 | 727 | 777 |
| | IDR | 596,896,749,612 | 52,552 | 56,168 |
| | BRL | 56,801,859 | 25,096 | 26,822 |
| | Others | | 1,968 | 2,068 |
| | | | 106,235 | 113,508 |
| Loans receivable | USD | 13,702,957,839 | 13,702,958 | 14,645,720 |
| | JPY | 101,040,041,461 | 981,962 | 1,049,521 |
| | EUR | 731,109,021 | 1,005,123 | 1,074,275 |
| | CNY | 7,092,093,512 | 1,143,308 | 1,221,968 |
| | CAD | 1,173,650,571 | 1,103,544 | 1,179,468 |
| | AUD | 314,182,218 | 226,686 | 242,282 |
| | Others | | 3,666,822 | 3,919,099 |
| | | | 21,830,403 | 23,332,333 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | | March 31, 2014 | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Derivative assets used for hedging purposes | USD | 19,331,839 | 19,332 | 20,662 |
| Other assets | USD | 3,022,410,456 | 3,022,410 | 3,230,352 |
| | JPY | 18,255,774,684 | 177,420 | 189,626 |
| | EUR | 412,985,827 | 567,770 | 606,832 |
| | CNY | 513,046,890 | 82,708 | 88,398 |
| | HKD | 261,163,215 | 33,664 | 35,980 |
| | Others | | 347,224 | 371,113 |
| | | | 4,231,196 | 4,522,301 |
| | | | 31,539,031 | ₩ 33,708,503 |
| Liabilities: | | | | |
| Financial liabilities held-for-trading | USD | 106,963,193 | 106,963 | ₩ 114,322 |
| Deposits | USD | 10,994,458,340 | 10,994,458 | 11,750,876 |
| | JPY | 130,285,903,026 | 1,266,189 | 1,353,303 |
| | EUR | 1,096,713,553 | 1,507,753 | 1,611,486 |
| | CNY | 10,347,745,676 | 1,668,149 | 1,782,917 |
| | CAD | 1,051,415,453 | 988,611 | 1,056,627 |
| | Others | | 1,555,955 | 1,663,005 |
| | | | 17,981,115 | 19,218,214 |
| Borrowings | USD | 5,198,821,583 | 5,198,822 | 5,556,500 |
| | JPY | 18,225,448,837 | 177,125 | 189,311 |
| | EUR | 282,817,082 | 388,815 | 415,565 |
| | BRL | 152,191,022 | 41,296 | 44,137 |
| | AUD | 28,257,752 | 20,388 | 21,791 |
| | Others | | 382,990 | 409,340 |
| | | | 6,209,436 | 6,636,644 |
| Debentures | USD | 2,140,767,411 | 2,140,767 | 2,288,052 |
| | HKD | 309,998,849 | 39,959 | 42,708 |
| | AUD | 64,838 | 47 | 50 |
| | | | 2,180,773 | 2,330,810 |
| Derivative liabilities used for hedging purposes | USD | 7,842,568 | 7,843 | 8,382 |

8. **Risk management (cont'd)**

**Currency risk (cont'd)**

| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
|---|---|---|---|---|
| | | March 31, 2014 | | |
| Other liabilities | USD | 3,922,600,471 | 3,922,600 | 4,192,475 |
| | JPY | 12,025,279,049 | 116,787 | 124,822 |
| | EUR | 125,473,132 | 172,501 | 184,369 |
| | CAD | 75,994,665 | 68,755 | 73,485 |
| | AUD | 188,195,894 | 174,101 | 186,079 |
| | Others | | 609,400 | 651,327 |
| | | | 5,064,144 | 5,412,557 |
| | | | 31,550,274 | ₩ 33,720,929 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
|---|---|---|---|---|
| | | December 31, 2013 | | |
| Assets: | | | | |
| Cash and due from banks | USD | 2,923,521,828 | 2,923,522 | ₩ 3,088,545 |
| | JPY | 19,909,100,221 | 189,536 | 200,018 |
| | EUR | 326,564,307 | 450,621 | 475,539 |
| | CNY | 2,215,004,396 | 365,405 | 385,612 |
| | IDR | 44,034,941,599 | 3,609 | 3,805 |
| | BRL | 7,016,333 | 2,970 | 3,135 |
| | HKD | 342,483,379 | 44,171 | 46,612 |
| | Others | | 624,442 | 658,972 |
| | | | 4,604,276 | 4,862,238 |
| Financial assets held-for-trading | USD | 106,732,313 | 106,732 | 112,757 |
| Available-for-sale financial assets | USD | 547,577,079 | 547,577 | 578,486 |
| | Others | | 3,932 | 4,149 |
| | | | 551,509 | 582,635 |
| Held-to-maturity investments | USD | 35,853,205 | 35,853 | 37,877 |
| | EUR | 528,569 | 729 | 770 |
| | IDR | 648,463,545,509 | 53,091 | 56,027 |
| | BRL | 60,764,128 | 25,724 | 27,146 |
| | Others | | 2,246 | 2,370 |
| | | | 117,643 | 124,190 |

8. Risk management (cont'd)

Currency risk (cont'd)

| | | December 31, 2013 | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Loans receivable | USD | 13,863,188,688 | 13,863,189 | 14,645,720 |
| | JPY | 104,465,301,501 | 994,524 | 1,049,521 |
| | EUR | 737,694,527 | 1,017,981 | 1,074,275 |
| | CNY | 7,019,171,939 | 1,157,934 | 1,221,968 |
| | CAD | 1,190,359,356 | 1,117,661 | 1,179,468 |
| | AUD | 257,757,927 | 229,586 | 242,282 |
| | Others | | 964,387 | 1,017,719 |
| | | | 19,345,262 | 20,430,953 |
| Derivative assets used for hedging purposes | USD | 21,837,353 | 21,837 | 23,070 |
| Other assets | USD | 2,035,494,068 | 2,035,494 | 2,150,391 |
| | JPY | 34,693,566,219 | 330,287 | 348,552 |
| | EUR | 67,178,142 | 92,702 | 97,829 |
| | CNY | 170,327,187 | 28,098 | 29,652 |
| | HKD | 538,131,897 | 69,397 | 73,234 |
| | Others | | 321,994 | 339,800 |
| | | | 2,877,972 | 3,039,458 |
| | | | 27,625,231 | ₩ 29,175,301 |
| Liabilities: | | | | |
| Financial liabilities held-for-trading | USD | 114,533,937 | 114,534 | ₩ 120,999 |
| Deposits | USD | 10,635,521,844 | 10,635,522 | 11,235,862 |
| | JPY | 150,469,767,157 | 1,432,493 | 1,511,710 |
| | EUR | 875,818,645 | 1,208,585 | 1,275,420 |
| | CNY | 6,957,745,876 | 1,147,801 | 1,211,274 |
| | CAD | 1,105,886,653 | 1,038,347 | 1,095,768 |
| | Others | | 1,134,091 | 1,196,807 |
| | | | 16,596,839 | 17,526,841 |
| Borrowings | USD | 4,055,065,265 | 4,005,065 | 4,231,138 |
| | JPY | 18,893,429,338 | 179,672 | 189,814 |
| | EUR | 309,097,765 | 426,539 | 450,127 |
| | BRL | 103,355,256 | 43,754 | 46,174 |
| | AUD | 86,764,300 | 77,281 | 81,555 |
| | Others | | 60,555 | 63,902 |
| | | | 4,792,866 | 5,062,710 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Debentures | USD | 2,142,309,679 | 2,142,310 | 2,263,236 |
| | HKD | 309,977,877 | 39,934 | 42,188 |
| | AUD | 50,002 | 44 | 47 |
| | | | 2,182,288 | 2,305,471 |
| Derivative liabilities used for hedging purposes | USD | 11,890,803 | 11,891 | 12,562 |
| Other liabilities | USD | 2,509,786,806 | 2,509,787 | 2,651,456 |
| | JPY | 15,845,842,566 | 150,855 | 159,197 |
| | EUR | 175,898,713 | 242,731 | 256,154 |
| | CAD | 141,809,181 | 133,149 | 140,512 |
| | AUD | 27,466,004 | 24,464 | 25,817 |
| | Others | | 328,000 | 346,139 |
| | | | 3,388,986 | 3,579,275 |
| | | | 27,087,404 | ₩ 28,607,858 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 9. Segment information

The business sectors of the Company are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

| Classification | | Business |
|---|---|---|
| Individual finance | Retail banking | Household credit and saving |
| | Credit card | Issue, use, payment of credit card and others |
| | Trust pension | Retirement pension and others |
| Corporate finance | Corporate banking | Corporate credit and saving, securities investment, derivatives transaction and others |
| Fund market | Fund market management | Security investments and management |
| Others | International banking | Corporate supporting for business development abroad and others |
| | Others | Administration and others |

## 9. Segment information (cont'd)

Net income by business segment for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 341,125 | ₩ 113,079 | ₩ 27,756 | ₩ (7,543) | ₩ 474,417 | ₩ 91,768 | ₩ 566,185 |
| Net commission income (expenses) | 109,453 | 44,691 | 3,041 | 13,251 | 170,436 | (132,353) | 38,083 |
| Net other operating income (expenses) | (88,025) | 98,089 | 15,520 | (15,640) | 9,944 | (27,251) | (17,307) |
| | 362,553 | 255,859 | 46,317 | (9,932) | 654,797 | (67,836) | 586,961 |
| Segment operating expense: | | | | | | | |
| General and administrative expense | 207,328 | 53,023 | 7,560 | 118,946 | 386,857 | (29,620) | 357,237 |
| Segment operating profit (loss) | 155,225 | 202,836 | 38,757 | (128,878) | 267,940 | (38,216) | 229,724 |
| Provision for (reversal of) possible losses on credits (*1) | 97,911 | 21,390 | 1 | (74,009) | 45,293 | 97,304 | 142,597 |
| Income tax expense | 13,870 | 45,207 | 9,379 | (13,278) | 55,178 | (39,765) | 15,413 |
| Net income (loss) | ₩ 43,444 | ₩ 136,239 | ₩ 29,377 | ₩ (41,591) | ₩ 167,469 | ₩ (95,755) | ₩ 71,714 |

(*1) Provisions for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, acceptances and guarantees, and unused credit limit.

## 9. Segment information (cont'd)

| Classification | Three-month period ended March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 206,490 | ₩ 233,192 | ₩ 16,172 | ₩ (44,266) | ₩ 411,588 | ₩ 141,530 | ₩ 553,118 |
| Net commission income (expenses) | 98,201 | 64,896 | 2,372 | 23,299 | 188,768 | (132,338) | 56,430 |
| Net other operating income (expenses) | 72,204 | (48,348) | 31,468 | (36,532) | 18,792 | 302 | 19,094 |
| | 376,895 | 249,740 | 50,012 | (57,499) | 619,148 | 9,494 | 628,642 |
| Segment operating expense: | | | | | | | |
| General and administrative expense | 159,330 | 104,154 | 7,581 | 128,204 | 399,269 | (20,492) | 378,777 |
| Segment operating profit (loss) | 217,565 | 145,586 | 42,431 | (185,703) | 219,879 | 29,986 | 249,865 |
| Provision for (reversal of) possible losses on credits (*1) | 56,122 | 21,467 | - | (52,356) | 25,233 | 108,374 | 133,607 |
| Income tax expense | 39,069 | 32,871 | 10,268 | (32,270) | 49,938 | (8,942) | 40,996 |
| Net income (loss) | ₩ 122,374 | ₩ 91,248 | ₩ 32,163 | ₩ (101,077) | ₩ 144,708 | ₩ (69,446) | ₩ 75,262 |

(*1) Provisions for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, acceptances and guarantees, and unused credit limit.

Income from customers and transaction between segments by business segment for the three-month periods ended March 31, 2014 and 2013 is as follow (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income from external customers | ₩ 363,977 | ₩ 209,864 | ₩ 45,072 | ₩ 35,884 | ₩ 654,797 | ₩ (67,836) | ₩ 586,961 |
| Income (expenses) from internal transactions | (1,424) | 45,995 | 1,245 | (45,816) | - | - | - |
| | ₩ 362,553 | ₩ 255,859 | ₩ 46,317 | ₩ (9,932) | ₩ 654,797 | ₩ (67,836) | ₩ 586,961 |

## 9. Segment information (cont'd)

| | Three-month period ended March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income (expenses) from external customers | ₩ 320,277 | ₩ 220,416 | ₩ (56,378) | ₩ 134,833 | ₩ 619,148 | ₩ 9,494 | ₩ 628,642 |
| Income (expenses) from internal transactions | 56,618 | 29,324 | 106,390 | (192,332) | - | - | - |
| | ₩ 376,895 | ₩ 249,740 | ₩ 50,012 | ₩ (57,499) | ₩ 619,148 | ₩ 9,494 | ₩ 628,642 |

Significant non cash item included in operating income by business segment for the three-month periods ended March 31, 2014 and 2013 is as follow (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Depreciation and amortization | ₩ 3,891 | ₩ 2,588 | ₩ - | ₩ 18,998 | ₩ 25,477 | ₩ (60) | ₩ 25,417 |

| | Three-month period ended March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Depreciation and amortization | ₩ 2,030 | ₩ 909 | ₩ - | ₩ 20,538 | ₩ 23,477 | ₩ 2,126 | ₩ 25,603 |

## 9. Segment information (cont'd)

Financial information by region as at March 31, 2014 and December 31, 2013 and for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| Classification | Income from customers (*1) Three-month periods ended March 31, 2014 | 2013 | Noncurrent assets (*2) March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Domestic | ₩ 526,967 | ₩ 506,706 | ₩ 1,422,640 | ₩ 1,439,627 |
| Overseas: | | | | |
| Hong Kong | 12,725 | 12,300 | 4,349 | 4,358 |
| Singapore | 3,683 | 3,702 | 292 | 326 |
| U.S | 5,281 | 5,735 | 394 | 449 |
| Japan | 2,848 | 5,182 | 4,966 | 4,904 |
| China | 21,372 | 12,418 | 19,774 | 18,110 |
| Indonesia | 9,499 | 6,284 | 4,544 | 409 |
| U.K. | 3,987 | 3,279 | 157 | 179 |
| Canada | 7,874 | 7,822 | 3,547 | 3,883 |
| Others | 16,629 | 18,664 | 4,028 | 4,103 |
| | 83,898 | 75,386 | 42,051 | 36,721 |
| Adjustments | (23,904) | 46,550 | - | - |
| | ₩ 586,961 | ₩ 628,642 | ₩ 1,464,691 | ₩ 1,476,348 |

(*1) Income from customers is divided into domestic and overseas categories.
(*2) Noncurrent assets consist of property and equipment, investment property, and intangible asset and are divided into domestic and overseas categories based on the location of assets.

## 10. Cash and due from banks

Details of cash and due from banks as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Account | Financial institution | March 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Cash | | ₩ 1,697,439 | ₩ 1,691,037 |
| Due from banks in Korean won: | | | |
| Reserve deposit | Bank of Korea ("BOK") | 2,153,750 | 1,703,601 |
| Monetary stabilization deposits | BOK | 1,140,000 | 200,000 |
| Other due from banks | Other financial institutions | 178,029 | 253,577 |
| | | 3,471,779 | 2,157,178 |
| Due from banks denominated in foreign currencies: | | | |
| Reserve deposit | BOK and others | 1,747,076 | 2,220,553 |
| Due from banks on time deposits | Other banks | 1,624,199 | 1,386,389 |
| Other due from banks | Other financial institutions | 896,802 | 792,280 |
| | | 4,268,077 | 4,399,222 |
| | | ₩ 9,437,295 | ₩ 8,247,437 |

## 10. Cash and due from banks (cont'd)

Restricted due from banks in Korean won and foreign currencies as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 | Restriction |
|---|---|---|---|
| Due from banks in Korean won: | | | |
| Reserve deposit | ₩ 2,153,750 | ₩ 1,703,601 | Required under the BOK Act |
| Monetary stabilization deposits | 1,140,000 | 200,000 | Deposits for the purpose of liquidity management by the BOK |
| Reserve for future trading | 14,646 | 3,513 | Subscription related to derivatives |
| Investors' deposit | 53,182 | 71,666 | Required under the Financial Investment Services and Capital Markets Act |
| | 3,361,578 | 1,978,780 | |
| Due from banks in foreign currencies: | | | |
| Reserve deposit | 629,057 | 638,678 | Required under the BOK Act and others |
| Other due from banks | 363,588 | 454,528 | Subscription related to derivatives |
| | 992,645 | 1,093,206 | |
| | ₩ 4,354,223 | ₩ 3,071,986 | |

## 11. Financial assets at FVTPL

Financial assets at FVTPL as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | | Interest rate (%) | Fair value (Book value) March 31, 2014 | Fair value (Book value) December 31, 2013 |
|---|---|---|---|---|
| Stocks | Samsung Electronics Co., Ltd. and others | | ₩ 54,193 | ₩ 27,768 |
| Government and public bonds | Treasury bonds | 2.75~5.25 | 180,162 | 129,675 |
| Financial bonds | Deposit bank bonds | 2.69~3.93 | 110,063 | 250,221 |
| | Industrial finance bonds | 2.67~3.79 | 140,659 | 140,579 |
| | Small and medium-sized business banking bonds | 2.62~2.98 | 39,764 | 110,042 |
| | Monetary stabilization securities | 2.78~2.90 | 140,143 | 39,717 |
| | | | 430,629 | 540,559 |
| Corporate bonds and others | General bonds | 3.09 | 9,958 | 9,868 |
| | Industrial bonds invested by government | 2.84~3.76 | 30,096 | 30,067 |
| | | | 40,054 | 39,935 |
| Securities denominated in foreign currencies | Bonds denominated in foreign currencies | 1.11~4.00 | 62,702 | 39,400 |
| Derivative assets held-for-trading (Note 18) | | – | 1,011,350 | 1,356,609 |
| | | | ₩ 1,779,090 | ₩ 2,133,946 |

## 11. Financial assets at FVTPL (cont'd)

Details of valuation of trading securities and bonds, by industry, as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Face value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 180,000 | ₩ 179,267 | ₩ 179,334 | ₩ 180,162 |
| Financial bonds | 430,000 | 430,463 | 430,544 | 430,629 |
| Corporate bonds and others | 40,000 | 40,076 | 40,067 | 40,054 |
| Bond denominated in foreign currencies | 61,135 | 62,258 | 62,220 | 62,702 |
| | ₩ 711,135 | ₩ 712,064 | ₩ 712,165 | ₩ 713,547 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Face value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 130,000 | ₩ 128,729 | ₩ 128,766 | ₩ 129,675 |
| Financial bonds | 540,000 | 540,853 | 540,490 | 540,559 |
| Corporate bonds and others | 40,000 | 40,165 | 40,076 | 39,935 |
| Bond denominated in foreign currencies | 39,046 | 39,609 | 39,370 | 39,400 |
| | ₩ 749,046 | ₩ 749,356 | ₩ 748,702 | ₩ 749,569 |

## 12. Available-for-sale financial assets

Details of available-for-sale financial assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | | | Fair value (Book value) | |
|---|---|---|---|---|
| Classification | Details | Interest rate (%) | March 31, 2014 | December 31, 2013 |
| Equity securities | SK Hynix Inc. and Others | - | ₩ 635,569 | ₩ 867,372 |
| Investments in partnership | Vogo fund and others | - | 83,846 | 82,687 |
| Government and public bonds | Treasury bonds | 2.75~5.00 | 1,805,525 | 971,573 |
| | Housing bonds | 2.50~3.00 | 975,079 | 644,238 |
| | Other local bonds | 2.60~5.55 | 541,381 | 351,808 |
| | | | 3,321,985 | 1,967,619 |
| Finance bonds | Monetary stabilization securities | 2.47~2.90 | 2,438,693 | 1,699,676 |
| | Industrial finance bonds | 2.67~3.33 | 139,821 | 380,639 |
| | Deposit bank bonds | 2.73~6.66 | 250,015 | 330,734 |
| | Small and medium-sized business banking bonds | 2.63~2.98 | 119,283 | 208,999 |
| | Export-import credit bonds | 2.87~4.87 | 60,538 | 60,612 |
| | | | 3,008,350 | 2,680,660 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | Details | Interest rate (%) | Fair value (Book value) March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Corporate and other bonds | Industrial bonds invested by government | 2.62~5.26 | 1,717,157 | 2,107,768 |
| | General bonds | 2.84~6.56 | 539,435 | 898,413 |
| | | | 2,256,592 | 3,006,181 |
| Beneficiary certificates | | - | 13,846 | 8,838 |
| Securities denominated in foreign currencies | Equity securities denominated in foreign currency | - | 8,265 | 8,001 |
| | Debt securities denominated in foreign currency | 0.23~7.25 | 806,538 | 573,832 |
| | Investments in partnership dominated in foreign currency | - | 802 | 802 |
| | | | 815,605 | 582,635 |
| Other securities | Beneficiary right certificate | - | 12,787 | 7,602 |
| | | | ₩ 10,148,580 | ₩ 9,203,594 |

Equity securities (including equity securities denominated in foreign currencies) as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Book value before valuation | Loss on valuation | Fair value (Book value) March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Marketable securities | ₩ 497,155 | ₩ (20,935) | ₩ 476,220 | ₩ 674,467 |
| Non marketable securities | 200,748 | (33,134) | 167,614 | 200,906 |
| | ₩ 697,903 | ₩ (54,069) | ₩ 643,834 | ₩ 875,373 |

Non-marketable equity securities in the amount of ₩18,246 million and ₩18,294 million as at March 31, 2014 and December 31, 2013, respectively, including the Korea Asset Management Corporation were valued at cost as their fair values could not be reasonably estimated.

The fair value of the available-for-sale non-marketable equity securities was measured by independent valuation agencies using actuarial assumptions. The fair value was determined based on more than one valuation model such as the Discounted Cash Flow ("DCF") model, Net Asset Value (NAV) model, comparative on similar business model and Risk Adjusted Discounted Cash Flow (RADCF) model, depending on the characteristic of the equity securities as deemed appropriate.

12. Available-for-sale financial assets (cont'd)

The Company's equity securities under disposal restriction as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Number of shares | Book value | | Restriction |
| Taihan Electric Wire Co., Ltd. (preferred stock) | 4,869,900 | ₩ | 51,134 | Until December 31, 2015 |
| Kumho Tire Co., Inc. | 3,153,755 | | 41,945 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 9,958,000 | | 12,896 | Until December 31, 2016 |
| Daiyang Metal Co., Ltd. | 7,563,000 | | 7,170 | Until December 31, 2014 |
| Taihan Electric Wire Co., Ltd. | 3,019,100 | | 6,340 | Until December 31, 2015 |
| Kumho Industrial Co.,Ltd | 480,526 | | 6,223 | Until December 31, 2014 |
| STX Engine Co., Ltd. | 2,714,000 | | 5,870 | Until December 31, 2017 |
| STX Heavy Industries Co., Ltd. | 2,250,000 | | 3,758 | Until December 31, 2017 |
| Osung LST Co., Ltd. | 1,986,000 | | 1,601 | Until December 31, 2017 |
| SAMT CO.,Ltd. | 677,264 | | 1,344 | Until December 31, 2014 |
| Chinhung International Inc | 600,400 | | 919 | Until December 31, 2014 |
| AJin P&P Co., Ltd | 47,170 | | 685 | Until December 31, 2015 |
| Kores Co., Ltd. | 492,000 | | 417 | Until December 31, 2014 |
| Elcomtec Co., Ltd. | 375,901 | | 288 | Until October 18, 2014 |
| KPM Tech Co., Ltd. | 462,815 | | 285 | Until December 31, 2015 |
| Jaeyoung Solutec Co., Ltd | 61,333 | | 91 | Until December 31, 2014 |
| Pumyang Construction Co., Ltd | 12,030 | | 72 | Until June 30, 2014 |
| Young Gwang Stainless Co., Ltd | 10,000 | | 14 | Until December 31, 2014 |
| STX Offshore & Shipbuilding Co., Ltd. | 11,589,600 | | 12 | Until December 31, 2017 |
| ForceTEC Co., Ltd. | 2,524,280 | | 3 | Until December 31, 2017 |
| Ssangyong Engineering & Construction | 5,913 | | - | (*1) |
| Hae Won Steeltech. Co., Ltd. | 271,398 | | - | Until January 20, 2015 |
| | | ₩ | 141,067 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditors' meeting.

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Number of shares | Book value | | Restriction |
| Taihan Electric Wire Co., Ltd. (preferred stock) | 4,869,900 | ₩ | 58,074 | Until December 31, 2015 |
| Kumho Tire Co., Inc. | 3,153,755 | | 36,268 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 9,958,000 | | 15,415 | Until December 31, 2016 |
| STX Engine Co., Inc. | 2,714,000 | | 12,484 | Until December 31, 2017 |
| Daiyang Metal Co., Ltd. | 7,563,000 | | 8,281 | Until June 4, 2014 |
| STX Heavy Industry Co., Ltd. | 2,250,000 | | 7,245 | Until December 31, 2017 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | December 31, 2013<br>Number of shares | Book value | Restriction |
|---|---|---|---|
| Taihan Co., Inc. | 3,019,100 | 7,201 | Until December 31, 2015 |
| STX Marine Shipbuilding Industry Co., Ltd. | 673,889 | 4,515 | Until December 31, 2017 |
| Elcomtec Co., Ltd. | 375,901 | 1,673 | Until November 22, 2014 |
| SAMT CO.,Ltd. | 677,264 | 1,463 | Until December 31, 2014 |
| Kumho Industrial Co.,Ltd | 123,527 | 1,451 | Until December 31, 2014 |
| Chinhung International Inc | 600,400 | 967 | Until December 31, 2014 |
| AJin P&P Co., Ltd | 53,850 | 782 | Until December 31, 2015 |
| Kores Co., Ltd. | 492,000 | 417 | Until December 31, 2015 |
| Jaeyoung Solutec Co., Ltd | 61,333 | 83 | Until December 31, 2014 |
| Young Gwang Stainless Co., Ltd | 10,000 | 14 | Until December 31, 2014 |
| ForceTEC Co., Ltd. | 2,524,280 | 3 | Until December 31, 2017 |
| Ssangyong Engineering & Construction | 5,913 | - | (*1) |
| | | ₩ 156,336 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditors' meeting.

Investments in partnership (including investments in partnership denominated in foreign currencies) as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | March 31, 2014<br>Book value before valuation | Loss on valuation | Fair value (Book value) | December 31, 2013<br>Fair value (Book value) |
|---|---|---|---|---|
| Investment in capital | ₩ 84,648 | ₩ - | ₩ 84,648 | ₩ 83,489 |

For available-for-sale financial assets over ₩1,000 million, the Bank uses a valued price measured by an external valuation agency on a semi-annual basis. Moreover, others are valued at the acquisition cost because a reliable fair value could not be reasonably estimated which amounts to ₩2,661 million and ₩1,761 million as at March 31, 2014 and December 31, 2013, respectively.

Debt securities as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| Classification | March 31, 2014<br>Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 3,314,132 | ₩ 3,325,188 | ₩ 3,322,701 | ₩ 3,321,985 |
| Financial bonds | 3,004,139 | 3,011,054 | 3,009,254 | 3,008,350 |
| Corporate bonds | 2,244,800 | 2,310,113 | 2,259,575 | 2,256,592 |
| Bond denominated in foreign currencies | 774,286 | 818,300 | 804,069 | 806,538 |
| | ₩ 9,337,357 | ₩ 9,464,655 | ₩ 9,395,599 | ₩ 9,393,465 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | December 31, 2013<br>Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,965,132 | ₩ 1,971,101 | ₩ 1,969,933 | ₩ 1,967,619 |
| Financial bonds | 2,674,139 | 2,687,283 | 2,682,891 | 2,680,660 |
| Corporate bonds | 2,994,800 | 3,021,342 | 3,013,338 | 3,006,181 |
| Bond denominated in foreign currencies | 553,327 | 586,622 | 567,795 | 573,832 |
| | ₩ 8,187,398 | ₩ 8,266,348 | ₩ 8,233,957 | ₩ 8,228,292 |

Changes in the unrealized gain (loss) of the Company's available-for-sale financial assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014<br>Beginning balance | Unrealized gain (loss) | Realized loss | Tax effect | Ending Balance |
|---|---|---|---|---|---|
| Equity securities | ₩ 300,318 | ₩ (5,250) | ₩ (33,460) | ₩ 9,178 | ₩ 270,786 |
| Other equity securities | 4,760 | (35) | - | 7 | 4,732 |
| Government and public bonds | (1,754) | 2,187 | (589) | (387) | (543) |
| Finance bonds | (1,692) | 2,127 | (800) | (321) | (686) |
| Corporate bonds and others | (5,425) | 5,287 | (1,113) | (1,010) | (2,261) |
| Debt securities denominated in foreign currencies | 1,064 | 2,237 | (419) | (463) | 2,419 |
| | ₩ 297,271 | ₩ 6,553 | ₩ (36,381) | ₩ 7,004 | ₩ 274,447 |

| Classification | Year ended December 31, 2013<br>Beginning balance | Unrealized gain (loss) | Realized loss | Tax effect | Ending Balance |
|---|---|---|---|---|---|
| Equity securities | ₩ 191,687 | ₩ 149,280 | ₩ (5,940) | ₩ (34,709) | ₩ 300,318 |
| Other equity securities | 24,206 | 174 | (25,803) | 6,183 | 4,760 |
| Government and public bonds | 3,191 | (4,362) | (2,162) | 1,579 | (1,754) |
| Finance bonds | 1,815 | (925) | (3,701) | 1,119 | (1,692) |
| Corporate bonds and others | 3,437 | (6,697) | (4,994) | 2,829 | (5,425) |
| Debt securities denominated in foreign currencies | 692 | 1,002 | (511) | (119) | 1,064 |
| | ₩ 225,028 | ₩ 138,472 | ₩ (43,111) | ₩ (23,118) | ₩ 297,271 |

## 12. Available-for-sale financial assets (cont'd)

Realized gain and loss on the disposal of available-for-sale financial assets for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| Classification | Realized gain | | Realized loss | | Realized gain | | Realized loss | |
| Equity securities | ₩ | 15,650 | ₩ | 11 | ₩ | 10,753 | ₩ | 4,409 |
| Other equity Securities | | - | | - | | 144 | | - |
| Government and public bonds | | 927 | | - | | 1,303 | | - |
| Finance bonds | | 1,162 | | 4 | | 2,674 | | - |
| Corporate bonds and others | | 2,757 | | - | | 4,302 | | - |
| Debt securities denominated in foreign currencies | | 535 | | - | | - | | - |
| | ₩ | 21,031 | ₩ | 15 | ₩ | 19,176 | ₩ | 4,409 |

Dividend income on available-for-sale financial assets for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| Classification | 2014 | | 2013 | |
| Equity securities | ₩ | 4,697 | ₩ | 3,511 |
| Other equity securities | | 137 | | 175 |
| | ₩ | 4,834 | ₩ | 3,686 |

Transferred financial assets that are not fully derecognized as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Book value | | Fair value | | Book value | | Fair value | |
| Assets: | | | | | | | | |
| Available-for-sale financial assets | ₩ | 310,616 | ₩ | 310,616 | ₩ | 229,920 | ₩ | 229,920 |
| Liabilities: | | | | | | | | |
| Bonds sold under repurchase agreements | ₩ | 190 | ₩ | 190 | ₩ | 190 | ₩ | 190 |

## 13. Held-to-maturity investments

Details of held-to-maturity investments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Type | Interest rate (%) | Book value: March 31, 2014 | Book value: December 31, 2013 |
|---|---|---|---|---|
| Government and public bonds | Treasury bonds | 3.50~4.25 | ₩ 131,177 | ₩ 311,697 |
| | Housing bonds | 2.25~3.99 | 222,396 | 234,194 |
| | Local development bonds | 3.48~4.09 | 24,622 | 24,624 |
| | | | 378,195 | 570,515 |
| Finance bonds | Monetary stabilization securities | 2.78~3.59 | 460,060 | 850,313 |
| | Deposit bank bonds | 3.40~8.35 | 162,210 | 162,293 |
| | Small & medium industry finance bonds | 3.34 | 30,400 | 30,410 |
| | Industrial finance bonds | 6.12 | 10,000 | 10,004 |
| | | | 662,670 | 1,053,020 |
| Corporate bonds and others | General bonds | 4.05~5.94 | 50,145 | 50,227 |
| | Industrial bonds invested by government | 3.80~5.17 | 381,923 | 532,925 |
| | | | 432,068 | 583,152 |
| Securities denominated in foreign currency | Debt securities denominated in foreign currency | 0.59~7.63 | 113,508 | 124,190 |
| | | | ₩ 1,586,441 | ₩ 2,330,877 |

Details of held-to-maturity securities as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 378,900 | ₩ 378,391 | ₩ 378,195 | ₩ 378,195 |
| Financial bonds | 660,000 | 664,822 | 662,670 | 662,670 |
| Corporate bonds and others | 430,000 | 439,887 | 432,068 | 432,068 |
| Bond denominated in foreign currencies | 111,412 | 109,620 | 113,508 | 113,508 |
| | ₩ 1,580,312 | ₩ 1,592,720 | ₩ 1,586,441 | ₩ 1,586,441 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 571,292 | ₩ 574,845 | ₩ 570,515 | ₩ 570,515 |
| Financial bonds | 1,050,000 | 1,054,266 | 1,053,020 | 1,053,020 |
| Corporate bonds and others | 580,000 | 593,634 | 583,152 | 583,152 |
| Bond denominated in foreign currencies | 126,742 | 123,612 | 124,190 | 124,190 |
| | ₩ 2,328,034 | ₩ 2,346,357 | ₩ 2,330,877 | ₩ 2,330,877 |

## 14. Maturities of debt securities

Maturities of debt securities included in available-for-sale financial assets and held-to-maturity investments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 79,973 | ₩ - | ₩ 2,147 | ₩ 82,120 |
| After 1 month but no later than 3 months | 199,260 | 298,300 | - | 39,920 | 537,480 |
| After 3 months but no later than 6 months | - | 308,719 | 10,079 | 7,391 | 326,189 |
| After 6 months but no later than 1 year | 238,131 | 540,760 | 325,865 | 90,381 | 1,195,137 |
| After 1 year but no later than 3 years | 2,415,030 | 1,675,234 | 1,579,662 | 612,806 | 6,282,732 |
| After 3 years but no later than 5 years | 469,564 | 56,256 | 311,413 | 30,847 | 868,080 |
| After 5 years but no later than 10 years | - | 49,108 | 29,573 | 23,046 | 101,727 |
| | ₩ 3,321,985 | ₩ 3,008,350 | ₩ 2,256,592 | ₩ 806,538 | ₩ 9,393,465 |
| Held-to-maturity investments: | | | | | |
| Within 1 month | ₩ 1,998 | ₩ 270,003 | ₩ - | ₩ 21,000 | ₩ 293,001 |
| After 1 month but no later than 3 months | 70,063 | 130,060 | 160,268 | 17,937 | 378,328 |
| After 3 months but no later than 6 months | 103,003 | 70,001 | 50,199 | 23,680 | 246,883 |
| After 6 months but no later than 1 year | 104,886 | 49,997 | 181,395 | 21,130 | 357,408 |
| After 1 year but no later than 3 years | 57,062 | - | 20,206 | 29,230 | 106,498 |
| After 3 years but no later than 5 years | 33,298 | 20,600 | - | 318 | 54,216 |
| After 5 years but no later than 10 years | 7,885 | 122,009 | 20,000 | 213 | 150,107 |
| | ₩ 378,195 | ₩ 662,670 | ₩ 432,068 | ₩ 113,508 | ₩ 1,586,441 |

## 14. Maturities of debt securities (cont'd)

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 79,981 | ₩ - | ₩ 10,602 | ₩ 90,583 |
| After 1 month but no later than 3 months | - | 169,470 | - | 2,652 | 172,122 |
| After 3 months but no later than 6 months | 41,157 | 50,013 | 20,116 | 42,142 | 153,428 |
| After 6 months but no later than 1 year | 202,601 | 950,105 | 211,812 | 57,043 | 1,421,561 |
| After 1 year but no later than 3 years | 1,245,100 | 1,311,436 | 2,374,203 | 436,749 | 5,367,488 |
| After 3 years but no later than 5 years | 478,761 | 71,124 | 370,869 | 24,644 | 945,398 |
| After 5 years but no later than 10 years | - | 48,531 | 29,181 | - | 77,712 |
| | ₩ 1,967,619 | ₩ 2,680,660 | ₩ 3,006,181 | ₩ 573,832 | ₩ 8,228,292 |
| Held-to-maturity investments: | | | | | |
| Within 1 month | ₩ 1,998 | ₩ - | ₩ 130,046 | ₩ 8,638 | ₩ 140,682 |
| After 1 month but no later than 3 months | 190,299 | 389,974 | 20,054 | 34,752 | 635,079 |
| After 3 months but no later than 6 months | 72,139 | 400,346 | 160,690 | 29,330 | 662,505 |
| After 6 months but no later than 1 year | 155,847 | 119,998 | 90,446 | 2,524 | 368,815 |
| After 1 year but no later than 3 years | 109,111 | - | 161,916 | 48,267 | 319,294 |
| After 3 years but no later than 5 years | 33,211 | 10,640 | - | 679 | 44,530 |
| After 5 years but no later than 10 years | 7,910 | 132,062 | 20,000 | - | 159,972 |
| | ₩ 570,515 | ₩ 1,053,020 | ₩ 583,152 | ₩ 124,190 | ₩ 2,330,877 |

## 15. Pledged assets

Assets pledged as collateral for the purpose of resale agreement bonds from other banks, future options and security deposits for membership maintenance at the stock exchange for available-for-sale financial assets and held-to-maturity investments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Details | Book value March 31, 2014 | Book value December 31, 2013 |
|---|---|---|---|
| Available-for-sale financial assets | Settlement of BOK | ₩ 1,069,349 | ₩ 546,119 |
| | Borrowings denominated in foreign currency (CSA) | 14,061 | 10,011 |
| | Borrowings from BOK | 420,543 | 381,180 |
| | Margin for future trading | 121,002 | 120,415 |
| | Daylight credit | 451,182 | 390,999 |
| | Borrowings denominated in foreign currency | 425,801 | 30,294 |
| | Others | 79,833 | 60,228 |
| | | 2,581,771 | 1,539,246 |
| Held-to-maturity investments | Borrowings denominated in foreign currency | 179,797 | 640,111 |
| | Margin for future trading | 200,011 | 189,249 |
| | BOK payment | 391,810 | 802,710 |
| | Daylight credit | 100,165 | 160,434 |
| | Client RP | 905 | 909 |
| | Borrowings from BOK | 148,635 | 148,646 |
| | Others | 6,479 | 50,533 |
| | | 1,027,802 | 1,992,592 |
| | | ₩ 3,609,573 | ₩ 3,531,838 |

## 16. Loans receivable

Details of loans receivable as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Loans receivable: | | | | |
| Loans in Korean won | ₩ | 51,258,774 | ₩ | 49,542,108 |
| Loans denominated in foreign currencies | | 12,688,905 | | 10,167,762 |
| Domestic import usance | | 2,958,456 | | 2,801,189 |
| Call loans | | 1,117,499 | | 1,318,102 |
| Bills purchased in Korean won | | 83,756 | | 90,508 |
| Bills purchased denominated in foreign currencies | | 6,106,855 | | 5,300,187 |
| Advance payments on acceptances and guarantees | | 7,940 | | 6,801 |
| Credit card loans | | 2,691,948 | | 2,649,533 |
| Bonds purchased under resale agreement | | 640,000 | | 700,000 |
| Installment receivables purchased | | 712,785 | | 1,268,848 |
| Privately-placed corporate bonds | | 541,470 | | 520,619 |
| Others | | 8,212 | | 8,217 |
| | | 78,816,600 | | 74,373,874 |
| Plus (less): | | | | |
| Deferred loan fees and expenses | | 28,256 | | 35,944 |
| Allowance for possible loan losses | | (768,410) | | (725,421) |
| | ₩ | 78,076,446 | ₩ | 73,684,397 |

Changes in deferred loan fees, net of expenses, for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are summarized as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 | | Increase | | Decrease | | March 31, 2014 | |
| Deferred loan fees, net of expenses | ₩ | 35,944 | ₩ | 1,914 | ₩ | (9,602) | ₩ | 28,256 |

| | Year ended December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 | | Increase | | Decrease | | December 31, 2013 | |
| Deferred loan fees, net of expenses | ₩ | 32,271 | ₩ | 39,257 | ₩ | (35,584) | ₩ | 35,944 |

**16. Loans receivable (cont'd)**

Changes in allowance for possible loan losses for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately-placed corporate bonds | Others | Total |
| As at January 1, 2014 | ₩ 499,676 | ₩ 99,940 | ₩ 2,177 | ₩ 5,019 | ₩ 86,436 | ₩ 6,147 | ₩ 26,026 | ₩ 725,421 |
| Increase due to the common control transaction | - | 4,159 | - | - | - | - | - | 4,159 |
| Write-offs | (66,169) | (233) | (227) | - | (22,252) | - | - | (88,881) |
| Collection of loans written-off in prior period | 19,038 | - | - | - | 8,016 | - | - | 27,054 |
| Debt-to-equity swap | (32,528) | - | - | - | - | - | - | (32,528) |
| Foreign currency translation and others | - | 2,620 | - | 3 | 4 | - | - | 2,627 |
| Provision for( reversal of) possible loan losses | 79,548 | 8,536 | 1,255 | (145) | 22,045 | (2,280) | 34,392 | 143,351 |
| Interest income from impaired loans | (11,214) | (844) | (63) | (36) | (597) | (84) | 45 | (12,793) |
| As at March 31, 2014 | ₩ 488,351 | ₩ 114,178 | ₩ 3,142 | ₩ 4,841 | ₩ 93,652 | ₩ 3,783 | ₩ 60,463 | ₩ 768,410 |

## 16. Loans receivable (cont'd)

| Classification | Year ended December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately-placed corporate bonds | Others | Total |
| As at January 1, 2013 | ₩ 531,816 | ₩ 118,492 | ₩ 4,148 | ₩ 4,219 | ₩ 84,542 | ₩ 3,478 | ₩ 24,963 | ₩ 771,658 |
| Disposal of non-performing loans | (34,999) | - | - | - | - | - | - | (34,999) |
| Write-offs | (444,042) | (2,640) | (228) | - | (108,085) | - | - | (554,995) |
| Collection of loans written-off in prior period | 88,405 | 2 | - | - | 33,749 | - | - | 122,156 |
| Debt-to-equity swap | (4,966) | - | - | - | - | - | - | (4,966) |
| Foreign currency translation and others | - | (1,797) | 1 | 8 | (5) | 56 | 50 | (1,687) |
| Provision for(reversal of) possible loan losses | 426,181 | (11,582) | (1,635) | 832 | 78,754 | 2,655 | 1,013 | 496,218 |
| Interest income from impaired loans | (62,719) | (2,535) | (109) | (40) | (2,519) | (42) | - | (67,964) |
| As at December 31, 2013 | ₩ 499,676 | ₩ 99,940 | ₩ 2,177 | ₩ 5,019 | ₩ 86,436 | ₩ 6,147 | ₩ 26,026 | ₩ 725,421 |

## 17. Structured securities

Details of structured securities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Structured securities related to credit risk: | | |
| Collateralized Debt Obligation ("CDO") | ₩ 22,047 | ₩ 21,197 |

## 18. Derivative instruments

Unsettled derivative contracts held-for-trading as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Notional amounts | Three-month period ended March 31, 2014 Net valuation gain | Three-month period ended March 31, 2014 Net valuation loss | As at March 31, 2014 Assets | As at March 31, 2014 Liabilities |
|---|---|---|---|---|---|
| Currency: | | | | | |
| Forward | ₩ 42,569,794 | ₩ 187,117 | ₩ 156,098 | ₩ 395,161 | ₩ 493,292 |
| Swap | 18,116,387 | 87,447 | 130,662 | 428,799 | 230,819 |
| Options purchased | 1,899,941 | 534 | 10,500 | 35,073 | - |
| Options sold | 2,505,638 | 11,244 | 1,470 | - | 39,759 |
| Futures | 513,687 | - | - | - | - |
| | 65,605,447 | 286,342 | 298,730 | 859,033 | 763,870 |
| Interest: | | | | | |
| Swap | 47,302,068 | 41,307 | 46,957 | 147,449 | 198,814 |
| Options purchased | 690,000 | 311 | 651 | 3,551 | - |
| Options sold | 1,425,000 | 1,330 | 58 | - | 3,135 |
| Futures | 1,079,408 | - | - | - | - |
| | 50,496,476 | 42,948 | 47,666 | 151,000 | 201,949 |
| Stock: | | | | | |
| Options purchased | 19,898 | 250 | 1,267 | 1,317 | - |
| Options sold | 338,981 | 986 | 79 | - | 8,604 |
| Futures | 38,491 | - | - | - | - |
| | 397,370 | 1,236 | 1,346 | 1,317 | 8,604 |
| Others: | | | | | |
| Credit risk adjustment | - | 2,454 | 1 | - | 9,980 |
| Bid-ask spread adjustment | - | 515 | - | - | 2,340 |
| | - | 2,969 | 1 | - | 12,320 |
| | ₩ 116,499,293 | ₩ 333,495 | ₩ 347,743 | ₩ 1,011,350 | ₩ 986,743 |

## 18. Derivative instruments (cont'd)

| Classification | Notional amounts | Year ended December 31, 2013 Net valuation gain | Year ended December 31, 2013 Net valuation loss | As at December 31, 2013 Assets | As at December 31, 2013 Liabilities |
|---|---|---|---|---|---|
| Currency: | | | | | |
| Forward | ₩ 40,735,408 | ₩ 581,835 | ₩ 501,448 | ₩ 562,455 | ₩ 674,178 |
| Swap | 18,826,017 | 250,932 | 329,061 | 590,071 | 330,252 |
| Options purchased | 1,593,406 | 10,720 | 9,718 | 32,670 | - |
| Options sold | 2,117,718 | 13,040 | 9,575 | - | 41,020 |
| Futures | 144,893 | - | - | - | - |
| | 63,417,442 | 856,527 | 849,802 | 1,185,196 | 1,045,450 |
| Interest: | | | | | |
| Swap | 47,538,219 | 61,615 | 59,463 | 165,816 | 212,490 |
| Options purchased | 690,000 | 1,282 | 740 | 3,891 | - |
| Options sold | 1,325,000 | 725 | 501 | - | 4,168 |
| Futures | 493,841 | - | - | - | - |
| | 50,047,060 | 63,622 | 60,704 | 169,707 | 216,658 |
| Stock: | | | | | |
| Options purchased | 13,451 | 1,592 | 1,319 | 1,706 | - |
| Options sold | 477,452 | 67 | 11 | - | 9,350 |
| Futures | 25,237 | - | - | - | - |
| | 516,140 | 1,659 | 1,330 | 1,706 | 9,350 |
| Others: | | | | | |
| Credit risk adjustment | - | 1 | 2,824 | - | 12,432 |
| Bid-ask spread adjustment | - | 1,053 | - | - | 2,855 |
| | - | 1,054 | 2,824 | - | 15,287 |
| | ₩ 113,980,642 | ₩ 922,862 | ₩ 914,660 | ₩ 1,356,609 | ₩ 1,286,745 |

## 18. Derivative instruments (cont'd)

Unsettled derivative contracts used for hedging purposes as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Notional amounts | Three-month period ended March 31, 2014 Net valuation gain | Net valuation loss | As at March 31, 2014 Assets | Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 2,191,040 | ₩ 4,124 | ₩ 3,825 | ₩ 20,662 | ₩ 8,382 |

| Classification | Notional amounts | Year ended December 31, 2013 Net valuation gain | Net valuation loss | As at December 31, 2013 Assets | Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 2,163,365 | ₩ - | ₩ 3,262 | ₩ 23,070 | ₩ 12,562 |

For derivative transactions involving both Korean won and foreign currency, the fair value of the unsettled amount for such transactions is presented using the basic foreign exchange rate of the contract amount in foreign currency. For a derivative transaction involving only foreign currency, the fair value of the unsettled amount is presented using the basic foreign exchange rate of the foreign currency purchased at the reporting date.

Gain or loss on valuation of hedged items for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 Realized gain | Realized loss | 2013 Realized gain | Realized loss |
|---|---|---|---|---|
| Finance debentures | ₩ 4,033 | ₩ 4,224 | ₩ 4,920 | ₩ - |

Hedged items applying to fair value hedge accounting as at March 31, 2014 include finance debentures denominated in foreign currency. The Company recognized changes in fair values of hedged items due to fluctuation of interest rates in net income for the period. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

## 19. Investments in associates

Details of investments in associates as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Company | Country | Shares | Ownership (%) March 31, 2014 | Ownership (%) December 31, 2013 | Book value March 31, 2014 | Book value December 31, 2013 | Financial statements date | Business type |
|---|---|---|---|---|---|---|---|---|
| Flossom Co.,Ltd.(*1,2) | Korea | 165,000 | 1.92 | 1.92 | ₩ - | ₩ - | December 31, 2013 | Construction |
| MIDAN City Development Co.,Ltd.(*1,2) | Korea | 387,800 | 2.17 | 2.17 | 671 | 671 | September 30, 2013 | Construction |
| Masan Marine New Town Co.,Ltd.(*1,2) | Korea | 20,000 | 10.00 | 10.00 | 100 | 100 | December 31, 2013 | Construction |
| | | | | | ₩ 771 | ₩ 771 | | |

(*1) The Company included investment in associates because the Company has significant influence over these companies by participating in the Board of Directors' meeting, decision-making organization.
(*2) The Company used the prior period financial statements as at March 31, 2014 because a reliable financial statement is unavailable as at the reporting date of the Company.

Changes in investments in associates for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Company | Acquisition cost | January 1, 2014 | Acquisition, disposal and others | Equity method valuation | March 31, 2014 |
| Flossom Co., Ltd. | ₩ 825 | ₩ - | ₩ - | ₩ - | ₩ - |
| MIDAN City Development Co.,Ltd. | 1,492 | 671 | - | - | 671 |
| Masan Marine New Town Co.,Ltd. | 100 | 100 | - | - | 100 |
| | ₩ 2,417 | ₩ 771 | ₩ - | ₩ - | ₩ 771 |

| | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Company | Acquisition cost | January 1, 2013 | Acquisition, disposal and others | Equity method valuation | December 31, 2013 |
| Flossom Co., Ltd. | ₩ 825 | ₩ - | ₩ - | ₩ - | ₩ - |
| MIDAN City Development Co.,Ltd. | 1,492 | - | 1,492 | (821) | 671 |
| Masan Marine New Town Co.,Ltd. | 100 | - | 100 | - | 100 |
| | ₩ 2,417 | ₩ - | ₩ 1,592 | ₩ (821) | ₩ 771 |

## 19. Investments in associates (cont'd)

Adjustments in book value of the associates' interests of net assets as at March 31, 2013 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Net assets | Percentage of ownership | Interests of net assets | Goodwill | Internal transaction | Others | Book value |
| Flossom Co., Ltd. | ₩ (30,142) | 1.92 | ₩ (579) | ₩ - | ₩ - | ₩ 579 | ₩ - |
| MIDAN City Development Co.,Ltd. | 30,888 | 2.17 | 670 | - | - | 1 | 671 |
| Masan Marine New Town Co.,Ltd. | 310 | 10.00 | 31 | - | - | 69 | 100 |
| | ₩ 1,056 | | ₩ 122 | ₩ - | ₩ - | ₩ 649 | ₩ 771 |

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Net assets | Percentage of ownership | Interests of net assets | Goodwill | Internal transaction | Others | Book value |
| Flossom Co., Ltd. | ₩ (16,191) | 1.92 | ₩ (311) | ₩ - | ₩ - | ₩ 311 | ₩ - |
| MIDAN City Development Co.,Ltd. | 30,888 | 2.17 | 670 | - | - | 1 | 671 |
| Masan Marine New Town Co.,Ltd. | 310 | 10.00 | 31 | - | - | 69 | 100 |
| | ₩ 15,007 | | ₩ 390 | ₩ - | ₩ - | ₩ 381 | ₩ 771 |

Summary of financial information of associates as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Company | Assets | Liabilities | Sharehol-ders' equity | Gross income | Net loss | Comprehen-sive expense | Dividend income from associates |
| Flossom Co., Ltd | ₩ 95,510 | ₩ 125,652 | ₩ (30,142) | ₩ 6,690 | ₩ (20,531) | ₩ (20,531) | ₩ - |
| MIDAN City Development Co.,Ltd. | 892,537 | 861,649 | 30,888 | - | (18,030) | (18,030) | - |
| Masan Marine New Town Co.,Ltd. | 148,823 | 148,513 | 310 | 671 | (7) | (7) | - |
| | ₩ 1,136,870 | ₩ 1,135,814 | ₩ 1,056 | ₩ 7,361 | ₩ (38,568) | ₩ (38,568) | ₩ - |

## 19. Investments in associates (cont'd)

| Company | December 31, 2013 Assets | Liabilities | Shareholders' equity | Gross income | Net loss | Comprehensive expense | Dividend income from associates |
|---|---|---|---|---|---|---|---|
| Flossom Co., Ltd | ₩ 111,705 | ₩ 127,896 | ₩ (16,191) | ₩ 6,518 | ₩ (6,647) | ₩ (6,649) | ₩ - |
| MIDAN City Development Co.,Ltd. | 892,537 | 861,649 | 30,888 | - | (18,030) | (18,030) | - |
| Masan Marine New Town Co.,Ltd. | 148,823 | 148,513 | 310 | 671 | (7) | (7) | - |
| | ₩ 1,153,065 | ₩ 1,138,058 | ₩ 15,007 | ₩ 7,189 | ₩ (24,684) | ₩ (24,686) | ₩ - |

The Company has no investments in associates whose shares are traded actively in an open market as at March 31, 2014 and December 31, 2013.

The Company discontinued recognizing its shares of losses in Flossom Co., Ltd. since the losses exceed the Company interest in Flossom Co., Ltd. The excess of losses over the Company interest in Flossom Co., Ltd which are accumulated for the current year and before the current period are as follows (Korean won in millions):

| Company | Amount for the current year | Accumulated amount before the current year | Total |
|---|---|---|---|
| Flossom Co., Ltd. | ₩ (396) | ₩ (308) | ₩ (704) |

## 20. Property and equipment

Property and equipment as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Company | March 31, 2014 Acquisition cost | Accumulated depreciation | Government grants | Book value |
|---|---|---|---|---|
| Land | ₩ 811,720 | ₩ - | ₩ - | ₩ 811,720 |
| Buildings | 473,940 | (196,809) | - | 277,131 |
| Leasehold improvements | 182,601 | (140,885) | (334) | 41,382 |
| Equipment and vehicles | 693,969 | (612,700) | - | 81,269 |
| | ₩ 2,162,230 | ₩ (950,394) | ₩ (334) | ₩ 1,211,502 |

| Company | December 31, 2013 Acquisition cost | Accumulated depreciation | Government grants | Book value |
|---|---|---|---|---|
| Land | ₩ 811,634 | ₩ - | ₩ - | ₩ 811,634 |
| Buildings | 470,180 | (193,665) | - | 276,515 |
| Leasehold improvements | 182,156 | (138,107) | (353) | 43,696 |
| Equipment and vehicles | 687,565 | (599,824) | - | 87,741 |
| | ₩ 2,151,535 | ₩ (931,596) | ₩ (353) | ₩ 1,219,586 |

## 20. Property and equipment (cont'd)

Changes in property and equipment for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 | Common control transaction | Additions | Disposal | Depreciation | Transfer out | Others | March 31, 2014 |
| Land | ₩ 811,634 | ₩ 40 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 46 | ₩ 811,720 |
| Buildings | 276,515 | 29 | 1,811 | - | (2,869) | (252) | 1,897 | 277,131 |
| Leasehold improvements | 43,696 | - | 704 | (169) | (3,099) | - | 250 | 41,382 |
| Equipment and vehicles | 87,741 | 2,979 | 2,549 | (71) | (12,424) | - | 495 | 81,269 |
| | ₩ 1,219,586 | ₩ 3,048 | ₩ 5,064 | ₩ (240) | ₩ (18,392) | ₩ (252) | ₩ 2,688 | ₩ 1,211,502 |

| | Year ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 | Additions | Disposal | Depreciation | Transfer out | Others | December 31, 2013 |
| Land | ₩ 816,715 | ₩ 809 | ₩ (102) | ₩ - | ₩ (5,465) | ₩ (323) | ₩ 811,634 |
| Buildings | 276,529 | 13,402 | (35) | (11,263) | (2,034) | (84) | 276,515 |
| Leasehold improvements (*1) | 35,616 | 21,404 | (283) | (12,198) | - | (843) | 43,696 |
| Equipment and vehicles | 94,098 | 52,188 | (390) | (57,888) | - | (267) | 87,741 |
| Construction in progress | 3 | - | - | - | (3) | - | - |
| | ₩ 1,222,961 | ₩ 87,803 | ₩ (810) | ₩ (81,349) | ₩ (7,502) | ₩ (1,517) | ₩ 1,219,586 |

(*1) An increase of ₩1,211 million related to a provision for restoration cost was included in the acquisition amount.

## 21. Investment property

Details of investment property as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
| Land | ₩ 122,088 | ₩ - | ₩ (2,356) | ₩ 119,732 |
| Buildings | 117,621 | (52,106) | (2,388) | 63,127 |
| | ₩ 239,709 | ₩ (52,106) | ₩ (4,744) | ₩ 182,859 |

## 21. Investment property (cont'd)

| Classification | December 31, 2013 | | | |
|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
| Land | ₩ 122,088 | ₩ - | ₩ (2,356) | ₩ 119,732 |
| Buildings | 117,228 | (51,310) | (2,388) | 63,530 |
| | ₩ 239,316 | ₩ (51,310) | ₩ (4,744) | ₩ 183,262 |

Changes in investment property for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | | | | |
|---|---|---|---|---|---|
| | January 1, 2014 | Disposal | Depreciation | Transfer (*1) | March 31, 2014 |
| Land | ₩ 119,732 | ₩ - | ₩ - | ₩ - | ₩ 119,732 |
| Buildings | 63,530 | - | (655) | 252 | 63,127 |
| | ₩ 183,262 | ₩ - | ₩ (655) | ₩ 252 | ₩ 182,859 |

(*1) Due to the changes in the ratio of the leased investment properties

| Classification | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | January 1, 2013 | Disposal | Depreciation | Transfer (*1) | December 31, 2013 |
| Land | ₩ 114,267 | ₩ - | ₩ - | ₩ 5,465 | ₩ 119,732 |
| Buildings | 64,045 | - | (2,549) | 2,034 | 63,530 |
| | ₩ 178,312 | ₩ - | ₩ (2,549) | ₩ 7,499 | ₩ 183,262 |

(*1) Due to the changes in the ratio of the leased investment properties

Fair values of investment property, measured with inputs classified into level 3 by external independent agencies, amount to ₩156,244 million and ₩145,498 million as at March 31, 2014 and December 31, 2013, respectively. .

Rental income and operating expenses arising from the Company's investment properties for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Rental income | ₩ 708 | ₩ 819 |

Investment properties not in use as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Land | ₩ 1,640 | ₩ 1,640 |
| Buildings | 265 | 274 |
| | ₩ 1,905 | ₩ 1,914 |

## 22. Intangible assets

Details of intangible assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book value |
| System development | ₩ 317,395 | ₩ (266,221) | ₩ (347) | ₩ 50,827 |
| Membership | 19,538 | - | (7,571) | 11,967 |
| Others | 16,579 | (9,012) | (31) | 7,536 |
| | ₩ 353,512 | ₩ (275,233) | ₩ (7,949) | ₩ 70,330 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book value |
| System development | ₩ 313,775 | ₩ (260,324) | ₩ (347) | ₩ 53,104 |
| Membership | 20,113 | - | (7,617) | 12,496 |
| Others | 16,545 | (8,614) | (31) | 7,900 |
| | ₩ 350,433 | ₩ (268,938) | ₩ (7,995) | ₩ 73,500 |

Changes in intangible assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 | Common control transaction | Additions | Disposal | Amortization | Impairment loss | Others | March 31, 2014 |
| System development | ₩ 53,104 | ₩ 1,218 | ₩ 2,311 | ₩ - | ₩ (5,897) | ₩ - | ₩ 91 | ₩ 50,827 |
| Membership | 12,496 | - | 135 | (586) | - | - | (78) | 11,967 |
| Others | 7,900 | - | 100 | - | (473) | - | 9 | 7,536 |
| | ₩ 73,500 | ₩ 1,218 | ₩ 2,546 | ₩ (586) | ₩ (6,370) | ₩ - | ₩ 22 | ₩ 70,330 |

| | Year ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 | Additions | Disposal | Amortization | Impairment loss | Others | December 31, 2013 |
| System development | ₩ 56,675 | ₩ 19,441 | ₩ - | ₩ (23,012) | ₩ - | ₩ - | ₩ 53,104 |
| Membership | 17,287 | 222 | (2,128) | - | (2,980) | 95 | 12,496 |
| Others | 9,074 | 829 | - | (1,922) | - | (81) | 7,900 |
| | ₩ 83,036 | ₩ 20,492 | ₩ (2,128) | ₩ (24,934) | ₩ (2,980) | ₩ 14 | ₩ 73,500 |

## 23. Other assets and merchant banking account assets

Details of other assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Guarantee deposits paid | ₩ 650,077 | ₩ 656,225 |
| Accounts receivable | 7,264,662 | 4,463,686 |
| Accrued income | 306,362 | 281,313 |
| Prepaid expenses | 175,014 | 119,785 |
| Suspense payments | 36,159 | 30,459 |
| Expenditures | 6,273 | 6,089 |
| Deposit money to court | 28,418 | 27,626 |
| Domestic exchange settlement debits | 1,065,274 | 1,196,426 |
| Others | 4,690 | 4,477 |
| Allowance for possible other asset losses | (8,882) | (9,301) |
| | ₩ 9,528,047 | ₩ 6,776,785 |

Changes in the allowance for possible losses for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 9,301 | ₩ 4,032 |
| Write-offs | (647) | (2,720) |
| Provision for allowance for possible losses | 273 | 8,182 |
| Interest income on impaired assets | (45) | (193) |
| Ending balance | ₩ 8,882 | ₩ 9,301 |

Details of merchant banking account assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Merchant banking account loans | ₩ 106,300 | ₩ 154,400 |
| Merchant banking account trading bonds | 2,130,999 | 2,166,515 |
| CMA assets: | | |
| Loans receivable | 77,000 | 146,000 |
| Trading bonds | 392,178 | 249,589 |
| | 469,178 | 395,589 |
| Allowance for possible loan losses | (354) | (669) |
| | ₩ 2,706,123 | ₩ 2,715,835 |

## 24. Non-current assets held for sale

Non-current assets held-for-sale consist of three real estates acquired through execution of security rights, which the management of the Company committed to sell, but not sold as at March 31, 2014. As of the reporting date, the asset held–for-sale is under negotiation for sale and is being actively marketed.

Details of non-current assets held-for-sale as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Acquisition cost | ₩ | 906 | ₩ | 871 |
| Accumulated depreciation | | (214) | | (211) |
| | ₩ | 692 | ₩ | 660 |

## 25. Financial liabilities at FVTPL

Details of financial liabilities at FVTPL as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Derivative liabilities held-for-trading (Note 18) | ₩ | 986,743 | ₩ | 1,286,745 |

## 26. Deposits

Details of deposits as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Demand deposits: | | | | |
| Demand deposits in Korean won: | | | | |
| Checking deposits | ₩ | 268,786 | ₩ | 411,307 |
| Household checking deposits | | 16,483 | | 20,545 |
| Temporary deposits | | 698,443 | | 685,268 |
| Passbook deposits | | 16,936,028 | | 16,850,700 |
| Public fund deposits | | 38,578 | | 33,773 |
| Treasury deposits | | 9,716 | | 256 |
| Nonresident’s deposit in Korean won | | 185,475 | | 216,241 |
| Nonresident’s ‘free-won’ account | | 86,169 | | 21,404 |
| | | 18,239,678 | | 18,239,494 |

**26. Deposits (cont'd)**

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Demand deposits denominated in foreign currency: | | |
| Checking deposits | 2,604,404 | 2,548,275 |
| Passbook deposits | 8,373,291 | 7,825,124 |
| Temporary deposits | 42,293 | 26,328 |
| | 11,019,988 | 10,399,727 |
| | 29,259,666 | 28,639,221 |
| Time and saving deposits: | | |
| Time and saving deposits in Korean won: | | |
| Time deposits | 30,022,235 | 29,687,997 |
| Apartment application deposits | 135,344 | 138,239 |
| Installment saving deposits | 2,915,285 | 2,938,681 |
| Non-resident deposits in Korean won | 415,427 | 418,057 |
| Non-resident free deposits in Korean won | 260,542 | 268,314 |
| Long-term housing saving deposits | 186,771 | 215,784 |
| Workers' preferential saving deposits | 114 | 115 |
| Mutual installment deposits | 84 | 84 |
| Mutual installment for housing | 14,569 | 15,062 |
| Others | 93,863 | 75,425 |
| | 34,044,234 | 33,757,758 |
| Time and saving deposits denominated in foreign currency: | | |
| Time deposits denominated in foreign currency | 7,951,845 | 6,907,294 |
| Others | 246,381 | 219,820 |
| | 8,198,226 | 7,127,114 |
| | 42,242,460 | 40,884,872 |
| Certificate of deposits | 305,313 | 253,232 |
| | ₩ 71,807,439 | ₩ 69,777,325 |

Allocations of deposits by customer as at March 31, 2014 and December 31, 2013 are listed as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Individuals | ₩ 21,042,818 | ₩ 20,853,403 |
| Corporations | 26,337,495 | 24,788,471 |
| Other banks | 1,161,206 | 1,013,582 |
| Public institutions | 1,068,931 | 927,563 |
| Other financial institutions | 6,451,055 | 6,541,054 |
| Government | 185,928 | 202,502 |
| Non-profit organizations | 3,979,343 | 4,000,307 |
| Foreign corporations | 7,158,027 | 7,166,172 |
| Others | 4,422,636 | 4,284,271 |
| | ₩ 71,807,439 | ₩ 69,777,325 |

## 27. Borrowings

Details of borrowings as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Borrowings in Korean won: | | | | |
| Borrowings from BOK | BOK | 0.50~1.00 | ₩ 563,531 | ₩ 200,271 |
| Borrowings from government | KEMCO and others | 0.00~3.10 | 1,362,437 | 1,291,667 |
| Other borrowings | Small business corporation and others | 0.75~5.40 | 150,928 | 193,697 |
| | | | 2,076,896 | 1,685,635 |
| Borrowings denominated in foreign currencies: | | | | |
| Bank overdrafts | JP Morgan Chase and others | 0.70~16.28 | 229,597 | 205,563 |
| Other borrowings | SMBC and others | 0.32~5.75 | 5,180,220 | 4,025,461 |
| | | | 5,409,817 | 4,231,024 |
| Call money: | | | | |
| Call money in Korean won | NACF and others | 2.45~2.47 | 154,000 | - |
| Call money denominated in foreign currencies | SC Bank and others | 0.18~4.00 | 1,226,827 | 831,686 |
| | | | 1,380,827 | 831,686 |
| Bonds sold under repurchase agreements: | | | | |
| Bonds sold under repurchase agreements in Korean won | Customers | 3.70~3.95 | 190 | 190 |
| Bills sold | Customers | 1.75~2.81 | 95,905 | 84,196 |
| | | | ₩ 8,963,635 | ₩ 6,832,731 |

## 28. Debentures

Details of debentures as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Debentures in Korean won: | | | | |
| Debentures | Institutions | 2.61~3.82 | ₩ 2,470,000 | ₩ 2,720,000 |
| Subordinated bonds | Institutions and customers | 3.07~7.80 | 1,750,122 | 1,750,122 |
| (less present value discount) | | | (3,596) | (5,775) |
| | | | 4,216,526 | 4,464,347 |
| Debentures denominated in foreign currencies: | | | | |
| Debentures | Morgan Stanley and others | 0.40~4.88 | 2,057,286 | 2,055,752 |
| Subordinated Financing debentures | Barclay and others | 4.63 | 207,259 | 204,641 |
| Floating rate bonds | HSBC and others | 1.27~2.37 | 53,440 | 52,765 |
| Net gain (loss) on fair value hedges (current period) | | | 191 | (33,381) |
| Net gain on fair value hedges (prior period) | | | 25,655 | 39,565 |
| (less present value discount) | | | (13,031) | (13,871) |
| | | | 2,330,810 | 2,305,471 |
| | | | ₩ 6,547,336 | ₩ 6,769,818 |

## 29. Provision

Details of provisions as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Provisions for possible losses on acceptances and guarantees: | | |
| Financial acceptances and guarantees (*1) | ₩ 960 | ₩ 1,022 |
| Non-financial acceptances and guarantees | 35,613 | 39,021 |
| Bills endorsed | 2,383 | 276 |
| | 38,956 | 40,319 |
| Provisions for unused commitments | 64,391 | 63,332 |
| Other provisions: | | |
| Provisions for retirement obligation | 17,825 | 17,931 |
| Provisions for reward points | 29,557 | 27,141 |
| Provisions for contingent (*2) | 123,795 | 122,059 |
| Others | 1,640 | 3,256 |
| | 172,817 | 170,387 |
| | ₩ 276,164 | ₩ 274,038 |

**29. Provision (cont'd)**

(*1) The Company recognizes the amount exceeding the unamortized amount of the initial fair value at subsequent measurement of the financing guarantee contract as provisions for guarantees. The Company recognizes the unamortized amount as financing guarantee contract liabilities in the amount of ₩32,367 million and ₩28,581 million as at March 31, 2014 and December 31, 2013, respectively.
(*2) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a damage suit against 5 companies, including the Company and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As at December 13, 2011, the Court ruled that $37.30 million of damages and 5 percent annual interest expenses of approximately $15.26 million that accrued from November. 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. Currently, OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs brought a lawsuit with the Seoul Central District Court to enforce an international arbitration judgment against the Company. Accordingly, the Company has credited provision for litigation in the amount of ₩39.6 billion as at March 31, 2014, which corresponds to approximately 50 percent of the amount mentioned above.

Changes in provisions for the three-month period ended March 31, 2014 and the year ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2014 | Provision for allowance (reversal of allowance) | Allowance used | Others | March 31, 2014 |
| Provisions for possible losses on acceptances and guarantees | ₩ 40,319 | ₩ (1,961) | ₩ - | ₩ 598 | ₩ 38,956 |
| Provisions for unused commitments | 63,332 | 934 | - | 125 | 64,391 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 17,931 | (149) | - | 43 | 17,825 |
| Provisions for reward points | 27,141 | 6,567 | (12,236) | 8,085 | 29,557 |
| Provisions for contingent | 122,059 | 1,736 | - | - | 123,795 |
| Others | 3,256 | (988) | - | (628) | 1,640 |
| | 170,387 | 7,166 | (12,236) | 7,500 | 172,817 |
| | ₩ 274,038 | ₩ 6,139 | ₩ (12,236) | ₩ 8,223 | ₩ 276,164 |

| | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2013 | Provision for allowance (reversal of allowance) | Allowance used | Others | December 31, 2013 |
| Provisions for possible losses on acceptances and guarantees | ₩ 36,324 | ₩ 4,230 | ₩ - | ₩ (235) | ₩ 40,319 |
| Provisions for unused commitments | 62,498 | 1,140 | - | (306) | 63,332 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 17,786 | (220) | (584) | 949 | 17,931 |
| Provisions for reward points | 22,832 | 16,652 | (33,244) | 20,901 | 27,141 |
| Provisions for contingent | 45,392 | 35,217 | - | 41,450 | 122,059 |
| Others | 46,578 | (1,231) | - | (42,091) | 3,256 |
| | 132,588 | 50,418 | (33,828) | 21,209 | 170,387 |
| | ₩ 231,410 | ₩ 55,788 | ₩ (33,828) | ₩ 20,668 | ₩ 274,038 |

**29. Provision (cont'd)**

Details of payment guarantees and endorsed notes as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Acceptances and guarantees: | | |
| Financing acceptances and guarantees in Korean won: | | |
| Payment guarantee for loans | ₩ 116,286 | ₩ 99,814 |
| Others | 15,380 | 15,481 |
| | 131,666 | 115,295 |
| Financing acceptances and guarantees denominated in foreign currencies: | | |
| Local financing acceptances and guarantees | 1,305,694 | 1,051,425 |
| Confirmed acceptance and guarantee in Korean won: | | |
| Other acceptance and guarantees in Korean won | 1,429,622 | 1,483,313 |
| Confirmed acceptance and guarantee dominated in foreign currencies: | | |
| Acceptance on letter of credit | 773,945 | 699,924 |
| Acceptance on letters of guarantees | 77,911 | 89,730 |
| Others | 11,084,832 | 10,076,245 |
| | 11,936,688 | 10,865,899 |
| Contingent acceptances and guarantees: | | |
| Letters of credit | 4,185,662 | 4,020,963 |
| Others | 51,896 | 39,829 |
| | 4,237,558 | 4,060,792 |
| | 19,041,228 | 17,576,724 |
| Bills endorsed | 44,748 | 46,785 |
| | ₩ 19,085,976 | ₩ 17,623,509 |

Details of unused commitments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Outstanding balance | |
|---|---|---|
| | March 31, 2014 | December 31, 2013 |
| Commitments on loans in Korea won | ₩ 48,685,212 | ₩ 50,890,706 |
| Commitments on loan denominated in foreign currency | 7,227,283 | 7,478,045 |
| Commitments on purchase of asset-backed commercial papers | 472,692 | 493,242 |
| Commitments on credit lines on asset-backed securities | 1,116,525 | 865,700 |
| | ₩ 57,501,712 | ₩ 59,727,693 |

## 30. Other liabilities and merchant banking account liabilities

Details of other liabilities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Post-employment benefit obligation (see Note 31): | | |
| Defined benefit obligation | ₩ 376,222 | ₩ 361,462 |
| Less: Plan assets | (318,556) | (319,190) |
| | 57,666 | 42,272 |
| Due to trust accounts | 1,028,732 | 860,150 |
| Foreign exchange settlement credits: | | |
| Bills sold | 2,135 | 3,393 |
| Inward remittance payable | 317,265 | 284,089 |
| | 319,400 | 287,482 |
| Accounts payable: | | |
| Other accounts payable | 7,117,164 | 4,338,204 |
| Accounts payable (card) | 313,056 | 316,491 |
| | 7,430,220 | 4,654,695 |
| Accrued expenses | 853,152 | 863,038 |
| Unearned income | 73,903 | 79,410 |
| Deferred income | 69,549 | 66,515 |
| Deposits for letter of guarantees and others : | | |
| Acceptance and guarantee | 118,218 | 91,509 |
| Others | 44,331 | 48,509 |
| | 162,549 | 140,018 |
| Suspense receipt | 51,810 | 55,452 |
| Suspense receipt (card) | 14,118 | 13,639 |
| Withholding taxes | 26,420 | 30,239 |
| Agency business accounts | 381,270 | 89,478 |
| Due from treasury agencies | 2,620,168 | 2,060,594 |
| Financial acceptance and guarantees: | | |
| Financial acceptance and guarantees in Korean won | 25,150 | 22,601 |
| Financial guarantee contract denominated in foreign currencies | 7,217 | 5,980 |
| | 32,367 | 28,581 |
| Other liabilities: | | |
| Securities deposits received | 49,108 | 17,863 |
| Exchange settlement credits | 936,077 | 982,572 |
| Prepaid card | 10 | 10 |
| Debit card | 11,154 | 9,981 |
| Cash received from other banks | - | 152 |
| Other liabilities denominated in foreign currencies | 6,204 | 4,473 |
| | 1,002,553 | 1,015,051 |
| | ₩ 14,123,877 | ₩ 10,286,614 |

## 30. Other liabilities and merchant banking account liabilities (cont'd)

Details of merchant banking account liabilities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Deposits | ₩ | 2,508,909 | ₩ | 1,678,593 |
| Others: | | | | |
| Provision for unused commitments | | 982 | | 919 |
| Other liabilities (*1) | | 1,691 | | 1,292 |
| | | 2,673 | | 2,211 |
| | ₩ | 2,511,582 | ₩ | 1,680,804 |

(*1) Including accrued expenses, unearned income, and others.

## 31. Severance benefits

The Company operates a defined retirement benefit plan ("DB plan") in accordance with the Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Company has purchased severance benefits insurance and made deposits. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Company pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by Hewitt, an actuary services company. Current and past service costs related to the present value of defined benefit obligation are measured using the projected unit credit method.

The Company provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for the service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by an actuary service company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

## 31. Severance benefits (cont'd)

Key assumptions for actuarial valuation as at March 31, 2014 and December 31, 2013 are as follows:

| Classification | Ratio (%) March 31, 2014 | Ratio (%) December 31, 2013 | Notes |
|---|---|---|---|
| Demographic assumptions: | | | |
| Mortality | 0.002~0.268 | 0.002~0.268 | Mortality table for 2012 |
| Rates of employee turnover | 2.50~19.96 | 2.50~19.96 | |
| Financial assumptions: | | | |
| Expected rate of salary increase | 3.00~5.00 | 3.00~5.00 | Average rate over the past five years |
| Discount rate | 3.21~3.97 | 3.21~3.97 | Rate of return on bank AAA bonds |

Details of the post-employment benefit obligation as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Present value of defined benefit obligation deposited to plan assets | ₩ 359,661 | ₩ 344,898 |
| Fair value of plan assets | (318,556) | (319,190) |
| | 41,105 | 25,708 |
| Present value of defined benefit obligation not deposited to plan assets | 16,561 | 16,564 |
| Defined benefit obligation | ₩ 57,666 | ₩ 42,272 |

Changes in present value of defined benefit obligation for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 361,462 | ₩ 282,459 |
| Common control transaction | 856 | - |
| Current service cost | 13,670 | 50,052 |
| Past service cost | - | 67 |
| Interest cost | 3,416 | 9,623 |
| Remeasurement of the net defined benefit liability | - | 39,004 |
| Payment of severance benefits | (3,187) | (18,886) |
| Transferred from or into other affiliates | (77) | 197 |
| Others | 82 | (1,054) |
| Ending balance | ₩ 376,222 | ₩ 361,462 |

## 31. Severance benefits (cont'd)

Details of losses (gains) incurred from defined benefit obligations for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Current service cost | ₩ 13,670 | ₩ 12,272 |
| Interest cost | 355 | 399 |
| Past service cost | - | 68 |
| Actuarial losses | - | 5 |
| | 14,025 | 12,744 |
| Retirement benefit from defined contribution plan | 36 | - |
| | ₩ 14,061 | ₩ 12,744 |

Plan assets for severance benefit as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Plan assets which have a market price quoted in an active market: | | |
| Time deposits | ₩ 185,090 | ₩ 195,992 |
| Debt securities | 66,143 | 63,679 |
| Others | 67,323 | 59,519 |
| | ₩ 318,556 | ₩ 319,190 |

Changes in fair value of plan assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 319,190 | ₩ 259,586 |
| Interest income | 3,440 | 8,995 |
| Remeasurement of the net defined benefit liability | (1,060) | 225 |
| Employer contributions | (14) | 64,970 |
| Payment | (2,621) | (14,074) |
| Others | (379) | (512) |
| Ending balance | ₩ 318,556 | ₩ 319,190 |

### 31. Severance benefits (cont'd)

Details of the remeasurement of the net defined benefit liability for the three-month periods ended March 31, 2014 and 2013 are as follows (Korea won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Actual gain (loss) | | |
| Changes in demographic assumptions | ₩ - | ₩ - |
| Changes in financial assumptions | - | - |
| Others | - | - |
| | - | - |
| Income on planned assets | | |
| Actual income on planned assets | 2,380 | 2,336 |
| Amounts included in net interest on the net defined benefit liability | (3,440) | (2,252) |
| | (1,060) | 84 |
| | ₩ (1,060) | ₩ 84 |

### 32. Issued Capital and other paid-in capital

Issued capital as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions, share):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Number of shares authorized | 1,000,000,000 | 1,000,000,000 |
| Par value per share (Korean won) | ₩ 5,000 | ₩ 5,000 |
| Number of shares issued | 644,906,826 | 644,906,826 |
| Common stock | ₩ 3,224,534 | ₩ 3,224,534 |

32. **Issued Capital and other paid-in capital (cont'd)**

Other paid-in capital as at March 31, 2014 and December 31, 2013, is as follows (Korea won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Capital surplus (*1) | ₩ 940 | ₩ 940 |
| Hybrid securities (*2) | 179,737 | 429,509 |
| Capital adjustments: | | |
| Stock option | (252) | (237) |
| Loss on disposal of treasury stock | - | (17,869) |
| Others | (19,963) | (618) |
| | (20,215) | (18,724) |
| | ₩ 160,462 | ₩ 411,725 |

(*1) Amounts in capital surplus as at March 31, 2014 and December 31, 2013 were transferred from the stock option balance (accounted for as capital adjustment) as the exercisable period lapsed.
(*2) Korea Exchange Bank Hybrid securities have been issued by the Company. Upon expiration, the bonds can be extended under the same terms.

33. **Retained earnings**

Details of retained earnings as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Legal reserve: | | |
| Earned surplus reserve (*1) | ₩ 823,800 | ₩ 787,700 |
| Voluntary reserve: | | |
| Revaluation reserves on tangible assets (*2) | 431,931 | 431,931 |
| Other reserves (*3) | 99,431 | 94,040 |
| Regulatory reserve for bad debts (*4) | 794,762 | 737,322 |
| | 1,326,124 | 1,263,293 |
| Unappropriated retained earnings | 3,614,808 | 3,745,610 |
| | ₩ 5,764,732 | ₩ 5,796,603 |

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until the reserve equals 100% of its paid-in capital. This reserve is restricted to the payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital. In addition, KEBIS accumulates indemnity reserve for an electronic financial incident in the amount of ₩500 million as at March 31, 2014.
(*2) The Company records gains from revaluation of property, and equipment to the voluntary reserve, as it applies the revaluation amount as a deemed cost at the first-time adoption of KIFRS. The reserve is recognized in retained earnings when the relevant property and equipment have been disposed.

### 33. Retained earnings (cont'd)

(*3) Relevant Japanese regulations require the Company's overseas branches located in Japan to appropriate a minimum 10% of net income for the period as a legal reserve, until the reserve equals ¥2,000 million. This reserve is restricted to the payment of cash dividends and allowed to be used upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.
(*4) The Company accumulated allowance for possible loan losses in accordance with KIFRS and regulatory reserve for bad debts in the amount below the provision of allowance in accordance to the minimum accumulation ratio required by FSS.

Changes in appropriated retained earnings for the three-month period ended March 31, 2014 and the year ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 5,796,603 | ₩ 5,404,592 |
| Appropriation to loss on disposal of treasury stock | (17,869) | - |
| Appropriation to other capital adjustments | (160) | - |
| Net income for the period | 70,542 | 444,320 |
| Dividend | (77,433) | (32,245) |
| Dividend on hybrid securities | (6,951) | (20,064) |
| Ending balance | ₩ 5,764,732 | ₩ 5,796,603 |

### 34. Regulatory reserve for bad debts

Regulatory reserve for bad debts is computed and presented under article 29-1 and 29-2 of the regulation on Supervision of Banking Business of the Republic of Korea.

Details of regulatory reserve for bad debts as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 794,762 | ₩ 737,322 |
| Planned reserve for bad debts (*1) | 32,627 | 57,440 |
| Ending balance | ₩ 827,389 | ₩ 794,762 |

(*1) The Company was given notice by the FSS to modify the credit conversion factor ("CCF") used in the calculation of its regulatory reserve for bad debts. Accordingly, the reserve for the year ended December 31, 2013 and increased by ₩52,342 million from the prior year period.

## 34. Regulatory reserve for bad debts (cont'd)

Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Net income attributable to equity holders of the parent before deducting provisions for bad debt | ₩ 70,542 million | ₩ 75,277 million |
| Provisions for bad debt reserve | (32,627)million | (57,440)million |
| Adjusted income after deducting provisions for bad debt | 37,915 million | 17,837 million |
| Basic earnings per share on adjustment after reflecting reserve for bad debt (*1) | 48 | 21 |
| Diluted earnings per share on adjustment after reflecting reserve for bad debt (*1) | 48 | 21 |

(*1) Adjusted basic and diluted earnings per share reflecting the reserve for bad debt are computed by deducting the dividend of hybrid equity securities from the adjusted net income after reflecting the reserve for bad debt in the amount of ₩6,951 million and ₩4,563 million for the three-month periods ended March 31, 2014 and 2013, respectively (Note 45).

## 35. Accumulated other comprehensive income

Changes in accumulated other income for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Loss on valuation of equity method | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 297,271 | ₩ - | ₩ (138,545) | ₩ (111) | ₩ (10,028) | ₩ 148,587 |
| Changes in the unrealized gain of available-for-sale financial asset | 6,553 | - | - | - | - | 6,553 |
| Realized loss of available-for-sale financial asset (including disposal) | (36,381) | - | - | - | - | (36,381) |
| Exchange differences on transaction of foreign operations | - | - | 26,118 | - | - | 26,118 |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | - | (1,060) | (1,060) |
| Changes in remeasurement of the net defined benefit liability | - | - | - | 29 | - | 29 |
| Tax effect | 7,004 | - | - | (7) | 256 | 7,253 |
| Ending balance | ₩ 274,447 | ₩ - | ₩ (112,427) | ₩ (89) | ₩ (10,832) | ₩ 151,099 |

## 35. Accumulated other comprehensive income (cont'd)

| | Year ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Loss on valuation of equity method | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 225,028 | ₩ - | ₩ (64,711) | ₩ (87) | ₩ 16,663 | ₩ 176,893 |
| Changes in the unrealized gain of available-for-sale financial asset | 138,472 | - | - | - | - | 138,472 |
| Realized loss of available-for-sale financial asset (including disposal) | (43,111) | - | - | - | - | (43,111) |
| Exchange differences on transaction of foreign operations | - | - | (73,834) | - | - | (73,834) |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | - | (35,407) | (35,407) |
| Changes in remeasurement of the net defined benefit liability | - | - | - | (31) | - | (31) |
| Tax effect | (23,118) | - | - | 7 | 8,716 | (14,395) |
| Ending balance | 297,271 | - | (138,545) | (111) | (10,028) | 148,587 |

## 36. Capital management

The Company brought in Basel III on December 1, 2013 established by the Bank for International Settlements and computes the capital ratio required by BIS and manages the ratio to be maintained at a rate of at least 3.5%, 4.5% and 8% or above for common equity, basic capital and total equity, respectively. The Company meets the statutory externally assigned capital maintenance requirement (the "BIS capital ratio") as at March 31, 2014.

### 36. Capital management (cont'd)

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholder's equity is the sum of common equity, other basic capital and supplementary capital. Risk-weighted assets are the sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Common equity consists of issued capital, additional capital surplus paid-in capital, retained earnings and accumulated other comprehensive income. Other basic capital consists of equity securities and its related capital surplus that satisfy the basic capital requirements, and part of other basic capital issued by consolidated subsidiaries of the Bank and held by third parties.

-Supplementary capital -consists of equity securities and its related stock surplus that satisfy the supplementary capital requirements, and part of other basic capital issued by consolidated subsidiaries of the Company and held by third parties. The portions to be subject to capital used for the calculation of BIS ratio are 90% and 80% as at January 1, 2013 and 2014, respectively, and will continuously decrease by 10% annually for hybrid securities and subordinate debt securities that do not meet the definition of criteria.

Items deducted from issued capital include considerable amounts of intangible assets and deferred tax assets, plan assets, gains or losses on valuation of derivatives used for hedging purposes and others. Additionally, the Company classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

### 37. Interest income and interest expenses

Details of interest income and interest expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|---|
| Interest income: | | | |
| Due from banks | Banks | ₩ 19,394 | ₩ 8,221 |
| | Other financial institutions | 4,082 | 3,850 |
| | | 23,476 | 12,071 |
| Loans receivable | Banks | 11,821 | 12,635 |
| | Customers | 844,310 | 866,637 |
| | | 856,131 | 879,272 |
| Financial assets at FVTPL | | 5,061 | 4,104 |
| Available-for-sale financial assets | | 61,251 | 48,752 |
| Held-to-maturity investments | | 17,294 | 46,195 |
| | | 963,213 | 990,394 |

### 37. Interest income and interest expenses (cont'd)

| Classification | | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|---|
| Interest expenses: | | | | | |
| Deposits | Financial institutions | | 404 | | 273 |
| | Customers | | 301,698 | | 338,492 |
| | | | 302,102 | | 338,765 |
| Debentures | | | 58,658 | | 61,504 |
| Borrowings | | | 29,439 | | 26,345 |
| Others | | | 6,829 | | 10,662 |
| | | | 397,028 | | 437,276 |
| Net interest income | | ₩ | 566,185 | ₩ | 553,118 |

Details of interest income on impaired financial assets for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Loans receivable | ₩ | 12,793 | ₩ | 18,639 |
| Other assets | | 45 | | 44 |
| | ₩ | 12,838 | ₩ | 18,683 |

### 38. Fee and commission income and fee and commission expenses

Details of fee and commission income and fee and commission expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Fee and commission income: | | | | |
| Savings | ₩ | 5,439 | ₩ | 4,831 |
| Credits | | 7,495 | | 11,339 |
| Foreign exchange | | 45,790 | | 44,869 |
| Credit card | | 29,667 | | 26,532 |
| Asset management | | 1,280 | | 1,631 |
| Agency business | | 6,923 | | 15,511 |
| Guarantee service | | 17,176 | | 16,192 |
| Others | | 15,188 | | 16,311 |
| | | 128,958 | | 137,216 |
| Fee and commission expense: | | | | |
| Credits | | 1,479 | | 1,457 |
| Foreign exchange | | 10,167 | | 9,453 |
| Agency business | | 143 | | 136 |
| Credit card | | 71,151 | | 63,212 |
| Others | | 7,935 | | 6,528 |
| | | 90,875 | | 80,786 |
| Net fee and commission income | ₩ | 38,083 | ₩ | 56,430 |

## 39. Gain (loss) on financial instruments

Details of gain (loss) on financial instruments for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Financial instruments at FVTPL: | | |
| Gain on financial instruments at FVTPL | | |
| Gain on valuation of trading securities | ₩ 1,376 | ₩ 1,072 |
| Gain on disposal of trading securities | 1,725 | 1,328 |
| Gain on valuation of trading bonds | 972 | 1,215 |
| Gain on disposal of trading bonds | 688 | 1,008 |
| Gain on valuation of derivatives held-for-trading | 333,495 | 922,862 |
| Gain on disposal of derivatives held-for-trading | 269,006 | 385,602 |
| | 607,262 | 1,313,087 |
| Loss on financial instruments at FVTPL | | |
| Loss on valuation of trading securities | 449 | 293 |
| Loss on disposal of trading securities | 1,212 | 1,624 |
| Loss on valuation of trading bonds | 110 | 32 |
| Loss on disposal of trading bonds | 120 | 419 |
| Loss on valuation of derivatives held-for-trading | 347,743 | 914,660 |
| Loss on disposal of derivatives held-for-trading | 229,185 | 441,097 |
| | 578,819 | 1,358,125 |
| Net income (expense) from financial instruments at FVTPL | ₩ 28,443 | ₩ (45,038) |
| Derivatives used for hedging purposes: | | |
| Gain on derivatives used for hedging purposes | | |
| Gain on valuation of derivatives used for hedging purposes | ₩ 8,157 | ₩ 4,920 |
| Gain on disposal of derivatives used for hedging purposes | 7 | - |
| | 8,164 | 4,920 |
| Loss on derivatives used for hedging purposes | | |
| Loss on valuation of derivatives used for hedging purposes | 8,049 | 3,262 |
| Loss on disposal of derivatives used for hedging purposes | 6 | - |
| | 8,055 | 3,262 |
| Net income on derivatives used for hedging purposes | ₩ 109 | ₩ 1,658 |
| Available-for-sale financial assets: | | |
| Gain on available-for-sale financial assets | | |
| Gain on disposal of equity securities | ₩ 15,649 | ₩ 10,753 |
| Gain on disposal of debt securities | 5,382 | 8,423 |
| | 21,031 | 19,176 |
| Loss on available-for-sale financial assets | | |
| Loss on disposal of equity securities | 11 | 4,409 |
| Loss on disposal of debt securities | 4 | - |
| | 15 | 4,409 |
| Net income on available-for-sale financial assets | ₩ 21,016 | ₩ 14,767 |

## 40. Impairment loss on financial instruments

Details of impairment loss on financial instruments for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | Three-month periods ended March 31, 2013 | |
|---|---|---|---|---|
| Provision for possible loan losses (*1) | ₩ | 143,624 | ₩ | 133,668 |
| Impairment loss on available-for-sale financial assets | | 44,248 | | 1,166 |
| | ₩ | 187,872 | ₩ | 134,834 |

(*1) Provision for possible loan losses is set for loans receivable and other assets.

## 41. General and administrative expenses

Details of general and administrative expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | Three-month periods ended March 31, 2013 | |
|---|---|---|---|---|
| Employee benefits: | | | | |
| Salaries | ₩ | 198,252 | ₩ | 204,346 |
| Provision for severance and retirement benefits | | 14,061 | | 12,744 |
| Expenses for fringe benefits | | 10,229 | | 32,037 |
| Termination benefits | | 234 | | - |
| | | 222,776 | | 249,127 |
| Depreciation and amortization: | | | | |
| Depreciation on property and equipment | | 18,392 | | 18,895 |
| Depreciation on investment property | | 655 | | 633 |
| Amortization | | 6,370 | | 6,075 |
| | | 25,417 | | 25,603 |
| Other general and administrative expenses: | | | | |
| Rental expense | | 33,025 | | 32,642 |
| Entertainment expense | | 2,993 | | 2,691 |
| Taxes and dues | | 8,259 | | 8,418 |
| Advertising expenses | | 4,225 | | 4,959 |
| Others | | 60,542 | | 55,337 |
| | | 109,044 | | 104,047 |
| | ₩ | 357,237 | ₩ | 378,777 |

## 42. Other operating income and expenses

Details of other operating income for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Dividend income: | | | | |
| Financial assets at FVTPL | ₩ | 124 | ₩ | 123 |
| Available-for-sale financial assets | | 4,834 | | 3,686 |
| | | 4,958 | | 3,809 |
| Reversal of acceptances and guarantees | | 1,961 | | - |
| Reversal of unused commitments | | - | | 3,959 |
| Other income on financial instruments | | 309 | | 102 |
| Gain on foreign exchange transaction | | 265,588 | | 351,482 |
| Gain on foreign exchange difference | | 130,984 | | 79,530 |
| Gain on operating trust account | | 11,508 | | 9,338 |
| Point income | | 10,597 | | 8,041 |
| Gain on sales of loans | | 891 | | 2,730 |
| Gain on merchant banking accounts (*1) | | 19,961 | | 15,812 |
| Others | | 59 | | 44 |
| | ₩ | 446,816 | ₩ | 474,847 |

(*1) Details of gains on merchant banking accounts for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Interest income | ₩ | 14,558 | ₩ | 8,704 |
| Fee and commission income | | 239 | | 185 |
| Gain on disposal of trading bonds | | 422 | | 234 |
| Gain on valuation of trading bonds | | 9 | | 86 |
| Gain on valuation of CMA securities | | 5 | | 14 |
| Gain on disposal of bills | | 4,413 | | 6,589 |
| Reversal of possible loan losses | | 315 | | - |
| | ₩ | 19,961 | ₩ | 15,812 |

### 42. Other operating income and expenses (cont'd)

Details of other operating expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Provision for acceptances and guarantees | ₩ - | ₩ 3,514 |
| Provision for unused commitments | 934 | - |
| Provision for others | 7,166 | 7,104 |
| Other expense on financial instruments | 70 | 79 |
| Loss on foreign exchange transaction | 227,348 | 229,993 |
| Loss on foreign exchange difference | 145,219 | 119,497 |
| Point expense | 13,426 | 9,237 |
| Contribution to guarantee fund | 32,321 | 22,619 |
| Insurance fee on deposits | 27,741 | 26,085 |
| Loss on sales of loans | 260 | 1 |
| Loss on merchant banking accounts (*1) | 15,210 | 9,877 |
| | ₩ 469,695 | ₩ 428,006 |

(*1) Details of loss on merchant banking accounts for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Interest expense | ₩ 15,039 | ₩ 9,545 |
| Provision for possible loan losses | - | 43 |
| Provision for unused commitments | 63 | 283 |
| Others | 108 | 6 |
| | ₩ 15,210 | ₩ 9,877 |

### 43. Non-operating income and expenses

Details of non-operating income for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Gain on disposal of property and equipment | ₩ 15 | ₩ 139 |
| Gain on disposal of intangible assets | 41 | 297 |
| Rental income | 708 | 819 |
| Gain on exemption of debts | 1,707 | 1,228 |
| Others | 4,206 | 2,840 |
| | ₩ 6,677 | ₩ 5,323 |

### 43. Non-operating income and expenses (cont'd)

Details of non-operating expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Loss on disposal of property and equipment | ₩ 71 | ₩ 114 |
| Loss on disposal of intangible assets | 5 | - |
| Donation | 65 | 190 |
| Expenses on collection of management of charge-offs | 215 | 199 |
| Commission expense on collection of management of charge-offs | 127 | 183 |
| Others | 4,915 | 2,544 |
| | ₩ 5,398 | ₩ 3,230 |

### 44. Income tax expense

The major components of income tax expense for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| <KEB> | | |
| Income tax currently payable (receivable) (*1) | ₩ 81,385 | ₩ 27,520 |
| Changes of deferred income taxes due to the tax effect of temporary differences | (70,100) | 20,073 |
| Total income tax effect | 11,285 | 47,593 |
| Current and deferred income taxes recognized directly to equity | 7,362 | (13,822) |
| Tax effect of consolidated tax return | (11,411) | - |
| Income tax expense of foreign branches | 327 | 431 |
| Income tax expense of KEB | 7,563 | 34,202 |
| <Subsidiaries> | | |
| Income tax currently payable (*1) | 9,616 | 8,090 |
| Changes of deferred income taxes due to the tax effect of temporary differences | (1,688) | (1,443) |
| Current and deferred income taxes recognized directly to equity | (78) | 147 |
| Income tax expense of subsidiaries | 7,850 | 6,794 |
| | ₩ 15,413 | ₩ 40,996 |

(*1) The amount of addition and refund of prior year's income tax is included.

## 44. Income tax expense (cont'd)

Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | Three-month periods ended March 31, 2013 | |
|---|---|---|---|---|
| Income before income tax | ₩ | 87,127 | ₩ | 116,258 |
| Tax at domestic statutory income tax rate | | 21,085 | | 28,134 |
| Reconciliation: | | | | |
| Income not subject to tax | | (1,849) | | (1,132) |
| Expenses not deductible for tax purposes | | 6,831 | | 862 |
| Tax deduction | | (25,785) | | (313) |
| Addition (refund) of prior year's income tax | | (15,264) | | 10,141 |
| Income tax expense of foreign branches | | 327 | | 8,629 |
| Tax effect of consolidated tax return | | (11,411) | | - |
| Effect of unrealized deferred income tax assets | | 32,757 | | - |
| Others | | 8,722 | | (5,325) |
| | | (5,672) | | 12,862 |
| Income tax expense | ₩ | 15,413 | ₩ | 40,996 |
| Effective income tax rate (%) | | 17.69 | | 35.26 |

Details of deferred income tax assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| KEB(*1) | ₩ | 11,048 | ₩ | - |
| KEB F&I (formerly, KEB Capital Inc.) | | 28,856 | | 28,850 |
| KEBIS | | 276 | | 263 |
| NYFinCo | | 2,989 | | 2,814 |
| USAI | | 14 | | 13 |
| LAFinCo | | 2,097 | | 2,071 |
| KEBOC | | 1,153 | | 1,181 |
| KEBH | | 2,265 | | 2,154 |
| PT. Bank KEB Hana | | 147 | | - |
| KEBB | | 146 | | 662 |
| | ₩ | 48,991 | ₩ | 38,008 |

## 44. Income tax expense (cont'd)

Details of deferred income tax liabilities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| KEB(*1) | ₩ 21,274 | ₩ 80,326 |
| KEBF | 2,109 | 1,910 |
| KEBB | 584 | 2,956 |
| KEBChina | 2,031 | 2,499 |
| PT. Bank KEB Hana | 975 | 319 |
| Trust accounts guaranteeing the repayment of principal | 4,127 | 3,895 |
| | ₩ 31,100 | ₩ 91,905 |

## 44. Income tax expense (cont'd)

(*1) Changes in temporary differences and deferred income tax assets (liabilities) for the three-month period ended March 31, 2014 are as follows (Korean won in millions):

| | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 |
| Temporary differences: | | | | | | | | |
| Gain or loss on valuation of securities | ₩ (77,673) | ₩ 162,409 | ₩ 307,572 | ₩ 67,490 | ₩ (23,549) | ₩ 39,303 | ₩ 79,185 | ₩ 16,333 |
| Accrued income | (79,254) | (79,254) | (76,137) | (76,137) | (19,179) | (19,179) | (18,425) | (18,425) |
| Other provisions and others | 249,646 | 249,646 | 252,683 | 252,683 | 60,414 | 60,414 | 61,149 | 61,149 |
| Gain or loss on valuation of derivatives | (115,778) | (115,778) | 18,620 | 18,620 | (28,018) | (28,018) | 4,506 | 4,506 |
| Debt-for-equity swap securities | 101,753 | - | 33,506 | 135,259 | 34,498 | - | (1,765) | 32,733 |
| Advanced depreciation provisions | (62,466) | - | - | (62,466) | (15,117) | - | - | (15,117) |
| Investment in kind at KEB China | 137,879 | - | - | 137,879 | 33,367 | - | - | 33,367 |
| Financial guarantee contract | 28,581 | 28,581 | 32,367 | 32,367 | 6,917 | 6,917 | 7,833 | 7,833 |
| Deferred reward points income | 66,515 | 66,515 | 69,549 | 69,549 | 16,097 | 16,097 | 16,831 | 16,831 |
| Accrued expenses | 78,344 | 78,344 | 72,042 | 72,042 | 18,959 | 18,959 | 17,434 | 17,434 |
| Gain on revaluation of tangible assets | (553,765) | - | - | (553,765) | (134,011) | - | - | (134,011) |
| Others | 159,240 | (12,403) | 30,027 | 201,670 | 58,264 | (2,639) | (12,156) | 48,747 |
| | (66,978) | 378,060 | 740,229 | 295,191 | 8,642 | 91,854 | 154,592 | 71,380 |

**44. Income tax expense (cont'd)**

| Classification | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 |
| Accumulated other comprehensive income: | | | | | | | | |
| Unrealized gain or loss of available-for-sale financial assets | (380,489) | (380,489) | (351,097) | (351,097) | (92,078) | (92,078) | (84,965) | (84,965) |
| Gain on foreign currency translation of available-for-sale financial assets | 146 | 146 | 116 | 116 | 35 | 35 | 28 | 28 |
| Remeasurement of the net defined benefit liability (*3) | 12,709 | 12,709 | 13,765 | 13,765 | 3,075 | 3,075 | 3,331 | 3,331 |
| | (367,634) | (367,634) | (337,216) | (337,216) | (88,968) | (88,968) | (81,606) | (81,606) |
| | ₩ (434,612) | ₩ 10,426 | ₩ 403,013 | ₩ (42,025) | ₩ (80,326) | ₩ 2,886 | ₩ 72,986 | ₩ (10,226) |

(*1) Beginning balance reflects adjustments for the claim for rectification in the amount of ₩66,310 million as at December 31, 2013. Deferred tax assets decrease by ₩16,047 million compared to that of December 31, 2013 after reflecting the adjustments.
(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).

**45. Earnings per share**

Weighted-average number of ordinary shares for the three-month periods ended March 31, 2014 and 2013 are as follows (shares in units):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Beginning | 644,844,691 | 644,906,823 |
| Exercise of appraisal rights by shareholders | - | (5,236,513) |
| Number of treasury stocks after disposal | 11,612 | - |
| Ending | 644,856,303 | 639,670,310 |

The Company's basic earnings per share for the three-month periods ended March 31, 2014 and 2013 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Net income for the period | ₩ 70,542 | ₩ 75,277 |
| Dividends on hybrid equity securities | (6,951) | (4,563) |
| Net income attributable to ordinary stock | 63,591 | 70,714 |
| Weighted-average number of shares of ordinary stocks outstanding | 644,856,303 | 639,670,310 |
| Basic earnings per share (Korean won) | ₩ 99 | ₩ 111 |

Weighted-average number of ordinary shares adjusted for the effect of dilution for the three-month periods ended March 31, 2014 and 2013 are as follows (shares in units):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Weighted-average number of shares of ordinary stocks outstanding | 644,856,303 | 639,670,310 |
| Stock options | - | 61,345 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 644,856,303 | 639,731,655 |

The Company's diluted earnings per share for the three-month periods ended March 31, 2014 and 2013 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Net income attributable to ordinary stocks | ₩ 63,591 | ₩ 70,714 |
| Recognized revenue related to employee stock options (after-tax effect of 24.2%) | - | (8) |
| Net income for the diluted net income per share | 63,591 | 70,706 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 644,856,303 | 639,731,655 |
| Diluted earnings per share (Korean won) | ₩ 99 | ₩ 111 |

## 46. Share-based payment

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents of the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive (“Rose Bonus” and\or “Rose Share”) to employees for the purpose of motivation to improve long-term performance. The equity-linked special incentive is settled in cash. It can be exercised from 1 to 3 years after the grant date for the following 3 to 4 years.

Details of the share-based payment as at March 31, 2014 are as follows:

Assumptions for evaluation of stock options as at March 31, 2014 are as follows (Korean won in millions):

| Grant date | Exercise period | Risk-free rate | Expected service period | Volatility of the underlying stock price | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 2011-03-13 ~ 2016-03-12 | 2.16% | 5.87 | 24.30% | ₩ 483 | ₩ 5,700 | ₩ 1,685 |
| 2009-08-04 | 2011-08-05 ~ 2016-08-04 | 2.68% | 5.87 | 27.10% | 483 | 11,700 | 129 |
| 2010-03-10 | 2012-03-11 ~ 2017-03-10 | 2.74% | 5.87 | 28.18% | 483 | 13,450 | 112 |
| 2010-03-30 | 2012-03-31 ~ 2017-03-30 | 2.75% | 5.87 | 29.11% | 483 | 13,600 | 122 |
| 2010-08-04 | 2013-08-05 ~ 2017-08-04 | 2.79% | 5.87 | 29.81% | 483 | 12,300 | 273 |
| 2010-09-29 | 2013-09-30 ~ 2017-09-29 | 2.80% | 5.87 | 30.93% | 483 | 13,550 | 250 |
| 2011-08-10 | 2014-08-11 ~ 2018-08-10 | 2.90% | 5.87 | 37.37% | 483 | 8,060 | 1,462 |
| 2011-08-26 | 2014-08-27 ~ 2018-08-26 | 2.91% | 5.87 | 37.29% | 483 | 7,720 | 1,637 |
| 2011-09-02 | 2014-09-03 ~ 2018-09-02 | 2.91% | 5.87 | 37.34% | 483 | 7,930 | 1,674 |

Changes in shares of stock options for the three-month period ended March 31, 2014 are as follows (Korean won and shares in units):

| Grant date | Shares at beginning | Exercise | Divesture | Extinction at maturity | Shares at ending | Stock options outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 267,205 | (14,500) | - | - | 252,705 | 252,705 | ₩ 5,800 |
| 2009-08-04 | 415,610 | - | - | - | 415,610 | 415,610 | 10,900 |
| 2010-03-10 | 312,350 | - | - | - | 312,350 | 312,350 | 13,200 |
| 2010-03-30 | 237,140 | - | - | - | 237,140 | 237,140 | 13,500 |
| 2010-08-04 | 251,890 | - | - | - | 251,890 | 251,890 | 12,400 |
| 2010-09-29 | 17,810 | - | - | - | 17,810 | 17,810 | 13,500 |
| 2011-08-10 | 333,000 | - | - | - | 333,000 | 333,000 | 9,100 |
| 2011-08-26 | 42,290 | - | - | - | 42,290 | 42,290 | 8,500 |
| 2011-09-02 | 11,250 | - | - | - | 11,250 | 11,250 | 8,400 |
| | 1,888,545 | (14,500) | - | - | 1,874,045 | 1,874,045 | |

**46. Share-based payment (cont'd)**

Weighted average stock price exercised as of the stock option date is in the amount of ₩7,767 for the three-month period ended March 31, 2014.

Weighted average residual expiration of exercisable stock options is 3.04 years as at March 31, 2014.

Equity-linked special incentives are measured at fair value based on the binomial model and become exercisable from 1 to 3 years after the grant date for the following 3 to 4 years. Details of the equity-linked special incentives as at March 31, 2014 are as follows (shares in units):

| Classification | Grant date | Exercise period | Payment date | Stock options outstanding |
|---|---|---|---|---|
| Rose 4 | 2009.12.11 | 2011.12.11~2014.12.10 | 2011.12.11 | 10,600 |
| Rose 5 | 2010.08.04 | 2012.08.04~2015.08.04 | 2012.08.04 | 19,040 |
| Rose 6 | 2011.09.21 | 2013.09.21~2016.09.20 | 2013.09.21 | 213,080 |
| Rose share 1-2 | 2010.02.19 | 2012.02.19~2015.02.18 | 2012.02.19 | 10,375 |
| Rose share 3-1 | 2010.08.11 | 2011.08.11~2014.08.10 | 2011.08.11 | 2,285 |
| Rose share 3-2 | 2010.08.11 | 2012.08.11~2015.08.11 | 2012.08.11 | 2,855 |
| Rose share 4-1 | 2011.02.21 | 2012.02.21~2015.02.20 | 2012.02.21 | 10,190 |
| Rose share 4-2 | 2011.02.21 | 2013.02.21~2016.02.20 | 2013.02.21 | 4,140 |
| Rose share 5-1 | 2011.02.21 | 2012.02.21~2015.02.20 | 2012.02.21 | 8,065 |
| Rose share 5-2 | 2011.02.21 | 2013.02.21~2016.02.20 | 2013.02.21 | 2,595 |
| Rose share 6-1 | 2011.03.21 | 2012.03.21~2015.03.20 | 2012.03.20 | 50 |
| Rose share 6-2 | 2011.03.21 | 2013.03.21~2016.03.20 | 2013.03.20 | 316 |
| Rose share 6-3 | 2011.03.21 | 2014.03.21~2017.03.20 | 2014.03.20 | 1,470 |
| Rose share 7-1 | 2011.09.08 | 2012.09.08~2015.09.07 | 2012.09.08 | 1,770 |
| Rose share 7-2 | 2011.09.08 | 2013.09.08~2016.09.07 | 2013.09.08 | 430 |
| Rose share 8-1 | 2012.02.21 | 2013.02.21~2017.02.20 | 2013.02.22 | 7,105 |
| Rose share 8-2 | 2012.02.21 | 2014.02.21~2017.02.20 | 2014.02.22 | 17,820 |
| Rose share 9-1 | 2012.02.21 | 2013.02.21~2017.02.20 | 2013.02.22 | 10,420 |
| Rose share 9-2 | 2012.02.21 | 2014.02.21~2017.02.20 | 2014.02.22 | 41,605 |
| | | | | 364,211 |

Changes in shares of equity linked special incentives for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (shares in units):

| | Number of shares outstanding | |
|---|---|---|
| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
| Beginning | 493,521 | 5,026,733 |
| Number of shares forfeited | (1,085) | (34,136) |
| Number of shares exercised | (128,225) | (4,499,076) |
| Ending | 364,211 | 493,521 |

Weighted average stock price of equity linked special incentives at the exercise date is in the amount of ₩7,691 for the three-month period ended March 31, 2014.

Weighted average residual maturity of equity linked is 2.29 years as at March 31, 2014.

**46. Share-based payment (cont'd)**

Hana Financial Group ("HFG") provided the Company's employees with stock rights and stock grants linked to performance and computed the compensation costs by applying the fair value approach for the rights. Details of share-based payment arrangement and share-based payment linked to performance as at March 31, 2014 are as follows:

| Classification | 2nd | 3rd | 4th |
|---|---|---|---|
| Grant date | 2012-01-01 | 2013-01-01 | 2014-01-01 |
| Grant method | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG |
| Grant period | 2012-01-01~2014-12-31 | 2013-01-01~2015-12-31 | 2014-01-01~2016-12-31 |
| Payment date | 2014-12-31 | 2015-12-31 | 2016-12-31 |
| Shares at settlement date (*1) | 6,530 | 13,750 | 8,710 |

(*1) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

Details of liabilities related to share-based payment and total intrinsic value of rights accounted for as accounts payable in case that option holders achieve rights to receive cash or other assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Book value of liabilities related to share-based payment: | | |
| Stock options | ₩ 1,191 | ₩ 1,206 |
| Equity-linked special incentives (granted by KEB) | 4,590 | 6,289 |
| Equity-linked special incentives (granted by HFG) | 3,323 | 2,609 |
| | ₩ 9,104 | ₩ 10,104 |

The compensation costs for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Costs recognized due to share-based payment: | | |
| Stock options | ₩ 8 | ₩ (64) |
| Equity-linked special incentives (granted by KEB) | (51) | 6,318 |
| Equity-linked special incentives (granted by HFG) | 769 | 1,357 |
| | ₩ 726 | ₩ 7,611 |

## 47. Cash flow information

Cash and cash equivalents in the interim consolidated statement of cash flows consist of cash and due from bank (excluding restricted due from bank) in the interim consolidated statement of financial position. Cash and cash equivalents as at March 31, 2014 and December 31, 2013 are adjusted as follows (Korean won in millions):

| Classification | | March 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| Cash and due from banks | ₩ | 9,437,295 | ₩ | 8,247,437 |
| Less: restricted due from bank | | (4,354,223) | | (3,071,986) |
| Due from banks with original maturities exceeding three months from the date of acquisition | | (300,000) | | (448,616) |
| Cash and cash equivalents | ₩ | 4,783,072 | ₩ | 4,726,835 |

Significant non-cash transactions for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| | | 2014 | | 2013 |
| Unrealized gain or loss on available-for-sale financial assets | ₩ | (22,824) | ₩ | 56,352 |
| Gain or loss on foreign currency translation of available-for-sale financial assets | | 22 | | 81 |
| Transfer from property and equipment to investment property | | 252 | | 38 |
| Transfer from loans receivable to available-for-sale financial assets resulting from debt-to-equity swap | | 13,065 | | 13,374 |

## 48. Related party transactions

The Company's major related parties as at March 31, 2014 are as follows:

| Subsidiaries | Relationship |
|---|---|
| Hana Financial Group ("HFG") | Controlling company |
| Hana Daetoo Securities Co., Ltd. | Entity under common control |
| Hana Bank | Entity under common control |
| Hana Capital, Co., Ltd. | Entity under common control |
| Hana Institute of Finance | Entity under common control |
| Hana SK Card | Entity under common control |
| Hana I&S | Entity under common control |
| Hana Daol Trust | Entity under common control |
| Hana HSBC Life Insurance Co.,Ltd | Entity under common control |
| Flossom Co., Ltd. | Associates |
| MIDAN City Development Co., Ltd | Associates |
| Masam Marine New Town Co., Ltd | Associates |

## 48. Related party transactions (cont'd)

Outstanding balances with related parties arising from the below transactions as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Controlling company | Under common control | Associates | Total |
| Assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 35,777 | ₩ - | ₩ 35,777 |
| Loans receivable | - | 90,182 | 22,665 | 112,847 |
| Allowance for possible loan losses | - | - | (56) | (56) |
| Others | - | 71,837 | - | 71,837 |
| | ₩ - | ₩ 197,796 | ₩ 22,609 | ₩ 220,405 |
| Liabilities: | | | | |
| Deposits | ₩ - | ₩ 29,992 | ₩ - | ₩ 29,992 |
| Financial liabilities at FVTPL | - | 11,365 | - | 11,365 |
| Provisions | - | - | 24 | 24 |
| Others | 3,138 | 71,921 | - | 75,059 |
| | ₩ 3,138 | ₩ 113,278 | ₩ 24 | ₩ 116,440 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Controlling company | Under common control | Associates | Total |
| Assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 55,547 | ₩ - | ₩ 55,547 |
| Loans receivable | - | 19,603 | 25,665 | 45,268 |
| Allowance for possible loan losses | - | - | (64) | (64) |
| Others | - | 49,875 | - | 49,875 |
| | ₩ - | ₩ 125,025 | ₩ 25,601 | ₩ 150,626 |
| Liabilities: | | | | |
| Deposits | ₩ - | ₩ 19,844 | ₩ - | ₩ 19,844 |
| Financial liabilities at FVTPL | - | 13,703 | - | 13,703 |
| Provisions | - | - | 25 | 25 |
| Others | 2,360 | 49,912 | - | 52,272 |
| | ₩ 2,360 | ₩ 83,459 | ₩ 25 | ₩ 85,844 |

### 48. Related party transactions (cont'd)

Details of transactions with related parties for the three-month periods ended March 31, 2014 and 2013 are summarized as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | | |
|---|---|---|---|---|
| | Controlling company | Under common control | Associates | Total |
| Income: | | | | |
| Interest income | ₩ - | ₩ 1 | ₩ 390 | ₩ 391 |
| Gain on financial instruments at FVTPL | - | 12,652 | - | 12,652 |
| Fee and commission income | - | 5,666 | - | 5,666 |
| Other income | - | - | 9 | 9 |
| | ₩ - | ₩ 18,319 | ₩ 399 | ₩ 18,718 |
| Expense: | | | | |
| Interest expense | ₩ - | ₩ 1 | ₩ - | ₩ 1 |
| Loss on financial instruments at FVTPL | - | 23,734 | - | 23,734 |
| Fee and commission expense | - | 733 | - | 733 |
| Other expense | - | - | - | - |
| | ₩ - | ₩ 24,468 | ₩ - | ₩ 24,468 |

| Classification | Three-month periods ended March 31, 2013 | | | |
|---|---|---|---|---|
| | Controlling company | Under common control | Associates | Total |
| Income: | | | | |
| Interest income | ₩ 318 | ₩ 1 | ₩ 442 | ₩ 761 |
| Gain on financial instruments at FVTPL | - | 21,524 | - | 21,524 |
| Fee and commission income | - | 632 | - | 632 |
| Other income | - | - | 1 | 1 |
| | ₩ 318 | ₩ 22,157 | ₩ 443 | ₩ 22,918 |
| Expense: | | | | |
| Interest expense | ₩ - | ₩ 129 | ₩ - | ₩ 129 |
| Loss on financial instruments at FVTPL | - | 36,538 | - | 36,538 |
| Fee and commission expense | - | - | - | - |
| Other expense | - | - | 2 | 2 |
| | ₩ - | ₩ 36,667 | ₩ 2 | ₩ 36,669 |

## 48. Related party transactions (cont'd)

Details of compensation paid to key management personnel for the three-month periods ended March 31, 2014 and 2013 are summarized as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Short-term employee benefits | ₩ 2,138 | ₩ 1,434 |
| Post-retirement employee benefits | 45 | 51 |
| Stock options | 26 | (16) |

The key management includes directors, executives and officers who have authority and responsibilities for decision making of the business plan, operations and control over the Company.

## 49. Contingencies and commitments

The Company holds written-off loans, on which the relevant statute of limitations has not expired or the Company has not lost its claim rights to borrowers and guarantors, in the amount of ₩1,838,420 million and ₩1,836,831 million as at March 31, 2014 and December 31, 2013, respectively.

Endorsed notes with collateral amount to ₩44,746 million and ₩46,785 million as at March 31, 2014 and December 31, 2013, respectively. Endorsed notes without collateral held at the merchant banking amount to ₩8,614,300 million and ₩7,834,800 million as at March 31, 2014 and December 31, 2013, respectively.

The Company has pending litigations as a plaintiff or a defendant in various lawsuits arising from the normal course of operations. The aggregate amounts of these claims brought by and against the Company are approximately ₩186,455 million (670 cases) and ₩482,344 million (188 cases) as at March 31, 2014, respectively. The Company recognized provisions in the amount of ₩123,795 million as at March 31, 2014 for the lawsuits.

The Company believes that the outcome of these matters will not have a material impact on the Company's interim consolidated financial statements.

Regular bonus and other benefits paid periodically, uniformly, and steadily shall be included in ordinary wages according to the Supreme Court's decision made in the current year. The Company did not recognize provisions in the decision based on the judgment that it is not probable that the Bank is required to pay additional wages due to the Supreme Court's decision, and the amount of the obligation cannot be measured with sufficient reliability as at March 31, 2014.

Asset-backed commercial paper("ABCP") purchase agreements and unused commitments relating to project financing ("PF") as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| ABCP purchase agreement | ₩ 325,000 | ₩ 325,000 |
| Unused commitments on PF loan | 263,532 | 321,213 |
| | ₩ 588,532 | ₩ 646,213 |

## 50. Operation performance of trust accounts

Details of total assets of trust accounts as at March 31, 2014 and December 31, 2013 and operating income for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Total assets | | Operating income | |
|---|---|---|---|---|
| | | | Three-month periods ended March 31, | |
| Classification | March 31, 2014 | December 31, 2013 | 2014 | 2013 |
| Trust accounts | ₩ 31,669,050 | ₩ 30,316,196 | ₩ 102,641 | ₩ 122,157 |

The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Trust accounts guaranteeing the repayment of principal: | | |
| Installment trust | ₩ 64 | ₩ 64 |
| Household trust | 476 | 534 |
| Old-age pension trust | 1,726 | 1,756 |
| Corporate trust | 5 | 5 |
| Personal pension trust | 190,946 | 192,685 |
| Retirement trust | 55,035 | 56,773 |
| New personal pension trust | 86,209 | 84,887 |
| New old-age pension trust | 923 | 956 |
| Pension trust | 318,962 | 307,449 |
| | 654,346 | 645,109 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal: | | |
| Unspecified monetary trust | 59 | 59 |
| Development money trust | 5 | 5 |
| | 64 | 64 |
| | ₩ 654,410 | ₩ 645,173 |

## 51. Unconsolidated structured entities

Details of the nature of the Company's interests in unconsolidated structured entities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Purpose | Major activity | Financing arrangement | Total assets March 31, 2014 | Total assets December 31, 2013 |
|---|---|---|---|---|---|
| Special purpose company | Financing through asset liquidation and securitization | Collection of securitized assets and financing | Issuing ABL/ABCP and others | ₩ 7,783,469 | ₩ 7,313,872 |
| Real estate finance | Operation for real estate (including SOC) development | Managing real estate development | Investment and borrowing | 17,284,118 | 17,872,746 |
| Shipping finance and accepting finance | Financing to purchase ships and ownership | Building or purchasing ships and financing | Investment and borrowing | 6,707,449 | 6,587,181 |
| Investment fund and trust | Managing investment fund and trust | Managing investment property | Issuing beneficiary certificates | 6,491,654 | 6,385,442 |

Details of the Company's maximum exposure to loss from its interests in unconsolidated structured entities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 Special purpose company | Real estate finance | Shipping finance and accepting finance | Investment fund and trust |
|---|---|---|---|---|
| Assets: | | | | |
| Loans receivable (A) | ₩ 690,452 | ₩ 1,081,069 | ₩ 587,353 | ₩ 828,203 |
| Securities (B) | 1 | 21,494 | - | 69,178 |
| Derivatives (C) | 2,329 | - | 1,616 | 8,090 |
| Others (D) | 20,947 | 3,971 | 1,228 | 14,217 |
| Liabilities: | | | | |
| Derivatives | 8,001 | - | 16 | 11,977 |
| Provision | 20 | 195 | 35 | - |
| Others | 20,899 | 647 | - | - |
| Net asset | ₩ 684,809 | ₩ 1,105,692 | ₩ 590,146 | ₩ 907,711 |
| Maximum exposure to loss | 1,898,982 | 1,220,282 | 625,014 | 921,763 |
| Financial assets (A+B+C+D) | 713,729 | 1,106,534 | 590,197 | 919,688 |
| Credit and other commitment | 1,185,253 | 113,748 | 34,817 | 2,075 |

| Classification | December 31, 2013 Special purpose company | Real estate finance | Shipping finance and accepting finance | Investment fund and trust |
|---|---|---|---|---|
| Assets: | | | | |
| Loans receivable (A) | ₩ 450,628 | ₩ 1,252,507 | ₩ 465,566 | ₩ 504,721 |
| Securities (B) | 1 | 24,123 | - | 68,098 |

## 51. Unconsolidated structured entities (cont'd)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Special purpose company | Real estate finance | Shipping finance and accepting finance | Investment fund and trust |
| Derivatives (C) | 1,998 | - | 1,062 | 4,588 |
| Others (D) | 21,181 | 3,510 | 988 | 2,120 |
| Liabilities: | | | | |
| Derivatives | 16,950 | - | - | 14,544 |
| Provision | 43 | 435 | 41 | - |
| Others | 21,228 | 564 | - | - |
| Net asset | ₩ 435,587 | ₩ 1,279,141 | ₩ 467,575 | ₩ 564,983 |
| Maximum exposure to loss | 1,442,666 | 1,413,544 | 508,864 | 580,158 |
| Financial assets (A+B+C+D) | 473,808 | 1,280,140 | 467,616 | 579,527 |
| Credit and other commitment | 968,858 | 133,404 | 41,248 | 631 |

## 52. Restatement of financial statements for the prior period

With respect to the long term deposits without activities after 5 years from the final transaction, the Company classifies these accounts as completed extinctive prescription dormant deposits and recognized the relative amount as gain from liabilities exempted and also a portion has appeared in the Smile Microcredit Bank. However, in accordance with the Supreme Court judgment made on August 23, 2012, it states that the extinctive prescription is not completed in case the Company has made deposit interest after the final transaction, which is regarded as an act of acknowledgement of debt, and accordingly the Company has the obligation to return the deposits. The Company restated the accompanying interim consolidated statements of profit or loss and other comprehensive income and interim consolidated statements of changes in equity for the three-month period ended March 31, 2013, presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earnings for the three-month period ended March 31, 2013 to be decreased in the amount of ₩5,930 million, non-operating expenses for the three-month period ended March 31, 2013 to be decreased in the amount of ₩531 million, and income tax expense and net income for the three-month period ended March 31, 2013 to be increased in the amount of ₩129 million and ₩402 million, respectively.

On March 5, 2013, the Company received an organization warning from the Financial Supervisory Service in accordance to the Pricing Guideline as a result of directing a raise in other interest rate and accordingly, 7 prior and current executives were under indictment as of July 25, 2013 upon investigation from the Public Prosecutors Office. The Public Prosecutors Office has requested the Financial Supervisory Service to order the Company to return the received interest to the relevant customers. The Company restated the accompanying interim consolidated statements of profit or loss and other comprehensive income and interim consolidated statements of changes in equity for the three-month period ended March 31, 2013, presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earnings for the three-month period ended March 31, 2013 to be decreased in the amount of ₩30,031 million, and interest income, income tax expense and net income for the three-month period ended March 31, 2013 to be increased in the amount of ₩839 million, ₩203 million and ₩794 million, respectively.

## 52. Restatement of financial statements for the prior period (cont'd)

According to the amendments to *KIFRS 1019* applied retrospectively, the net interest of the defined benefit plan less the fair value of plan assets formerly recognized in profit or loss was recognized as other comprehensive income, and the net interest on plan assets was calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The Company restated the accompanying interim consolidated statements of changes in equity for the three-month period ended March 31, 2013, presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of accumulated other comprehensive income for the three-month period ended March 31, 2013 to be decreased in the amount of ₩756 million, and retained earnings for the three-month period ended March 31, 2013 to be increased in the amount of ₩756 million.

## 53. Common control transaction

### Merger between PT. Bank KEB Indonesia ("KEBI") and PT. Bank Hana

In accordance with the regulations of the Bank Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia ("KEBI"), a subsidiary of the Bank, and PT. Bank Hana, a subsidiary of Hana Bank, have completed a merger process on February 20, 2014 and changed the name to PT. Bank KEB Hana. PT. Bank KEB Hana incorporated into a subsidiary of the Bank on February 28, 2014 since the Bank owned the major shares of PT. Bank KEB Hana after the acquisition.

The Company recognized the assets and liabilities acquired by the merger at the carrying amount of PT. Bank Hana, which were ultimately controlled by the same entity. Details of assets acquired and liabilities assumed as of the merger date are as follows (Korean won in millions):

| | | Amount |
|---|---|---|
| Assets acquired: | | |
| Cash and due from banks | ₩ | 87,368 |
| Available-for-sale financial assets | | 23,745 |
| Held-to-maturity investments | | 15,747 |
| Loans receivable | | 653,620 |
| Property and equipment | | 3,048 |
| Intangible assets | | 1,208 |
| Deferred income tax assets | | 143 |
| Other assets | | 11,792 |
| | | 796,671 |
| Liabilities assumed: | | |
| Deposits | | 445,477 |
| Borrowings | | 229,140 |
| Current tax liabilities | | 1,956 |
| Other liabilities | | 10,259 |
| | | 686,832 |
| Total identifiable net assets | ₩ | 109,839 |

## 53. Common control transaction (cont'd)

### Merger plan between KEB Bank (China) Co., Ltd. and Hana Bank (China)

On December 5, 2013, KEB's Board of Directors approved a merger between KEB Bank (China) Co., Ltd. and Hana Bank (China). KEB Bank (China) Co., Ltd. and Hana Bank (China) approved the merger at their general meeting of stockholders and are undergoing the approval process of supervisory authority as at March 31, 2014.

## 54. Spinoff plan for credit card division

On December 24, 2013, KEB's Board of Directors approved an equity spinoff of credit card division aiming to strengthen the competitiveness of credit card business and applied for the permission of equity spinoff and credit card business for the newly established company after the spinoff to the Financial Services Commission.

Based on the spinoff plan, the Company plans to obtain the Financial Services Commission's permission and approve the equity spinoff at general meeting of shareholders.

Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

Building a better working world

## Report on review of interim separate financial statements

The Board of Directors and Shareholders
Korea Exchange Bank

### Report on review of interim consolidated financial statements

We have reviewed the accompanying interim separate financial statements of Korea Exchange Bank (the "Bank"), which comprises the interim separate statements of financial position as at March 31, 2014, and the related interim separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month period ended March 31, 2014 and 2013, and a summary of significant accounting policies and explanatory notes.

### Management's responsibility for the financial statements

Management is responsible for the preparation and presentation of these interim separate financial statements in accordance with Korea International Financial Reporting Standards 1034 *Interim Financial Reporting* (KIFRS 1034). Also, the management is responsible for the design and operation of the Bank's internal control to prevent and detect any error or fraud which may cause material misstatement of the interim separate financial statements.

### Independent accountants' responsibility

Our responsibility is to express a conclusion on these interim separate financial statements based on our review. We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim separate financial statements were not prepared, in all material respects, in accordance with KIFRS 1034.

Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

**Other matters**

We have audited the separate statement of financial position of the Bank as at December 31, 2013, and the related separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea and our report dated March 4, 2014 expressed an unqualified opinion thereon. The accompanying separate statement of financial position as at December 31, 2013, presented for comparative purpose is not different, in all material respects, from the above audited separate statement of financial position.

Ernst & Young Han Young

May 12, 2014

| |
|---|
| This review report is effective as at May 12, 2014, the independent accountants' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the independent accountants' review report date to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim separate financial statements and may result in modification to this review report. |

**Korea Exchange Bank**
**Interim separate statements of financial position**
**As at March 31, 2014 and December 31, 2013**

(Korean won in millions)

| | Notes | | March 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and due from banks | 5,6,7,8,10,47,48 | ₩ | 7,368,874 | ₩ | 6,646,083 |
| Financial assets at FVTPL | 5,6,7,8,11,18,48 | | 1,210,389 | | 1,606,733 |
| Derivative assets used for hedging purposes | 5,6,7,8,18 | | 20,662 | | 23,070 |
| Available-for-sale financial assets | 5,6,7,8,12,14,15,17,48 | | 10,075,488 | | 9,155,708 |
| Held-to-maturity investments | 5,6,7,8,13,14,15 | | 1,463,844 | | 2,195,558 |
| Loans receivable | 5,6,7,8,16,17,48 | | 73,518,188 | | 69,711,992 |
| Investments in subsidiaries and associates | 19 | | 1,011,814 | | 985,207 |
| Property and equipment | 20 | | 1,187,782 | | 1,199,048 |
| Investment property | 21 | | 182,859 | | 183,262 |
| Intangible assets | 22 | | 56,776 | | 60,884 |
| Current income tax assets | | | 38 | | 56 |
| Deferred income tax assets | 44 | | 11,048 | | - |
| Other assets | 5,6,7,8,23,48 | | 9,390,923 | | 6,688,282 |
| Merchant banking account assets | 5,6,7,8,23 | | 2,706,123 | | 2,715,835 |
| Non-current assets held for sale | 24 | | 292 | | 290 |
| **Total assets** | | ₩ | 108,205,100 | ₩ | 101,172,008 |
| **Liabilities and equity** | | | | | |
| **Liabilities** | | | | | |
| Deposits | 5,6,7,8,26,48 | ₩ | 66,323,111 | ₩ | 65,135,250 |
| Financial liabilities at FVTPL | 5,6,7,8,25,48 | | 986,413 | | 1,286,767 |
| Derivative liabilities used for hedging purposes | 5,6,7,8,18 | | 8,382 | | 12,562 |
| Borrowings | 5,6,7,8,27,48 | | 8,544,695 | | 6,520,691 |
| Debentures | 5,6,7,8,28 | | 6,364,109 | | 6,582,000 |
| Provisions | 29,48,49 | | 269,525 | | 266,657 |
| Current income tax liabilities | | | 102,313 | | 31,174 |
| Deferred income tax liabilities | 44 | | - | | 59,052 |
| Other liabilities | 5,6,7,8,30,31,46,48 | | 13,949,475 | | 10,180,326 |
| Merchant banking account liabilities | 5,6,7,8,30 | | 2,511,582 | | 1,680,804 |
| **Total liabilities** | | | 99,059,605 | | 91,755,283 |
| **Equity** | | | | | |
| Common stock | 32 | | 3,224,534 | | 3,224,534 |
| Capital surplus | 32 | | 940 | | 940 |
| Hybrid equity securities | 32 | | 179,737 | | 429,509 |
| Capital adjustments | 32 | | (764) | | (18,714) |
| Retained earnings | 33 | | 5,511,769 | | 5,537,826 |
| (Regulatory reserve for bad debts in the amount of ₩748,594 and ₩697,881 as at March 31, 2014 and December 31, 2013, respectively) | 34 | | | | |
| (Required reserve for bad debts in the amount of ₩34,770 and ₩50,713 as at March 31, 2014 and December 31, 2013, respectively) | | | | | |
| (Planned reserve for bad debts in the amount of ₩34,770 and ₩50,713 as at March 31, 2014 and December 31, 2013, respectively) | | | | | |
| Accumulated other comprehensive income | 35 | | 229,279 | | 242,630 |
| **Total equity** | | | 9,145,495 | | 9,416,725 |
| **Total liabilities and equity** | | ₩ | 108,205,100 | ₩ | 101,172,008 |

The accompanying notes are an integral part of the interim financial statements.

**Korea Exchange Bank**
**Interim separate statements of profit or loss and other comprehensive income**
**For the three-month periods ended March 31, 2014 and 2013**
(Korean won in millions, except per share amounts)

| | Notes | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|---|
| **Net interest income** | 37,48 | | |
| Interest income | | ₩ 891,892 | ₩ 928,348 |
| Interest expenses | | (368,284) | (412,241) |
| | | 523,608 | 516,107 |
| **Net fee and commission income** | 38,48 | | |
| Fee and commission income | | 113,326 | 123,854 |
| Fee and commission expenses | | (88,493) | (78,887) |
| | | 24,833 | 44,967 |
| **Net gain (loss) on financial instrument at FVTPL** | 39,48 | | |
| Gain on financial instrument at FVTPL | | 603,775 | 1,307,569 |
| Loss on financial instrument at FVTPL | | (576,456) | (1,356,747) |
| | | 27,319 | (49,178) |
| **Net gain on derivative financial instruments used for hedging purposes** | 39 | | |
| Gain on derivative financial instruments used for hedging purposes | | 8,157 | 4,920 |
| Loss on derivative financial instruments used for hedging purposes | | (8,049) | (3,262) |
| | | 108 | 1,658 |
| **Net gain of available-for-sale financial assets** | 39 | | |
| Gain on available-for-sale financial assets | | 21,031 | 18,968 |
| Loss on available-for-sale financial assets | | (15) | - 4,226 |
| | | 21,016 | 14,742 |
| **Impairment losses** | 40,48 | | |
| Impairment losses on financial assets | | (185,119) | (126,073) |
| | | (185,119) | (126,073) |
| **General and administrative expenses** | 41,46 | (329,718) | (353,157) |
| **Net other operating income (expenses)** | 42,48 | | |
| Other operating income | | 440,978 | 454,776 |
| Other operating expenses | | (442,035) | (406,220) |
| | | (1,057) | 48,556 |
| **Operating income** | | 80,990 | 97,622 |
| **Non-operating income (expenses)** | 43 | | |
| Non-operating income | | 6,373 | 5,085 |
| Non-operating expenses | | (3,444) | (49,147) |
| | | 2,929 | (44,062) |
| **Net income before income tax expense** | | 83,919 | 53,560 |
| **Income tax expense** | 44 | (7,563) | (22,978) |
| **Net income** | | 76,356 | 30,582 |
| (Adjusted income after regulatory reserve for bad debt in the amount of ₩41,586 and ₩13,381 for the three-month periods ended March 31, 2014 and 2013, respectively) | 34 | | |
| **Other comprehensive income (expenses)** | 35 | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Gain (loss) on valuation of available-for-sale financial assets | | (29,392) | 56,953 |
| Exchange differences on translation of available-for-sale financial assets | | 29 | 82 |
| Exchange differences on translation of foreign operations | | 9,706 | 13,399 |
| Tax effect | | 7,106 | (13,802) |
| | | (12,551) | 56,632 |

(Continued)

**Korea Exchange Bank**
**Interim separate statements of profit or loss and other comprehensive income**
**For the three-month periods ended March 31, 2014 and 2013**

(Korean won in millions, except per share amounts)

| | Notes | For the three-month periods ended March 31, 2014 | | For the three-month periods ended March 31, 2013 | |
|---|---|---|---|---|---|
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Remeasurements of the net defined benefit liability | | | (1,056) | | 84 |
| Tax effect | | | 256 | | (20) |
| | | | (800) | | 64 |
| **Total comprehensive income** | | ₩ | 63,005 | ₩ | 87,278 |
| **Earnings per share** | 45 | | | | |
| Basic earnings per share | | ₩ | 108 | ₩ | 41 |
| Diluted earnings per share | | ₩ | 108 | ₩ | 41 |

The accompanying notes are an integral part of the interim financial statements.

**Korea Exchange Bank**

**Interim separate statements of changes in equity**

**For the three-month periods ended March 31, 2014 and 2013**

(Korean won in millions)

| | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|---|
| As at January 1, 2013 | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,229,692 | ₩ 204,352 | ₩ 8,909,330 |
| Dividends on hybrid equity securities | - | - | - | - | (4,563) | - | (4,563) |
| Share-based payment transactions | - | - | - | (112) | - | - | (112) |
| Other capital adjustments | - | - | - | (497,072) | - | - | (497,072) |
| Dividends | - | - | - | - | (32,245) | - | (32,245) |
| | 3,224,534 | 940 | 249,772 | (497,144) | 5,192,884 | 204,352 | 8,375,338 |
| Net income for the period | - | - | - | - | 30,582 | - | 30,582 |
| Gain on valuation of available-for-sale financial assets | - | - | - | - | - | 43,171 | 43,171 |
| Exchange differences on transaction of foreign operations | - | - | - | - | - | 13,399 | 13,399 |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | - | - | 62 | 62 |
| Changes in remeasurement of the net defined benefit liability | - | - | - | - | - | 64 | 64 |
| Total comprehensive income for the period | - | - | - | - | 30,582 | 56,696 | 87,278 |
| As at March 31, 2013 | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ (497,144) | ₩ 5,223,466 | ₩ 261,048 | ₩ 8,462,616 |

| | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|---|
| As at January 1, 2014 | ₩ 3,224,534 | ₩ 940 | ₩ 429,509 | ₩ (18,714) | ₩ 5,537,826 | ₩ 242,630 | ₩ 9,416,725 |
| Appropriation to loss on sale of treasury stock | - | - | - | 17,869 | (17,869) | - | - |
| Appropriation to other capital adjustments | - | - | - | 160 | (160) | - | - |
| Dividends on hybrid equity securities | - | - | - | - | (6,951) | - | (6,951) |
| Redemption of hybrid equity securities | - | - | (249,772) | (228) | - | - | (250,000) |
| Share-based payment transactions | - | - | - | (18) | - | - | (18) |
| Other capital adjustments | - | - | - | 167 | - | - | 167 |
| Dividends | - | - | - | - | (77,433) | - | (77,433) |
| | 3,224,534 | 940 | 179,737 | (764) | 5,435,413 | 242,630 | 9,082,490 |
| Net income for the period | - | - | - | - | 76,356 | - | 76,356 |
| Loss on valuation of available-for-sale financial assets | - | - | - | - | - | (22,279) | (22,279) |
| Exchange differences on transaction of foreign operations | - | - | - | - | - | 9,706 | 9,706 |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | - | - | 22 | 22 |
| Changes in remeasurement of the net defined benefit liability | - | - | - | - | - | (800) | (800) |
| Total comprehensive income for the period | - | - | - | - | 76,356 | (13,351) | 63,005 |
| As at March 31, 2014 | ₩ 3,224,534 | ₩ 940 | ₩ 179,737 | ₩ (764) | ₩ 5,511,769 | ₩ 229,279 | ₩ 9,145,495 |

The accompanying notes are an integral part of the interim financial statements.

**Korea Exchange Bank**
**Interim separate statements of cash flows**
**For the three-month periods ended March 31, 2014 and 2013**

(Korean won in millions)

| | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| **Operating activities** | | |
| Net income | ₩ 76,356 | ₩ 30,582 |
| Adjustments to reconcile net income to net cash flows: | | |
| Income tax expense | 7,563 | 22,978 |
| Interest income, net | (523,608) | (516,107) |
| Gain on valuation of financial assets held-for-trading, net | (1,381) | (888) |
| Loss (gain) on valuation of trading derivatives, net | 14,335 | (7,257) |
| Gain on valuation of derivatives used for hedging purposes, net | (108) | (1,658) |
| Gain on disposal of available-for-sale financial asset, net | (21,016) | (14,742) |
| Impairment loss on available-for-sale financial assets | 44,248 | 1,166 |
| Provision for possible loan losses | 140,871 | 124,907 |
| Impairment loss on investment in subsidiaries and associates | - | 46,552 |
| Depreciation on property and equipment | 17,133 | 17,438 |
| Depreciation on investment property | 655 | 633 |
| Amortization | 5,606 | 5,406 |
| Loss (gain) on disposal of property and equipment, net | 66 | (15) |
| Gain on disposal of intangible assets | (36) | (297) |
| Provision for post-employment benefit obligation | 13,741 | 12,442 |
| Long-term compensation expense for performance bonus | 718 | 7,675 |
| Provision for (reversal of) acceptances and guarantees | (2,496) | 3,549 |
| Provision for (reversal of) unused credit limit | 845 | (4,915) |
| Provision for other allowances | 8,156 | 7,104 |
| Loss (gain) on foreign currency transactions, net | (43,173) | 10,138 |
| Dividend income | (28,486) | (3,516) |
| Rental income | (708) | (819) |
| Stock compensation expense (income) | 8 | (64) |
| Loss (gain) on valuation of financial assets held-for-trading (Merchant banking account), net | 85 | (80) |
| Provision for (reversal of) possible loan losses (Merchant banking account), net | (315) | 43 |
| Reversal of unused credit limit (Merchant banking account) | 63 | 273 |
| Loss (gain) on valuation of CMA securities (Merchant banking account), net | 1 | (14) |
| | (367,233) | (290,068) |
| Changes in operating assets and liabilities: | | |
| Financial assets held-for-trading | 52,668 | (145,179) |
| Derivative assets held-for-trading | 330,774 | 199,499 |
| Derivative assets used for hedging purposes | 2,706 | 62 |
| Loans receivable | (3,973,009) | (881,303) |
| Other assets | (27,294) | (488,875) |
| Merchant banking account assets | 9,941 | 949,899 |
| Deposits | 1,142,389 | (979,298) |
| Derivative liabilities held-for-trading | (300,363) | (251,050) |
| Derivative liabilities used for hedging purposes | (4,180) | (897) |
| Pension benefits | (552) | (951) |
| Provisions | (4,157) | (3,133) |
| Other liabilities | 1,131,681 | (489,924) |
| Merchant banking account liabilities | 830,715 | 1,029,291 |
| | (808,681) | (1,061,859) |

(Continued)

**Korea Exchange Bank**
**Interim separate statements of cash flows**
**For the three-month periods ended March 31, 2014 and 2013**

(Korean won in millions)

| | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Cash received from operating activities: | | |
| Interest receipts | 885,810 | 935,310 |
| Dividend receipts | 27,162 | 3,271 |
| Income tax refunds | 26,763 | 6,580 |
| | 939,735 | 945,161 |
| Cash payment for operating activities | | |
| Interest payments | 406,222 | 466,892 |
| Payment of income tax | 26,156 | - |
| | (432,378) | (466,892) |
| **Net cash flows used in operating activities** | (592,201) | (843,076) |
| **Investing activities** | | |
| Cash inflow related to investing activities: | | |
| Decrease in restricted due from banks, net | - | 556,850 |
| Proceeds from disposal of available-for-sale financial assets | 3,005,565 | 1,055,564 |
| Proceeds from disposal of held-to-maturity investments | 730,000 | 237,076 |
| Proceeds from disposal of property and equipment | 5 | 35 |
| Proceeds from disposal of intangible assets | 627 | 297 |
| Decrease in guarantee deposits paid, net | 6,684 | - |
| Cash inflow related to lease | 693 | 1,523 |
| | 3,743,574 | 1,851,345 |
| Cash outflow related to investing activities: | | |
| Increase in restricted due from banks, net | 1,222,314 | - |
| Purchase of available-for-sale financial assets | 3,933,869 | 1,804,166 |
| Purchase of held-to-maturity investments | - | 40,720 |
| Acquisition of investments in subsidiaries | 26,607 | - |
| Acquisition of intangible assets | 2,083 | 1,795 |
| Acquisition of property and equipment | 4,921 | 7,486 |
| Increase in guarantee deposits paid, net | - | 2,071 |
| | (5,189,794) | (1,856,238) |
| **Net cash flows used in investing activities** | (1,446,220) | (4,893) |
| **Financing activities** | | |
| Cash inflow related to financing activities: | | |
| Increase in call money, net | 436,889 | 252,700 |
| Increase in bills sold, net | 11,709 | 8,283 |
| Increase in borrowings | 1,584,916 | 817,018 |
| Issuance of debentures | 149,880 | 837,978 |
| | 2,183,394 | 1,915,979 |

(Continued)

**Korea Exchange Bank**
**Interim separate statements of cash flows**
**For the three-month periods ended March 31, 2014 and 2013**

(Korean won in millions)

| | For the three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Cash outflow related to financing activities: | | |
| Decrease in borrowings | ₩ - | ₩ 652,880 |
| Redemption of debentures | 399,968 | 747,062 |
| Dividends paid | 77,433 | 32,244 |
| Dividends on hybrid equity securities | 6,951 | 4,563 |
| Redemption of hybrid equity securities | 250,000 | - |
| | (734,352) | (1,436,749) |
| **Net cash flows provided by financing activities** | 1,449,042 | 479,230 |
| **Net decrease in cash and cash equivalents** | (589,379) | (368,739) |
| **Cash and cash equivalents at the beginning of the period** | 3,528,905 | 3,552,314 |
| **Effect of exchange rate changes on cash and cash equivalents** | 89,856 | (37,021) |
| **Cash and cash equivalents at the end of the period** | ₩ 3,029,382 | ₩ 3,146,554 |

The accompanying notes are an integral part of the interim financial statements.

## 1. Bank information

Korea Exchange Bank (the "Bank") was established on January 30, 1967, as a government-invested bank which primarily engages in foreign exchange and trade finance business under the Korea Exchange Bank Act published on July 28, 1966. On December 30, 1989, the Korea Exchange Bank Act was repealed ,and the Bank was reorganized as a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, the Bank was listed on the Korean Stock Exchange. The merger between the Bank and the Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business as a result of the merger with Korea International Merchant Bank, a domestic subsidiary of the Bank, and other related operations as permitted under the Korea Exchange Bank Act, and other relevant laws, and regulations in the Republic of Korea. As at March 31, 2014, the Bank operates 350 branches (including 33 depositary offices) and 3 subsidiaries in the Republic of Korea and 23 branches (including 3 depositary offices and 6 offices) and 10 subsidiaries overseas.

As at March 31, 2014, the Bank is authorized to issue 1,000 million shares (at ₩5,000 per value) and has issued 644,906,826 ordinary shares amounting to ₩3,224,534 million in issued capital.

On April 5, 2013, the Bank became a wholly-owned subsidiary of Hana Financial Group resulting from a share-for-share exchange.

The accompanying interim separate financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual separate financial statements as at December 31.2013. Korea Exchange Bank is the parent company of its subsidiaries (collectively referred to as the Group) and that the consolidated financial statements of the Group prepared in accordance with KIFRS have been issued separately.

## 2. Basis of preparation

The Bank prepares statutory interim separate financial statements for the three-month period ended March 31, 2014 in accordance with *KIFRS 1034 Interim Financial Reporting* enacted by the Corporate External Audit Law.

The accompanying interim separate financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent accountants' review report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

## 3. Summary of significant accounting policies

The accounting policies adopted in the preparation of the interim separate financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended December 31, 2013, except for the adoption of new standards and interpretations as at January 1, 2014. The nature and impact of each new standard and amendment are described below:

***Investment Entities* (Amendments to *KIFRS 1110, KIFRS 1112 and KIFRS 1027*)**

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank since none of the entities in the Bank would qualify to be an investment entity under *KIFRS 1110*.

***KIFRS 1032 Offsetting Financial Assets and Financial Liabilities – Amendments***

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not expected to be relevant to the Bank.

***KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments***

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

**Recoverable Amount Disclosures for Non-Financial Assets – Amendments to *KIFRS 1036 Impairment of Assets***

These amendments remove the unintended consequences of *KIFRS 1113* on the disclosures required under *KIFRS 1036*. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are not expected to be relevant to the Bank.

***KIFRS 2121 Levies – Amendments***

*KIFRS 2121* clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Bank does not expect that *KIFRS 2121* will have material financial impact in future financial statements.

The Bank has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

## 3. Summary of significant accounting policies (cont'd)

### Revenue recognition

Interest income (expense)

Interest income (expense) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or interest expense over the relevant period.

Fee and commission income

Based on the purpose of the fee and commission and related accounting standards for financial instruments, fee and commission income are classified as and accounted for as follows:

| Classification | Details |
|---|---|
| Fee and commission composing effective income of the financial instruments | Accounted for as an adjustment to the effective interest rate |
| Fee and commission by rendering services | Recognized when the services are provided |
| Fee and commission by performing significant activities | Recognized when significant activities have been completed |

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

### Financial assets

Financial assets, except for those financial assets classified as at FVTPL which are initially measured at fair value, are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets. Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments are generally determined from a quoted price in an active market for identical financial assets or financial liabilities where these are available.

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss ("FVTPL"),' 'held-to-maturity investments,' 'available-for-sale financial assets,' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract with terms that require delivery of the financial asset within the period established by the market concerned.

3. **Summary of significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held-for-trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held-for-trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held-for-trading if:

- It has been acquired principally for the purpose of selling it in the near term,
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking, or,
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- In accordance with the Bank's documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, and performance is evaluated based on its fair value, and this information is provided internally on that basis, or,
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039 Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Available-for-sale financial assets

Non-derivative financial assets that are not classified as held-to-maturity, held-for-trading, designated at FVTPL, or loans and receivables are classified as available-for-sale financial assets.

Available-for-sale financial assets are subsequently measured at fair value at the closing date. Gains and losses arising from changes in fair value are recognized in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Dividends on available-for-sale equity securities are recognized in net income when the Bank's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the rate prevailing at the end of the reporting period. Available-for-sale non-monetary assets measured at amortized cost are translated with the exchange rate at the trade date, while assets measured at fair value are translated with the exchange rate when the fair value is determined.

Unquoted equity investments of which fair values cannot be measured reliably and derivative instruments which are related to the unquoted equity investments that will be settled by delivering those investments are carried at cost after deducting the amount of impairment losses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment, with income recognized on an effective yield basis.

Loans and receivables

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. 'Loans and receivables' are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized based on the application of the effective interest rate method, except for short-term receivables, when the recognition of interest would be immaterial.

Loans, due from banks, and guarantee money for business premise are classified as 'loans and receivables'.

Deferred loan origination fees ("LOF"s) and loan origination costs ("LOC"s)

The Bank defers LOF/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF/LOCs. The deferred LOF/LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, the impairment losses, expected as a result of future events, are not recognized.

For equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

Objective evidence that a financial asset is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor,
- A breach of contract, such as a default or delinquency in interest or principal payments,
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It is probable that the borrower will enter bankruptcy or other financial reorganization,
- The disappearance of an active market for the financial asset due to the financial difficulties,
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, or
- Significant changes that bring negative effects caused by the changes in the technology, market, economic, and legal environment where the issuer carries on business.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

Available-for-sale financial assets

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease for available-for-sale debt instruments can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

3. Significant accounting policies (cont'd)

Financial assets (cont'd)

Held-to-maturity investments

For held-to-maturity investments measured at amortized cost, impairment loss is measured based on the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events that occurred after recognition of impairment, the impairment loss previously recognized is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Loans and receivables

For loans and receivables measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The Bank first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (Individual assessment of impairment).

For financial assets that are not individually significant, the Bank assesses whether the objective evidence of impairment exists individually or collectively. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (Collective assessment of impairment).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognized based on the difference between the asset's carrying amount and the present value of future cash flows expected to be collected considering the borrower's management performance, financial position, overdue period, and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognized based on adjusting Probability of Default ("PD") and Loss Given Default ("LGD") according to Basel III for the purpose of accounting and applying to the carrying amount. Such approach considers various elements, including borrower type, credit rating, and size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the transfer of a partial financial asset is qualified for derecognition, the entire carrying amount of the transferred financial asset shall, between the portion which is derecognized and the portion which is still recognized, be apportioned according to their respective relative fair value. The difference between the amounts of (1) the book value of the portions that is derecognized and (2) the sum of consideration of the portion that is still recognized and the portion of the accumulated gain or loss recognized in other comprehensive income previously related to the portion that is derecognized are recognized as profit or loss of the current year..

Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Bank has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3. **Significant accounting policies (cont'd)**

**Financial liabilities and equity instruments (cont'd)**

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when the financial liability is either held-for-trading or designated at FVTPL.

A financial liability is classified as held-for-trading if:

- It has been acquired principally for the purpose of repurchase in the near term
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- In accordance with the Bank's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039, Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. In addition, the transaction costs incurred related to issuance upon initial recognition is recognized in net income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost based on the effective interest rate method, with interest expense recognized on an effective yield basis.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

## 3. Significant accounting policies (cont'd)

### Financial liabilities and equity instruments (cont'd)

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled, or expired. The difference between the paid price and the book value of a derecognized financial liability is recognized in net income for the period.

Hybrid equity securities

Hybrid securities are classified as an equity when all requirements for equity classification are satisfied in conformity with the contract terms.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at fair value and, if not designated at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with *KIFRS 1037, Provisions, Contingent Liabilities and Contingent Assets*
- The amount initially recognized, less cumulative amortization recognized in accordance with the *KIFRS 1018, Revenue*

### Fair values

Fair values of financial assets or liabilities are determined as follows:

- Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where they are available under standard requirements for transactions.
- For other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are taken from observable market data.
- The quoted market prices are used for derivatives if it is traded in an active market. All other derivatives of which quoted market price is not available are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis with option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using the yield curve derived from the interest rate corresponding to published future exchange rate and maturity.

## 3. Significant accounting policies (cont'd)

### Fair values (cont'd)

The Bank classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

| Classification | Details |
|---|---|
| (Level 1) | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| (Level 2) | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| (Level 3) | Inputs for the asset or liability that are not based on the observable market data (unobservable inputs) |

### Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship. The Bank designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable - forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

#### Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL.

#### Hedge accounting

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

## 3. Significant accounting policies (cont'd)

### Derivative financial instruments (cont'd)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument is expired or sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

Deferred Day 1 profit

The Bank assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally includes (i) elements that market participants consider in determination of prices and (ii) coincides with a theoretical methodology commonly used for determining the price of financial instruments.

However, the Bank defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology does not satisfy the above requirements.

Deferred Day 1 profit is recognized in net income for the period when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

### Investments in subsidiaries and associates

The Bank's financial statements are separate financial statements under *KIFRS 1027* and *1028*, accounting and presenting investments in subsidiaries and associates with cost method not based on investees' reported financial results and net assets, but based on direct interests. The Bank accounts for investments in subsidiaries and associates with cost method in accordance with *KIFRS 1027*. Dividends received from subsidiaries and associates are recognized in net income for the period when the right to receive dividends is determined.

### Foreign currencies

Functional currency and presentation currency

The individual financial statements of each branch are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial results and position of each branch are expressed in Korean won, which is the presentation currency of the Bank and the presentation currency for the separate financial statements.

**3. Significant accounting policies (cont'd)**

**Foreign currencies (cont'd)**

Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized based on the exchange rate prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognized in net income for the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (5) above for hedging accounting policies)
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment

Overseas branch

The Bank identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at foreign exchange rates at the end of each reporting date while the income and expenses are translated into Korean won at average exchange rates for the period unless it does not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising from the translation of a foreign operation are recognized directly in other comprehensive income and included in net income for the period on its liquidation.

**Retirement benefit costs**

For defined benefit plans, the cost of retirement benefits is measured by an actuary services Bank, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

## 3. Significant accounting policies (cont'd)

### Retirement benefit costs (cont'd)

The Bank enters into agreements such as retirement insurance, retirement trust, and retirement annuity in order to meet severance pay. The retirement benefit obligation recognized in the separate statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### Share-based payment

For equity-settled share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Bank with the choice of whether to settle in cash or by issuing equity instruments, the Bank shall determine whether it has a present obligation to settle in cash. If no obligation exists, it shall be accounted for in accordance with the requirements applying to equity-settled share-based transactions. However, if the Bank has a present obligation to settle in cash, it shall be accounted for in accordance with the requirements applying to cash-settled share-based transactions.

### Property and equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Bank and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

## 3. Significant accounting policies (cont'd)

### Property and equipment (cont'd)

Depreciation expense is computed using the depreciation method over the estimated useful lives of the assets as follows except for land which is not depreciated:

| Classification | Estimated useful life | Depreciation method |
|---|---|---|
| Buildings | 40 years | Straight-line |
| Leasehold improvements | 5 years | Straight-line |
| Equipment and vehicles | 4 years | Declining-balance |

Property and equipment are derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

### Investment property

Investment property is property held to earn rental income and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at depreciated cost. Gains and losses arising from changes in the fair value of investment property are included in net income for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated based on the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income for the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income for the period of the occurrence.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

**3. Significant accounting policies (cont'd)**

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the period of 5 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period and accounted for on a prospective basis in case there is effect from any changes in estimation. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

Expenditure on research activities is recognized as an expense for the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- The ability to reliably measure the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income for the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

## 3. Significant accounting policies (cont'd)

### Non-current assets held–for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

### Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. Reversal of an impairment loss is recognized immediately in net income for the period.

## 3. Significant accounting policies (cont'd)

### Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Bank does not recognize provisions for future operating losses.

The Bank recognizes provisions related to unused credit card points amount, guarantee and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are recognized as property and equipment. Decommissioning or restoration costs are provided at the present value of expected costs of restoration using future cash outflows.

### Accounting for trust accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Bank's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the Bank's accounts. Also, the borrowings from the Bank's accounts are recorded as due from trust accounts of the Bank's accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Bank's accounts and receiving compensation contributions from the Bank's accounts. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Bank's separate statements of profit or loss and other comprehensive income.

## 3. Significant accounting policies (cont'd)

### Merchant banking accounts

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from the Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of transaction based on the difference between the purchase prices and sales prices of the notes, adjusted for interest earned during the holding period.

Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

### Income tax expenses

Income tax consists of current tax and deferred tax.

Current tax liabilities are calculated based on the taxable profit for the year. Taxable profit differs from profit as reported in the separate statements of profit or loss and other comprehensive income because taxable profit excludes items taxable or deductible for different tax years or not taxable or deductible permanently. The Bank's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Bank has adopted a Consolidated Tax Return which is calculated based on the consolidated taxable income since the Bank became a wholly-owned subsidiary of Hana Financial Group. Under the Consolidated Tax Return, the Bank recognizes the amount to be collected from or to be paid to Hana Financial Group as the current tax assets or liabilities, respectively, for its share of the consolidated taxation.

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

## 3. Significant accounting policies (cont'd)

### Income tax expenses (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 4. Estimation and accounting judgment

In the application of the Bank's accounting policies described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

## 4. Estimation and accounting judgment (cont'd)

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

### Determination of fair values

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors, assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

### Allowance for possible losses on credits

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by observing assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees/unused credit limit liabilities calculated using collective method.

### Measurement of defined benefit obligation

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term.

## 5. Fair value measurement of financial assets and liabilities

The standards the Bank applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.
B. If a market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.
D. For an investment in equity instruments which quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

Fair value hierarchy of financial instruments measured at fair value as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 99,682 | ₩ 62,702 | ₩ - | ₩ 162,384 |
| Equity securities | 37,749 | - | - | 37,749 |
| Derivative assets held-for-trading | 22 | 1,009,581 | 653 | 1,010,256 |
| | 137,453 | 1,072,283 | 653 | 1,210,389 |
| Derivative assets used for hedging purposes | - | 20,662 | - | 20,662 |
| Available-for-sale financial assets | | | | |
| Debt securities | 4,244,219 | 5,106,913 | 22,047 | 9,373,179 |
| Equity securities | 465,929 | - | 223,593 | 689,522 |
| Others | - | - | 12,787 | 12,787 |
| | 4,710,148 | 5,106,913 | 258,427 | 10,075,488 |
| | ₩ 4,847,601 | ₩ 6,199,858 | ₩ 259,080 | ₩ 11,306,539 |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 986,413 | ₩ - | ₩ 986,413 |
| Derivative liabilities used for hedging purposes | - | 8,382 | - | 8,382 |
| | ₩ - | ₩ 994,795 | ₩ - | ₩ 994,795 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | December 31, 2013 Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 199,200 | ₩ 39,400 | ₩ - | ₩ 238,600 |
| Equity securities | 12,776 | - | - | 12,776 |
| Derivative assets held-for-trading | - | 1,354,277 | 1,080 | 1,355,357 |
| | 211,976 | 1,393,677 | 1,080 | 1,606,733 |
| Derivative assets used for hedging purposes | - | 23,070 | - | 23,070 |
| Available-for-sale financial assets | | | | |
| Debt securities | 2,661,212 | 5,545,883 | 21,197 | 8,228,292 |
| Equity securities | 671,973 | - | 247,841 | 919,814 |
| Others | - | - | 7,602 | 7,602 |
| | 3,333,185 | 5,545,883 | 276,640 | 9,155,708 |
| | ₩ 3,545,161 | ₩ 6,962,630 | ₩ 277,720 | ₩ 10,785,511 |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ 20 | ₩ 1,286,747 | ₩ - | ₩ 1,286,767 |
| Derivative liabilities used for hedging purposes | - | 12,562 | - | 12,562 |
| | ₩ 20 | ₩ 1,299,309 | ₩ - | ₩ 1,299,329 |

Details of inputs used in fair value, valuation technique, and measurement of fair value classified into level 2 among financial assets and liabilities, currently measured at fair value as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 Fair value | Valuation technique | Inputs |
|---|---|---|---|
| Financial assets: | | | |
| Financial assets at FVTPL | | | |
| Debt securities | ₩ 62,702 | DCF model | Discount rate |
| Derivative assets held-for-trading | 1,009,581 | DCF, Option model | Discount rate, volatility, exchange rate, stock price, etc. |
| | 1,072,283 | | |
| Derivative assets used for hedging purposes | 20,662 | DCF model | Discount rate, exchange rate, etc |
| Available-for-sale financial assets | | | |
| Debt securities | 5,106,913 | DCF model | Discount rate |
| | ₩ 6,199,858 | | |
| Financial liabilities: | | | |
| Financial liabilities at FVTPL | ₩ 986,413 | DCF model | Discount rate, volatility, exchange rate, stock price, etc |
| Derivative liabilities used for hedging purposes | 8,382 | DCF model | Discount rate, exchange rate, etc |
| | ₩ 994,795 | | |

### 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | | December 31, 2013 Fair value | Valuation technique | Inputs |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ | 39,400 | DCF model | Discount rate |
| Derivative assets held-for-trading | | 1,354,277 | DCF, Option model | Discount rate, volatility, exchange rate, stock price, etc. |
| | | 1,393,677 | | |
| Derivative assets used for hedging purposes | | 23,070 | DCF model | Discount rate, exchange rate, etc |
| Available-for-sale financial assets | | | | |
| Debt securities | | 5,545,883 | DCF model | Discount rate |
| | ₩ | 6,962,630 | | |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ | 1,286,747 | DCF model | Discount rate, volatility, exchange rate, stock price, etc |
| Derivative liabilities used for hedging purposes | | 12,562 | DCF model | Discount rate, exchange rate, etc |
| | ₩ | 1,299,309 | | |

Description of inputs used in fair value, valuation technique, measurement of fair value, and inputs that are significant but unobservable classified into level 3 among financial assets and liabilities currently measured at fair value as at March 31, 2014 and December 31, 2013 is as follows(Korean won in millions):

| Classification | | March 31, 2014 Fair value | Valuation technique | Inputs | Significant unobservable inputs | Range | Sensitivity of the input to fair value |
|---|---|---|---|---|---|---|---|
| Financial assets: | | | | | | | |
| Financial assets at FVTPL | | | | | | | |
| Derivative assets held-for-trading | ₩ | 653 | Binomial model | Risk free rate, volatility of stock price | Volatility of stock price | 6.80%~ 32.50% | Fair value increased due to the increase in its volatility |
| Available-for-sale financial assets | | | | | | | |
| Debt securities | | 22,047 | NAV model | (*1) | - | - | Fair value increased due to the increase in the value of portfolio |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | Fair value | Valuation technique | Inputs | Significant unobservable inputs | Range | Sensitivity of the input to fair value |
|---|---|---|---|---|---|---|
| | March 31, 2014 | | | | | |
| Equity securities | 223,593 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 7.46% ~20.77 % | Fair value increased due to the decrease in its discount rate |
| | | | Growth rate | Growth rate | 0% | Fair value increased due to the increase in its growth rate |
| Others | 12,787 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 6.46%~ 13.81% | Fair value increased due to the decrease in its discount rate |
| | | | Bid rate | Bid rate | 55.12% | Fair value increased due to the increase in its bid rate |
| | 258,427 | | | | | |
| | ₩ 259,080 | | | | | |

(*1) The Company used soundness of individual assets composing portfolio as inputs.

| Classification | Fair value | Valuation technique | Inputs | Significant unobservable inputs | Range | Sensitivity of the input to fair value |
|---|---|---|---|---|---|---|
| | December 31, 2013 | | | | | |
| Financial assets: | | | | | | |
| Financial assets at FVTPL | | | | | | |
| Derivative assets held-for-trading | ₩ 1,080 | Binomial model | Risk free rate, volatility of stock price | Volatility of stock price | 33.25% | Fair value increased due to the increase in its volatility |
| Available-for-sale financial assets | | | | | | |
| Debt securities | 21,197 | NAV Method | (*1) | | | Fair value increased due to the increase in the value of portfolio |
| Equity securities | 247,841 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 7.46% ~ 20.77% | Fair value increased due to the decrease in its discount rate |
| | | | Growth rate | Growth rate | 0% | Fair value increased due to the decrease in its growth rate |

5. **Fair value measurement of financial assets and liabilities (cont'd)**

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs | Significant unobservable inputs | Range | Sensitivity of the input to fair value |
| Others | 7,602 | DCF Method, comparative on similar business, risk adjusted discount rate method | Discount rate | Discount rate | 6.46% | Fair value increased due to the decrease in its discount rate |
| | | | Bid rate | Bid rate | 55.12 % | Fair value increased due to the decrease in its bid rate |
| | 276,640 | | | | | |
| | ₩ 277,720 | | | | | |

(*1) The Company used soundness of individual assets composing portfolio as inputs.

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Changes in the fair value of Level 3 financial instruments measured at fair value for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/into | | | | Valuation | | | |
| Classification | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Profit (loss) | Other comprehend-sive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 1,080 | ₩ - | ₩ - | ₩ 605 | ₩ - | ₩ (1,032) | ₩ - | ₩ - | ₩ 653 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 21,197 | - | - | - | - | 271 | 579 | - | 22,047 |
| Equity securities | 247,841 | - | 18,672 | 2,918 | (1,229) | (38,736) | (5,873) | - | 223,593 |
| Others | 7,602 | - | - | 5,229 | - | - | (44) | - | 12,787 |
| | 276,640 | - | 18,672 | 8,147 | (1,229) | (38,465) | (5,338) | - | 258,427 |
| | ₩ 277,720 | ₩ - | ₩ 18,672 | ₩ 8,752 | ₩ (1,229) | ₩ (39,497) | ₩ (5,338) | ₩ - | ₩ 259,080 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | Year ended December 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/into | | | | Valuation | | | |
| | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Loss | Other comprehens -ive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 10,156 | ₩ - | ₩ - | ₩ 775 | ₩ (7,924) | ₩ (1,927) | ₩ - | ₩ - | ₩ 1,080 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 21,491 | - | - | - | - | (317) | 23 | - | 21,197 |
| Equity securities | 515,277 | (293,889) | | 70,493 | (12,313) | (22,887) | (7,235) | (1,605) | 247,841 |
| Others | - | - | - | 7,288 | - | - | 314 | - | 7,602 |
| | 536,768 | (293,889) | - | 77,781 | (12,313) | (23,204) | (6,898) | (1,605) | 276,640 |
| | ₩ 546,924 | ₩ (293,889) | ₩ - | ₩ 78,556 | ₩ (20,237) | ₩ (25,131) | ₩ (6,898) | ₩ (1,605) | ₩ 277,720 |
| Financial liabilities: | | | | | | | | | |
| Financial liabilities at FVTPL | ₩ 171 | ₩ - | ₩ - | ₩ - | ₩ (294) | ₩ 123 | ₩ - | ₩ - | ₩ - |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Total gains or losses recognized in profit or loss of changes in level 3 financial instruments measured at fair value for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Classification | Total gains or losses recognized in profit or loss | The line item in profit or loss in which those gains or losses are recognized | Total gains or losses recognized in profit or loss | The line item in profit or loss in which those gains or losses are recognized |
| Loss on financial assets at FVTPL | ₩ (1,032) | ₩ (1,032) | ₩ (733) | ₩ (733) |
| Other gain on financial instruments | 1,360 | 271 | 7,285 | 823 |
| Impairment loss on financial instruments | (39,825) | (39,824) | (1,166) | (1,166) |
| | ₩ (39,497) | ₩ (40,585) | ₩ 5,386 | ₩ (1,076) |

Details of the amounts of any transfers into or out of level 3 of the fair value hierarchy for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Transfers out of level 3 into level 1 | ₩ - | ₩ 293,889 |
| Transfers out of level 1 into level 3 | 18,672 | - |

### 5. Fair value measurement of financial assets and liabilities (cont'd)

Fair value hierarchy of financial instruments for items disclosed but not measured at fair value as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Cash and due from banks (*1) | ₩ 1,684,620 | ₩ 5,684,254 | ₩ - | ₩ 7,368,874 |
| Held-to-maturity investments | 591,625 | 875,818 | - | 1,467,443 |
| Loans receivable | - | - | 73,513,599 | 73,513,599 |
| Other financial assets | - | - | 9,182,204 | 9,182,204 |
| Merchant banking account assets | - | - | 2,709,782 | 2,709,782 |
| | ₩ 2,276,245 | ₩ 6,560,072 | ₩ 85,405,585 | ₩ 94,241,902 |
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 66,839,417 | ₩ 66,839,417 |
| Borrowings | - | - | 8,550,467 | 8,550,467 |
| Debentures | - | 6,539,467 | - | 6,539,467 |
| Other financial liabilities | - | - | 13,638,133 | 13,638,133 |
| Merchant banking account liabilities | - | - | 2,510,080 | 2,510,080 |
| | ₩ - | ₩ 6,539,467 | ₩ 91,538,097 | ₩ 98,077,564 |

(*1) Fair value of level 2 is measured at book value, presuming that the book value is the reasonable value for the fair value measurement.

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Cash and due from banks (*1) | ₩ 1,680,759 | ₩ 4,965,324 | ₩ - | ₩ 6,646,083 |
| Held-to-maturity investments | 1,163,811 | 1,036,671 | - | 2,200,482 |
| Loans receivable | - | - | 69,610,227 | 69,610,227 |
| Other financial assets | - | - | 6,533,731 | 6,533,731 |
| Merchant banking account assets | - | - | 2,717,717 | 2,717,717 |
| | ₩ 2,844,570 | ₩ 6,001,995 | ₩ 78,861,675 | ₩ 87,708,240 |
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 65,685,740 | ₩ 65,685,740 |
| Borrowings | - | - | 6,526,554 | 6,526,554 |
| Debentures | - | 6,748,339 | - | 6,748,339 |
| Other financial liabilities | - | - | 9,867,626 | 9,867,626 |
| Merchant banking account liabilities | - | - | 1,679,336 | 1,679,336 |
| | ₩ - | ₩ 6,748,339 | ₩ 83,759,256 | ₩ 90,507,595 |

(*1) Fair value of level 2 is measured at book value, presuming that the book value is the reasonable value for the fair value measurement.

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Details of inputs used in fair value, valuation technique, and measurement of fair value that are classified into level 2 among financial assets and liabilities not measured but disclosed at fair value as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | | Fair value | Valuation technique | Inputs |
| Financial assets: | | | | |
| Cash and due from banks | ₩ | 5,684,254 | DCF model | Discount rate |
| Held-to-maturity investments | | 875,818 | DCF model | Discount rate |
| | ₩ | 6,560,072 | | |
| Financial liabilities: | | | | |
| Debentures | ₩ | 6,539,467 | DCF model | Discount rate |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | | Fair value | Valuation technique | Inputs |
| Financial assets: | | | | |
| Cash and due from banks | ₩ | 4,965,324 | DCF model | Discount rate |
| Held-to-maturity investments | | 1,036,671 | DCF model | Discount rate |
| | ₩ | 6,001,995 | | |
| Financial liabilities: | | | | |
| Debentures | ₩ | 6,748,339 | DCF model | Discount rate |

Details of inputs used in fair value, valuation technique, and measurement of fair value that are classified into level 3 among financial assets and liabilities disclosed but not measured at fair value as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | | Fair value | Valuation technique | Inputs |
| Financial assets: | | | | |
| Loans receivable | ₩ | 73,513,599 | DCF model | Discount rate |
| Other financial assets | | 9,182,204 | DCF model | Discount rate |
| Merchant banking account assets | | 2,709,782 | DCF model | Discount rate |
| | ₩ | 85,405,585 | | |
| Financial liabilities: | | | | |
| Deposits | ₩ | 66,839,417 | DCF model | Discount rate |
| Borrowings | | 8,550,467 | DCF model | Discount rate |
| Other financial liabilities | | 13,638,133 | DCF model | Discount rate |
| Merchant banking account liabilities | | 2,510,080 | DCF model | Discount rate |
| | ₩ | 91,538,097 | | |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | December 31, 2013 | | | |
|---|---|---|---|---|
| | | Fair value | Valuation technique | Inputs |
| Financial assets: | | | | |
| Loans receivable | ₩ | 69,610,227 | DCF model | Discount rate |
| Other financial assets | | 6,533,731 | DCF model | Discount rate |
| Merchant banking account assets | | 2,717,717 | DCF model | Discount rate |
| | ₩ | 78,861,675 | | |
| Financial liabilities: | | | | |
| Deposits | ₩ | 65,685,740 | DCF model | Discount rate |
| Borrowings | | 6,526,554 | DCF model | Discount rate |
| Other financial liabilities | | 9,867,626 | DCF model | Discount rate |
| Merchant banking account liabilities | | 1,679,336 | DCF model | Discount rate |
| | ₩ | 83,759,256 | | |

## 6. Fair value of financial instruments

Fair values of financial instruments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Book value | | Fair value | | Book value | | Fair value |
| Financial assets: | | | | | | | | |
| Cash and due from banks | ₩ | 7,368,874 | ₩ | 7,368,874 | ₩ | 6,646,083 | ₩ | 6,646,083 |
| Financial assets at FVTPL | | | | | | | | |
| Debt securities | | 162,384 | | 162,384 | | 238,600 | | 238,600 |
| Equity securities | | 37,749 | | 37,749 | | 12,776 | | 12,776 |
| Derivative assets held-for-trading | | 1,010,256 | | 1,010,256 | | 1,355,357 | | 1,355,357 |
| | | 1,210,389 | | 1,210,389 | | 1,606,733 | | 1,606,733 |
| Derivative assets used for hedging purposes | | 20,662 | | 20,662 | | 23,070 | | 23,070 |
| Available-for-sale financial assets | | | | | | | | |
| Debt securities | | 9,373,179 | | 9,373,179 | | 8,228,292 | | 8,228,292 |
| Equity securities | | 689,522 | | 689,522 | | 919,814 | | 919,814 |
| Other | | 12,787 | | 12,787 | | 7,602 | | 7,602 |
| | | 10,075,488 | | 10,075,488 | | 9,155,708 | | 9,155,708 |
| Held-to-maturity investments | | 1,463,844 | | 1,467,443 | | 2,195,558 | | 2,200,482 |
| Loans receivable (*1) | | 73,518,188 | | 73,513,599 | | 69,711,992 | | 69,610,227 |
| Other financial assets (*2) | | 9,180,262 | | 9,182,204 | | 6,531,875 | | 6,533,731 |
| Merchant banking account assets (*3) | | 2,706,123 | | 2,709,782 | | 2,715,835 | | 2,717,717 |
| | ₩ | 105,543,830 | ₩ | 105,548,441 | ₩ | 98,586,854 | ₩ | 98,493,751 |

## 6. Fair value of financial instruments (cont'd)

Fair values of financial instruments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 Book value | March 31, 2014 Fair value | December 31, 2013 Book value | December 31, 2013 Fair value |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Deposits | ₩ 66,323,111 | ₩ 66,839,417 | ₩ 65,135,250 | ₩ 65,685,740 |
| Financial liabilities at FVTPL | 986,413 | 986,413 | 1,286,767 | 1,286,767 |
| Derivative liabilities used for hedging purposes | 8,382 | 8,382 | 12,562 | 12,562 |
| Borrowings | 8,544,695 | 8,550,467 | 6,520,691 | 6,526,554 |
| Debentures | 6,364,109 | 6,539,467 | 6,582,000 | 6,748,339 |
| Other financial liabilities (*4) | 13,638,551 | 13,638,133 | 9,868,152 | 9,867,626 |
| Merchant banking account liabilities (*5) | 2,510,080 | 2,510,080 | 1,679,336 | 1,679,336 |
| | ₩ 98,375,341 | ₩ 99,072,359 | ₩ 91,084,758 | ₩ 91,806,924 |

(*1) Net carrying amount after deduction of allowance for possible loan losses and LOF/LOC
(*2) Including receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances, including merchant banking loans, merchant banking account trading securities, and CMA assets
(*4) Including payables spot exchange, domestic exchange settlement credit, trust accounts payable etc.
(*5) Including merchant banking account deposits

## 7. Classification of financial assets and liabilities by category

Financial assets and liabilities by category as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 7,368,874 | ₩ - | ₩ 7,368,874 |
| Financial assets at FVTPL | 1,210,389 | - | - | - | - | 1,210,389 |
| Derivative assets used for hedging purposes | - | - | - | - | 20,662 | 20,662 |
| Available-for-sale financial assets | - | 10,075,488 | - | - | - | 10,075,488 |
| Held-to-maturity investments | - | - | 1,463,844 | - | - | 1,463,844 |
| Loans receivable | - | - | - | 73,518,188 | - | 73,518,188 |
| Other financial assets | - | - | - | 9,180,262 | - | 9,180,262 |
| Merchant banking account assets | - | - | - | 2,706,123 | - | 2,706,123 |
| | ₩ 1,210,389 | ₩ 10,075,488 | ₩ 1,463,844 | ₩ 92,773,447 | ₩ 20,662 | ₩ 105,543,830 |

## 7. Classification of financial assets and liabilities by category (cont'd)

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 66,323,111 | ₩ - | ₩ 66,323,111 |
| Financial liabilities at FVTPL | 986,413 | - | - | - | - | 986,413 |
| Derivative liabilities used for hedging purposes | - | - | - | - | 8,382 | 8,382 |
| Borrowings | - | - | - | 8,544,695 | - | 8,544,695 |
| Debentures | - | - | - | 6,364,109 | - | 6,364,109 |
| Other financial liabilities | - | - | - | 13,638,551 | - | 13,638,551 |
| Merchant banking liabilities | - | - | - | 2,510,080 | - | 2,510,080 |
| | ₩ 986,413 | ₩ - | ₩ - | ₩ 97,380,546 | ₩ 8,382 | ₩ 98,375,341 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 6,646,083 | ₩ - | ₩ 6,646,083 |
| Financial assets at FVTPL | 1,606,733 | - | - | - | - | 1,606,733 |
| Derivative assets used for hedging purposes | - | - | - | - | 23,070 | 23,070 |
| Available-for-sale financial assets | - | 9,155,708 | - | - | - | 9,155,708 |
| Held-to-maturity investments | - | - | 2,195,558 | - | - | 2,195,558 |
| Loans receivable | - | - | - | 69,711,992 | - | 69,711,992 |
| Other financial assets | - | - | - | 6,531,875 | - | 6,531,875 |
| Merchant banking account assets | - | - | - | 2,715,835 | - | 2,715,835 |
| | ₩ 1,606,733 | ₩ 9,155,708 | ₩ 2,195,558 | ₩ 85,605,785 | ₩ 23,070 | ₩ 98,586,854 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 65,135,250 | ₩ - | ₩ 65,135,250 |
| Financial liabilities at FVTPL | 1,286,767 | - | - | - | - | 1,286,767 |
| Derivative liabilities used for hedging purposes | - | - | - | - | 12,562 | 12,562 |
| Borrowings | - | - | - | 6,520,691 | - | 6,520,691 |
| Debentures | - | - | - | 6,582,000 | - | 6,582,000 |
| Other financial liabilities | - | - | - | 9,868,152 | - | 9,868,152 |
| Merchant banking liabilities | - | - | - | 1,679,336 | - | 1,679,336 |
| | ₩ 1,286,767 | ₩ - | ₩ - | ₩ 89,785,429 | ₩ 12,562 | ₩ 91,084,758 |

## 8. Risk management

The Bank's risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management group which is composed of risk management group (integrated risk management division ,credit risk management division, loan review division, and treasury settlement division).

Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors. The committee deliberates and determines major issues such as risk management policies and strategies and risk tolerance limit. Risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Bank distributes economic capital limits by risk and business sector for the purpose of assessment for reasonableness of economic capital. In addition, the Bank retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of economic capital.

The Bank classifies risks as significant risks and residual risks.

- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined economic capital. The Bank consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports this information to the management.

The Bank defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level of economic capital. It regularly assesses and manages the reasonableness of economic capital by comparing available capital and combined internal capital. Economic capital as a capital buffer is determined by the risk management committee so as to prepare for additional possibility of losses, emergency situations, and incompleteness of information systems and fluctuation of available capital and strictly managed by a risk propensity index.

In addition, the Bank assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate regulated by the Financial Supervisory Service on a semi-annual basis.

The Bank efficiently manages through preparing principles for assessment and management in order to maximize shareholders' profits and constructs a combined risk management system considering risks, profits and growth.

8. Risk management (cont'd)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that cause damage to the Bank's soundness by improving assets soundness through setup of credit ratings, credit screening, quantifying and managing credit risks on a regular basis.

The Bank implements a system that divides and operates marketing and screening for management purpose. It also employs a total exposure limit system for solving weighted credits and hedging risks and an early alert system for monitoring an insolvent company and establishing countermeasures.

The Bank measures expected losses and unexpected losses separately. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses computed through advanced internal ratings-based approach ("AIRB") under the Bank for International Settlements ("BIS") Basel III.

The Bank's level of exposure to credit risk as at March 31, 2014 and December 31, 2013 is summarized as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| On balance: | | |
| Due from banks | ₩ 5,684,254 | ₩ 4,965,324 |
| Financial assets at FVTPL | 1,172,640 | 1,593,957 |
| Derivative assets used for hedging purposes | 20,662 | 23,070 |
| Available-for-sale financial assets | 9,373,179 | 8,228,292 |
| Held-to-maturity investments | 1,463,844 | 2,195,558 |
| Loans receivable | | |
| Household loans | 21,202,740 | 21,937,961 |
| Corporate loans | | |
| Large business | 23,479,226 | 21,642,856 |
| Small and medium business | 18,481,934 | 17,384,827 |
| Public sector and others | 7,756,044 | 6,183,333 |
| Credit card loans | 2,598,244 | 2,563,015 |
| | 73,518,188 | 69,711,992 |
| Other financial assets | 9,180,262 | 6,531,875 |
| Merchant banking account assets | 2,706,123 | 2,715,835 |
| | ₩ 103,119,152 | ₩ 95,965,903 |
| Off balance: | | |
| Loans and credit commitments | ₩ 56,733,225 | ₩ 58,673,350 |
| Guarantees and endorsed notes | 17,511,819 | 16,572,177 |
| | ₩ 74,245,044 | ₩ 75,245,527 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | Mach 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 856,362 | ₩ - | ₩ 856,362 | ₩ 507,623 | ₩ 14,083 | ₩ 334,656 |
| Repurchase agreement | 640,000 | - | 640,000 | - | 640,000 | - |
| Domestic exchange settlement credits | 9,857,282 | 8,792,008 | 1,065,274 | - | - | 1,065,274 |
| Securities lent | 310,616 | - | 310,616 | - | 310,616 | - |
| | ₩ 11,664,260 | ₩ 8,792,008 | ₩ 2,872,252 | ₩ 507,623 | ₩ 964,699 | ₩ 1,399,930 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 1,137,950 | ₩ - | ₩ 1,137,950 | ₩ 645,996 | ₩ 57,818 | ₩ 434,136 |
| Repurchase agreement | 700,000 | - | 700,000 | - | 700,000 | - |
| Domestic exchange settlement credits | 10,101,204 | 8,904,778 | 1,196,426 | - | - | 1,196,426 |
| Securities lent | 229,920 | - | 229,920 | - | 229,920 | - |
| | ₩ 12,169,074 | ₩ 8,904,778 | ₩ 3,264,296 | ₩ 645,996 | ₩ 987,738 | ₩ 1,630,562 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 687,892 | ₩ - | ₩ 687,892 | ₩ 507,623 | ₩ 12,259 | ₩ 168,010 |
| Repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 9,708,817 | 8,792,008 | 916,809 | - | 916,809 | - |
| | ₩ 10,396,899 | ₩ 8,792,008 | ₩ 1,604,891 | ₩ 507,813 | ₩ 929,068 | ₩ 168,010 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 852,350 | ₩ - | ₩ 852,350 | ₩ 645,996 | ₩ 4,620 | ₩ 201,734 |
| Repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 9,879,019 | 8,904,777 | 974,242 | - | 974,242 | - |
| | ₩ 10,731,559 | ₩ 8,904,777 | ₩ 1,826,782 | ₩ 646,186 | ₩ 978,862 | ₩ 201,734 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of collateral management and credit risk mitigation as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 144,646 | ₩ 41,325 | ₩ 8,291 | ₩ 6,271,584 | ₩ 6,465,846 |
| Deposit | 90 | 2,469 | 681 | 956,936 | 960,176 |
| Movable assets | - | - | - | 2,096 | 2,096 |
| Real estate | 140,987 | 79,852 | 30,342 | 20,519,753 | 20,770,934 |
| Securities | 55,642 | 3,658 | 589 | 2,297,504 | 2,357,393 |
| Others | - | - | - | 4,017 | 4,017 |
| | ₩ 341,365 | ₩ 127,304 | ₩ 39,903 | ₩ 30,051,890 | ₩ 30,560,462 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 139,355 | ₩ 50,282 | ₩ 7,793 | ₩ 5,266,319 | ₩ 5,463,749 |
| Deposit | 6,751 | 691 | 275 | 1,034,076 | 1,041,793 |
| Movable assets | - | - | - | 518 | 518 |
| Real estate | 146,562 | 87,525 | 19,833 | 20,156,981 | 20,410,901 |
| Securities | 22,857 | 2,057 | 34 | 2,123,179 | 2,148,127 |
| Others | - | - | - | 3,825 | 3,825 |
| | ₩ 315,525 | ₩ 140,555 | ₩ 27,935 | ₩ 28,584,898 | ₩ 29,068,913 |

Details of delinquency rates on loans and receivable as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Neither past due nor impaired | ₩ 21,073,924 | ₩ 23,106,174 | ₩ 18,374,596 | ₩ 7,710,516 | ₩ 2,563,017 | ₩ 72,828,227 |
| Past due but unimpaired | 29,465 | 2,997 | 16,463 | 38,641 | 64,001 | 151,567 |
| Impaired | 122,318 | 658,758 | 327,596 | 42,337 | 64,930 | 1,215,939 |
| | 21,225,707 | 23,767,929 | 18,718,655 | 7,791,494 | 2,691,948 | 74,195,733 |
| Deferred loan fees | 40,193 | (9,346) | 1,277 | 683 | (52) | 32,755 |
| Allowance for possible loan losses | (63,160) | (279,357) | (237,998) | (36,133) | (93,652) | (710,300) |
| | ₩ 21,202,740 | ₩ 23,479,226 | ₩ 18,481,934 | ₩ 7,756,044 | ₩ 2,598,244 | ₩ 73,518,188 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Household loans | Corporate loans: Large business | Corporate loans: Small and medium business | Corporate loans: Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | December 31, 2013 | | | | | |
| Neither past due nor impaired | ₩ 21,791,186 | ₩ 21,188,911 | ₩ 17,292,368 | ₩ 6,165,660 | ₩ 2,521,564 | ₩ 68,959,689 |
| Past due but unimpaired | 20,364 | - | 9,157 | 11,343 | 65,941 | 106,805 |
| Impaired | 134,667 | 725,189 | 321,678 | 37,631 | 62,028 | 1,281,193 |
| | 21,946,217 | 21,914,100 | 17,623,203 | 6,214,634 | 2,649,533 | 70,347,687 |
| Deferred loan fees | 44,778 | (10,140) | 2,647 | 690 | (81) | 37,894 |
| Allowance for possible loan losses | (53,034) | (261,104) | (241,023) | (31,991) | (86,437) | (673,589) |
| | ₩ 21,937,961 | ₩ 21,642,856 | ₩ 17,384,827 | ₩ 6,183,333 | ₩ 2,563,015 | ₩ 69,711,992 |

Delinquency occurs when counterparty is unable to make principle and interest payments at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, and damages incurred due to poor exposure.

Details on loans with no impairment or overdue payments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Household Loans | Corporate loans: Large business | Corporate loans: Small and medium business | Corporate loans: Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | March 31, 2014 | | | | | |
| Grade 1 | ₩ 15,473,531 | ₩ 16,843,053 | ₩ 4,285,470 | ₩ 2,650,384 | ₩ 772,924 | ₩ 40,025,362 |
| Grade 2 | 5,481,377 | 5,349,422 | 11,778,332 | 3,454,119 | 1,705,363 | 27,768,613 |
| Grade 3 | 119,016 | 913,699 | 2,310,794 | 1,494,106 | 84,729 | 4,922,344 |
| Others | - | - | - | 111,907 | 1 | 111,908 |
| | ₩ 21,073,924 | ₩ 23,106,174 | ₩ 18,374,596 | ₩ 7,710,516 | ₩ 2,563,017 | ₩ 72,828,227 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household Loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Grade 1 | ₩ 16,631,074 | ₩ 15,409,446 | ₩ 4,695,671 | ₩ 2,133,860 | ₩ 705,912 | ₩ 39,575,963 |
| Grade 2 | 5,074,289 | 4,964,998 | 10,191,057 | 2,924,913 | 1,733,277 | 24,888,534 |
| Grade 3 | 85,823 | 814,467 | 2,405,640 | 934,678 | 82,369 | 4,322,977 |
| Others | - | - | - | 172,209 | 6 | 172,215 |
| | ₩ 21,791,186 | ₩ 21,188,911 | ₩ 17,292,368 | ₩ 6,165,660 | ₩ 2,521,564 | ₩ 68,959,689 |

The Bank classifies the grades of loans in accordance with the credit rating chart below, based on the characteristics of borrowers

| Classification | Household loans / Credit card loans | Corporate loans |
|---|---|---|
| Grade 1 | Less or equal to 0.36% of PD | 1 ~ 4 |
| Grade 2 | From 0.36% to 8.79% of PD | 5+ ~ 6 |
| Grade 3 | From 8.79% to 100% of PD | 6- ~ 7 |

The Bank regards loans and receivable with delinquent payments of less than 90 days as unimpaired in case there is no credit information indicating its loss event. Classes of unimpaired loans and receivable with delinquent payments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 17,871 | ₩ 2,997 | ₩ 11,436 | ₩ 474 | ₩ 49,301 | ₩ 82,079 |
| 31 to 60 days | 10,072 | - | 3,761 | 109 | 8,613 | 22,555 |
| 61 to 90 days | 1,522 | - | 1,266 | 38,058 | 6,087 | 46,933 |
| | ₩ 29,465 | ₩ 2,997 | ₩ 16,463 | ₩ 38,641 | ₩ 64,001 | ₩ 151,567 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 11,847 | ₩ - | ₩ 6,802 | ₩ 387 | ₩ 52,233 | ₩ 71,269 |
| 31 to 60 days | 6,048 | - | 1,641 | 161 | 7,494 | 15,344 |
| 61 to 90 days | 2,469 | - | 714 | 10,795 | 6,214 | 20,192 |
| | ₩ 20,364 | ₩ - | ₩ 9,157 | ₩ 11,343 | ₩ 65,941 | ₩ 106,805 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Classes of impaired loans and receivable as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ - | ₩ 655,814 | ₩ 253,176 | ₩ 34,996 | ₩ - | ₩ 943,986 |
| Allowance for possible loan losses | - | (173,466) | (86,650) | (5,236) | - | (265,352) |
| | - | 482,348 | 166,526 | 29,760 | - | 678,634 |
| Collective impairment: | | | | | | |
| Book value | 122,318 | 2,944 | 74,420 | 7,341 | 64,930 | 271,953 |
| Allowance for possible loan losses | (31,767) | (583) | (28,265) | (1,179) | (51,862) | (113,656) |
| | 90,551 | 2,361 | 46,155 | 6,162 | 13,068 | 158,297 |
| | ₩ 90,551 | ₩ 484,709 | ₩ 212,681 | ₩ 35,922 | ₩ 13,068 | ₩ 836,931 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ - | ₩ 721,806 | ₩ 260,493 | ₩ 30,547 | ₩ - | ₩ 1,012,846 |
| Allowance for possible loan losses | - | (195,623) | (88,595) | (4,903) | - | (289,121) |
| | - | 526,183 | 171,898 | 25,644 | - | 723,725 |
| Collective impairment: | | | | | | |
| Book value | 134,667 | 3,383 | 61,185 | 7,084 | 62,028 | 268,347 |
| Allowance for possible loan losses | (27,474) | (529) | (21,185) | (1,685) | (48,742) | (99,615) |
| | 107,193 | 2,854 | 40,000 | 5,399 | 13,286 | 168,732 |
| | ₩ 107,193 | ₩ 529,037 | ₩ 211,898 | ₩ 31,043 | ₩ 13,286 | ₩ 892,457 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Overdue payments on debt securities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
|---|---|---|---|---|
| Neither past due nor impaired | ₩ 162,384 | ₩ 9,373,179 | ₩ 1,463,844 | ₩ 10,999,407 |
| Impaired | - | - | - | - |
| | ₩ 162,384 | ₩ 9,373,179 | ₩ 1,463,844 | ₩ 10,999,407 |

| Classification | December 31, 2013 Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
|---|---|---|---|---|
| Neither past due nor impaired | ₩ 238,600 | ₩ 8,228,292 | ₩ 2,195,558 | ₩ 10,662,450 |
| Impaired | - | - | - | - |
| | ₩ 238,600 | ₩ 8,228,292 | ₩ 2,195,558 | ₩ 10,662,450 |

Internal credit ratings of debt securities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
|---|---|---|---|---|
| Grade 1 | ₩ 162,384 | ₩ 9,367,904 | ₩ 1,434,103 | ₩ 10,964,391 |
| Grade 2 | - | 5,275 | 29,741 | 35,016 |
| | ₩ 162,384 | ₩ 9,373,179 | ₩ 1,463,844 | ₩ 10,999,407 |

| Classification | December 31, 2013 Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
|---|---|---|---|---|
| Grade 1 | ₩ 235,419 | ₩ 8,222,474 | ₩ 2,165,864 | ₩ 10,623,757 |
| Grade 2 | 3,181 | 5,818 | 29,694 | 38,693 |
| | ₩ 238,600 | ₩ 8,228,292 | ₩ 2,195,558 | ₩ 10,662,450 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

The credit rating classification of debt securities which are rated by external rating agencies is as follows:

| Classification | Domestic Rating Agencies | Overseas Rating Agencies: Moody's | S&P | Fitch |
|---|---|---|---|---|
| Grade 1 | AAA ~ A- | Aaa ~ Baa2 | AAA ~ BBB | AAA ~ BBB |
| Grade 2 | BBB+ ~ BB | Baa3 ~ B3 | BBB- ~ B- | BBB- ~ B- |
| Grade 3 | BB ~ B- | Caa1 ~ Caa3 | CCC+ ~ CCC- | CCC+ ~ CCC- |

Credit risk concentration in each major industry as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | | March 31, 2014 | | | |
|---|---|---|---|---|---|
| Classification | Industry | Korean won | Foreign currency | Total Amount | Total Ratio(%) |
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 3,330,731 | ₩ 2,154,009 | ₩ 5,484,740 | 96.49 |
| | Others | - | 199,514 | 199,514 | 3.51 |
| | | 3,330,731 | 2,353,523 | 5,684,254 | 100.00 |
| Financial assets held-for-trading | Financial services | 29,993 | 60,559 | 90,552 | 55.76 |
| | Public administration | 69,689 | 2,143 | 71,832 | 44.24 |
| | | 99,682 | 62,702 | 162,384 | 100.00 |
| Available-for-sale financial assets | Financial services | 3,134,415 | 514,958 | 3,649,373 | 38.93 |
| | Manufacturing | 50,166 | 10,519 | 60,685 | 0.65 |
| | Public administration | 5,039,142 | 255,500 | 5,294,642 | 56.49 |
| | Others | 363,206 | 5,273 | 368,479 | 3.93 |
| | | 8,586,929 | 786,250 | 9,373,179 | 100.00 |
| Held-to-maturity investments | Financial services | 662,670 | 27,637 | 690,307 | 47.16 |
| | Public administration | 721,288 | 2,104 | 723,392 | 49.42 |
| | Others | 50,145 | - | 50,145 | 3.42 |
| | | 1,434,103 | 29,741 | 1,463,844 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | March 31, 2014 Korean won | Foreign currency | Total Amount | Ratio(%) |
|---|---|---|---|---|---|
| Loans receivable: | | | | | |
| Household loans | | 21,200,804 | 24,903 | 21,225,707 | 28.87 |
| Credit card loans | | 2,689,756 | 2,192 | 2,691,948 | 3.66 |
| Business loans | Manufacturing | 12,604,459 | 8,823,652 | 21,428,111 | 29.15 |
| | Construction | 1,728,648 | 170,784 | 1,899,432 | 2.58 |
| | Wholesale & retail | 3,360,607 | 3,539,362 | 6,899,969 | 9.39 |
| | Real estate rental | 5,135,069 | 362,739 | 5,497,808 | 7.48 |
| | Financial services | 2,346,728 | 2,416,120 | 4,762,848 | 6.48 |
| | Others | 6,205,826 | 3,584,084 | 9,789,910 | 13.32 |
| | | 55,271,897 | 18,923,836 | 74,195,733 | 100.93 |
| Deferred loan fees and expenses | | 33,093 | (338) | 32,755 | 0.04 |
| Allowance for possible loan losses | | (613,774) | (96,526) | (710,300) | (0.97) |
| | | 54,691,216 | 18,826,972 | 73,518,188 | 100.00 |
| | | ₩ 68,142,661 | ₩ 22,059,188 | ₩90,201,849 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 33,074 | ₩ 736,659 | ₩ 769,733 | 53.56 |
| | Construction | 2,529 | 75,435 | 77,964 | 5.42 |
| | Wholesale & retail | 4,761 | 223,156 | 227,917 | 15.86 |
| | Real estate rental | 82,000 | 11,329 | 93,329 | 6.49 |
| | Others | 9,302 | 259,115 | 268,417 | 18.67 |
| | | 131,666 | 1,305,694 | 1,437,360 | 100.00 |
| Guarantee contracts | Manufacturing | 577,324 | 6,182,766 | 6,760,090 | 42.06 |
| | Construction | 175,933 | 4,269,009 | 4,444,942 | 27.65 |
| | Wholesale & retail | 288,505 | 1,764,883 | 2,053,388 | 12.77 |
| | Financial services | 940 | 1,033,849 | 1,034,789 | 6.44 |
| | Real estate rental | 12,682 | 32,156 | 44,838 | 0.28 |
| | Others | 512,175 | 1,224,237 | 1,736,412 | 10.80 |
| | | 1,567,559 | 14,506,900 | 16,074,459 | 100.00 |
| Commitment | Manufacturing | 16,245,376 | 3,923,058 | 20,168,434 | 35.55 |
| | Construction | 1,406,695 | 532,919 | 1,939,614 | 3.42 |
| | Wholesale & retail | 4,586,922 | 1,596,583 | 6,183,505 | 10.90 |
| | Financial services | 3,531,252 | 33,253 | 3,564,505 | 6.28 |
| | Real estate rental | 2,009,906 | 9,057 | 2,018,963 | 3.56 |
| | Others | 22,494,279 | 363,925 | 22,858,204 | 40.29 |
| | | 50,274,430 | 6,458,795 | 56,733,225 | 100.00 |
| | | ₩ 51,973,655 | ₩ 22,271,389 | ₩74,245,044 | |

**8. Risk management (cont'd)**

**Credit risk (cont'd)**

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | Foreign | Total | |
| Classification | Industry | Korean won | currency | Amount | Ratio(%) |
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 1,954,237 | ₩ 2,757,311 | ₩ 4,711,548 | 94.88 |
| | Others | - | 253,776 | 253,776 | 5.12 |
| | | 1,954,237 | 3,011,087 | 4,965,324 | 100.00 |
| Financial assets held-for-trading | Financial services | 160,099 | 30,257 | 190,356 | 79.78 |
| | Public administration | 39,101 | 5,961 | 45,062 | 18.90 |
| | Others | - | 3,182 | 3,182 | 1.32 |
| | | 199,200 | 39,400 | 238,600 | 100.00 |
| Available-for-sale financial assets | Financial services | 2,806,544 | 510,905 | 3,317,449 | 40.32 |
| | Manufacturing | 109,845 | 5,818 | 115,663 | 1.41 |
| | Public administration | 4,075,387 | 51,956 | 4,127,343 | 50.15 |
| | Others | 662,684 | 5,153 | 667,837 | 8.12 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity investments | Financial services | 1,053,020 | 27,324 | 1,080,344 | 49.21 |
| | Public administration | 1,062,617 | 2,370 | 1,064,987 | 48.50 |
| | Others | 50,227 | - | 50,227 | 2.29 |
| | | 2,165,864 | 29,694 | 2,195,558 | 100.00 |
| Loans receivable: | | | | | |
| Household loans | | 21,920,704 | 25,513 | 21,946,217 | 31.48 |
| Credit card loans | | 2,645,741 | 3,792 | 2,649,533 | 3.80 |
| | Manufacturing | | | | |
| Business loans | Wholesale & retail | 11,468,309 | 7,387,305 | 18,855,614 | 27.06 |
| | sasassale & retail | 3,193,124 | 2,937,794 | 6,130,918 | 8.79 |
| | Real estate rental | 4,769,065 | 351,460 | 5,120,525 | 7.34 |
| | Financial services | 2,208,068 | 2,189,283 | 4,397,351 | 6.31 |
| | Construction | 1,625,331 | 390,972 | 2,016,303 | 2.89 |
| | Others | 5,948,528 | 3,282,698 | 9,231,226 | 13.24 |
| | | 53,778,870 | 16,568,817 | 70,347,687 | 100.91 |
| Deferred loan fees and expenses | | 38,243 | (349) | 37,894 | 0.05 |
| Allowance for possible loan losses | | (584,513) | (89,076) | (673,589) | (0.96) |
| | | 53,232,600 | 16,479,392 | 69,711,992 | 100.00 |
| | | ₩ 65,206,361 | ₩ 20,133,405 | ₩ 85,339,766 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | Foreign | Total | |
| Classification | Industry | Korean won | currency | Amount | Ratio(%) |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 33,539 | ₩ 627,347 | ₩ 660,886 | 56.64 |
| | Construction | 43,989 | 43,079 | 87,068 | 7.46 |
| | Wholesale & retail | 4,061 | 89,224 | 93,285 | 8.00 |
| | Real estate rental | 22,000 | 11,186 | 33,186 | 2.84 |
| | Others | 11,705 | 280,588 | 292,293 | 25.06 |
| | | 115,294 | 1,051,424 | 1,166,718 | 100.00 |
| Guarantee contracts | Manufacturing | 574,713 | 5,943,585 | 6,518,298 | 42.31 |
| | Construction | 244,555 | 3,885,702 | 4,130,257 | 26.81 |
| | Wholesale & retail | 288,772 | 1,745,192 | 2,033,964 | 13.20 |
| | Financial services | 940 | 1,082,216 | 1,083,156 | 7.03 |
| | Real estate rental | 13,882 | 31,403 | 45,285 | 0.29 |
| | Others | 496,610 | 1,097,889 | 1,594,499 | 10.36 |
| | | 1,619,472 | 13,785,987 | 15,405,459 | 100.00 |
| Commitment | Manufacturing | 17,714,188 | 3,858,871 | 21,573,059 | 36.77 |
| | Construction | 1,790,207 | 520,763 | 2,310,970 | 3.94 |
| | Wholesale & retail | 4,456,176 | 1,287,732 | 5,743,908 | 9.79 |
| | Financial services | 4,584,643 | 25,657 | 4,610,300 | 7.86 |
| | Real estate rental | 2,369,679 | 1,108 | 2,370,787 | 4.04 |
| | Others | 21,331,794 | 732,532 | 22,064,326 | 37.60 |
| | | 52,246,687 | 6,426,663 | 58,673,350 | 100.00 |
| | | ₩ 53,981,453 | ₩ 21,264,074 | ₩ 75,245,527 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Credit risk concentration in each country as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | | March 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | Foreign | Total | |
| Classification | Industry | Korean won | currency | Amount | Ratio(%) |
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 3,330,731 | ₩ 284,662 | ₩ 3,615,393 | 63.60 |
| | U.S | - | 1,169,657 | 1,169,657 | 20.58 |
| | China | - | 69,801 | 69,801 | 1.23 |
| | Japan | - | 116,184 | 116,184 | 2.04 |
| | Singapore | - | 99,622 | 99,622 | 1.75 |
| | Hong Kong | - | 20,322 | 20,322 | 0.36 |
| | Others | - | 593,275 | 593,275 | 10.44 |
| | | 3,330,731 | 2,353,523 | 5,684,254 | 100.00 |
| Financial assets held-for-trading | Korea | 99,682 | 62,702 | 162,384 | 100.00 |
| Available-for-sale financial assets | Korea | 8,586,929 | 613,699 | 9,200,628 | 98.16 |
| | Hong Kong | - | 82,758 | 82,758 | 0.88 |
| | Others | - | 89,793 | 89,793 | 0.96 |
| | | 8,586,929 | 786,250 | 9,373,179 | 100.00 |
| Held-to-maturity investments | Korea | 1,434,103 | 27,637 | 1,461,740 | 99.86 |
| | Others | - | 2,104 | 2,104 | 0.14 |
| | | 1,434,103 | 29,741 | 1,463,844 | 100.00 |
| Loans receivable: | Korea | 54,907,849 | 13,180,373 | 68,088,222 | 92.61 |
| | Hong Kong | 2,990 | 970,316 | 973,306 | 1.32 |
| | Japan | 11,932 | 466,426 | 478,358 | 0.65 |
| | Singapore | 3,946 | 816,079 | 820,025 | 1.12 |
| | Panama | - | 433,011 | 433,011 | 0.59 |
| | Others | 345,180 | 3,057,631 | 3,402,811 | 4.63 |
| | | 55,271,897 | 18,923,836 | 74,195,733 | 100.92 |
| Deferred loan fees and expenses | | 33,093 | (338) | 32,755 | 0.04 |
| Allowance for possible loan losses | | (613,774) | (96,526) | (710,300) | (0.96) |
| | | 54,691,216 | 18,826,972 | 73,518,188 | 100.00 |
| | | ₩ 68,142,661 | ₩ 22,059,188 | ₩90,201,849 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | March 31, 2014 Korean won | Foreign currency | Total Amount | Total Ratio(%) |
|---|---|---|---|---|---|
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 131,666 | ₩ 1,305,694 | ₩ 1,437,360 | 100.00 |
| Guarantee contracts | Korea | 1,567,009 | 13,595,207 | 15,162,216 | 94.33 |
| | U.S | - | 501,393 | 501,393 | 3.12 |
| | Singapore | - | 123,937 | 123,937 | 0.77 |
| | Japan | - | 55,534 | 55,534 | 0.35 |
| | Germany | 346 | 59,916 | 60,262 | 0.37 |
| | Others | 204 | 170,913 | 171,117 | 1.06 |
| | | 1,567,559 | 14,506,900 | 16,074,459 | 100.00 |
| Commitment | Korea | 50,274,430 | 5,350,264 | 55,624,694 | 98.05 |
| | Singapore | - | 283,533 | 283,533 | 0.50 |
| | Hong Kong | - | 110,523 | 110,523 | 0.19 |
| | Japan | - | 44,114 | 44,114 | 0.08 |
| | Others | - | 670,361 | 670,361 | 1.18 |
| | | 50,274,430 | 6,458,795 | 56,733,225 | 100.00 |
| | | ₩ 51,973,655 | ₩ 22,271,389 | ₩74,245,044 | |

| Classification | Industry | December 31, 2013 Korean won | Foreign currency | Total Amount | Total Ratio(%) |
|---|---|---|---|---|---|
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 1,954,237 | ₩ 386,944 | ₩ 2,341,181 | 47.15 |
| | U.S | - | 1,630,398 | 1,630,398 | 32.84 |
| | China | - | 249,751 | 249,751 | 5.03 |
| | Japan | - | 133,295 | 133,295 | 2.68 |
| | Singapore | - | 119,205 | 119,205 | 2.40 |
| | Hong Kong | - | 24,492 | 24,492 | 0.49 |
| | Others | - | 467,002 | 467,002 | 9.41 |
| | | 1,954,237 | 3,011,087 | 4,965,324 | 100.00 |
| Financial assets held-for-trading | Korea | 199,200 | 39,400 | 238,600 | 100.00 |
| Available-for-sale financial assets | Korea | 7,654,460 | 547,483 | 8,201,943 | 99.68 |
| | Hong Kong | - | 5,153 | 5,153 | 0.06 |
| | Others | - | 21,196 | 21,196 | 0.26 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | December 31, 2013 Korean won | Foreign currency | Total Amount | Ratio(%) |
|---|---|---|---|---|---|
| Held-to-maturity investments | Korea | 2,165,864 | 27,324 | 2,193,188 | 99.89 |
| | Others | - | 2,370 | 2,370 | 0.11 |
| | | 2,165,864 | 29,694 | 2,195,558 | 100.00 |
| Loans receivable: | Korea | 53,385,633 | 12,681,867 | 66,067,500 | 94.77 |
| | Hong Kong | 2,792 | 577,453 | 580,245 | 0.83 |
| | Japan | 13,482 | 431,209 | 444,691 | 0.64 |
| | Singapore | 2,155 | 610,893 | 613,048 | 0.88 |
| | Panama | - | 431,623 | 431,623 | 0.62 |
| | Others | 374,808 | 1,835,772 | 2,210,580 | 3.17 |
| | | 53,778,870 | 16,568,817 | 70,347,687 | 100.91 |
| Deferred loan fees and expenses | | 38,243 | (349) | 37,894 | 0.05 |
| Allowance for possible loan losses | | (584,513) | (89,076) | (673,589) | (0.96) |
| | | 53,232,600 | 16,479,392 | 69,711,992 | 100.00 |
| | | ₩ 65,206,361 | ₩ 20,133,405 | ₩85,339,766 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 115,294 | ₩ 1,051,424 | ₩ 1,166,718 | 100.00 |
| Guarantee contracts | Korea | 1,618,922 | 12,882,282 | 14,501,204 | 94.13 |
| | U.S | - | 500,013 | 500,013 | 3.25 |
| | Singapore | - | 143,979 | 143,979 | 0.93 |
| | Japan | - | 57,555 | 57,555 | 0.37 |
| | Germany | 346 | 51,631 | 51,977 | 0.34 |
| | Others | 204 | 150,527 | 150,731 | 0.98 |
| | | 1,619,472 | 13,785,987 | 15,405,459 | 100.00 |
| Commitment | Korea | 52,246,687 | 5,580,245 | 57,826,932 | 98.56 |
| | Singapore | - | 258,480 | 258,480 | 0.44 |
| | Hong Kong | - | 134,372 | 134,372 | 0.23 |
| | Japan | - | 61,880 | 61,880 | 0.11 |
| | Others | - | 391,686 | 391,686 | 0.66 |
| | | 52,246,687 | 6,426,663 | 58,673,350 | 100.00 |
| | | ₩ 53,981,453 | ₩ 21,264,074 | ₩75,245,527 | |

8. Risk management (cont'd)

## Market risk

Market risk is the uncertainty and possibility of losses arising from overall management activities which is divided into general market risk and specific risk. General market risk is the risk to the loss on the Bank's earnings arising from the changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of the loss on trading position arising from the changes in credit risks.

### Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The targets of the market risk management are interest rate, stock price, foreign currencies, and derivatives as follows:

- Assets classified as financial assets held-for-trading in accordance with KIFRS
- Derivatives instruments held-for-trading and derivative instruments used for hedging purposes for which hedge accounting is not applied
- Trust account securities with agreements to guarantee principal or interest
- Foreign currency exchange position regulated by Korean Banking Laws

The Bank uses an internal model for measurement of market risk. The purpose of the internal model is to compute required capital by VaR using a historical simulation with a confidence level of 99.0 percent and 10-day (1day) retaining period. VaR using historical simulation sets up 10 business days' (1 business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and arranges in order of values and computes the difference between the value of low second ranked portfolio and current portfolio. In addition, the Bank reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by the Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Bank performs back testing on a daily basis so as to procure the suitability of the internal model and stress testing to prepare for emergency situations not reflected in the recent market situation.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group or department is reported to the management on a daily basis and to the risk management operating committee on a monthly basis.

**8. Risk management (cont'd)**

**Market risk (cont'd)**

Market risk VaR for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 17,385 | ₩ 9,080 | ₩ 13,273 | ₩ 11,158 | ₩ 13,057 | ₩ 5,361 | ₩ 9,119 | ₩ 10,606 |
| Stock price risk | 39,735 | 4,942 | 17,665 | 24,347 | 40,079 | 4,180 | 16,047 | 12,140 |
| Foreign currency risk | 79,682 | 21,184 | 52,202 | 48,857 | 81,264 | 20,790 | 41,700 | 50,364 |
| Option risk | 7,388 | 2,240 | 4,604 | 4,286 | 7,858 | 535 | 2,845 | 1,964 |
| Total risks (*) | ₩ 100,913 | ₩ 35,253 | ₩ 67,523 | ₩ 67,877 | ₩ 103,651 | ₩ 24,080 | ₩ 54,301 | ₩ 62,671 |

(*) The total portfolio risk is not equal to the sum of the individual component risks because the calculation includes consideration of the correlations of the risks.

Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in the exposures of interest-rate-sensitive assets or liabilities and derivative instruments, using the VaR methodology, a key measuring method of market risk.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index.

The result of interest rate measurement is reported to the risk management operating committee on a monthly basis.

Details of interest rate VaR except for trading portfolio for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 174,494 | ₩ 152,359 | ₩ 163,776 | ₩ 152,359 | ₩ 335,842 | ₩ 153,916 | ₩ 230,006 | ₩ 161,273 |

## 8. Risk management (cont'd)

### Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they fall due.

The Bank proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Moreover, the Bank regularly performs liquidity stress test, comprehends deficit, and reflects in the emergency funding plan on a regular basis.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as the Basel III liquidity risk regulation ratio.

Liquidity risk management targets on and off balance assets, liabilities and derivatives, and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

Maturity structures of liabilities as at March 31, 2014 and December 31, 2013 are as follow (Korean won in millions):

| | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| On balance: | | | | | | | |
| Deposits | ₩ 28,536,945 | ₩ 6,408,565 | ₩ 8,966,778 | ₩ 21,521,328 | ₩ 1,660,052 | ₩ 274,197 | ₩ 67,367,865 |
| Financial liabilities held-for-trading | 986,413 | - | - | - | - | - | 986,413 |
| Derivative liabilities used for hedging purposes | 8,382 | - | - | - | - | - | 8,382 |
| Borrowings | 1,642,142 | 2,422,333 | 1,430,998 | 2,211,046 | 773,697 | 156,305 | 8,636,521 |
| Debentures | 122 | 14,226 | 889,499 | 639,129 | 4,249,846 | 1,338,574 | 7,131,396 |
| Other liabilities | 1,993 | 13,613,149 | 6,703 | 14,017 | 2,689 | - | 13,638,551 |
| Merchant banking account liabilities | 1,714,980 | 240,100 | 555,000 | - | - | - | 2,510,080 |
| | 32,890,977 | 22,698,373 | 11,848,978 | 24,385,520 | 6,686,284 | 1,769,076 | 100,279,208 |
| Off balance: | | | | | | | |
| Loan commitment | 56,733,225 | - | - | - | - | - | 56,733,225 |
| Finance guarantee | 1,437,360 | - | - | - | - | - | 1,437,360 |
| | 58,170,585 | - | - | - | - | - | 58,170,585 |
| | ₩ 91,061,562 | ₩ 22,698,373 | ₩ 11,848,978 | ₩ 24,385,520 | ₩ 6,686,284 | ₩ 1,769,076 | ₩ 158,449,793 |

## 8. Risk management (cont'd)

### Liquidity risk (cont'd)

| Classification | December 31, 2013 On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| On balance: | | | | | | | |
| Deposits | ₩27,793,212 | ₩ 6,783,993 | ₩ 8,708,803 | ₩21,056,149 | ₩ 1,606,111 | ₩ 252,047 | ₩ 66,200,315 |
| Financial liabilities held-for-trading | 1,286,767 | - | - | - | - | - | 1,286,767 |
| Derivative liabilities used for hedging purposes | 12,562 | - | - | - | - | - | 12,562 |
| Borrowings | 1,429,544 | 1,159,892 | 997,742 | 2,106,559 | 753,428 | 166,237 | 6,613,402 |
| Debentures | 122 | 218,993 | 237,668 | 1,396,612 | 4,200,955 | 1,343,476 | 7,397,826 |
| Other liabilities | 928 | 9,841,935 | 2,717 | 20,216 | 2,356 | - | 9,868,152 |
| Merchant banking account liabilities | 1,526,676 | 52,660 | 100,000 | - | - | - | 1,679,336 |
| | 32,049,811 | 18,057,473 | 10,046,930 | 24,579,536 | 6,652,850 | 1,761,760 | 93,508,360 |
| Off balance: | | | | | | | |
| Loan commitment | 58,673,350 | - | - | - | - | - | 58,673,350 |
| Finance guarantee | 1,166,718 | - | - | - | - | - | 1,166,718 |
| | 59,840,068 | - | - | - | - | - | 59,840,068 |
| | ₩91,889,879 | ₩18,057,473 | ₩10,046,930 | ₩24,579,536 | ₩ 6,652,850 | ₩ 1,761,760 | ₩152,898,428 |

### Currency risk

Currency risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in foreign exchange rates. Currency risk arises in financial instruments expressed in currencies other than the functional currency. Currency risk does not arise in financial instruments expressed in the functional currency or in non-monetary items measured using historical foreign exchange rates. In order to establish stop loss and limits, the Bank manages the foreign exchange net exposure amount of the trading and non-trading portfolios by each currency.

## 8. Risk management (cont'd)

### Currency risk (cont'd)

Significant assets and liabilities denominated in foreign currencies as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions or U.S. dollar in thousands):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | | Korean won equivalent |
| Assets: | | | | | |
| Cash and due from banks | USD | 1,637,601,661 | 1,637,602 | ₩ | 1,750,269 |
| | JPY | 18,038,865,555 | 175,311 | | 187,373 |
| | EUR | 229,243,460 | 315,161 | | 336,845 |
| | CNY | 515,262,894 | 83,065 | | 88,780 |
| | HKD | 413,428,048 | 53,291 | | 56,958 |
| | Others | | 402,132 | | 429,798 |
| | | | 2,666,562 | | 2,850,023 |
| Financial assets held-for-trading | USD | 118,568,756 | 118,569 | | 126,726 |
| Available-for-sale financial assets | USD | 656,579,422 | 656,579 | | 701,375 |
| | Others | | 87,895 | | 93,943 |
| | | | 744,474 | | 795,318 |
| Held-to-maturity investments | USD | 25,891,935 | 25,892 | | 27,637 |
| | Others | | 1,968 | | 2,104 |
| | | | 27,860 | | 29,741 |
| Loans receivable | USD | 14,693,990,980 | 14,693,991 | | 15,704,938 |
| | JPY | 105,779,301,665 | 1,027,310 | | 1,097,989 |
| | EUR | 624,046,076 | 857,941 | | 916,967 |
| | CNY | 626,289,790 | 100,963 | | 107,910 |
| | CAD | 49,768,885 | 45,028 | | 48,126 |
| | AUD | 176,259,172 | 163,058 | | 174,276 |
| | Others | | 817,393 | | 873,630 |
| | | | 17,705,684 | | 18,923,836 |
| Derivative assets used for hedging purposes | USD | 19,331,839 | 19,332 | | 20,662 |
| Other assets | USD | 3,004,883,210 | 3,004,883 | | 3,211,619 |
| | JPY | 18,264,900,061 | 177,386 | | 189,590 |
| | EUR | 401,682,891 | 552,235 | | 590,229 |
| | HKD | 255,938,676 | 32,991 | | 35,261 |
| | CAD | 15,085,445 | 13,648 | | 14,587 |
| | Others | | 327,799 | | 350,351 |
| | | | 4,108,942 | | 4,391,637 |
| | | | 25,391,423 | ₩ | 27,137,943 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | | Korean won equivalent |
| Liabilities: | | | | | |
| Financial liabilities held-for-trading | USD | 106,986,658 | 106,987 | ₩ | 114,347 |
| Deposits | USD | 9,989,831,807 | 9,989,832 | | 10,677,132 |
| | JPY | 130,331,431,349 | 1,265,756 | | 1,352,840 |
| | EUR | 911,690,584 | 1,253,395 | | 1,339,629 |
| | HKD | 852,665,003 | 109,910 | | 117,472 |
| | AUD | 81,643,821 | 75,529 | | 80,725 |
| | Others | | 790,612 | | 845,006 |
| | | | 13,485,034 | | 14,412,804 |
| Borrowings | USD | 5,119,415,201 | 5,119,415 | | 5,471,631 |
| | JPY | 18,238,066,058 | 177,125 | | 189,311 |
| | EUR | 282,814,690 | 388,815 | | 415,565 |
| | CNY | 152,191,022 | 24,535 | | 26,223 |
| | CAD | 73,042 | 66 | | 71 |
| | Others | | 107,507 | | 114,903 |
| | | | 5,817,463 | | 6,217,704 |
| Debentures | USD | 2,090,792,855 | 2,090,793 | | 2,234,639 |
| | HKD | 310,000,000 | 39,959 | | 42,709 |
| | AUD | 50,470 | 47 | | 50 |
| | | | 2,130,799 | | 2,277,398 |
| Derivative liabilities used for hedging purposes | USD | 7,842,568 | 7,843 | | 8,382 |
| Other liabilities | USD | 3,894,009,144 | 3,894,009 | | 4,161,917 |
| | JPY | 11,954,566,273 | 116,101 | | 124,088 |
| | EUR | 125,160,845 | 172,072 | | 183,910 |
| | CAD | 67,772,259 | 61,316 | | 65,534 |
| | AUD | 184,976,426 | 171,122 | | 182,895 |
| | Others | | 494,258 | | 528,263 |
| | | | 4,908,878 | | 5,246,607 |
| | | | 26,457,004 | ₩ | 28,277,242 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | | Korean won equivalent |
| Assets: | | | | | |
| Cash and due from banks | USD | 2,180,126,395 | 2,180,126 | ₩ | 2,300,687 |
| | JPY | 19,794,769,691 | 188,447 | | 198,868 |
| | EUR | 244,776,941 | 337,775 | | 356,454 |
| | CNY | 362,960,710 | 59,879 | | 63,190 |
| | HKD | 340,857,147 | 43,960 | | 46,392 |
| | Others | | 472,124 | | 498,232 |
| | | | 3,282,311 | | 3,463,823 |
| Financial assets held-for-trading | USD | 106,869,427 | 106,869 | | 112,779 |
| Available-for-sale financial assets | USD | 548,509,040 | 548,509 | | 578,486 |
| | Others | | 3,932 | | 4,149 |
| | | | 552,441 | | 582,635 |
| Held-to-maturity investments | USD | 25,891,935 | 25,892 | | 27,324 |
| | Others | | 2,246 | | 2,370 |
| | | | 28,138 | | 29,694 |
| Loans receivable | USD | 12,928,363,304 | 12,928,363 | | 13,643,302 |
| | JPY | 104,361,127,338 | 993,532 | | 1,048,475 |
| | EUR | 593,530,824 | 819,042 | | 864,335 |
| | CNY | 529,870,934 | 87,411 | | 92,245 |
| | CAD | 66,287,657 | 62,239 | | 65,681 |
| | AUD | 89,864,574 | 80,043 | | 84,469 |
| | Others | | 729,945 | | 770,310 |
| | | | 15,700,575 | | 16,568,817 |
| Derivative assets used for hedging purposes | USD | 21,860,657 | 21,861 | | 23,070 |
| Other assets | USD | 2,024,461,590 | 2,024,462 | | 2,136,414 |
| | JPY | 34,652,622,313 | 329,898 | | 348,141 |
| | EUR | 62,847,477 | 86,726 | | 91,522 |
| | HKD | 533,029,034 | 68,739 | | 72,540 |
| | CAD | 5,094,051 | 4,783 | | 5,047 |
| | Others | | 290,559 | | 306,629 |
| | | | 2,805,167 | | 2,960,293 |
| | | | 22,497,362 | ₩ | 23,741,111 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Liabilities: | | | | |
| Financial liabilities held-for-trading | USD | 114,679,491 | 114,679 | ₩ 121,021 |
| Deposits | USD | 9,297,714,409 | 9,297,714 | 9,812,088 |
| | JPY | 150,435,323,647 | 1,432,165 | 1,511,364 |
| | EUR | 678,151,663 | 935,815 | 987,565 |
| | HKD | 1,057,697,553 | 136,399 | 143,942 |
| | AUD | 95,849,236 | 85,373 | 90,094 |
| | Others | | 957,199 | 1,009,921 |
| | | | 12,844,665 | 13,554,974 |
| Borrowings | USD | 3,885,214,217 | 3,885,214 | 4,100,067 |
| | JPY | 18,810,234,498 | 179,076 | 188,979 |
| | EUR | 301,435,769 | 415,966 | 438,969 |
| | CNY | 233,636,525 | 38,542 | 40,674 |
| | HKD | 2,776,274 | 358 | 378 |
| | CAD | 705,548 | 662 | 699 |
| | Others | | 19,810 | 20,903 |
| | | | 4,539,628 | 4,790,669 |
| Debentures | USD | 2,098,677,312 | 2,089,677 | 2,205,236 |
| | HKD | 310,000,000 | 39,977 | 42,188 |
| | | | 2,129,654 | 2,247,424 |
| Derivative liabilities used for hedging purposes | USD | 11,903,354 | 11,903 | 12,562 |
| Other liabilities | USD | 2,500,053,141 | 2,500,053 | 2,638,306 |
| | JPY | 15,811,951,158 | 150,532 | 158,856 |
| | EUR | 174,360,872 | 240,609 | 253,915 |
| | CAD | 132,492,342 | 124,401 | 131,280 |
| | AUD | 23,376,429 | 20,821 | 21,973 |
| | Others | | 260,375 | 274,775 |
| | | | 3,296,791 | 3,479,105 |
| | | | 22,937,320 | ₩ 24,205,755 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 9. Segment information

The business sectors of the Bank are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

| Classification | | Business |
|---|---|---|
| Individual finance | Retail banking | Household credit and saving |
| | Credit card | Issue, use, payment of credit card and others |
| | Trust pension | Retirement pension and others |
| Corporate finance | Corporate banking | Corporate credit and saving, securities investment, derivatives transaction and others |
| Fund market | Fund market management | Security investments and management |
| Others | International banking | Corporate supporting for business development abroad and others |
| | Others | Administration and others |

## 9. Segment information (cont'd)

Net income by business segment for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 341,124 | ₩ 70,775 | ₩ 27,757 | ₩ (7,543) | ₩ 432,113 | ₩ 91,495 | ₩ 523,608 |
| Net commission income (expenses) | 109,454 | 31,440 | 3,041 | 13,251 | 157,186 | (132,353) | 24,833 |
| Net other operating income (expenses) | (88,026) | 95,638 | 15,520 | (15,642) | 7,490 | (3,074) | 4,416 |
| | 362,552 | 197,853 | 46,318 | (9,934) | 596,789 | (43,932) | 552,857 |
| Segment operating expense: | | | | | | | |
| General and administrative expense | 207,327 | 25,503 | 7,562 | 118,946 | 359,338 | (29,620) | 329,718 |
| Segment operating profit (loss) | 155,225 | 172,350 | 38,756 | (128,880) | 237,451 | (14,312) | 223,139 |
| Provision for (reversal of) possible losses on credits (*1) | 97,912 | 17,978 | - | (74,010) | 41,880 | 97,340 | 139,220 |
| Income tax expense | 13,870 | 37,358 | 9,379 | (13,279) | 47,328 | (39,765) | 7,563 |
| Net income (loss) | ₩ 43,443 | ₩ 117,014 | ₩ 29,377 | ₩ (41,591) | ₩ 148,243 | ₩ (71,887) | ₩ 76,356 |

(*1) Provisions for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, acceptances and guarantees, and unused credit limit.

## 9. Segment information (cont'd)

| Classification | Three-month period ended March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 206,490 | ₩ 197,580 | ₩ 16,172 | ₩ (44,266) | ₩ 375,976 | ₩ 140,131 | ₩ 516,107 |
| Net commission income (expenses) | 98,201 | 53,455 | 2,372 | 23,299 | 177,327 | (132,360) | 44,967 |
| Net other operating income (expenses) | 72,203 | (53,126) | 31,467 | (36,532) | 14,012 | (44,828) | (30,816) |
| | 376,894 | 197,909 | 50,011 | (57,499) | 567,315 | (37,057) | 530,258 |
| Segment operating expense: | | | | | | | |
| General and administrative expense | 159,330 | 78,540 | 7,581 | 128,203 | 373,654 | (20,497) | 353,157 |
| Segment operating profit (loss) | 217,564 | 119,369 | 42,430 | (185,702) | 193,661 | (16,560) | 177,101 |
| Provision for (reversal of) possible losses on credits (*1) | 56,122 | 11,442 | - | (52,356) | 15,208 | 108,333 | 123,541 |
| Income tax expense | 39,069 | 26,119 | 10,268 | (32,270) | 43,186 | (20,208) | 22,978 |
| Net income (loss) | ₩ 122,373 | ₩ 81,808 | ₩ 32,162 | ₩ (101,076) | ₩ 135,267 | ₩ (104,685) | ₩ 30,582 |

(*1) Provisions for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, acceptances and guarantees, and unused credit limit.

Income from customers and transaction between segments by business segment for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income from external customers | ₩ 363,976 | ₩ 151,858 | ₩ 45,073 | ₩ 35,882 | ₩ 596,789 | ₩ (43,932) | ₩ 552,857 |
| Income (expenses) from internal transactions | (1,424) | 45,995 | 1,245 | (45,816) | - | - | - |
| | ₩ 362,552 | ₩ 197,853 | ₩ 46,318 | ₩ (9,934) | ₩ 596,789 | ₩ (43,932) | ₩ 552,857 |

## 9. Segment information (cont'd)

| | Three-month period ended March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income (expenses) from external customers | ₩ 320,276 | ₩ 168,585 | ₩ (56,379) | ₩ 134,833 | ₩ 567,315 | ₩ (37,057) | ₩ 530,258 |
| Income (expenses) from internal transactions | 56,618 | 29,324 | 106,390 | (192,332) | - | - | - |
| | ₩ 376,894 | ₩ 197,909 | ₩ 50,011 | ₩ (57,499) | ₩ 567,315 | ₩ (37,057) | ₩ 530,258 |

Significant non cash item included in operating income by business segment for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Depreciation and amortization | ₩ 3,891 | ₩ 564 | ₩ - | ₩ 18,999 | ₩ 23,454 | ₩ (60) | ₩ 23,394 |

| | Three-month period ended March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Depreciation and amortization | ₩ 2,030 | ₩ 909 | ₩ - | ₩ - | ₩ 2,939 | ₩ 20,538 | ₩ 23,477 |

## 9. Segment information (cont'd)

Financial information by region as at March 31, 2014 and December 31, 2013 and for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| Classification | Income from customers (*1) Three-month periods ended March 31, 2014 | Income from customers (*1) Three-month periods ended March 31, 2013 | Non current assets (*2) March 31, 2014 | Non current assets (*2) December 31, 2013 |
|---|---|---|---|---|
| Domestic | ₩ 519,205 | ₩ 494,419 | ₩ 1,414,005 | ₩ 1,430,735 |
| Overseas: | | | | |
| Hong Kong | 11,265 | 11,303 | 4,019 | 4,031 |
| Singapore | 3,683 | 3,702 | 292 | 326 |
| Japan | 2,848 | 5,182 | 4,966 | 4,904 |
| China | 3,076 | 2,551 | 161 | 165 |
| U.K. | 3,987 | 3,279 | 157 | 179 |
| Others | 8,793 | 9,822 | 3,817 | 2,854 |
| | 33,652 | 35,839 | 13,412 | 12,459 |
| | ₩ 552,857 | ₩ 530,258 | ₩ 1,427,417 | ₩ 1,443,194 |

(*1) Income from customers is divided into domestic and overseas categories.
(*2) Non current assets consist of property and equipment, investment property, and intangible asset and are divided into domestic and overseas categories based on the location of assets.

## 10. Cash and due from banks

Details of cash and due from banks as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Account | Financial institution | March 31, 2014 | December 31, 2013 |
|---|---|---|---|
| Cash | | ₩ 1,684,620 | ₩ 1,680,759 |
| Due from banks in Korean won: | | | |
| Reserve deposit | Bank of Korea ("BOK") | 2,153,750 | 1,703,602 |
| Monetary stabilization deposits | BOK | 1,140,000 | 200,000 |
| Other due from banks | Other financial institutions | 36,981 | 50,635 |
| | | 3,330,731 | 1,954,237 |
| Due from banks denominated in foreign currencies: | | | |
| Reserve deposit | BOK and others | 1,529,724 | 2,076,756 |
| Due from banks on time deposits | Other banks | 639,137 | 694,482 |
| Other due from banks | Other financial institutions | 184,662 | 239,849 |
| | | 2,353,523 | 3,011,087 |
| | | ₩ 7,368,874 | ₩ 6,646,083 |

## 10. Cash and due from banks (cont'd)

Restricted due from banks in Korean won and foreign currencies as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 | Restriction |
|---|---|---|---|
| Due from banks in Korean won: | | | |
| Reserve deposit | ₩ 2,153,750 | ₩ 1,703,602 | Required under the BOK Act |
| Monetary stabilization deposits | 1,140,000 | 200,000 | Deposits for the purpose of liquidity management by the BOK |
| Reserve for future trading | 14,646 | 3,513 | Subscription related to derivatives |
| Investors' deposit | 21,533 | 38,699 | Required under the Financial Investment Services and Capital Markets Act |
| | 3,329,929 | 1,945,814 | |
| Due from banks denominated in foreign currencies: | | | |
| Reserve deposit | 625,476 | 637,095 | Required under the BOK Act and others |
| Other due from banks | 170,093 | 236,293 | Subscription related to derivatives |
| | 795,569 | 873,388 | |
| | ₩ 4,125,498 | ₩ 2,819,202 | |

## 11. Financial assets at FVTPL

Financial assets at FVTPL as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | | Interest rate (%) | Fair value (Book value) March 31, 2014 | Fair value (Book value) December 31, 2013 |
|---|---|---|---|---|
| Stocks | Samsung Electronics Co., Ltd. and others | - | ₩ 37,749 | ₩ 12,776 |
| Government and public bonds | Treasury bonds | 3.00~3.13 | 69,689 | 39,101 |
| Financial bonds | Monetary stabilization securities | 2.78 | 29,993 | 160,099 |
| Securities denominated in foreign currencies | Debt securities denominated in foreign currencies | 1.11~4.00 | 62,702 | 39,400 |
| Derivative assets held-for-trading (Note 18) | | - | 1,010,256 | 1,355,357 |
| | | | ₩ 1,210,389 | ₩ 1,606,733 |

## 11. Financial assets at FVTPL (cont'd)

Details of valuation of trading securities and bonds, by industry, as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | | |
|---|---|---|---|---|
| | Face value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 70,000 | ₩ 69,531 | ₩ 69,548 | ₩ 69,689 |
| Financial bond | 30,000 | 29,993 | 29,995 | 29,993 |
| Debt securities denominated in foreign currencies | 61,135 | 62,258 | 62,220 | 62,702 |
| | ₩ 161,135 | ₩ 161,782 | ₩ 161,763 | ₩ 162,384 |

| Classification | December 31, 2013 | | | |
|---|---|---|---|---|
| | Face value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 40,000 | ₩ 38,993 | ₩ 39,008 | ₩ 39,101 |
| Financial bond | 160,000 | 160,044 | 160,048 | 160,099 |
| Debt securities denominated in foreign currencies | 39,046 | 39,609 | 39,370 | 39,400 |
| | ₩ 239,046 | ₩ 238,646 | ₩ 238,426 | ₩ 238,600 |

## 12. Available-for-sale financial assets

Details of available-for-sale financial assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Details | Interest rate (%) | Fair value (Book value) | |
|---|---|---|---|---|
| | | | March 31, 2014 | December 31, 2013 |
| Equity securities | Hynix and others | - | ₩ 621,688 | ₩ 853,122 |
| Investment in partnership | Vogo fund and others | - | 52,746 | 51,846 |
| Government and public bonds | Treasury bonds | 2.75~5.00 | 1,805,525 | 971,573 |
| | Housing bonds | 2.50~3.00 | 975,079 | 644,238 |
| | Other local bonds | 2.60~5.55 | 541,382 | 351,808 |
| | | | 3,321,986 | 1,967,619 |
| Finance bonds | Monetary stabilization securities | 2.47~2.90 | 2,438,693 | 1,699,676 |
| | Industrial finance bonds | 2.67~3.33 | 139,821 | 380,639 |
| | Deposit bank bonds | 2.73~6.66 | 250,015 | 330,734 |
| | Small and medium-sized business banking bonds | 2.63~2.98 | 119,283 | 208,999 |
| | Export-import credit bonds | 2.87~4.87 | 60,538 | 60,612 |
| | | | 3,008,350 | 2,680,660 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | Details | Interest rate (%) | Fair value (Book value) March 31, 2014 | Fair value (Book value) December 31, 2013 |
|---|---|---|---|---|
| Corporate and other bonds | Industrial bonds invested by government | 2.62~5.26 | 1,717,157 | 2,107,768 |
| | General bonds | 2.84~6.56 | 539,436 | 898,413 |
| | | | 2,256,593 | 3,006,181 |
| Beneficiary certificates | | - | 6,021 | 6,043 |
| Securites denominated in foreign currencies | Equity securities denominated in foreign currency | - | 8,265 | 8,001 |
| | Debt securities denominated in foreign currency | 0.23~7.25 | 786,250 | 573,832 |
| | Investment in partnership denominated in foreign currency | - | 802 | 802 |
| | | | 795,317 | 582,635 |
| Other securities | Beneficiary right certificate | - | 12,787 | 7,602 |
| | | | ₩ 10,075,488 | ₩ 9,155,708 |

Equity securities (including equity securities denominated in foreign currencies) as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Book value before valuation | Loss on valuation | Fair value (Book value) March 31, 2014 | Fair value (Book value) December 31, 2013 |
|---|---|---|---|---|
| Marketable securities | ₩ 494,684 | ₩ (20,926) | ₩ 473,758 | ₩ 671,997 |
| Non- marketable securities | 188,967 | (32,772) | 156,195 | 189,126 |
| | ₩ 683,651 | ₩ (53,698) | ₩ 629,953 | ₩ 861,123 |

Non-marketable equity securities in the amount of ₩18,087 million and ₩18,135 million as at March 31, 2014 and December 31, 2013, respectively, including the Korea Asset Management Corporation were valued at cost as their fair values could not be reasonably estimated.

The fair value of the available-for-sale non-marketable equity securities was measured by independent valuation agencies using actuarial assumptions. The fair value was determined based on more than one valuation model such as the Discounted Cash Flow (DCF) model, Net Asset Value (NAV) model, comparison of similar business model and Risk Adjusted Discounted Cash Flow (RADCF) model, depending on the characteristics of the equity securities as deemed appropriate.

## 12. Available-for-sale financial assets (cont'd)

The Bank's equity securities under disposal restriction as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| | March 31, 2014 | | |
|---|---|---|---|
| Classification | Number of shares | Book value | Restriction |
| Taihan Electric Wire Co., Ltd. (preferred stock) | 4,869,900 | ₩ 51,134 | Until December 31, 2015 |
| Kumho Tire Co., Inc. | 3,153,755 | 41,945 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 9,958,000 | 12,896 | Until December 31, 2016 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 7,170 | Until June 4, 2014 |
| Taihan Electric Wire Co., Ltd. | 3,019,100 | 6,340 | Until December 31, 2015 |
| Kumho Industrial Co.,Ltd | 480,526 | 6,223 | Until December 31, 2014 |
| STX Engine Co., Ltd. | 2,714,000 | 5,870 | Until December 31, 2017 |
| STX Heavy Industries Co., Ltd. | 2,250,000 | 3,758 | Until December 31, 2017 |
| Osung LST Co., Ltd. | 1,986,000 | 1,601 | Until December 31, 2017 |
| SAMT CO.,Ltd. | 677,264 | 1,344 | Until December 31, 2014 |
| Chinhung International Inc | 600,400 | 919 | Until December 31, 2014 |
| AJin P&P Co., Ltd | 47,170 | 685 | Until December 31, 2015 |
| Kores Co., Ltd. | 492,000 | 417 | Until December 31, 2014 |
| Elcomtec Co., Ltd. | 375,901 | 288 | Until October 18, 2014 |
| KPM Tech Co., Ltd. | 462,815 | 285 | Until December 31, 2015 |
| Jaeyoung Solutec Co., Ltd | 61,333 | 91 | Until December 31, 2014 |
| Pumyang Construction Co., Ltd | 12,030 | 72 | Until June 30, 2014 |
| Young Gwang Stainless Co., Ltd | 10,000 | 14 | Until December 31, 2014 |
| STX Offshore & Shipbuilding Co., Ltd. | 11,589,600 | 12 | Until December 31, 2017 |
| ForceTEC Co., Ltd. | 2,524,280 | 3 | Until December 31, 2017 |
| Ssangyong Engineering & Construction | 5,913 | - | (*1) |
| Hae Won Steeltech. Co., Ltd. | 271,398 | - | Until January 20, 2015 |
| | | ₩ 141,067 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditor's meeting.

**12. Available-for-sale financial assets (cont'd)**

| Classification | December 31, 2013 Number of shares | Book value | Restriction |
|---|---|---|---|
| Taihan Electric Wire Co., Ltd. (preferred stock) | 4,869,900 | ₩ 58,074 | Until December 31, 2015 |
| Kumho Tire Co., Inc. | 3,153,755 | 36,268 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 9,958,000 | 12,945 | Until December 31, 2016 |
| STX Engine Co., Ltd. | 2,714,000 | 12,484 | Until December 31, 2017 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 8,281 | Until June 4, 2014 |
| STX Heavy Industries Co., Ltd. | 2,250,000 | 7,245 | Until December 31, 2017 |
| Taihan Electric Wire Co., Ltd. | 3,019,100 | 7,201 | Until December 31, 2015 |
| STX Offshore & Shipbuilding Co., Ltd. | 673,889 | 4,515 | Until December 31, 2017 |
| Elcomtec Co., Ltd. | 375,901 | 1,673 | Until November 22, 2014 |
| SAMT CO.,Ltd. | 677,264 | 1,463 | Until December 31, 2014 |
| Kumho Industrial Co.,Ltd | 123,527 | 1,451 | Until December 31, 2014 |
| Chinhung International Inc | 600,400 | 967 | Until December 31, 2014 |
| AJin P&P Co., Ltd | 53,850 | 782 | Until December 31, 2015 |
| Kores Co., Ltd. | 492,000 | 417 | Until December 31, 2014 |
| Jaeyoung Solutec Co., Ltd | 61,333 | 83 | Until December 31, 2014 |
| Young Gwang Stainless Co., Ltd | 10,000 | 14 | Until December 31, 2014 |
| ForceTEC Co., Ltd. | 2,524,280 | 3 | Until December 31, 2017 |
| Ssangyong Engineering & Construction | 5,913 | - | (*1) |
| | | ₩ 153,866 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditor's meeting.

Investments in partnership (including investments in partnership denominated in foreign currencies) as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | March 31, 2014 Book value before valuation | Loss on valuation | Fair value (Book value) | December 31, 2013 Fair value (Book value) |
|---|---|---|---|---|
| Investment in capital | ₩ 53,548 | ₩ - | ₩ 53,548 | ₩ 52,648 |

For available-for-sale financial assets over ₩1,000 million, the Bank uses a valued price measured by an external valuation agency on a semi-annual basis. Moreover, investment incapital in the amount of ₩1,702 million and ₩802 million as at March 31, 2014 and December 31, 2013, respectively, were valued at the cost as their fair values could not be reasonably estimated.

## 12. Available-for-sale financial assets (cont'd)

Debt securities as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| Classification | March 31, 2014 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 3,314,132 | ₩ 3,325,188 | ₩ 3,322,701 | ₩ 3,321,986 |
| Finance bonds | 3,004,139 | 3,011,054 | 3,009,254 | 3,008,350 |
| Corporate bonds and others | 2,244,800 | 2,310,113 | 2,259,575 | 2,256,593 |
| Debt securities denominated in foreign currencies | 753,953 | 797,771 | 783,919 | 786,250 |
| | ₩ 9,317,024 | ₩ 9,444,126 | ₩ 9,375,449 | ₩ 9,373,179 |

| Classification | December 31, 2013 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,965,132 | ₩ 1,971,101 | ₩ 1,969,933 | ₩ 1,967,619 |
| Finance bonds | 2,674,139 | 2,687,283 | 2,682,891 | 2,680,660 |
| Corporate bonds and others | 2,994,800 | 3,021,342 | 3,013,338 | 3,006,181 |
| Debt securities denominated in foreign currencies | 553,327 | 586,622 | 567,795 | 573,832 |
| | ₩ 8,187,398 | ₩ 8,266,348 | ₩ 8,233,957 | ₩ 8,228,292 |

Changes in the unrealized gain (loss) of the Bank's available-for-sale financial assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 Beginning balance | Unrealized gain (loss) | Realized gain or loss | Tax effect | Ending balance |
|---|---|---|---|---|---|
| Equity securities | ₩ 294,026 | ₩ (4,879) | ₩ (33,460) | ₩ 9,278 | ₩ 264,965 |
| Other equity securities | 2,191 | (66) | - | 16 | 2,141 |
| Government and public bonds | (1,754) | 2,187 | (589) | (387) | (543) |
| Finance bonds | (1,692) | 2,127 | (800) | (321) | (686) |
| Corporate bonds and others | (5,425) | 5,287 | (1,113) | (1,010) | (2,261) |
| Debt securities denominated in foreign currencies | 1,064 | 2,332 | (418) | (463) | 2,515 |
| | ₩ 288,410 | ₩ 6,988 | ₩ (36,380) | ₩ 7,113 | ₩ 266,131 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Unrealized gain (loss) | Realized gain or loss | Tax effect | Ending balance |
| Equity securities | ₩ 184,648 | ₩ 150,282 | ₩ (5,985) | ₩ (34,919) | ₩ 294,026 |
| Other equity securities | 20,945 | 243 | (24,984) | 5,987 | 2,191 |
| Government and public bonds | 3,191 | (4,362) | (2,162) | 1,579 | (1,754) |
| Finance bonds | 1,815 | (925) | (3,701) | 1,119 | (1,692) |
| Corporate bonds and others | 3,437 | (6,697) | (4,994) | 2,829 | (5,425) |
| Debt securities denominated in foreign currencies | 692 | 1,003 | (512) | (119) | 1,064 |
| | ₩ 214,728 | ₩ 139,544 | ₩ (42,338) | ₩ (23,524) | ₩ 288,410 |

Realized gain and loss on the disposal of available-for-sale financial assets for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| | Realized gain | Realized loss | Realized gain | Realized loss |
| Equity securities | ₩ 15,650 | ₩ 11 | ₩ 10,689 | ₩ 4,226 |
| Government and public bonds | 927 | - | 1,303 | - |
| Finance bonds | 1,162 | - | 2,674 | - |
| Corporate bonds and others | 2,757 | 4 | 4,302 | - |
| Debt securities denominated in foreign currencies | 535 | - | - | - |
| | ₩ 21,031 | ₩ 15 | ₩ 18,968 | ₩ 4,226 |

Dividend income on available-for-sale financial assets for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Equity securities | ₩ 4,324 | ₩ 3,376 |
| Other equity securities | 137 | 17 |
| | ₩ 4,461 | ₩ 3,393 |

## 12. Available-for-sale financial assets (cont'd)

Transferred financial assets that are not fully derecognized as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Classification | Book value | Fair value | Book value | Fair value |
| Assets: | | | | |
| Available-for-sale financial assets | ₩ 310,616 | ₩ 310,616 | ₩ 229,920 | ₩ 229,920 |
| Liabilities: | | | | |
| Bonds sold under repurchase agreements | ₩ 190 | ₩ 190 | ₩ 190 | ₩ 190 |

## 13. Held-to-maturity investments

Details of held-to-maturity investments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | | | Book value | |
|---|---|---|---|---|
| Classification | Type | Interest rate (%) | March 31, 2014 | December 31, 2013 |
| Government and public bonds | Treasury bonds | 3.50~4.25 | ₩ 131,177 | ₩ 311,697 |
| | Housing bonds | 2.25~3.00 | 198,201 | 208,013 |
| | Local development bonds | 4.09 | 9,987 | 9,982 |
| | | | 339,365 | 529,692 |
| Finance bonds | Monetary stabilization securities | 2.78~3.59 | 460,060 | 850,313 |
| | Deposit bank bonds | 3.40~8.35 | 162,210 | 162,293 |
| | Small & medium industry finance bonds | 3.34 | 30,400 | 30,410 |
| | Industrial finance bonds | 6.12 | 10,000 | 10,004 |
| | | | 662,670 | 1,053,020 |
| Corporate bonds and others | General bonds | 4.05~5.94 | 50,145 | 50,227 |
| | Industrial bonds invested by government | 3.80~5.17 | 381,923 | 532,925 |
| | | | 432,068 | 583,152 |
| Securities denominated in foreign currency | Debt securities denominated in foreign currency | 0.59~7.63 | 29,741 | 29,694 |
| | | | ₩ 1,463,844 | ₩ 2,195,558 |

## 13. Held-to-maturity investments (cont'd)

Details of held-to-maturity securities as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 340,700 | ₩ 339,738 | ₩ 339,365 | ₩ 339,365 |
| Finance bonds | 660,000 | 664,822 | 662,670 | 662,670 |
| Corporate bonds and others | 430,000 | 439,887 | 432,068 | 432,068 |
| Debt securities denominated in foreign currencies | 29,653 | 30,245 | 29,741 | 29,741 |
| | ₩ 1,460,353 | ₩ 1,474,692 | ₩ 1,463,844 | ₩ 1,463,844 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 530,700 | ₩ 534,081 | ₩ 529,692 | ₩ 529,692 |
| Finance bonds | 1,050,000 | 1,054,266 | 1,053,020 | 1,053,020 |
| Corporate bonds and others | 580,000 | 593,634 | 583,152 | 583,152 |
| Debt securities denominated in foreign currencies | 30,079 | 30,142 | 29,694 | 29,694 |
| | ₩ 2,190,779 | ₩ 2,212,123 | ₩ 2,195,558 | ₩ 2,195,558 |

## 14. Maturities of debt securities

Maturities of debt securities included in available-for-sale financial assets and held-to-maturity investments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 79,973 | ₩ - | ₩ 2,147 | ₩ 82,120 |
| After 1 month but no later than 3 months | 199,260 | 298,300 | - | 39,920 | 537,480 |
| After 3 months but no later than 6 months | - | 308,719 | 10,079 | 7,391 | 326,189 |
| After 6 months but no later than 1 year | 238,131 | 540,760 | 325,865 | 90,008 | 1,194,764 |
| After 1 year but no later than 3 years | 2,415,033 | 1,675,233 | 1,579,661 | 609,577 | 6,279,504 |
| After 3 years but no later than 5 years | 469,562 | 56,257 | 311,414 | 25,384 | 862,617 |
| After 5 years but no later than 10 years | - | 49,108 | 29,574 | 11,823 | 90,505 |
| | ₩ 3,321,986 | ₩ 3,008,350 | ₩ 2,256,593 | ₩ 786,250 | ₩ 9,373,179 |
| Held-to-maturity investments: | | | | | |
| Within 1 month | ₩ - | ₩ 270,003 | ₩ - | ₩ 6 | ₩ 270,009 |
| After 1 month but no later than 3 months | 70,063 | 130,060 | 160,268 | 729 | 361,120 |
| After 3 months but no later than 6 months | 101,013 | 70,001 | 50,199 | 4 | 221,217 |
| After 6 months but no later than 1 year | 99,924 | 49,997 | 181,394 | 18 | 331,333 |
| After 1 year but no later than 3 years | 39,842 | - | 20,207 | 28,453 | 88,502 |
| After 3 years but no later than 5 years | 28,523 | 20,600 | - | 318 | 49,441 |
| After 5 years but no later than 10 years | - | 122,009 | 20,000 | 213 | 142,222 |
| | ₩ 339,365 | ₩ 662,670 | ₩ 432,068 | ₩ 29,741 | ₩ 1,463,844 |

## 14. Maturities of debt securities (cont'd)

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 79,981 | ₩ - | ₩ 10,602 | ₩ 90,583 |
| After 1 month but no later than 3 months | - | 169,470 | - | 2,652 | 172,122 |
| After 3 months but no later than 6 months | 41,157 | 50,013 | 20,116 | 42,142 | 153,428 |
| After 6 months but no later than 1 year | 202,601 | 950,105 | 211,812 | 57,043 | 1,421,561 |
| After 1 year but no later than 3 years | 1,245,100 | 1,311,436 | 2,374,203 | 436,749 | 5,367,488 |
| After 3 years but no later than 5 years | 478,761 | 71,124 | 370,869 | 24,644 | 945,398 |
| After 5 years but no later than 10 years | - | 48,531 | 29,181 | - | 77,712 |
| | ₩ 1,967,619 | ₩ 2,680,660 | ₩ 3,006,181 | ₩ 573,832 | ₩ 8,228,292 |
| Held-to-maturity investments: | | | | | |
| Within 1 month | ₩ - | ₩ - | ₩ 130,046 | ₩ 33 | ₩ 130,079 |
| After 1 month but no later than 3 months | 190,299 | 389,974 | 20,054 | 19 | 600,346 |
| After 3 months but no later than 6 months | 70,147 | 400,346 | 160,690 | 945 | 632,128 |
| After 6 months but no later than 1 year | 150,879 | 119,998 | 90,446 | 23 | 361,346 |
| After 1 year but no later than 3 years | 89,919 | - | 161,916 | 27,995 | 279,830 |
| After 3 years but no later than 5 years | 28,448 | 10,640 | - | 679 | 39,767 |
| After 5 years but no later than 10 years | - | 132,062 | 20,000 | - | 152,062 |
| | ₩ 529,692 | ₩ 1,053,020 | ₩ 583,152 | ₩ 29,694 | ₩ 2,195,558 |

## 15. Pledged assets

Assets pledged as collateral for the purpose of resale agreement bonds from other banks, futures options and security deposits for membership maintenance at the stock exchange for available-for-sale financial assets and held-to-maturity investments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Details | Book value: March 31, 2014 | Book value: December 31, 2013 |
|---|---|---|---|
| Available-for-sale financial assets | Settlement of BOK | ₩ 1,069,349 | ₩ 546,119 |
| | Borrowings denominated in foreign currency (CSA) | 14,061 | 10,011 |
| | Borrowings from BOK | 420,543 | 381,180 |
| | Margin for future trading | 121,002 | 120,415 |
| | Daylight credit | 451,182 | 390,999 |
| | Foreign currency borrowings | 425,801 | 30,294 |
| | Others | 79,833 | 60,228 |
| | | 2,581,771 | 1,539,246 |
| Held-to-maturity investments | Borrowings denominated in foreign currency | 179,797 | 640,111 |
| | Margin for future trading | 200,011 | 189,249 |
| | BOK payment | 391,810 | 802,710 |
| | Daylight credit | 100,165 | 160,434 |
| | Client RP | 905 | 909 |
| | Borrowings from BOK | 148,635 | 148,646 |
| | | 1,021,323 | 1,942,059 |
| | | ₩ 3,603,094 | ₩ 3,481,305 |

## 16. Loans receivable

Details of loans receivable as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Loans receivable: | | |
| Loans in Korean won | ₩ 51,134,484 | ₩ 49,423,163 |
| Loans denominated in foreign currencies | 8,192,447 | 6,459,002 |
| Domestic import usance | 2,574,823 | 2,450,925 |
| Call loans | 1,347,190 | 1,406,504 |
| Bills purchased in Korean won | 82,001 | 88,753 |
| Bills purchased denominated in foreign currencies | 6,436,884 | 5,589,418 |
| Advance payments on acceptances and guarantees | 7,940 | 6,801 |
| Credit card loans | 2,691,948 | 2,649,533 |
| Bonds purchased under resale agreement | 640,000 | 700,000 |
| Installment receivables purchased | 712,785 | 1,268,848 |
| Privately-placed corporate bonds | 367,019 | 296,523 |
| Others | 8,212 | 8,217 |
| | 74,195,733 | 70,347,687 |
| Plus (less): | | |
| Deferred loan fees and expenses | 32,755 | 37,894 |
| Allowance for possible loan losses | (710,300) | (673,589) |
| | ₩ 73,518,188 | ₩ 69,711,992 |

Changes in deferred loan fees, net of expenses for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are summarized as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | |
|---|---|---|---|---|
| | January 1, 2014 | Increase | Decrease | March 31, 2014 |
| Deferred loan fees, net of expenses | ₩ 37,894 | ₩ 4,507 | ₩ (9,646) | ₩ 32,755 |

| | Year ended December 31, 2013 | | | |
|---|---|---|---|---|
| | January 1, 2013 | Increase | Decrease | December 31, 2013 |
| Deferred loan fees, net of expenses | ₩ 33,254 | ₩ 36,834 | ₩ (32,194) | ₩ 37,894 |

## 16. Loans receivable (cont'd)

Changes in allowance for possible loan losses for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately placed corporate bonds | Others | Total |
| As at Jan 1, 2014 | ₩ 490,125 | ₩ 82,675 | ₩ 2,177 | ₩ 5,004 | ₩ 86,437 | ₩ 5,411 | ₩ 1,760 | ₩ 673,589 |
| Write-offs | (66,169) | (85) | (227) | - | (22,252) | - | - | (88,733) |
| Collection of loans written-off in prior period | 19,037 | - | - | - | 8,016 | - | - | 27,053 |
| Debt-to-equity swap | (32,528) | - | - | - | - | - | - | (32,528) |
| Foreign currency translation and others | - | 3,029 | - | - | 3 | - | - | 3,032 |
| Provision for possible loan losses | 80,041 | 5,426 | 1,255 | (149) | 22,045 | (2,306) | 34,299 | 140,611 |
| Interest income from impaired loans | (11,213) | (775) | (63) | (36) | (597) | (84) | 44 | (12,724) |
| As at Mar 31, 2014 | ₩ 479,293 | ₩ 90,270 | ₩ 3,142 | ₩ 4,819 | ₩ 93,652 | ₩ 3,021 | ₩ 36,103 | ₩ 710,300 |

| | Year ended December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately placed corporate bonds | Others | Total |
| As at Jan 1, 2013 | ₩ 507,557 | ₩ 98,317 | ₩ 4,148 | ₩ 4,208 | ₩ 84,543 | ₩ 3,384 | ₩ 2,094 | ₩ 704,251 |
| Disposal of non-performing loans | (34,999) | - | - | - | - | - | - | (34,999) |
| Write-offs | (379,479) | (751) | (228) | - | (108,085) | - | | (488,543) |
| Collection of loans written-off in prior period | 87,327 | - | - | - | 33,749 | - | - | 121,076 |
| Debt-to-equity swap | (4,667) | - | - | - | - | - | - | (4,667) |
| Foreign currency translation and others | - | (3,687) | 1 | - | (5) | - | - | (3,691) |
| Provision for possible loan losses | 376,507 | (8,336) | (1,635) | 836 | 78,754 | 2,069 | (334) | 447,861 |
| Interest income from impaired loans | (62,121) | (2,868) | (109) | (40) | (2,519) | (42) | - | (67,699) |
| As at Dec 31, 2013 | ₩ 490,125 | ₩ 82,675 | ₩ 2,177 | ₩ 5,004 | ₩ 86,437 | ₩ 5,411 | ₩ 1,760 | ₩ 673,589 |

## 17. Structured securities

Details of structured securities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Structured securities related to credit risk: | | |
| Collateralized Debt Obligation ("CDO") | ₩ 22,047 | ₩ 21,197 |

## 18. Derivative instruments

Unsettled derivative contracts held-for-trading as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | | Three-month period ended March 31, 2014 | | As at March 31, 2014 | |
|---|---|---|---|---|---|
| Classification | Notional amounts | Net valuation gain | Net valuation loss | Assets | Liabilities |
| Currency: | | | | | |
| Forward | ₩ 42,498,764 | ₩ 186,699 | ₩ 155,747 | ₩ 394,736 | ₩ 492,937 |
| Swap | 18,116,387 | 87,447 | 130,662 | 428,747 | 230,819 |
| Options purchased | 1,899,941 | 534 | 10,500 | 35,073 | - |
| Options sold | 2,505,638 | 11,244 | 1,470 | - | 39,759 |
| Currency futures | 513,687 | - | - | - | - |
| | 65,534,417 | 285,924 | 298,379 | 858,556 | 763,515 |
| Interest: | | | | | |
| Swap | 47,305,181 | 41,307 | 46,960 | 147,474 | 198,839 |
| Options purchased | 690,000 | 311 | 651 | 3,551 | - |
| Options sold | 1,425,000 | 1,330 | 58 | - | 3,135 |
| Futures | 1,079,408 | - | - | - | - |
| | 50,499,589 | 42,948 | 47,669 | 151,025 | 201,974 |
| Stock: | | | | | |
| Options purchased | 13,398 | - | 1,033 | 675 | - |
| Options sold | 338,981 | 986 | 79 | - | 8,604 |
| Futures | 38,491 | - | - | - | - |
| | 390,870 | 986 | 1,112 | 675 | 8,604 |
| Others: | | | | | |
| Credit risk adjustment | - | 2,453 | 1 | - | 9,980 |
| Bid-ask spread adjustment | - | 515 | - | - | 2,340 |
| | - | 2,968 | 1 | - | 12,320 |
| | ₩ 116,424,876 | ₩ 332,826 | ₩ 347,161 | ₩ 1,010,256 | ₩ 986,413 |

## 18. Derivative instruments (cont'd)

| Classification | Notional amounts | Year ended December 31, 2013 Net valuation gain | Year ended December 31, 2013 Net valuation loss | As at December 31, 2013 Assets | As at December 31, 2013 Liabilities |
|---|---|---|---|---|---|
| Currency: | | | | | |
| Forward | ₩ 40,669,665 | ₩ 581,800 | ₩ 501,350 | ₩ 561,806 | ₩ 674,178 |
| Swap | 18,826,017 | 250,932 | 329,061 | 590,071 | 330,252 |
| Options purchased | 1,593,406 | 10,720 | 9,718 | 32,670 | - |
| Options sold | 2,117,718 | 13,040 | 9,575 | - | 41,020 |
| Currency futures | 144,893 | - | - | - | - |
| | 63,351,699 | 856,492 | 849,704 | 1,184,547 | 1,045,450 |
| Interest: | | | | | |
| Swap | 47,541,311 | 61,614 | 59,463 | 165,839 | 212,512 |
| Options purchased | 690,000 | 1,282 | 740 | 3,891 | - |
| Options sold | 1,325,000 | 725 | 501 | - | 4,168 |
| Futures | 493,841 | - | - | - | - |
| | 50,050,152 | 63,621 | 60,704 | 169,730 | 216,680 |
| Stock: | | | | | |
| Options purchased | 5,751 | 103 | 837 | 1,080 | - |
| Options sold | 477,452 | 67 | 11 | - | 9,350 |
| Futures | 25,237 | - | - | - | - |
| | 508,440 | 170 | 848 | 1,080 | 9,350 |
| Others: | | | | | |
| Credit risk adjustment | - | - | 2,823 | - | 12,432 |
| Bid-ask spread adjustment | - | 1,053 | - | - | 2,855 |
| | - | 1,053 | 2,823 | - | 15,287 |
| | ₩ 113,910,291 | ₩ 921,336 | ₩ 914,079 | ₩ 1,355,357 | ₩ 1,286,767 |

Unsettled derivative contracts used for hedging purposes as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Notional amounts | Three-month period ended March 31, 2014 Net valuation gain | Three-month period ended March 31, 2014 Net valuation loss | As at March 31, 2014 Assets | As at March 31, 2014 Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 2,191,040 | ₩ 4,124 | ₩ 3,825 | ₩ 20,662 | ₩ 8,382 |

| Classification | Notional amounts | Year ended December 31, 2013 Net valuation gain | Year ended December 31, 2013 Net valuation loss | As at December 31, 2013 Assets | As at December 31, 2013 Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 2,163,365 | ₩ - | ₩ 3,262 | ₩ 23,070 | ₩ 12,562 |

For derivative transactions involving both Korean won and foreign currency, the fair value of the unsettled amount for such transactions is presented using the basic foreign exchange rate of the contract amount in foreign currency. For a derivative transaction involving only foreign currency, the fair value of the unsettled amount is presented using the basic foreign exchange rate of the foreign currency purchased at the reporting date.

## 18. Derivative instruments (cont'd)

Gain or loss on valuation of hedged items for the three-month periods ended March 31, 2014 and 2013 is as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Classification | Realized gain | Realized loss | Realized gain | Realized loss |
| Finance debentures | ₩ 4,033 | ₩ 4,224 | ₩ 4,920 | ₩ - |

Hedged items applying to fair value hedge accounting as at March 31, 2014 include finance debentures denominated in foreign currency. The Bank recognized changes in fair values of hedged items due to fluctuation of interest rates in net income for the period. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

## 19. Investments in subsidiaries and associates

Details of investments in subsidiaries and associates as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Type | Country | Financial statements date | Business type | Ownership (%) | Book value March 31, 2014 | Book value December 31, 2013 |
|---|---|---|---|---|---|---|---|
| KEB F&I (formerly, KEB Capital Inc.) (*1) | Subsidiary | Korea | March 31, 2014 | Financial services | 99.31 | ₩ 27,387 | ₩ 27,387 |
| KEB Futures Co., Ltd. ("KEBF") | Subsidiary | Korea | March 31, 2014 | Financial services | 100.00 | 52,808 | 52,808 |
| KEB Fund Services Co., Ltd. ("KEBIS") | Subsidiary | Korea | March 31, 2014 | Financial services | 100.00 | 2,550 | 2,550 |
| Korea Exchange Bank of Canada ("KEBOC") | Subsidiary | Canada | March 31, 2014 | Financial services | 100.00 | 111,056 | 111,056 |
| KEB Australia Ltd. ("KEBA") | Subsidiary | Australia | March 31, 2014 | Financial services | 100.00 | 48,792 | 48,792 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | Subsidiary | Germany | March 31, 2014 | Financial services | 100.00 | 73,698 | 73,698 |
| PT. Bank KEB Hana (formerly, PT. Bank KEB Indonesia ("KEBI")) (*2) | Subsidiary | Indonesia | March 31, 2014 | Financial services | 49.87 | 131,454 | 131,454 |
| Banco KEB do Brasil S. A. ("KEBB") | Subsidiary | Brazil | March 31, 2014 | Financial services | 100.00 | 42,544 | 42,544 |
| KEB NY Financial Corp.("KEBNYFINCO") | Subsidiary | U.S | March 31, 2014 | Financial services | 100.00 | 36,169 | 36,169 |
| KEB LA Financial Corp.("KEBLAFINCO") | Subsidiary | U.S | March 31, 2014 | Financial services | 100.00 | 32,037 | 32,037 |
| KEB USA Int'l Corp. ("USAI") | Subsidiary | U.S | March 31, 2014 | Financial services | 100.00 | 6,459 | 6,459 |

## 19. Investments in subsidiaries and associates (cont'd)

| Classification | Type | Country | Financial statements date | Business type | Owner-ship(%) | Book value March 31, 2014 | Book value December 31, 2012 |
|---|---|---|---|---|---|---|---|
| KEB Asia Finance Limited ("KAF") | Subsidiary | Hong Kong | March 31, 2014 | Financial services | 100.00 | 54,212 | 54,212 |
| KEB Bank (China) Co., Ltd.("KEB China") | Subsidiary | China | March 31, 2014 | Financial services | 100.00 | 391,056 | 364,449 |
| Trust agreement to preserve income (*3) | Subsidiary | Korea | March 31, 2014 | Trust business | - | - | - |
| Trust agreement to preserve principle (*3) | Subsidiary | Korea | March 31, 2014 | Trust business | - | - | - |
| Athenae 1st (*3) | Subsidiary | Korea | March 31, 2014 | SPC | - | - | - |
| Athenae 2nd (*3) | Subsidiary | Korea | March 31, 2014 | SPC | - | - | - |
| Flossom (*4) | Associate | Korea | December 31, 2013 | Construction | 1.92 | - | - |
| MIDAN City Development Co.,Ltd (*4) | Associate | Korea | September 30, 2013 | Construction | 2.17 | 1,492 | 1,492 |
| Masam Marine New Town Co.,Ltd.(*4) | Associate | Korea | December 31, 2013 | Construction | 10.00 | 100 | 100 |
| | | | | | | ₩ 54,212 | ₩ 985,207 |

(*1) The Bank held a Board of Directors' meeting on October 17, 2013, voted to change its operations to asset management and investments regarding insolvent assets under the Asset-Backed Securitization Act and changed its name to KEB F&I.
(*2) PT. Bank KEB Indonesia and PT. Bank Hana have completed their merger process and changed the name to PT. Bank KEB Hana on February, 2014.
(*3) These structured entittes were classified as subsidiaries based on consideration of activities and exposure to variable income.
(*4) These companies were classified as an investment in associates as the Bank excercises significant influence over these companies through participating in the Board of Directors' meeting.

Summary of the financial statements of investments in subsidiaries and associates as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Assets | Liabilities | Equity (deficit) | Net income (loss) | Dividend earned |
| KEB F&I (formerly, KEB Capital Inc.) | ₩ 261,372 | ₩ 233,835 | ₩ 27,537 | ₩ 12 | |
| KEB Futures Co., Ltd. ("KEBF") | 600,747 | 535,373 | 65,374 | 217 | |
| KEB Fund Services Co., Ltd. ("KEBIS") | 17,911 | 1,820 | 16,091 | 821 | |
| Korea Exchange Bank of Canada ("KEBOC") | 1,272,264 | 1,124,576 | 147,688 | 2,537 | |
| KEB Australia Ltd. ("KEBA") | 61,747 | 3,183 | 58,564 | 609 | 23,905 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 630,329 | 550,149 | 80,180 | 1,807 | |

## 19. Investments in subsidiaries and associates (cont'd)

| Classification | March 31, 2014 Assets | Liabilities | Equity (deficit) | Net income (loss) | Dividend earned |
|---|---|---|---|---|---|
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 630,329 | 550,149 | 80,180 | 1,807 | |
| PT. Bank KEB Hana (formerly, PT. Bank KEB Indonesia ("KEBI")) | 1,238,669 | 976,218 | 262,451 | 4,760 | |
| Banco KEB do Brasil S. A. ("KEBB") | 164,267 | 118,876 | 45,391 | 909 | |
| KEB NY Financial Corp. ("KEBNYFINCO") | 484,819 | 442,962 | 41,857 | 1,298 | |
| KEB LA Financial Corp. ("KEBLAFINCO") | 281,426 | 235,782 | 45,644 | 834 | |
| KEB USA Int'l Corp. ("USAI") | 7,120 | 2 | 7,118 | (7) | |
| KEB Asia Finance Limited ("KAF") | 145,660 | 89,914 | 55,746 | 96 | |
| KEB Bank (China) Co., Ltd. ("KEB China") | 3,221,754 | 2,766,507 | 455,247 | 5,858 | |

| Classification | December 31, 2013 Assets | Liabilities | Equity (deficit) | Net income (loss) | Dividend earned |
|---|---|---|---|---|---|
| KEB Capital Inc. | ₩ 259,926 | ₩ 232,348 | ₩ 27,578 | ₩ (47,927) | |
| KEB Futures Co., Ltd. ("KEBF") | 546,310 | 480,759 | 65,551 | 19 | |
| KEB Fund Services Co., Ltd. ("KEBIS") | 17,346 | 2,073 | 15,273 | 3,207 | |
| Korea Exchange Bank of Canada ("KEBOC") | 1,304,312 | 1,155,571 | 148,741 | 14,926 | |
| KEB Australia Ltd. ("KEBA") | 394,551 | 316,747 | 77,804 | 7,456 | |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 765,741 | 688,074 | 77,667 | 2,646 | |
| PT. Bank KEB Indonesia ("KEBI") | 507,969 | 375,422 | 132,547 | 13,289 | |
| Banco KEB do Brasil S. A. ("KEBB") | 160,226 | 118,179 | 42,047 | 5,399 | |
| KEB NY Financial Corp. ("KEBNYFINCO") | 465,773 | 425,715 | 40,058 | 4,374 | |
| KEB LA Financial Corp. ("KEBLAFINCO") | 278,932 | 234,688 | 44,244 | 3,026 | |
| KEB USA Int'l Corp. ("USAI") | 7,038 | 3 | 7,035 | 47 | |

**19. Investments in subsidiaries and associates (cont'd)**

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Assets | Liabilities | Equity (deficit) | Net income (loss) | Dividend earned |
| KEB Asia Finance Limited ("KAF") | 126,584 | 71,637 | 54,947 | 1,873 | |
| KEB Bank (China) Co., Ltd. ("KEB China") | 2,630,733 | 2,205,309 | 425,424 | 10,637 | |
| Trust agreement to preserve income | 86 | 84 | 2 | - | |
| Trust agreement to preserve principle | 719,831 | 707,633 | 12,198 | (728) | |
| Athenae 1st | 11,502 | 11,500 | 2 | 2 | |
| Athenae 2nd | 5,152 | 5,150 | 2 | 2 | |
| Flossom | 111,705 | 127,896 | (16,191) | (6,647) | |
| MIDAN City Development Co.,Ltd | 892,537 | 861,649 | 30,888 | (18,030) | |
| Masam Marine New Town Co.,Ltd. | 148,823 | 148,513 | 310 | (7) | |

## 20. Property and equipment

Property and equipment as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated depreciation | Government grants | Book value |
| Land | ₩ 811,679 | ₩ - | ₩ - | ₩ 811,679 |
| Buildings | 463,143 | (193,920) | - | 269,223 |
| Leasehold improvements | 170,969 | (134,901) | (334) | 35,734 |
| Equipment and vehicles | 659,194 | (588,048) | - | 71,146 |
| | ₩ 2,104,985 | ₩ (916,869) | ₩ (334) | ₩ 1,187,782 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated depreciation | Government grants | Book value |
| Land | ₩ 811,634 | ₩ - | ₩ - | ₩ 811,634 |
| Buildings | 461,572 | (191,162) | - | 270,410 |
| Leasehold improvements | 169,452 | (132,092) | (353) | 37,007 |
| Equipment and vehicles | 658,069 | (578,072) | - | 79,997 |
| | ₩ 2,100,727 | ₩ (901,326) | ₩ (353) | ₩ 1,199,048 |

Changes in property and equipment for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 | Additions | Disposal | Depreciation | Transfer out | Others | March 31, 2014 |
| Land | ₩ 811,634 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 45 | ₩ 811,679 |
| Buildings | 270,410 | 1,811 | - | (2,811) | (252) | 65 | 269,223 |
| Leasehold improvements (*1) | 37,007 | 648 | - | (2,714) | - | 793 | 35,734 |
| Equipments and vehicles | 79,997 | 2,462 | (71) | (11,608) | - | 366 | 71,146 |
| | ₩ 1,199,048 | ₩ 4,921 | ₩ (71) | ₩ (17,133) | ₩ (252) | ₩ 1,269 | ₩ 1,187,782 |

## 20. Property and equipment (cont'd)

| Classification | Year ended December 31, 2013<br>January 1, 2013 | Additions | Disposal | Depreciation | Transfer out | Others | December 31, 2013 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 816,715 | ₩ 809 | ₩ (102) | ₩ - | ₩ (5,465) | ₩ (323) | ₩ 811,634 |
| Buildings | 270,384 | 13,404 | (35) | (11,142) | (2,034) | (167) | 270,410 |
| Leasehold improvements (*1) | 31,156 | 17,302 | 2 | (10,629) | - | (824) | 37,007 |
| Equipments and vehicles | 86,517 | 48,223 | (152) | (54,242) | - | (349) | 79,997 |
| Construction in progress | 3 | - | - | - | (3) | - | - |
| | ₩ 1,204,775 | ₩ 79,738 | ₩ (287) | ₩ (76,013) | ₩ (7,502) | ₩ (1,663) | ₩ 1,199,048 |

(*1) An increase of ₩1,211 million related to a provision for restoration cost was included in the acquisition amount.

## 21. Investment property

Details of investment property as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014<br>Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Land | ₩ 122,088 | ₩ - | ₩ (2,356) | ₩ 119,732 |
| Buildings | 117,621 | (52,106) | (2,388) | 63,127 |
| | ₩ 239,709 | ₩ (52,106) | ₩ (4,744) | ₩ 182,859 |

| Classification | December 31, 2013<br>Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Land | ₩ 122,088 | ₩ - | ₩ (2,356) | ₩ 119,732 |
| Buildings | 117,228 | (51,310) | (2,388) | 63,530 |
| | ₩ 239,316 | ₩ (51,310) | ₩ (4,744) | ₩ 183,262 |

Changes in investment property for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014<br>January 1, 2014 | Disposal | Depreciation | Transfer (*1) | March 31, 2014 |
|---|---|---|---|---|---|
| Land | ₩ 119,732 | ₩ - | ₩ - | ₩ - | ₩ 119,732 |
| Buildings | 63,530 | - | (655) | 252 | 63,127 |
| | ₩ 183,262 | ₩ - | ₩ (655) | ₩ 252 | ₩ 182,859 |

### 21. Investment property (cont'd)

| Classification | Year ended December 31, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | January 1, 2013 | | Disposal | | Depreciation | | Transfer (*1) | | December 31, 2013 | |
| Land | ₩ | 114,267 | ₩ | - | ₩ | - | ₩ | 5,465 | ₩ | 119,732 |
| Buildings | | 64,044 | | - | | (2,549) | | 2,035 | | 63,530 |
| | ₩ | 178,311 | ₩ | - | ₩ | (2,549) | ₩ | 7,500 | ₩ | 183,262 |

(*1) Due to the changes in the ratio of the leased investment properties

Fair values of investment property, measured with inputs classified into level 3 by external independent agencies, amount to ₩156,244 million and ₩145,498 million as at March 31, 2014 and December 31, 2013, respectively,

Rental income and operating expenses arising from the Bank's investment properties for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Rental income | ₩ | 708 | ₩ | 819 |

Investment property not in use as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Land | ₩ | 1,640 | ₩ | 1,640 |
| Buildings | | 265 | | 274 |
| | ₩ | 1,905 | ₩ | 1,914 |

### 22. Intangible assets

Details of intangible assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Acquisition cost | | Accumulated depreciation | | Accumulated impairment loss | | Book value | |
| System development | ₩ | 308,041 | ₩ | (260,995) | ₩ | - | ₩ | 47,046 |
| Membership | | 15,881 | | - | | (6,254) | | 9,627 |
| Others | | 2,226 | | (2,095) | | (28) | | 103 |
| | ₩ | 326,148 | ₩ | (263,090) | ₩ | (6,282) | ₩ | 56,776 |

## 22. Intangible assets (cont'd)

| Classification | December 31, 2013 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| System development | ₩ 306,075 | ₩ (255,406) | ₩ - | ₩ 50,669 |
| Membership | 16,350 | - | (6,252) | 10,098 |
| Others | 2,189 | (2,044) | (28) | 117 |
| | ₩ 324,614 | ₩ (257,450) | ₩ (6,280) | ₩ 60,884 |

Changes in intangible assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 | Additions | Disposal | Amortization | Impairment loss | Reclassifi-cation | March 31, 2014 |
| System development | ₩ 50,669 | ₩ 1,966 | ₩ - | ₩ (5,589) | ₩ - | ₩ - | ₩ 47,046 |
| Membership | 10,098 | 117 | (591) | - | - | 3 | 9,627 |
| Others | 117 | - | - | (17) | - | 3 | 103 |
| | ₩ 60,884 | ₩ 2,083 | ₩ (591) | ₩ (5,606) | ₩ - | ₩ 6 | ₩ 56,776 |

| | Year ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 | Additions | Disposal | Amortization | Impairment loss | Reclassifi-cation | December 31, 2013 |
| System development | ₩ 53,696 | ₩ 18,997 | ₩ - | ₩ (22,024) | ₩ - | ₩ - | ₩ 50,669 |
| Membership | 14,736 | 31 | (2,128) | - | (2,533) | (8) | 10,098 |
| Others | 211 | 21 | - | (99) | - | (16) | 117 |
| | ₩ 68,643 | ₩ 19,049 | ₩ (2,128) | ₩ (22,123) | ₩ (2,533) | ₩ (24) | ₩ 60,884 |

## 23. Other assets and merchant banking account assets

Details of other assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Guarantee deposits paid | ₩ 640,990 | ₩ 647,674 |
| Accounts receivable | 7,211,110 | 4,436,807 |
| Accrued income | 247,140 | 235,310 |
| Prepaid expenses | 159,655 | 113,671 |
| Suspense payments | 35,509 | 28,495 |
| Expenditures | 6,153 | 6,089 |
| Deposit money to court | 28,339 | 27,548 |
| Domestic exchange settlement debits | 1,065,274 | 1,196,426 |
| Others | 4,533 | 4,474 |
| Allowance for possible other asset losses | (7,780) | (8,212) |
| | ₩ 9,390,923 | ₩ 6,688,282 |

## 23. Other assets and merchant banking account assets (cont'd)

Changes in the allowance for possible losses for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 8,212 | ₩ | 3,734 |
| Write-offs | | (648) | | (2,720) |
| Provision for allowance for possible losses | | 260 | | 7,391 |
| Interest income on impaired assets | | (44) | | (193) |
| Ending balance | ₩ | 7,780 | ₩ | 8,212 |

Details of merchant banking account assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Merchant banking account loans | ₩ | 106,300 | ₩ | 154,400 |
| Merchant banking account trading bonds | | 2,130,999 | | 2,166,515 |
| CMA assets: | | | | |
| Loans receivable | | 77,000 | | 146,000 |
| Trading bonds | | 392,178 | | 249,589 |
| | | 469,178 | | 395,589 |
| Allowance for possible loan losses | | (354) | | (669) |
| | ₩ | 2,706,123 | ₩ | 2,715,835 |

## 24. Non-current assets held for sale

Non-current assets held-for-sale consist of two real estates acquired through execution of security rights, which the management of the Bank committed to sell, but not sold as at March 31, 2014. As of the reporting date, the asset held-for-sale is under negotiation for sale and is being actively marketed.

Details of non-current assets held-for-sale as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Acquisition cost | ₩ | 292 | ₩ | 290 |
| Accumulated depreciation | | - | | - |
| | ₩ | 292 | ₩ | 290 |

## 25. Financial liabilities at FVTPL

Details of financial liaiblities at FVTPL as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Derivative liabilities used for hedging purposes (Note 18) | ₩ 986,413 | ₩ 1,286,767 |

## 26. Deposits

Details of deposits as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits in Korean won: | | |
| Checking deposits | ₩ 268,885 | ₩ 411,353 |
| Household checking deposits | 16,483 | 20,545 |
| Temporary deposits | 698,443 | 685,268 |
| Passbook deposits | 16,906,545 | 16,820,267 |
| Public fund deposits | 38,578 | 33,773 |
| Treasury deposits | 9,716 | 256 |
| Nonresident's deposit in Korean won | 185,475 | 216,241 |
| Nonresident's 'free-won' account | 86,169 | 21,404 |
| | 18,210,294 | 18,209,107 |
| Demand deposits denomiated in foreign currency: | | |
| Checking deposits | 1,934,410 | 1,994,659 |
| Passbook deposits | 7,758,232 | 7,118,467 |
| Temporary deposits | 23,966 | 18,113 |
| | 9,716,608 | 9,131,239 |
| | 27,926,902 | 27,340,346 |
| Time and saving deposits: | | |
| Time and saving deposits in Korean won: | | |
| Time deposits | 30,026,735 | 29,691,497 |
| Apartment application deposits | 135,344 | 138,239 |
| Installment saving deposits | 2,259,489 | 2,292,114 |
| Non-resident deposits in Korean won | 416,431 | 421,302 |
| Non-resident free deposits in Korean won | 261,300 | 268,314 |
| Long-term housing saving deposits | 186,771 | 215,784 |
| Workers' preferential saving deposits | 114 | 115 |
| Mutual installment deposits | 84 | 84 |
| Mutual installment for housing | 14,569 | 15,062 |
| Others | 93,863 | 75,426 |
| | 33,394,700 | 33,117,937 |

## 26. Deposits (cont'd)

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Time and saving deposits denominated in foreign currency: | | |
| Time deposits denominated in foreign currency | 4,651,996 | 4,383,814 |
| Others | 44,200 | 39,921 |
| | 4,696,196 | 4,423,735 |
| | 38,090,896 | 37,541,672 |
| Certificate of deposits | 305,313 | 253,232 |
| | ₩ 66,323,111 | ₩ 65,135,250 |

Allocations of deposits by customer as at March 31, 2014 and December 31, 2013 are listed as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Individuals | ₩ 19,384,859 | ₩ 19,254,217 |
| Corporations | 22,647,624 | 22,111,389 |
| Other banks | 1,136,771 | 862,647 |
| Public institutions | 1,068,207 | 926,291 |
| Other financial institutions | 6,380,126 | 6,372,318 |
| Government | 163,812 | 178,514 |
| Non-profit corporations | 3,968,896 | 3,988,257 |
| Foreign organizations | 7,158,027 | 7,166,172 |
| Others | 4,414,789 | 4,275,445 |
| | ₩ 66,323,111 | ₩ 65,135,250 |

## 27. Borrowings

Details of borrowings as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Borrowings in Korean won: | | | | |
| Borrowings from BOK | BOK | 0.50~1.00 | ₩ 563,531 | ₩ 200,271 |
| Borrowings from government | KEMC and others | 0.00~3.10 | 1,362,437 | 1,291,667 |
| Other borrowings | Small business corporation and others | 0.75~5.40 | 150,928 | 153,697 |
| | | | 2,076,896 | 1,645,635 |
| Borrowings denominated in foreign currencies: | | | | |
| Bank overdrafts | NY Citibank and others | 0.70~16.28 | 230,768 | 206,355 |

### 27. Borrowings (cont'd)

| Classification | Lender | Interest rate (%) | March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Other borrowings | EXIM Bank of Korea and others | 0.40~5.75 | 5,020,887 | 3,901,155 |
| | | | 5,251,655 | 4,107,510 |
| Call money: | | | | |
| Call money in Korean won | NACF and others | 2.45~2.47 | 154,000 | - |
| Call money denominated in foreign currencies | SC Bank and others | 0.18~0.42 | 966,049 | 683,160 |
| | | | 1,120,049 | 683,160 |
| Bonds sold under repurchase agreement: | | | | |
| Bonds sold under repurchase agreements in Korean won | Customers | 3.70~3.95 | 190 | 190 |
| Bills sold | Customers | 1.75~2.81 | 95,905 | 84,196 |
| | | | ₩ 8,544,695 | ₩ 6,520,691 |

### 28. Debentures

Details of debentures as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | March 31, 2014 | December 31, 2013 |
|---|---|---|---|---|
| Debentures in Korean won: | | | | |
| Debentures | Institutions | 2.65~3.82 | ₩ 2,340,000 | ₩ 2,590,000 |
| Subordinated bonds | Institutions and customers | 3.07~7.80 | 1,750,122 | 1,750,122 |
| (less present value discount) | | | (3,411) | (5,546) |
| | | | 4,086,711 | 4,334,576 |
| Debentures denominated in foreign currencies: | | | | |
| Debentures | Morgan Stanley and others | 1.75~4.88 | 2,003,846 | 1,997,663 |
| Subordinated debentures | Barclays and others | 4.63 | 207,259 | 204,641 |
| Floating rate bonds | HSBC and others | 1.27~2.37 | 53,440 | 52,765 |
| Net gain (loss) on fair value hedges (current period) | | | 191 | (33,381) |
| Net gain on fair value hedges (prior period) | | | 25,665 | 39,565 |
| (less present value discount) | | | (13,003) | (13,829) |
| | | | 2,277,398 | 2,247,424 |
| | | | ₩ 6,364,109 | ₩ 6,582,000 |

## 29. Provision

Details of provisions as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Provisions for possible losses on acceptances and guarantees: | | |
| Financial acceptances and guarantees (*1) | ₩ 960 | ₩ 1,022 |
| Non-financial acceptances and guarantees | 32,438 | 36,739 |
| Bills endorsed | 2,383 | 276 |
| | 35,781 | 38,037 |
| Provisions for unused commitments | 61,110 | 60,043 |
| Other provisions: | | |
| Provisions for retirement obligation | 17,825 | 17,931 |
| Provisions for reward points | 29,557 | 27,141 |
| Provisions for contingent (*2) | 123,795 | 122,059 |
| Others | 1,457 | 1,446 |
| | 172,634 | 168,577 |
| | ₩ 269,525 | ₩ 266,657 |

(*1) The Bank recognizes the amount exceeding the unamortized amount of the initial fair value at subsequent measurement of the financing guarantee contract as provisions for guarantees. The Bank recognizes the unamortized amount as financing guarantee contract liabilities in the amount of ₩32,367 million and ₩28,581 million as at March 31, 2014 and December 31, 2013, respectively.
(*2) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a lawsuit against 5 companies, including the Bank and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As at December 13, 2011, the Court ruled that $37.30 million of damages and 5 percent annual interest expenses of approximately $15.26 million that accrued from November. 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. Currently, OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a lawsuit with the Seoul Central District Court to enforce an international arbitration judgment against the Bank. Accordingly, the Bank has recognized a provision for contingent in the amount of ₩396 billion as at March 31, 2014 which corresponds to approximately 50 percent of the amount mentioned above.

## 29. Provision (cont'd)

Changes in provisions for for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2014 | Provision for allowance (reversal of allowance) | Allowance used | Others | March 31, 2014 |
| Provisions for possible losses on acceptances and guarantees | ₩ 38,037 | ₩ (2,496) | ₩ - | ₩ 240 | ₩ 35,781 |
| Provisions for unused commitments | 60,043 | 845 | - | 222 | 61,110 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 17,931 | (149) | - | 43 | 17,825 |
| Provisions for reward points | 27,141 | 6,567 | (12,236) | 8,085 | 29,557 |
| Provisions for contingent | 122,059 | 1,736 | - | - | 123,795 |
| Others | 1,446 | 2 | - | 9 | 1,457 |
| | 168,577 | 8,156 | (12,236) | 8,137 | 172,634 |
| | ₩ 266,657 | ₩ 6,505 | ₩ (12,236) | ₩ 8,599 | ₩ 269,525 |

| | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2013 | Provision for allowance (reversal of allowance) | Allowance used | Others | December 31, 2013 |
| Provisions for possible losses on acceptances and guarantees | ₩ 34,791 | ₩ 3,466 | ₩ - | ₩ (220) | ₩ 38,037 |
| Provisions for unused commitments | 60,003 | 138 | - | (98) | 60,043 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 17,786 | (220) | (584) | 949 | 17,931 |
| Provisions for reward points | 22,832 | 16,652 | (33,244) | 20,901 | 27,141 |
| Provisions for contingent | 45,352 | 35,217 | - | 41,490 | 122,059 |
| Others | 43,668 | (636) | - | (41,586) | 1,446 |
| | 129,638 | 51,013 | (33,828) | 21,754 | 168,577 |
| | ₩ 224,432 | ₩ 54,617 | ₩ (33,828) | ₩ 21,436 | ₩ 266,657 |

## 29. Provision (cont'd)

Details of payment gurantees and endorsed notes as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Acceptances and guarantees: | | |
| Financial acceptances and guarantees in Korean won: | | |
| Payment guarantee for loans | ₩ 116,286 | ₩ 99,814 |
| Others | 15,380 | 15,480 |
| | 131,666 | 115,294 |
| Financial acceptances and guarantees denominated in foreign currencies: | | |
| Local financial acceptances and guarantees | 1,305,694 | 1,051,424 |
| Confirmed acceptances and guarantees in Korean won: | | |
| Other acceptances and guarantees in Korean won | 1,429,622 | 1,483,313 |
| Confirmed acceptances and guarantees denominated in foreign currencies: | | |
| Acceptance on letter of credit | 491,359 | 385,002 |
| Acceptance on letters of guarantees | 77,911 | 89,730 |
| Others | 9,890,895 | 9,425,544 |
| | 10,460,165 | 9,900,276 |
| Contingent acceptances and guarantees: | | |
| Letters of credit | 4,088,030 | 3,935,256 |
| Others | 51,896 | 39,829 |
| | 4,139,926 | 3,975,085 |
| | 17,467,073 | 16,525,392 |
| Bills endorsed | 44,746 | 46,785 |
| | ₩ 17,511,819 | ₩ 16,572,177 |

Details of unused commitments as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | Outstanding balance | |
|---|---|---|
| Classification | March 31, 2014 | December 31, 2013 |
| Commitments on loans in Korean won | ₩ 48,685,212 | ₩ 50,887,746 |
| Commitments on loans denominated in foreign currency | 6,458,796 | 6,426,662 |
| Commitments on purchase of asset-backed commercial papers | 472,692 | 493,242 |
| Commitments on credit lines on asset-backed securities | 1,116,525 | 865,700 |
| | ₩ 56,733,225 | ₩ 58,673,350 |

## 30. Other liabilities and merchant banking account liabilities

Details of other liabilities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Post-employment benefit obligation (see Note 31): | | |
| Defined benefit obligation | ₩ 369,886 | ₩ 356,194 |
| Less: Plan assets | (314,592) | (315,153) |
| | 55,294 | 41,041 |
| Due to trust accounts | 1,066,918 | 912,277 |
| Foreign exchange settlement credits: | | |
| Bills sold | 2,018 | 3,393 |
| Inward remittance payable | 312,261 | 276,908 |
| | 314,279 | 280,301 |
| Accounts payable: | | |
| Other accounts payable | 7,059,035 | 4,307,234 |
| Accounts payable (card) | 313,056 | 316,491 |
| | 7,372,091 | 4,623,725 |
| Accrued expenses | 733,830 | 762,130 |
| Unearned income | 62,267 | 68,121 |
| Deferred income | 69,549 | 66,515 |
| Deposit for letter of guarantees and others: | | |
| Acceptance and guarantee | 114,172 | 89,004 |
| Others | 37,750 | 48,236 |
| | 151,922 | 137,240 |
| Suspense receipt | 51,198 | 52,871 |
| Suspense receipt (card) | 14,118 | 13,639 |
| Withholding taxes | 23,322 | 28,762 |
| Agency business accounts | 381,270 | 89,478 |
| Due from treasury agencies | 2,620,168 | 2,060,594 |
| Financial acceptances and guarantees contract: | | |
| Financial acceptances and guarantees in Korean won | 25,150 | 22,601 |
| Financial acceptances and guarantees denominated in foreign currencies | 7,217 | 5,980 |
| | 32,367 | 28,581 |
| Other liabilities: | | |
| Security deposits received | 49,108 | 17,863 |
| Exchange settlement credits | 936,077 | 982,572 |
| Prepaid card | 10 | 10 |
| Debit card | 11,154 | 9,981 |
| Cash received from other banks | - | 152 |
| Other liabilities denominated in foreign currencies | 4,533 | 4,473 |
| | 1,000,882 | 1,015,051 |
| | ₩ 13,949,475 | ₩ 10,180,326 |

## 30. Other liabilities and merchant banking account liabilities (cont'd)

Details of merchant banking account liabilities as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Merchant banking account deposits | ₩ 2,508,909 | ₩ 1,678,593 |
| Others: | | |
| Provision for unused commitments | 982 | 919 |
| Other liabilities (*1) | 1,691 | 1,292 |
| | 2,673 | 2,211 |
| | ₩ 2,511,582 | ₩ 1,680,804 |

(*1) Including accrued expenses, unearned income and others.

## 31. Severance benefits

The Bank operates a defined retirement benefit plan ("DB plan") in accordance with the Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Bank has purchased severance benefits insurance and made deposits. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Bank pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by an actuary services company. Current and past service costs related to the present value of defined benefit obligation are measured using the projected unit credit method.

The Bank provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for the service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by an actuary service company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

## 31. Severance benefits (cont'd)

Key assumptions for actuarial valuation as at March 31, 2014 and December 31, 2013 are as follows:

| Classification | Ratio (%) March 31, 2014 | Ratio (%) December 31, 2013 | Notes |
|---|---|---|---|
| Demographic assumptions: | | | |
| Mortality | 0.002 ~ 0.268 | 0.002~0.268 | Mortality table for 2012 |
| Rates of employee turnover | 3.74 | 3.74 | |
| Financial assumptions: | | | |
| Expected rate of salary increase | 3.05 | 3.05 | Average rate over the past five years |
| Discount rate | 3.93 | 3.93 | Rate of return on bank AAA bonds |

Details of the post-empoyment benefit obligation as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Present value of defined benefit obligation deposited to plan assets | ₩ 353,325 | ₩ 339,630 |
| Fair value of plan assets | (314,592) | (315,153) |
| | 38,733 | 24,477 |
| Present value of defined benefit obligation not deposited to plan assets | 16,561 | 16,564 |
| Post-employment benefit obligation | ₩ 55,294 | ₩ 41,041 |

Changes in present value of defined benefit obligation for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 356,194 | ₩ 276,815 |
| Current service cost | 13,389 | 47,979 |
| Past service cost | - | 99 |
| Interest cost | 3,377 | 9,461 |
| Remeasurement of the net defined benefit liability | - | 38,759 |
| Payment of severance benefits | (3,082) | (16,768) |
| Transferred from or into other affiliates | (77) | 197 |
| Others | 85 | (348) |
| Ending balance | ₩ 369,886 | ₩ 356,194 |

31. Severance benefits (cont'd)

Details of losses incurred from defined benefit obligations for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | | Three-month period ended March 31, 2013 | |
|---|---|---|---|---|
| Current service cost | ₩ | 13,389 | ₩ | 11,945 |
| Interest cost | | 352 | | 398 |
| Past service cost | | - | | 99 |
| | ₩ | 13,741 | ₩ | 12,442 |

Plan assets for severance benefit as at March 31, 2014 and December 31, 2013 consist of the following (Korean won in millions):

| Classification | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Plan assets which have a market price quoted in an active market: | | | | |
| Time deposits | ₩ | 180,807 | ₩ | 191,956 |
| Debt securities | | 66,143 | | 63,679 |
| Others | | 67,323 | | 59,518 |
| | ₩ | 314,273 | ₩ | 315,153 |

Changes in fair value of plan assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 315,153 | ₩ | 254,986 |
| Interest income | | 3,404 | | 8,834 |
| Remeasurement of the net defined benefit liability | | (1,056) | | 241 |
| Employer contributions | | - | | 64,000 |
| Payment | | (2,530) | | (12,409) |
| Others | | (379) | | (499) |
| Ending balance | ₩ | 314,592 | ₩ | 315,153 |

Details of the remeasurement of the net defined benefit liability for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | Three-month periods ended March 31, 2013 | |
|---|---|---|---|---|
| Acturial gain (loss) | | | | |
| Changes in demographic assumptions | ₩ | - | ₩ | - |
| Changes in financial assumptions | | - | | - |
| Others | | - | | - |
| | | - | | - |

### 31. Severance benefits (cont'd)

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Income on planned assets | | | | |
| Actual income on planned assets | | 2,348 | | 2,293 |
| Amounts included in net interest on the net defined benefit liability | | (3,404) | | (2,209) |
| | | (1,056) | | 84 |
| | ₩ | (1,056) | ₩ | 84 |

### 32. Issued Capital and other paid-in capital

Issued capital as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions, shares in units):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Number of shares authorized | | 1,000,000,000 | | 1,000,000,000 |
| Par value per share (Korean won) | ₩ | 5,000 | ₩ | 5,000 |
| Number of shares issued | | 644,906,826 | | 644,906,826 |
| Common stock | ₩ | 3,224,534 | ₩ | 3,224,534 |

Other paid-in capital as at March 31, 2014 and December 31, 2013 is as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Capital surplus (*1) | ₩ | 940 | ₩ | 940 |
| Hybrid securities (*2) | | 179,737 | | 429,509 |
| Capital adjustments: | | | | |
| Stock option | | (245) | | (227) |
| Loss on disposal of treasury stock | | - | | (17,869) |
| Others | | (519) | | (618) |
| | | (764) | | (18,714) |
| | ₩ | 179,913 | ₩ | 411,735 |

(*1) Amounts in capital surplus as at March 31, 2014 and December 31, 2013 were transferred from the stock option balance (accounted for as capital adjustment) as the exercisable period lapsed.
(*2) Korea Exchange Bank Hybrid securities have been issued by the Bank. Upon expiration, the bonds can be extended under the same terms.

## 33. Retained earnings

Details of retained earnings as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2012 |
|---|---|---|
| Legal reserve: | | |
| Earned surplus reserve (*1) | ₩ 823,300 | ₩ 787,200 |
| Voluntary reserve: | | |
| Revaluation reserves on tangible assets (*2) | 431,931 | 431,931 |
| Other reserves (*3) | 62,146 | 56,902 |
| Regulatory reserve for bad debts (*4) | 748,594 | 697,881 |
| | 1,242,671 | 1,186,714 |
| Unappropriated retained earnings | 3,445,798 | 3,563,912 |
| | ₩ 5,511,769 | ₩ 5,537,826 |

(*1) The Korean Banking Law requires the Bank to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not restricted to the payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.
(*2) The Bank records gains from revaluation of property and equipment to the voluntary reserve, as it applies the revaluation amount as a deemed cost at the first-time adoption of KIFRS. The reserve is recognized in retained earnings when the relevant property and equipment have been disposed.
(*3) Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum 10% of net income for the period as a legal reserve, until the reserve equals ¥2,000 million. This reserve is restricted to the payment of cash dividends and allowed to be used upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.
(*4) The Bank accumulated allowances for possible loan losses in accordance with KIFRS and regulatory reserve for bad debts in the amount below the provision of allowances in accordance to the minimum accumulation ratio required by FSS.

Changes in appropriated retained earnings for the three-month period ended March 31, 2014 and the year ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Beginning balance | ₩ 5,537,826 | ₩ 5,229,692 |
| Appropriation to loss on disposal of treasury stock | (17,869) | - |
| Appropriation to other capital adjustments | (160) | - |
| Net income for the period | 76,356 | 360,443 |
| Dividend | (77,433) | (32,245) |
| Dividend on hybrid securities | (6,951) | (20,064) |
| Ending balance | ₩ 5,511,769 | ₩ 5,537,826 |

## 34. Regulatory reserve for bad debts

Regulatory reserve for bad debts is computed and presented under article 29-1 and 29-2 of the regulation on Supervision of Banking Business of the Republic of Korea.

Details of regulatory reserve for bad debts as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Beginning balance (*1) | ₩ | 748,594 | ₩ | 697,881 |
| Planned reserve for bad debts (*2) | | 34,770 | | 50,713 |
| Ending balance | ₩ | 783,364 | ₩ | 748,594 |

(*1) Appropriation date for the 2013 fiscal year was on March 20, 2014.
(*2) The Bank was given notice by the FSS to modify the credit conversion factor ("CCF") used in the calculation of its regulatory reserve for bad debts. Accordingly, the reserve for the year ended December 31, 2013 increased by ₩52,342 million compared to that of the prior year period.

Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Net income before deducting provisions for bad debt | ₩ | 76,356 million | ₩ | 30,582 million |
| Provisions for bad debt reserve | | (34,770)million | | (17,201)million |
| Adjusted income after deducting provisions for bad debt | | 41,586 million | | 13,381 million |
| Basic earnings per share on adjustment after reflecting reserve for bad debt | | 54 | | 14 |
| Diluted earnings per share on adjustment after reflecting reserve for bad debt (*1) | | 54 | | 14 |

(*1) Adjusted basic and diluted earnings per share reflecting the reserve for bad debt are computed by deducting the dividend of hybrid equity securities from the adjusted net income after reflecting the reserve for bad debt in the amount of ₩6,951 million and ₩4,563 million for the three-month periods ended March 31, 2014 and 2013, respectively (Note 45).

## 35. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 288,410 | ₩ (36,035) | ₩ (111) | ₩ (9,634) | ₩ 242,630 |
| Changes in the unrealized gain (loss) of available-for-sale financial assets | 6,988 | - | - | - | 6,988 |
| Realized gain (loss) of available-for-sale financial assets (including disposal) | (36,380) | - | - | - | (36,380) |
| Exchange differences on transaction of foreign operations | - | 9,706 | - | - | 9,706 |
| Exchange differences on foreign currency translation of available-for-sale financial assets | - | - | 29 | - | 29 |
| Changes in remeasurement of the net defined benefit liability | - | - | - | (1,056) | (1,056) |
| Tax effect | 7,113 | - | (7) | 256 | 7,362 |
| Ending balance | ₩ 266,131 | ₩ (26,329) | ₩ (89) | ₩ (10,434) | ₩ 229,279 |

## 35. Accumulated other comprehensive income (cont'd)

| | Year ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that wil not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 214,728 | ₩ (27,300) | ₩ (87) | ₩ 17,011 | ₩ 204,352 |
| Changes in the unrealized gain (loss) of available-for-sale financial assets | 139,544 | - | - | - | 139,544 |
| Realized gain (loss) of available-for-sale financial assets (including disposal) | (42,338) | - | - | - | (42,338) |
| Exchange differences on transaction of foreign operations | - | (8,735) | - | - | (8,735) |
| Exchange differences on foreign currency translation of available-for-sale financial assets | - | - | (31) | - | (31) |
| Changes in remeasurement of the net defined benefit liability | - | - | - | (35,151) | (35,151) |
| Tax effect | (23,524) | - | 7 | 8,506 | (15,011) |
| Ending balance | ₩ 288,410 | ₩ (36,035) | ₩ (111) | ₩ (9,634) | ₩ 242,630 |

## 36. Capital management

The Bank brought in Basel III on December 1, 2013 established by the Bank for International Settlements and computes the capital ratio required by BIS and manages the ratio to be maintained at a rate of at least 3.5%, 4.5% and 8% or above for common equity, basic capital and total equity, respectively. The Bank meets the statutory externally assigned capital maintenance requirement (the "BIS capital ratio") as at March 31, 2014.

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholder's equity is the sum of common equity, other basic capital and supplementary capital. Risk-weighted assets are the sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Common equity consists of issued capital, additional capital surplus paid-in capital, retained earnings and accumulated other comprehensive income. Other basic capital consists of equity securities and its related capital surplus that satisfy the basic capital requirements, and part of other basic capital issued by consolidated subsidiaries of the Bank and held by third parties. Supplementary capital consists of equity securities and its related stock surplus that satisfy the supplementary capital requirements, and part of other basic capital issued by consolidated subsidiaries of the Bank and held by third parties The portions to be subject to capital used for the calculation of BIS ratio are 90% and 80% as at January 1, 2013 and 2014, respectively, and will continuously decrease by 10% annually for hybrid securities and subordinate debt securities that do not meet the definition of criteria.

Items deducted from issued capital include considerable amounts of intangible assets and deferred tax assets, plan assets, gains or losses on valuation of derivatives used for hedging purposes and others. Additionally, the Bank classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

## 37. Interest income and interest expenses

Details of interest income and interest expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|---|
| Interest income: | | | |
| Due from banks | Banks | ₩ 6,905 | ₩ 2,261 |
| | Other financial institutions | 3,851 | 3,575 |
| | | 10,756 | 5,836 |
| Loans receivable | Banks | 8,375 | 10,876 |
| | Customers | 794,973 | 817,366 |
| | | 803,348 | 828,242 |
| Financial assets at FVTPL | | 1,115 | 752 |
| Available-for-sale financial assets | | 60,646 | 48,752 |
| Held-to-maturity investments | | 16,027 | 44,766 |
| | | 891,892 | 928,348 |
| Interest expenses: | | | |
| Deposits | Financial institutions | 404 | 276 |
| | Customers | 276,056 | 319,907 |
| | | 276,460 | 320,183 |
| Debentures | | 57,001 | 57,719 |
| Borrowings | | 27,859 | 23,656 |
| Others | | 6,964 | 10,683 |
| | | 368,284 | 412,241 |
| Net interest income | | ₩ 523,608 | ₩ 516,107 |

Details of interest income on impaired financial assets for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Loans receivable | ₩ 12,724 | ₩ 18,544 |
| Other assets | 44 | 44 |
| | ₩ 12,768 | ₩ 18,588 |

## 38. Fee and commission income and fee and commission expenses

Details of fee and commission income and fee and commission expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Fee and commission income: | | |
| Savings | ₩ 481 | ₩ 722 |
| Credits | 6,443 | 10,763 |
| Foreign exchange | 36,445 | 36,464 |
| Credit card | 29,667 | 26,532 |
| Asset management | 1,280 | 1,631 |
| Agency business | 6,923 | 15,511 |
| Guarantee service | 16,897 | 15,920 |
| Others | 15,190 | 16,311 |
| | 113,326 | 123,854 |
| Fee and commission expense: | | |
| Credits | 1,479 | 1,457 |
| Foreign exchange | 8,277 | 7,951 |
| Agency business | 143 | 136 |
| Credit card | 71,151 | 63,212 |
| Others | 7,443 | 6,131 |
| | 88,493 | 78,887 |
| Net fee and commission income | ₩ 24,833 | ₩ 44,967 |

## 39. Gain (loss) on financial instruments

Details of gain (loss) on financial instruments for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Financial instruments at FVTPL: | | |
| Gain on financial instruments at FVTPL | | |
| Gain on valuation of trading securities | ₩ 1,065 | ₩ 863 |
| Gain on disposal of trading securities | 1,525 | 893 |
| Gain on valuation of trading bonds | 613 | 181 |
| Gain on disposal of trading bonds | 686 | 517 |
| Gain on valuation of derivatives held-for-trading | 332,826 | 921,336 |
| Gain on disposal of derivatives held-for-trading | 267,060 | 383,779 |
| | 603,775 | 1,307,569 |

## 39. Gain (loss) on financial instruments (cont'd)

| Classification | Three-month periods ended March 31, 2014 | | Three-month periods ended March 31, 2013 | |
|---|---|---|---|---|
| Loss on financial instruments at FVTPL | | | | |
| Loss on valuation of trading securities | | 269 | | 124 |
| Loss on disposal of trading securities | | 702 | | 1,427 |
| Loss on valuation of trading bonds | | 28 | | 32 |
| Loss on disposal of trading bonds | | 118 | | 404 |
| Loss on valuation of derivatives held-for-trading | | 347,161 | | 914,079 |
| Loss on disposal of derivatives held-for-trading | | 228,178 | | 440,681 |
| | | 576,456 | | 1,356,747 |
| Net income (expense) from financial instruments at FVTPL | ₩ | 27,319 | ₩ | (49,178) |
| Derivatives used for hedging purposes: | | | | |
| Gain on derivatives used for hedging purposes | | | | |
| Gain on valuation of derivatives used for hedging purposes | ₩ | 8,157 | ₩ | 4,920 |
| Loss on derivatives used for hedging purposes | | | | |
| Loss on valuation of derivatives used for hedging purposes | | 8,049 | | 3,262 |
| Net income on derivatives used for hedging purposes | ₩ | 108 | ₩ | 1,658 |
| Available-for-sale financial assets: | | | | |
| Gain on available-for-sale financial assets | | | | |
| Gain on disposal of equity securities | ₩ | 15,649 | ₩ | 10,689 |
| Gain on disposal of debt securities | | 5,382 | | 8,279 |
| | | 21,031 | | 18,968 |
| Loss on available-for-sale financial assets | | | | |
| Loss on disposal of equity securities | | 15 | | 4,226 |
| Net income on available-for-sale financial assets | ₩ | 21,016 | ₩ | 14,742 |

## 40. Impairment loss

Details of impairment loss on financial instruments for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | Three-month periods ended March 31, 2013 | |
|---|---|---|---|---|
| Provision for possible loan losses (*1) | ₩ | 140,871 | ₩ | 124,907 |
| Impairment loss on available-for-sale financial assets | | 44,248 | | 1,166 |
| | ₩ | 185,119 | ₩ | 126,073 |

(*1) Provision for possible loan losses is set for loans receivable and other assets.

## 41. General and administrative expenses

Details of general and administrative expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Employee benefits: | | | | |
| Salaries | ₩ | 186,192 | ₩ | 216,321 |
| Provision for severance and retirement benefits | | 13,741 | | 12,442 |
| Expenses for fringe benefits | | 8,252 | | 5,563 |
| Termination benefits | | 234 | | - |
| | | 208,419 | | 234,326 |
| Depreciation and amortization: | | | | |
| Depreciation on property and equipment | | 17,133 | | 17,438 |
| Depreciation on investment property | | 655 | | 633 |
| Amortization | | 5,606 | | 5,406 |
| | | 23,394 | | 23,477 |
| Other general and administrative expenses: | | | | |
| Rental expense | | 29,509 | | 29,400 |
| Entertainment expense | | 2,691 | | 2,388 |
| Taxes and dues | | 7,720 | | 7,899 |
| Advertising expenses | | 4,139 | | 4,834 |
| Others | | 53,846 | | 50,833 |
| | | 97,905 | | 95,354 |
| | ₩ | 329,718 | ₩ | 353,157 |

## 42. Other operating income and expenses

Details of other operating income for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Dividend income: | | | | |
| Financial assets at FVTPL | ₩ | 120 | ₩ | 123 |
| Available-for-sale financial assets | | 4,461 | | 3,393 |
| Investments in subsidiaries | | 23,905 | | - |
| | | 28,486 | | 3,516 |
| Reversal of acceptances and guarantees | | 2,496 | | - |
| Reversal of unused commitments | | - | | 4,915 |
| Other income on financial instruments | | 309 | | 102 |
| Gain on foreign exchange transaction | | 249,678 | | 342,375 |
| Gain on foreign exchange difference | | 116,018 | | 65,666 |
| Gain on operating trust account | | 12,683 | | 10,770 |
| Point income | | 10,597 | | 8,041 |
| Gain on sales of loans | | 706 | | 2,480 |
| Gain on merchant banking accounts (*1) | | 19,961 | | 16,867 |
| Others | | 44 | | 44 |
| | ₩ | 440,978 | ₩ | 454,776 |

## 42. Other operating income and expenses (cont'd)

(*1) Details of gain on merchant banking accounts for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Interest income | ₩ | 14,558 | ₩ | 9,736 |
| Fee and commission income | | 239 | | 207 |
| Gain on disposal of trading bonds | | 422 | | 234 |
| Gain on valuation of trading bonds | | 9 | | 86 |
| Gain on valuation of CMA securities | | 5 | | 14 |
| Gain on disposal of bills | | 4,413 | | 6,590 |
| Reversal of possible loan losses | | 315 | | - |
| | ₩ | 19,961 | ₩ | 16,867 |

Details of other operating expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Provision for acceptances and guarantees | ₩ | - | ₩ | 3,549 |
| Provision for unused commitments | | 845 | | - |
| Provision for others | | 8,156 | | 7,104 |
| Other expense on financial instruments | | 70 | | 79 |
| Loss on foreign exchange transaction | | 214,452 | | 222,455 |
| Loss on foreign exchange difference | | 130,049 | | 105,672 |
| Point expense | | 13,426 | | 9,237 |
| Contribution to guarantee fund | | 32,321 | | 22,619 |
| Insurance fee on deposits | | 27,246 | | 25,637 |
| Loss on sales of loans | | 260 | | 1 |
| Loss on merchant banking accounts (*1) | | 15,210 | | 9,867 |
| | ₩ | 442,035 | ₩ | 406,220 |

(*1) Details of loss on merchant banking accounts for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Interest expense | ₩ | 15,039 | ₩ | 9,545 |
| Provision for possible loan losses | | - | | 43 |
| Provision for unused commitments | | 63 | | 273 |
| Others | | 108 | | 6 |
| | ₩ | 15,210 | ₩ | 9,867 |

## 43. Non-operating income and expenses

Details of non-operating income for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Gain on disposal of property and equipment | ₩ 5 | ₩ 40 |
| Gain on disposal of intangible assets | 41 | 297 |
| Rental income | 708 | 819 |
| Gain on exemption of debts | 1,707 | 1,228 |
| Others | 3,912 | 2,701 |
| | ₩ 6,373 | ₩ 5,085 |

Details of non-operating expenses for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Loss on disposal of property and equipment | ₩ 71 | ₩ 25 |
| Loss on disposal of intangible assets | 5 | - |
| Impairment loss on investment in subsidiary | - | 46,552 |
| Donation | 63 | 175 |
| Expenses on collection of management of charge-offs | 162 | 138 |
| Commission expense on collection of management of charge-offs | 127 | 182 |
| Others | 3,016 | 2,075 |
| | ₩ 3,444 | ₩ 49,147 |

## 44. Income tax expense

The major components of income tax expense for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Income tax currently payable | ₩ 81,385 | ₩ 27,562 |
| Changes of deferred income taxes due to the tax effect of temporary differences | (70,100) | 8,807 |
| Total income tax effect | 11,285 | 36,369 |
| Current and deferred income taxes recognized directly to equity | 7,362 | (13,822) |
| Tax effect of consolidated tax return | (11,411) | - |
| Income tax expense of foreign branches and subsidiaries | 327 | 431 |
| Income tax expense | ₩ 7,563 | ₩ 22,978 |

## 44. Income tax expense (cont'd)

Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Bank for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Income before income tax | ₩ 83,919 | ₩ 53,560 |
| Tax at domestic statutory income tax rate | 20,309 | 12,962 |
| Reconciliation: | | |
| Income not subject to tax | (1,849) | (1,178) |
| Expenses not deductible for tax purposes | 6,831 | 862 |
| Tax deduction | (25,785) | (313) |
| Addition (refund) of prior year's income tax | (15,264) | 10,141 |
| Income tax expense of foreign branches and subsidiaries | 327 | 431 |
| Tax effect of consolidated tax return | (11,411) | - |
| Effect of unrealized deferred income tax assets | 32,757 | - |
| Others | 1,648 | 73 |
| | (12,746) | 10,016 |
| Income tax expense | ₩ 7,563 | ₩ 22,978 |
| Effective income tax rate (%) | 9.01 | 42.90 |

## 44. Income tax expense (cont'd)

Changes in temporary differences and deferred income tax assets (liabilities) for the three-month period ended March 31, 2014 are as follows (Korean won in millions):

| | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 |
| Temporary differences: | | | | | | | | |
| Gain or loss on valuation of securities | ₩ 10,236 | ₩ 162,409 | ₩ 307,572 | ₩ 155,399 | ₩ (2,275) | ₩ 39,303 | ₩ 79,185 | ₩ 37,607 |
| Accrued income | (79,254) | (79,254) | (76,137) | (76,137) | (19,179) | (19,179) | (18,425) | (18,425) |
| Other provisions and others | 249,646 | 249,646 | 252,683 | 252,683 | 60,414 | 60,414 | 61,149 | 61,149 |
| Gain or loss on valuation of derivatives | (115,778) | (115,778) | 18,620 | 18,620 | (28,018) | (28,018) | 4,506 | 4,506 |
| Debt-for-equity swap securities | 101,753 | - | 33,506 | 135,259 | 34,498 | - | (1,765) | 32,733 |
| Advanced depreciation provisions | (62,466) | - | - | (62,466) | (15,117) | - | - | (15,117) |
| Investment in kind at KEB China | 137,879 | - | - | 137,879 | 33,367 | - | - | 33,367 |
| Financial guarantee contract | 28,581 | 28,581 | 32,367 | 32,367 | 6,917 | 6,917 | 7,833 | 7,833 |
| Deferred reward points income | 66,515 | 66,515 | 69,549 | 69,549 | 16,097 | 16,097 | 16,831 | 16,831 |
| Accrued expenses | 78,344 | 78,344 | 72,042 | 72,042 | 18,959 | 18,959 | 17,434 | 17,434 |
| Gain on revaluation of tangible assets | (553,765) | - | - | (553,765) | (134,011) | - | - | (134,011) |
| Others | 159,240 | (12,403) | 30,027 | 201,670 | 58,264 | (2,639) | (12,156) | 48,747 |
| | 20,931 | 378,060 | 740,229 | 383,100 | 29,916 | 91,854 | 154,592 | 92,654 |

## 44. Income tax expense (cont'd)

| Classification | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 | January 1, 2014 (*1) | Decrease | Increase | March 31, 2014 |
| Accumulated other comprehensive income: | | | | | | | | |
| Unrealized gain or loss of available-for-sale financial assets | (380,489) | (380,489) | (351,097) | (351,097) | (92,078) | (92,078) | (84,965) | (84,965) |
| Gain or loss on foreign currency translation of available-for-sale financial assets | 146 | 146 | 117 | 117 | 35 | 35 | 28 | 28 |
| Remeasurement of the net defined benefit liability | 12,709 | 12,709 | 13,765 | 13,765 | 3,075 | 3,075 | 3,331 | 3,331 |
| | (367,634) | (367,634) | (337,215) | (337,215) | (88,968) | (88,968) | (81,606) | (81,606) |
| | ₩ (346,703) | ₩ 10,426 | ₩ 403,014 | ₩ 45,885 | ₩ (59,052) | ₩ 2,886 | ₩ 72,986 | ₩ 11,048 |

(*1) Beginning balance reflects adjustments for the difference in the reserved amount of ₩66,310 million at the time of the final tax return as at December 31, 2013. Deferred tax assets decrease by ₩16,047 million compared to that of December 31, 2013 after the adjustment is reflected.
(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).

## 45. Earnings per share

Weighted-average number of ordinary shares for the three-month periods ended March 31, 2014 and 2013 are as follows (shares in units):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Beginning | 644,844,691 | 644,906,823 |
| Exercise of appraisal rights by shareholders | - | (5,236,513) |
| Number of treasury stock after disposal | 11,612 | - |
| Ending | 644,856,303 | 639,670,310 |

The Bank's basic earnings per share for the three-month periods ended March 31, 2014 and 2013 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Net income for the period | ₩ | 76,356 | ₩ | 30,582 |
| Dividends on hybrid equity securities | | (6,951) | | (4,563) |
| Net income attributable to ordinary stocks | | 69,405 | | 26,019 |
| Weighted-average number of shares of ordinary stocks outstanding | | 644,856,303 | | 639,670,310 |
| Basic earnings per share (Korean won) | ₩ | 108 | ₩ | 41 |

Weighted-average number of ordinary shares adjusted for the effect of dilution for the years ended December 31, 2013 and 2012 is as follows (shares in units):

| Classification | Three-month periods ended March 31, 2014 | 2013 |
|---|---|---|
| Weighted-average number of shares of ordinary stocks outstanding | 644,856,303 | 639,670,310 |
| Stock options | - | 61,345 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 644,856,303 | 639,731,655 |

The Bank's diluted earnings per share for the three-month periods ended March 31, 2014 and 2013 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | Three-month periods ended March 31, 2014 | | 2013 | |
|---|---|---|---|---|
| Net income attributable to ordinary stocks | ₩ | 69,405 | ₩ | 26,019 |
| Recognized revenue related to employee stock options (after-tax effect of 24.2%) | | - | | (8) |
| Net income for the diluted net income per share | | 69,405 | | 26,011 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | | 644,856,303 | | 639,731,655 |
| Diluted earnings per share (Korean won) | ₩ | 108 | ₩ | 41 |

## 46. Share-based payment

When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents of the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with management performance and the calculation criteria for the number of exercisable shares. Also, the Bank granted the equity-linked special incentive (“Rose Bonus” and/or “Rose Share”) to employees for the purpose of motivation to improve long-term performance. The equity-linked special incentive is settled in cash. It can be exercised from 1 to 3 years after the grant date for the following 3 to 4 years.

Assumptions for evalution of stock options which are measured by Black-scholes model as at March 31, 2014 are as follows (in Korean won and shares in units):

| Grant date | Exercise period | Risk-free rate | Expected service period | Volatility of the underlying stock price | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 2011-03-13 ~ 2016-03-12 | 2.16% | 5.87 | 24.30% | ₩ 483 | ₩ 5,700 | ₩ 1,685 |
| 2009-08-04 | 2011-08-05 ~ 2016-08-04 | 2.68% | 5.87 | 27.10% | 483 | 11,700 | 129 |
| 2010-03-10 | 2012-03-11 ~ 2017-03-10 | 2.74% | 5.87 | 28.18% | 483 | 13,450 | 112 |
| 2010-03-30 | 2012-03-31 ~ 2017-03-30 | 2.75% | 5.87 | 29.11% | 483 | 13,600 | 122 |
| 2010-08-04 | 2013-08-05 ~ 2017-08-04 | 2.79% | 5.87 | 29.81% | 483 | 12,300 | 273 |
| 2010-09-29 | 2013-09-30 ~ 2017-09-29 | 2.80% | 5.87 | 30.93% | 483 | 13,550 | 250 |
| 2011-08-10 | 2014-08-11 ~ 2018-08-10 | 2.90% | 5.87 | 37.37% | 483 | 8,060 | 1,462 |
| 2011-08-26 | 2014-08-27 ~ 2018-08-26 | 2.91% | 5.87 | 37.29% | 483 | 7,720 | 1,637 |
| 2011-09-02 | 2014-09-03 ~ 2018-09-02 | 2.91% | 5.87 | 37.34% | 483 | 7,930 | 1,674 |

Changes in shares of stock options for the three-month period ended March 31, 2014 are as follows (in Korean won and shares in units):

| Grant date | Shares at beginning | Exercise | Divesture | Extinction at maturity | Shares at ending | Stock options outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 267,205 | (14,500) | - | - | 252,705 | 252,705 | ₩ 5,800 |
| 2009-08-04 | 415,610 | - | - | - | 415,610 | 415,610 | 10,900 |
| 2010-03-10 | 312,350 | - | - | - | 312,350 | 312,350 | 13,200 |
| 2010-03-30 | 237,140 | - | - | - | 237,140 | 237,140 | 13,500 |
| 2010-08-04 | 251,890 | - | - | - | 251,890 | 251,890 | 12,400 |
| 2010-09-29 | 17,810 | - | - | - | 17,810 | 17,810 | 13,500 |
| 2011-08-10 | 333,000 | - | - | - | 333,000 | 333,000 | 9,100 |
| 2011-08-26 | 42,290 | - | - | - | 42,290 | 42,290 | 8,500 |
| 2011-09-02 | 11,250 | - | - | - | 11,250 | 11,250 | 8,400 |
| | 1,888,545 | (14,500) | - | - | 1,874,045 | 1,874,045 | |

## 46. Share-based payment (cont'd)

Weighted average stock price exercised as of the stock option date is in the amount of ₩7,767 for the three-month period ended March 31, 2014.

Weighted average residual expiration of exercisable stock options is 3.04 years as at March 31, 2014.

Details of the share-based payment as at March 31, 2014 are as follows:

Equity-linked special incentives are measured at fair value based on the binomial model and become exercisable from 1 to 3 years after the grant date for the following 3 to 4 years. Details of the equity-linked special incentives as at March 31, 2014 are as follows (shares in units):

| Classification | Grant date | Exercise period | Payment date | Stock options outstanding |
|---|---|---|---|---|
| Rose 4 | 2009.12.11 | 2011.12.11~2014.12.10 | 2011.12.11 | 10,600 |
| Rose 5 | 2010.08.04 | 2012.08.04~2015.08.04 | 2012.08.04 | 19,040 |
| Rose 6 | 2011.09.21 | 2013.09.21~2016.09.20 | 2013.09.21 | 213,080 |
| Rose share 1-2 | 2010.02.19 | 2012.02.19~2015.02.18 | 2012.02.19 | 10,375 |
| Rose share 3-1 | 2010.08.11 | 2011.08.11~2014.08.10 | 2011.08.11 | 2,285 |
| Rose share 3-2 | 2010.08.11 | 2012.08.11~2015.08.11 | 2012.08.11 | 2,855 |
| Rose share 4-1 | 2011.02.21 | 2012.02.21~2015.02.20 | 2012.02.21 | 10,190 |
| Rose share 4-2 | 2011.02.21 | 2013.02.21~2016.02.21 | 2013.02.21 | 4,140 |
| Rose share 5-1 | 2011.02.21 | 2012.02.21~2015.02.20 | 2012.02.21 | 8,065 |
| Rose share 5-2 | 2011.02.21 | 2013.02.21~2016.02.21 | 2013.02.21 | 2,595 |
| Rose share 6-1 | 2011.03.21 | 2012.03.20~2015.03.20 | 2012.03.20 | 50 |
| Rose share 6-2 | 2011.03.21 | 2013.03.20~2016.03.19 | 2013.03.20 | 316 |
| Rose share 6-3 | 2011.03.21 | 2014.03.20~2017.03.19 | 2014.03.20 | 1,470 |
| Rose share 7-1 | 2011.09.08 | 2012.09.08~2015.09.08 | 2012.09.08 | 1,770 |
| Rose share 7-2 | 2011.09.08 | 2013.09.08~2016.09.07 | 2013.09.08 | 430 |
| Rose share 8-1 | 2012.02.21 | 2013.02.22~2017.02.21 | 2013.02.22 | 7,105 |
| Rose share 8-2 | 2012.02.21 | 2014.02.22~2017.02.21 | 2014.02.22 | 17,820 |
| Rose share 9-1 | 2012.02.21 | 2013.02.22~2017.02.21 | 2013.02.22 | 10,420 |
| Rose share 9-2 | 2012.02.21 | 2014.02.22~2017.02.21 | 2014.02.22 | 41,605 |
| | | | | 364,211 |

Changes in shares of equity linked special incentives for the three-month period ended March 31, 2014 and the year ended December 31, 2013 are as follows (share in units):

| Classification | Number of shares outstanding | |
|---|---|---|
| | Three-month period ended March 31, 2014 | Year ended December 31, 2013 |
| Beginning | 493,521 | 5,026,733 |
| Number of shares forfeited | (1,085) | (34,136) |
| Number of shares exercised | (128,225) | (4,499,076) |
| Ending | 364,211 | 493,521 |

Weighted average stock price of equity linked special incentives at the exercise date is in the amount of ₩7,691 for the three-month period ended March 31, 2014.

Weighted average residual maturity of equity linked is 2.29 years as at March 31, 2014.

## 46. Share-based payment (cont'd)

Hana Financial Group ("HFG") provided the Bank's employees with stock rights and stock grants linked to performance and computed the compensation costs by applying the fair value approach for the rights. Details of share-based payment arrangement and share-based payment linked to performance as at March 31, 2014 are as follows:

| Classification | 1st | 2nd | 3rd |
|---|---|---|---|
| Grant date | 2012-01-01 | 2013-01-01 | 2014-01-01 |
| Grant method | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG |
| Grant period | 2012-01-01~2014-12-31 | 2013-01-01~2015-12-31 | 2014-01-01~2016-12-31 |
| Payment date | 2014-12-31 | 2015-12-31 | 2016-12-31 |
| Shares at settlement date (*1) | 6,530 | 13,750 | 8,710 |

(*1) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

Details of liabilities related to share-based payment and total intrinsic value of rights accounted for as accounts payable in case that option holders achieve rights to receive cash or other assets as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Book value of liabilities related to share-based payment: | | |
| Stock options | ₩ 1,191 | ₩ 1,206 |
| Equity-linked special incentives (granted by the Bank) | 4,590 | 6,289 |
| Equity-linked special incentives (granted by HFG) | 3,323 | 2,535 |
| | ₩ 9,104 | ₩ 10,030 |

The compensation costs for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Three-month periods ended March 31, | |
|---|---|---|
| Classification | 2014 | 2013 |
| Costs recognized due to share-based payment: | | |
| Stock options | ₩ 8 | ₩ (64) |
| Equity-linked special incentives (granted by the Bank) | (51) | 6,318 |
| Equity-linked special incentives (granted by HFG) | 769 | 1,357 |
| | ₩ 726 | ₩ 7,611 |

## 47. Cash flow information

Cash and cash equivalents in the separate statement of cash flows consists of cash and due from bank (excluding restricted due from bank) in the separate statement of financial position. Cash and cash equivalents as at March 31, 2014 and December 31, 2013 are adjusted as follows (Korean won in millions):

| Classification | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Cash and due from banks | ₩ | 7,368,874 | ₩ | 6,646,083 |
| Less: restricted due from bank (Note 10) | | (4,125,498) | | (2,819,202) |
| Due from banks with original maturities exceeding three months from the date of acquisition | | (213,994) | | (297,976) |
| Cash and cash equivalents | ₩ | 3,029,382 | ₩ | 3,528,905 |

Significant non-cash transactions for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| Classification | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Unrealized gain or loss on available-for-sale financial assets | ₩ | (22,279) | ₩ | 43,171 |
| Gain or loss on foreign currency translation of available-for-sale financial assets | | 22 | | 62 |
| Transfer from property and equipment to investment property | | 252 | | 38 |
| Transfer from loans receivable to available-for-sale financial assets resulting from debt-to-equity swap | | 13,065 | | 16,206 |

## 48. Related party transactions

The Bank's major related parties as at March 31, 2014 are as follows:

| Subsidiaries | Relationship |
|---|---|
| Hana Financial Group ("HFG") | Controlling company |
| KEB F&I (formerly, KEBC) | Subsidiary |
| KEBF | Subsidiary |
| KEBIS | Subsidiary |
| KEBOC | Subsidiary |
| KEBA | Subsidiary |
| KEBDAG | Subsidiary |
| PT. Bank KEB Hana (formerly, KEBI) | Subsidiary |
| KEBB | Subsidiary |
| KEBNYFINCO | Subsidiary |
| KEBLAFINCO | Subsidiary |
| USAI | Subsidiary |
| KAF | Subsidiary |
| KEB China | Subsidiary |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | Subsidiary |
| Trust accounts guaranteeing the repayment of principal | Subsidiary |

## 48. Related party transactions (cont'd)

| Subsidiaries | Relationship |
|---|---|
| Athenae 1st | Subsidiary |
| Athenae 2nd | Subsidiary |
| Hana Daetoo Securities Co., Ltd. | Entity under common control |
| Hana Bank | Entity under common control |
| Hana Capital, Co, Ltd | Entity under common control |
| Hana Institute of Finance | Entity under common control |
| Hana SK Card | Entity under common control |
| Hana I&S | Entity under common control |
| Hana Daol Trust | Entity under common control |
| Hana HSBC Life Insurance Co.,Ltd | Entity under common control |
| Flossom Co., Ltd. | Associate |
| MIDAN City Development Co.,Ltd | Associate |
| Masam Marine New Town Co.,Ltd | Associate |

Outstanding balances with related parties arising from the below transactions as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| | March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Classification | Controlling company | Subsidiaries | Under common control | Associates | Total |
| Assets: | | | | | |
| Due from banks | ₩ - | ₩ 91,440 | ₩ - | ₩ - | ₩ 91,440 |
| Financial assets at FVTPL | - | - | 35,777 | - | 35,777 |
| Loans receivable | - | 985,785 | 90,182 | 22,665 | 1,098,632 |
| Allowance for possible loan losses | - | (77) | - | (56) | (133) |
| Others | - | 1,725 | 71,837 | - | 73,562 |
| | ₩ - | ₩ 1,078,873 | ₩ 197,796 | ₩ 22,609 | ₩ 1,299,278 |
| Liabilities: | | | | | |
| Deposits | ₩ - | ₩ 278,826 | ₩ 29,992 | ₩ - | ₩ 308,818 |
| Financial liabilities at FVTPL | - | 25 | 11,365 | - | 11,390 |
| Borrowings | - | 138,135 | - | - | 138,135 |
| Provisions | - | 148 | - | 24 | 172 |
| Others | 2,448 | 45,609 | 71,921 | - | 119,978 |
| | ₩ 2,448 | ₩ 462,743 | ₩ 113,278 | ₩ 24 | ₩ 578,493 |

## 48. Related party transactions (cont'd)

| Classification | December 31, 2013 Controlling company | Subsidiaries | Under common control | Associates | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Due from banks | ₩ - | ₩ 356,494 | ₩ - | ₩ - | ₩ 356,494 |
| Financial assets at FVTPL | - | 22 | 55,547 | - | 55,569 |
| Loans receivable | - | 1,246,729 | 19,603 | 25,665 | 1,291,997 |
| Allowance for possible loan losses | - | (44) | - | (64) | (108) |
| Others | - | 15,082 | 49,875 | - | 64,957 |
| | ₩ - | ₩ 1,618,283 | ₩ 125,025 | ₩ 25,601 | ₩ 1,768,909 |
| Liabilities: | | | | | |
| Deposits | ₩ - | ₩ 239,968 | ₩ 19,844 | ₩ - | ₩ 259,812 |
| Financial liabilities at FVTPL | - | 22 | 13,703 | - | 13,725 |
| Borrowings | - | 101,498 | - | - | 101,498 |
| Provisions | - | 71 | - | 25 | 96 |
| Others | 2,298 | 66,148 | 49,912 | - | 118,358 |
| | ₩ 2,298 | ₩ 407,707 | ₩ 83,459 | ₩ 25 | ₩ 493,489 |

Outstanding balances with subsidiaries arising from the above transactions as at March 31, 2014 and December 31, 2013 are summarized as follows (Korean won in millions):

| Company | March 31, 2014 Account related to receivables | Counterparty | Account related to payables | Amount |
|---|---|---|---|---|
| KEBChina | Due from banks | KEBDAG | Deposits | ₩ 1,989 |
| KEBI | Due from banks | KEBDAG | Deposits | 299 |
| KEBDAG | Due from banks | KEBOC | Deposits | 10 |

| Company | December 31, 2013 Account related to receivables | Counterparty | Account related to payables | Amount |
|---|---|---|---|---|
| KEBChina | Due from banks | KEBDAG | Deposits | ₩ 878 |
| KEBI | Due from banks | KEBDAG | Deposits | 887 |
| KEBDAG | Due from banks | KEBOC | Deposits | 215 |

## 48. Related party transactions (cont'd)

Details of transactions with related parties for the three-month periods ended March 31, 2014 and 2013 are summarized as follows (Korean won in millions):

| Classification | Three-month period ended March 31, 2014 Controlling company | Subsidiaries | Under common control | Associates | Total |
|---|---|---|---|---|---|
| Income: | | | | | |
| Interest income | ₩ - | ₩ 3,447 | ₩ 1 | ₩ 390 | ₩ 3,838 |
| Gain on financial instruments at FVTPL | - | 8 | 12,652 | - | 12,660 |
| Fee and commission income | - | 65 | 5,666 | - | 5,731 |
| Others | - | 1,175 | - | 9 | 1,184 |
| | ₩ - | ₩ 4,695 | ₩ 18,319 | ₩ 399 | ₩ 23,413 |
| Expense: | | | | | |
| Interest expense | ₩ - | ₩ 468 | ₩ 1 | ₩ - | ₩ 469 |
| Loss on financial instruments at FVTPL | - | 3 | 23,734 | - | 23,737 |
| Fee and commission expense | - | 12 | 732 | - | 744 |
| Others | - | 110 | - | - | 110 |
| | ₩ - | ₩ 593 | ₩ 24,467 | ₩ - | ₩ 25,060 |

| Classification | Three-month period ended March 31, 2013 Controlling company | Subsidiaries | Under common control | Associates | Total |
|---|---|---|---|---|---|
| Income: | | | | | |
| Interest income | ₩ 318 | ₩ 3,633 | ₩ 1 | ₩ 442 | ₩ 4,394 |
| Gain on financial instruments at FVTPL | - | - | 21,524 | - | 21,524 |
| Fee and commission income | - | 80 | 632 | - | 712 |
| Others | - | 2,234 | - | 1 | 2,235 |
| | ₩ 318 | ₩ 5,947 | ₩ 22,157 | ₩ 443 | ₩ 28,865 |
| Expense: | | | | | |
| Interest expense | ₩ - | ₩ 959 | ₩ 129 | ₩ - | ₩ 1,088 |
| Loss on financial instruments at FVTPL | - | - | 36,538 | - | 36,538 |
| Fee and commission expense | - | 14 | - | - | 14 |
| Others | - | 5 | - | 2 | 7 |
| | ₩ - | ₩ 978 | ₩ 36,667 | ₩ 2 | ₩ 37,647 |

## 48. Related party transactions (cont'd)

Outstanding balances with subsidiaries arising from the above transactions for the three-month periods ended March 31, 2014 and 2013 are summarized as follows (Korean won in millions):

| | Three-month period ended March 31, 2014 | | | | |
|---|---|---|---|---|---|
| Company | Account related to income | Counterparty | Account related to expense | | Amount |
| KEBOC | Interest income | NYFinCo | Interest expense | ₩ | 2 |

| | Three-month period ended March 31, 2013 | | | | |
|---|---|---|---|---|---|
| Company | Account related to income | Counterparty | Account related to expense | | Amount |
| KEBA | Interest income | NYFinCo | Interest expense | ₩ | 1 |

Guarantees and acceptances with subsidiaries as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| Company | Classification | | Limit | Counterparty |
| The Bank | Guarantees and acceptances denominated in foreign currencies | ₩ | 53,502 | Subsidiaries |
| Subsidiaries | Guarantees and acceptances denominated in foreign currencies | | 15,674 | The Bank |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Company | Classification | | Limit | Counterparty |
| The Bank | Guarantees and acceptances denominated in foreign currencies | ₩ | 52,865 | Subsidiaries |
| Subsidiaries | Guarantees and acceptances denominated in foreign currencies | | 16,534 | The Bank |

Details of compensation paid to key management personnel for the three-month periods ended March 31, 2014 and 2013 are summarized as follows (Korean won in millions):

| | Three-month periods ended March 31, | | | |
|---|---|---|---|---|
| Classification | | 2014 | | 2013 |
| Short-term employee benefits | ₩ | 2,138 | ₩ | 1,434 |
| Post-retirement employee benefits | | 45 | | 51 |
| Stock options | | 26 | | (16) |

The key management includes directors, executives and officers who have authority and responsibilities for decision making of the business plan, operations and control over the Bank.

## 49. Contingencies and commitments

The Bank holds loans written-off, on which the relevant statute of limitations has not expired or the Bank has not lost its claim rights to borrowers and guarantors, in the amount of ₩1,679,534 million and ₩1,680,351 million as at March 31, 2014 and December 31, 2013, respectively.

Endorsed notes with collateral amount to ₩44,746 million and ₩46,785 million as at March 31, 2014 and December 31, 2013, respectively. Endorsed notes without collateral held at the merchant banking amount to ₩8,614,300 million and ₩7,834,800 million as at March 31, 2014 and December 31, 2013, respectively.

The Bank has pending litigations as a plaintiff or a defendant in various lawsuits arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank are approximately ₩186,016 million (669 cases) and ₩482,344 million (188 cases) as at March 31, 2014, respectively. The Bank recognized provisions in the amount of ₩123,795 million as at March 31, 2014 for the lawsuits.

The Bank believes that the outcome of these matters will not have a material impact on the Bank's separate financial statements.

Regular bonus and other benefits paid periodically, uniformly, and steadily shall be included in ordinary wages according to the Supreme Court's decision made in the current year. The Bank did not recognize provisions in the decision based on the judgement that it is not probable that the Bank is required to pay additional wages due to the Supreme Court's decision, and the amount of the obligation cannot be measured with sufficient reliability as at March 31, 2014.

Asset-backed commercial paper ("ABCP") purchase agreements and unused commitments relating to Project financing ("PF") as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| ABCP purchase agreement | ₩ 325,000 | ₩ 325,000 |
| Unused commitments on PF loan | 263,532 | 321,213 |
| | ₩ 588,532 | ₩ 646,213 |

## 50. Operation performance of trust accounts

Details of total assets of trust accounts as at March 31, 2014 and December 31, 2013 and operating income for the three-month periods ended March 31, 2014 and 2013 are as follows (Korean won in millions):

| | Total assets | | Operating income | |
|---|---|---|---|---|
| | | | Three-month periods ended March 31, | |
| Classification | March 31, 2014 | December 31, 2013 | 2014 | 2013 |
| Trust accounts | ₩ 31,669,050 | ₩ 30,316,196 | ₩ 102,641 | ₩ 122,157 |

## 50. Operation performance of trust accounts (cont'd)

The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as at March 31, 2014 and December 31, 2013 are as follows (Korean won in millions):

| Classification | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Trust accounts guaranteeing the repayment of principal: | | |
| Installment trust | ₩ 64 | ₩ 64 |
| Household trust | 476 | 534 |
| Old-age pension trust | 1,726 | 1,756 |
| Corporate trust | 5 | 5 |
| Personal pension trust | 190,946 | 192,685 |
| Retirement trust | 55,035 | 56,773 |
| New personal pension trust | 86,209 | 84,887 |
| New old-age pension trust | 923 | 956 |
| Pension trust | 318,962 | 307,449 |
| | 654,346 | 645,109 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal: | | |
| Unspecified monetary trust | 59 | 59 |
| Development money trust | 5 | 5 |
| | 64 | 64 |
| | ₩ 654,410 | ₩ 645,173 |

## 51. Common control transaction

### Merger between PT. Bank KEB Indonesia ("KEBI") and PT. Bank Hana

In accordance with the regulations of the Bank Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia ("KEBI"), a subsidiary of the Bank, and PT. Bank Hana, a subsidiary of Hana Bank, have completed a merger process on February 20 ,2014 and changed the name to PT. Bank KEB Hana. PT. Bank KEB Hana incorporated into a subsidiary of the Bank on February 28, 2014 since the Bank owned the major shares of PT. Bank KEB Hana after the acquisition.

### Merger plan between KEB Bank (China) Co., Ltd. and Hana Bank (China)

On December 5, 2013, the Bank's Board of Directors approved a merger between KEB Bank (China) Co., Ltd. and Hana Bank (China). KEB Bank (China) Co., Ltd. and Hana Bank (China) approved the merger at their general meeting of stockholders and are undergoing the approval process of supervisory authority as at March 31, 2014.

## 52. Restatement of financial statements for the prior period

With respect to the long term deposits without activities after 5 years from the final transaction, the Bank classifies these accounts as completed extinctive prescription dormant deposits and recognized the relative amount as gain from liabilities exempted and also a portion has appeared in the Smile Microcredit Bank. However, in accordance with the Supreme Court judgment made on August 23, 2012, it states that the extinctive prescription is not completed in case the Bank has made deposit interest after the final transaction, which is regarded as an act of acknowledgement of debt, and accordingly the Bank has the obligation to return the deposits. The Bank restated the accompanying interim separate statements of profit or loss and other comprehensive income and interim separate statements of changes in equity for the three-month period ended March 31, 2013, presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earnings for the three-month period ended March 31, 2013 to be decreased in the amount of ₩5,930 million, non-operating expenses for the three-month period ended March 31, 2013 to be decreased in the amount of ₩531 million, and income tax expense and net income for the three-month period ended March 31, 2013 to be increased in the amount of ₩129 million and ₩402 million, respectively.

On March 5, 2013, the Bank received an organization warning from the Financial Supervisory Service in accordance to the Pricing Guideline as a result of directing a raise in other interest rate and accordingly, 7 prior and current executives were under indictment as of July 25, 2013 upon investigation from the Public Prosecutors Office. The Public Prosecutors Office has requested the Financial Supervisory Service to order the Bank to return the received interest to the relevant customers. The Bank restated the accompanying interim separate statements of profit or loss and other comprehensive income and interim separate statements of changes in equity for the three-month period ended March 31, 2013, presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earnings for the three-month period ended March 31, 2013 to be decreased in the amount of ₩30,031 million, and interest income, income tax expense and net income for the three-month period ended March 31, 2013 to be increased in the amount of ₩839 million, ₩203 million and ₩636 million, respectively.

According to the amendments to *KIFRS 1019* applied retrospectively, the net interest of the defined benefit plan less the fair value of plan assets formerly recognized in profit or loss was recognized as other comprehensive income, and the net interest on plan assets was calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The Bank restated the accompanying interim separate statements of changes in equity for the three-month period ended March 31, 2013, presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of accumulated other comprehensive income for the three-month period ended March 31, 2013 to be decreased in the amount of ₩718 million, and retained earnings for the three-month period ended March 31, 2013 to be increased in the amount of ₩718 million.

## 53. Spinoff plan for credit card division

On December 24, 2013, the Bank's Board of Directors approved an equity spinoff of a credt card division aiming to strengthen the competitiveness of credit card business and applied for the permission of equity spinoff and credit card business for the newly established company after the spinoff to the Financial Services Commission.

Based on the spinoff plan, the Bank plans to obtain the Financial Services Commission's permission and approve the eqiuty spinoff at genaral meeting of shareholders.

Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

## Independent auditors' report

The Board of Directors and Shareholders
Korea Exchange Bank and its subsidiaries

We have audited the accompanying consolidated financial statements of Korea Exchange Bank (the "KEB") and its subsidiaries (collectively, the "Company"), which comprises the consolidated statements of financial position as at December 31, 2013, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for year then ended. These financial statements are the responsibility of the KEB and the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

The consolidated statement of financial position as at December 31, 2012, and the related consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended were audited by Deloitte, in accordance with auditing standards generally accepted in the Republic of Korea, whose report dated March 8, 2013 expressed an unqualified opinion thereon. The financial statements of KEB and the Company for the year ended December 31, 2012, which Deloitte has expressed their opinion thereon had not been amended by the adjustments described in Note 54. Such adjustments were applied to the comparative 2012 financial statements presented herein.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KEB and the Company as at December 31, 2013 and the results of its financial performance and cash flows for the year then ended in accordance with Korea International Financial Reporting Standards (KIFRS).

Ernst & Young Han Young

March 4, 2014

This audit report is effective as at March 4, 2014, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

**Korea Exchange Bank and its subsidiaries**
**Consolidated statements of financial position**
**As at December 31, 2013 and December 31, 2012 and January 1, 2012**

(Korean won in millions)

| | Notes | | December 31, 2013 | | December 31, 2012 | | January 1, 2012 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and due from banks | 5, 6, 7, 10, 47 | ₩ | 8,247,437 | ₩ | 8,253,842 | ₩ | 8,467,527 |
| Financial assets at FVTPL | 5, 6, 7, 8, 11, 18, 48 | | 2,133,946 | | 1,920,689 | | 2,006,850 |
| Derivative assets used for hedging purposes | 5, 6, 7, 8, 18 | | 23,070 | | 37,867 | | 32,537 |
| Available-for-sale financial assets | 5, 6, 7, 8, 12, 14, 15, 17 | | 9,203,594 | | 7,026,521 | | 6,120,693 |
| Held-to-maturity investments | 5, 6, 7, 8, 13, 14, 15 | | 2,330,877 | | 5,126,353 | | 5,462,329 |
| Loans receivable | 5, 6, 7, 8, 16, 17, 48 | | 73,684,397 | | 70,392,937 | | 67,989,762 |
| Investments in associates | 19 | | 771 | | - | | 669 |
| Property and equipment | 20 | | 1,219,586 | | 1,222,961 | | 1,207,380 |
| Investment property | 21 | | 183,262 | | 178,312 | | 176,442 |
| Intangible assets | 22 | | 73,500 | | 83,036 | | 86,576 |
| Current income tax assets | | | 2,087 | | 4,266 | | 5,098 |
| Deferred income tax assets | 44 | | 38,008 | | 27,811 | | 28,589 |
| Other assets | 5, 6, 7, 8, 23, 48 | | 6,776,785 | | 7,891,955 | | 7,216,014 |
| Merchant banking account assets | 5, 6, 7, 8, 23 | | 2,715,835 | | 2,488,216 | | 2,352,503 |
| Non-current assets held for sale | 24 | | 660 | | 1,439 | | - |
| **Total assets** | | ₩ | 106,633,815 | ₩ | 104,656,205 | ₩ | 101,152,969 |
| **Liabilities and equity** | | | | | | | |
| **Liabilities** | | | | | | | |
| Deposits | 6, 7, 8, 26, 48 | ₩ | 69,777,325 | ₩ | 67,425,972 | ₩ | 65,126,440 |
| Financial liabilities at FVTPL | 5, 6, 7, 8, 25, 48 | | 1,286,745 | | 1,308,753 | | 968,120 |
| Derivative liabilities used for hedging purposes | 5, 6, 7, 8, 18 | | 12,562 | | - | | 897 |
| Borrowings | 5, 6, 7, 8, 27 | | 6,832,731 | | 6,925,705 | | 9,330,216 |
| Debentures | 5, 6, 7, 8, 28 | | 6,769,818 | | 6,173,426 | | 5,460,024 |
| Provisions | 29, 48, 49 | | 274,038 | | 231,410 | | 241,055 |
| Current income tax liabilities | | | 38,309 | | 40,107 | | - |
| Deferred income tax liabilities | 44 | | 91,905 | | 42,243 | | 60,712 |
| Other liabilities | 5, 6, 7, 8, 30 , 31, 46, 48 | | 10,286,614 | | 12,921,006 | | 10,600,750 |
| Merchant banking account liabilities | 5, 6, 7, 8, 30 | | 1,680,804 | | 528,725 | | 753,244 |
| **Total liabilities** | | | 97,050,851 | | 95,597,347 | | 92,541,458 |
| **Equity** | | | | | | | |
| Issued capital | 32 | | 3,224,534 | | 3,224,534 | | 3,224,534 |
| Capital surplus | 32 | | 940 | | 940 | | 940 |
| Hybrid equity securities | 32 | | 429,509 | | 249,772 | | 249,772 |
| Capital adjustments | 32 | | (18,724) | | 40 | | - |
| Retained earnings | 33 | | 5,796,603 | | 5,404,592 | | 4,755,679 |
| (Regulatory reserve for bad debts in the amount of ₩737,322, ₩680,621 and ₩- as at December 31, 2013 and 2012 and January 1, 2012, respectively) | 34 | | | | | | |
| (Required reserve for bad debts in the amount of ₩57,440, ₩56,701 and ₩680,621 as at December 31, 2013 and 2012 and January 1, 2012, respectively) | | | | | | | |
| (Planned reserve for bad debts in the amount of ₩57,440, ₩56,701 and ₩680,621 as at December 31, 2013 and 2012 and January 1, 2012, respectively) | | | | | | | |
| Accumulated other comprehensive income | 35 | | 148,587 | | 176,893 | | 378,252 |
| Equity attributable to equity holders of the parent | | | 9,581,449 | | 9,056,771 | | 8,609,177 |
| Non-controlling shareholder's equity | | | 1,515 | | 2,087 | | 2,334 |
| **Total equity** | | | 9,582,964 | | 9,058,858 | | 8,611,511 |
| **Total liabilities and equity** | | ₩ | 106,633,815 | ₩ | 104,656,205 | ₩ | 101,152,969 |

The accompanying notes are an integral part of the financial statements.

## Korea Exchange Bank and its subsidiaries
## Consolidated statements of profit or loss and other comprehensive income
## For the years ended December 31, 2013 and 2012

(Korean won in millions, except per share amounts)

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Net interest income** | 37,48 | | |
| Interest income | | ₩ 3,897,679 | ₩ 4,412,345 |
| Interest expenses | | (1,670,306) | (1,943,251) |
| | | 2,227,373 | 2,469,094 |
| **Net fee and commission income** | 38,48 | | |
| Fee and commission income | | 538,750 | 521,295 |
| Fee and commission expenses | | (366,911) | (342,871) |
| | | 171,839 | 178,424 |
| **Net gain (loss) on financial instruments at FVTPL** | 39,48 | | |
| Gain on financial instruments at FVTPL | | 3,307,846 | 3,436,819 |
| Loss on financial instruments at FVTPL | | (3,227,566) | (3,444,137) |
| | | 80,280 | (7,318) |
| **Net gain (loss) on derivative financial instruments used for hedging purposes** | 39 | | |
| Gain on derivative financial instruments used for hedging purposes | | 34,027 | 7,881 |
| Loss on derivative financial instruments used for hedging purposes | | (30,382) | (12,787) |
| | | 3,645 | (4,906) |
| **Net gain on available-for-sale financial assets** | 39 | | |
| Gain on available-for-sale financial assets | | 85,717 | 247,046 |
| Loss on available-for-sale financial assets | | (5,804) | (40) |
| | | 79,913 | 247,006 |
| **Impairment loss** | 40,48 | | |
| Impairment loss on financial assets | | (533,792) | (683,918) |
| | | (533,792) | (683,918) |
| **General and administrative expenses** | 41,46 | (1,540,227) | (1,564,879) |
| **Net other operating income** | 42,48 | | |
| Other operating income | | 1,579,419 | 1,386,430 |
| Other operating expenses | | (1,479,974) | (1,100,292) |
| | | 99,445 | 286,138 |
| **Operating income** | | 588,476 | 919,641 |
| **Non-operating income (expenses)** | 43 | | |
| Non-operating income | | 23,449 | 59,672 |
| Non-operating expenses | | (44,879) | (46,726) |
| | | (21,430) | 12,946 |
| **Net income before income tax expense** | | 567,046 | 932,587 |
| **Income tax expense** | 44 | (122,923) | (265,444) |
| **Net income** | | 444,123 | 667,143 |
| (Adjusted income after deducting regulatory reserve for bad debt in the amount of ₩386,880 and ₩610,462 for the years ended December 31, 2013 and 2012, respectively) | 34 | | |
| **Other comprehensive expenses** | 35 | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Gain (loss) on valuation of available-for-sale financial assets | | 95,356 | (113,905) |
| Exchange differences on translation of available-for-sale financial assets | | (31) | (89) |
| Changes in unrealized gain on valuation of equity method investments | | - | 10 |
| Exchange differences on translation of foreign operations | | (74,206) | (108,862) |
| Tax effect | | (23,109) | 27,565 |
| | | (1,990) | (195,281) |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurements of the net defined benefit liability | | (35,407) | (8,318) |
| Tax effect | | 8,716 | 2,013 |
| | | (26,691) | (6,305) |
| **Total comprehensive income** | | ₩ 415,442 | ₩ 465,557 |
| Equity holders of the parent | | 416,014 | 465,804 |
| Non-controlling interests | | (572) | (247) |
| **Earnings per share** | 45 | | |
| Basic earnings per share | | ₩ 660 | ₩ 1,006 |
| Diluted earnings per share | | ₩ 660 | ₩ 1,006 |

The accompanying notes are an integral part of the financial statements.

## Korea Exchange Bank and its subsidiaries
## Consolidated statements of changes in equity
## For the years ended December 31, 2013 and 2012

(Korean won in millions)

| | Notes | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Equity attributable to equity holders of the parent | Non-controlling shareholders' equity | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| As at January 1, 2012 | | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,803,671 | ₩ 355,284 | ₩ 8,634,201 | ₩ 2,334 | ₩ 8,636,535 |
| Accumulated effect of accounting policy change | 3,31 | - | - | - | - | (9,650) | 22,968 | 13,318 | - | 13,318 |
| Loss on prior year error correction | 54 | - | - | - | - | (38,342) | - | (38,342) | - | (38,342) |
| Restated balance as at January 1, 2012 | | 3,224,534 | 940 | 249,772 | - | 4,755,679 | 378,252 | 8,609,177 | 2,334 | 8,611,511 |
| Dividends on hybrid equity securities | | - | - | - | - | (18,250) | - | (18,250) | - | (18,250) |
| Share-based payment transactions | | - | - | - | 40 | - | - | 40 | - | 40 |
| | | 3,224,534 | 940 | 249,772 | 40 | 4,737,429 | 378,252 | 8,590,967 | 2,334 | 8,593,301 |
| Net income for the period | | - | - | - | - | 667,163 | - | 667,163 | (20) | 667,143 |
| Loss on valuation of available-for-sale financial assets | | - | - | - | - | - | (86,351) | (86,351) | (10) | (86,361) |
| Exchange differences on transaction of foreign operations | | - | - | - | - | - | (108,645) | (108,645) | (217) | (108,862) |
| Exchange differences on translation of available-for-sale financial assets | | - | - | - | - | - | (68) | (68) | - | (68) |
| Changes in unrealized gain on valuation of equity method investments | | - | - | - | - | - | 10 | 10 | - | 10 |
| Changes in remeasurement of the net defined benefit liability | | - | - | - | - | - | (6,305) | (6,305) | - | (6,305) |
| Total comprehensive expenses for the period | | - | - | - | - | 667,163 | (201,359) | 465,804 | (247) | 465,557 |
| As at December 31, 2012 | | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,404,592 | ₩ 176,893 | ₩ 9,056,771 | ₩ 2,087 | ₩ 9,058,858 |

| | Notes | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Equity attributable to equity holders of the parent | Non-controlling shareholders' equity | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| As at January 1, 2013 | | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,444,291 | ₩ 160,230 | ₩ 9,079,807 | ₩ 2,087 | ₩ 9,081,894 |
| Accumulated effect of accounting policy change | 3,31 | - | - | - | - | (3,738) | 16,663 | 12,925 | - | 12,925 |
| Loss on prior year error correction | 54 | - | - | - | - | (35,961) | - | (35,961) | - | (35,961) |
| Restated balance as at January 1, 2013 | | 3,224,534 | 940 | 249,772 | 40 | 5,404,592 | 176,893 | 9,056,771 | 2,087 | 9,058,858 |
| Dividends | 51 | - | - | - | - | (32,245) | - | (32,245) | - | (32,245) |
| Dividends on hybrid equity securities | | - | - | - | - | (20,064) | - | (20,064) | - | (20,064) |
| Share-based payment transactions | | - | - | - | (277) | - | - | (277) | - | (277) |
| Loss on disposal of treasury sotck | | - | - | - | (17,869) | - | - | (17,869) | - | (17,869) |
| Other capital adjustment | | - | - | - | (618) | - | - | (618) | - | (618) |
| Issuance of hybrid equity securities | | - | - | 179,737 | - | - | - | 179,737 | - | 179,737 |
| | | 3,224,534 | 940 | 429,509 | (18,724) | 5,352,283 | 176,893 | 9,165,435 | 2,087 | 9,167,522 |
| Net income for the period | | - | - | - | - | 444,320 | - | 444,320 | (197) | 444,123 |
| Gain on valuation of available-for-sale financial assets | | - | - | - | - | - | 72,243 | 72,243 | (3) | 72,240 |
| Exchange differences on transaction of foreign operations | | - | - | - | - | - | (73,834) | (73,834) | (372) | (74,206) |
| Exchange differences on translation of available-for-sale financial assets | | - | - | - | - | - | (24) | (24) | - | (24) |
| Changes in remeasurement of the net defined benefit liability | | - | - | - | - | - | (26,691) | (26,691) | - | (26,691) |
| Total comprehensive income for the period | | - | - | - | - | 444,320 | (28,306) | 416,014 | (572) | 415,442 |
| As at December 31, 2013 | | ₩ 3,224,534 | ₩ 940 | ₩ 429,509 | ₩ (18,724) | ₩ 5,796,603 | ₩ 148,587 | ₩ 9,581,449 | ₩ 1,515 | ₩ 9,582,964 |

The accompanying notes are an integral part of the financial statements.

**Korea Exchange Bank and its subsidiaries**
**Consolidated statements of cash flows**
**For the years ended December 31, 2013 and 2012**
(Korean won in millions)

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | ₩ | 444,123 | ₩ | 667,143 |
| Adjustments to reconcile net income to net cash flows: | | | | |
| Income tax expense | | 122,923 | | 265,444 |
| Interest income, net | | (2,227,373) | | (2,469,094) |
| Gain on valuation of financial assets held-for-trading, net | | (592) | | (1,119) |
| Gain on valuation of derivatives held-for-trading, net | | (36,902) | | (33,489) |
| Loss (gain) on valuation of derivatives used for hedging purposes, net | | (3,616) | | 5,517 |
| Gain on disposal of available-for-sale financial assets, net | | (79,913) | | (247,006) |
| Impairment loss on available-for-sale financial assets | | 29,392 | | 16,137 |
| Provision for possible loan losses | | 504,400 | | 667,781 |
| Impairment loss on investments in associates | | 821 | | 678 |
| Depreciation on property and equipment | | 81,349 | | 78,319 |
| Depreciation on investment property | | 2,549 | | 2,494 |
| Amortization | | 24,934 | | 24,900 |
| Loss on disposal of property and equipment, net | | 321 | | 261 |
| Impairment loss on intangible assets | | 2,980 | | 2,984 |
| Gain on disposal of non-current assets held for sale | | (100) | | - |
| Loss on disposal of investment property, net | | - | | 73 |
| Gain on disposal of intangible assets | | (301) | | - |
| Provision for post-employment benefit obligation | | 54,751 | | 83,616 |
| Long-term compensation expense for performance bonus | | 20,794 | | 33,842 |
| Provision for (reversal of) acceptances and guarantees | | 4,230 | | (2,541) |
| Provision for unused commitments, net | | 1,140 | | 6,291 |
| Provision for other allowances | | 50,418 | | 8,313 |
| Gain on foreign currency transactions, net | | (50,165) | | (34,433) |
| Dividend income | | (11,229) | | (12,739) |
| Rental income | | (3,043) | | (3,206) |
| Provision for (reversal of) share based payment expense | | 462 | | (2,453) |
| Loss on valuation of financial assets held-for-trading (Merchant banking account), net | | 172 | | 32 |
| Provision for possible loan losses (Merchant banking account), net | | 320 | | - |
| Reversal of unused commitments (Merchant banking account), net | | (59) | | (32) |
| Reversal of possible loan losses (Merchant banking account) | | - | | (4,614) |
| Loss on valuation of CMA securities (Merchant banking account), net | | 11 | | 4 |
| | | (1,511,326) | | (1,614,040) |
| Changes in operating assets and liabilities: | | | | |
| Financial assets held-for-trading | | (255,551) | | 369,962 |
| Derivative assets held-for-trading | | 36,573 | | (249,300) |
| Derivative assets used for hedging purposes | | (18,598) | | 711 |
| Loans receivable | | (3,431,504) | | (3,468,500) |
| Other assets | | (1,607,601) | | 961,453 |
| Merchant banking account assets | | (138,122) | | (131,135) |
| Borrowings | | 2,351,353 | | 2,668,196 |
| Derivative liabilities at FVTPL | | (21,973) | | 340,668 |
| Derivative liabilities used for hedging purposes | | 12,562 | | (897) |
| Payments of severance benefits | | (4,812) | | (33,674) |
| Contribution to plan assets | | (64,970) | | (75,136) |
| Provisions | | (14,049) | | (20,434) |
| Other liabilities | | (454,987) | | 1,303,565 |
| Merchant banking account liabilities | | 1,152,138 | | (224,487) |
| | | (2,459,541) | | 1,440,992 |

(Continued)

**Korea Exchange Bank and its subsidiaries**
**Consolidated statements of cash flows**
**For the years ended December 31, 2013 and 2012**
(Korean won in millions)

| | 2013 | 2012 |
|---|---|---|
| Cash received from operating activities: | | |
| Interest receipts | 3,926,982 | 4,306,355 |
| Dividend receipts | 11,228 | 12,740 |
| Income tax refunds | 48,968 | 12,361 |
| | 3,987,178 | 4,331,456 |
| Cash payment for operating activities: | | |
| Interest payments | 1,891,378 | 2,534,101 |
| Payment of income tax | 125,481 | 226,993 |
| | (2,016,859) | (2,761,094) |
| **Net cash flows provided by (used in) operating activities** | (1,556,425) | 2,064,457 |
| **Investing activities** | | |
| Cash inflow related to investing activities: | | |
| Decrease in restricted due from banks, net | 248,336 | 1,040,736 |
| Proceeds from disposal of available-for-sale financial assets | 5,872,362 | 6,593,572 |
| Proceeds from disposal of held-to-maturity investments | 5,902,931 | 5,128,374 |
| Proceeds from disposal of property and equipment | 489 | 135 |
| Proceeds from disposal of intangible assets | 2,429 | 213 |
| Proceeds from disposal of investment property | - | 271 |
| Decrease in assets not used for business purpose | 778 | - |
| Cash inflow related to lease | 2,773 | 1,995 |
| | 12,030,098 | 12,765,296 |
| Cash outflow related to investing activities: | | |
| Purchase of available-for-sale financial assets | 8,000,204 | 7,394,027 |
| Purchase of held-to-maturity investments | 3,109,803 | 4,802,019 |
| Acquisition of intangible assets | 20,492 | 16,549 |
| Acquisition of property and equipment | 86,592 | 97,749 |
| Cash outflow related to lease | 23,329 | 8,388 |
| Increase in guarantee deposits paid, net | - | - |
| | (11,240,420) | (12,318,732) |
| **Net cash flows provided by investing activities** | 789,678 | 446,564 |
| **Financing activities** | | |
| Cash inflow related to financing activities: | | |
| Increase in call money, net | 602,977 | - |
| Increase in bills sold, net | 40,223 | - |
| Increase in borrowings | 1,386,809 | 1,294,346 |
| Issuance of debentures | 3,280,638 | 3,423,882 |
| Issue of hybrid equity securities | 179,737 | - |
| | 5,490,384 | 4,718,228 |

(Continued)

**Korea Exchange Bank and its subsidiaries**
**Consolidated statements of cash flows**
**For the years ended December 31, 2013 and 2012**
(Korean won in millions)

| | 2013 | 2012 |
|---|---|---|
| Cash outflow related to financing activities: | | |
| Decrease in call money, net | - | 902,844 |
| Decrease in bills sold, net | - | 33,607 |
| Decrease in bonds sold under repurchase agreements, net | - | 22,055 |
| Decrease in borrowings | 2,124,259 | 2,585,594 |
| Redemption of debentures | 2,257,315 | 2,745,605 |
| Dividends paid | 32,245 | - |
| Dividends on hybrid equity securities | 20,064 | 18,250 |
| | (4,433,883) | (6,307,955) |
| **Net cash flows provided by (used in) financing activities** | 1,056,501 | (1,589,727) |
| **Net increase in cash and cash equivalents** | 289,754 | 921,294 |
| **Cash and cash equivalents at the beginning of the period** | 4,484,904 | 3,657,853 |
| **Effect of exchange rate changes on cash and cash equivalents** | (47,823) | (94,243) |
| **Cash and cash equivalents at the end of the period** | ₩ 4,726,835 | ₩ 4,484,904 |

The accompanying notes are an integral part of the financial statements.

## 1. Company information

The accompanying consolidated financial statements include Korea Exchange Bank (the "KEB") and its controlled subsidiaries (collectively, the "Company"). General information describing KEB, the Company and joint ventures is provided below.

KEB was established on January 30, 1967, as a government-invested bank which primarily engages in foreign exchange and trade finance business under the Korea Exchange Bank Act published on July 28, 1966. On December 30, 1989, the Korea Exchange Bank Act was repealed and KEB was reorganized as a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, KEB was listed on the Korean Stock Exchange. The merger between KEB and the Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004.

KEB primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business as a result of the merger with Korea International Merchant Bank, a domestic subsidiary KEB, and other related operations as permitted under the Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As at December 31, 2013, KEB operates through 354 branches (including 29 depositary offices) and 3 subsidiaries in the Republic of Korea and 23 branches (including 3 depositary offices and 6 offices) and 10 subsidiaries overseas.

As at December 31, 2013, KEB is authorized to issue 1,000 million shares (at ₩5,000 per value) and has issued 644,906,826 ordinary shares amounting to ₩3,224,534 million in issued capital.

On April 5, 2013, KEB became a wholly-owned subsidiary of Hana Financial Group resulting from a share-for-share exchange.

Details of the Company's scope of consolidation as at December 31, 2013 and 2012 are as follows (shares in thousands):

| | | | | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|---|
| Subsidiaries | Business | Location | Financial statements date | Number of shares | Percentage of ownership (%) | Number of shares | Percentage of ownership (%) |
| KEB's subsidiaries: | | | | | | | |
| KEB Capital Inc. ("KEBC") (*1) | Finance and banking service | Korea | December 31, 2013 | 14,976 | 99.31 | 14,976 | 99.31 |
| KEB Futures Co., Ltd. ("KEBF") | Finance and banking service | Korea | December 31, 2013 | 3,000 | 100.00 | 3,000 | 100.00 |
| KEB Fund Services Co., Ltd. ("KEBIS") | Finance and banking service | Korea | December 31, 2013 | 510 | 100.00 | 510 | 100.00 |
| Korea Exchange Bank of Canada ("KEBOC") | Finance and banking service | Canada | December 31, 2013 | 334 | 100.00 | 334 | 100.00 |

## 1. Company information (cont'd)

Details of the Company's scope of consolidation as at December 31, 2013 and 2012 are as follows (shares in thousands):

| Subsidiaries | Business | Location | Financial statements date | December 31, 2013 Number of shares | December 31, 2013 Percentage of ownership (%) | December 31, 2012 Number of shares | December 31, 2012 Percentage of ownership (%) |
|---|---|---|---|---|---|---|---|
| KEB (Australia) Holdings ("KEBH") (*2) | Finance and banking service | Australia | December 31, 2013 | - | - | - | - |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | Finance and banking service | Germany | December 31, 2013 | 20 | 100.00 | 20 | 100.00 |
| PT. Bank KEB Indonesia ("KEBI") | Finance and banking service | Indonesia | December 31, 2013 | 1 | 99.00 | 1 | 99.00 |
| Banco KEB do Brazil S. A. ("KEBB") | Finance and banking service | Brazil | December 31, 2013 | 69,726 | 100.00 | 69,726 | 100.00 |
| KEB NY Financial Corp.("NYFinCo") | Finance and banking service | USA | December 31, 2013 | 0.1 | 100.00 | 0.1 | 100.00 |
| KEB LA Financial Corp.("LAFinCo") | Finance and banking service | USA | December 31, 2013 | 0.2 | 100.00 | 0.2 | 100.00 |
| KEB USA Int'l Corp. ("USAI") | Finance and banking service | USA | December 31, 2013 | 0.1 | 100.00 | 0.1 | 100.00 |
| KEB Asia Finance Limited ("KAF") | Finance and banking service | Hong Kong | December 31, 2013 | 50,000 | 100.00 | 50,000 | 100.00 |
| KEB Bank (China) Co., Ltd. ("KEB China") (*2) | Finance and banking service | China | December 31, 2013 | - | 100.00 | - | 100.00 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal (*3) | Trust service | Korea | December 31, 2013 | - | - | - | - |
| Trust accounts guaranteeing the repayment of principal (*3) | Trust service | Korea | December 31, 2013 | - | - | - | - |
| Athenae 1st (*2,3) | Asset liquidation | Korea | December 31, 2013 | - | - | - | - |
| Athenae 2nd (*2,3) | Asset liquidation | Korea | December 31, 2013 | - | - | - | - |
| KEB (Australia) Holding's subsidiaries: | | | December 31, 2013 | | | | |
| KEB (Australia) Ltd. ("KEBA") | Finance and banking service | Australia | December 31, 2013 | 55,000 | 100.00 | 55,000 | 100.00 |

## 1. Company information (cont'd)

(*1) KEB, a subsidiary of Hana Financial Group, is prohibited to own any subsidiary which operates in the specialized credit industry after January 31, 2014 according to the Financial Holding Company Act. Accordingly, KEBC, a subsidiary of KEB, held a Board of Directors' meeting on October 17, 2013 and voted to close down the equipment rental, installment financing, new technology business financing and loan business under the Specialized Credit Financial Business Act, and change its operations to asset management and investments regarding insolvent assets under the Asset-Backed Securitization Act.
(*2) These investees maintain no shares as they were incorporated as either a private equity investment vehicle or others.
(*3) Included in the scope of consolidation under consideration of the control model.

Summary of the financial statements of subsidiaries as at December 31, 2013 and 2012 are as follows. (Korean won in millions):

| | December 31,2013 | | | |
|---|---|---|---|---|
| Subsidiaries | Asset | Liabilities | Equity | Net income (loss) |
| KEB Capital Inc. ("KEBC") | ₩ 259,926 | ₩ 232,348 | ₩ 27,578 | ₩ (47,927) |
| KEB Futures Co.,Ltd. ("KEBF") | 546,310 | 480,759 | 65,551 | 19 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 17,346 | 2,073 | 15,273 | 3,207 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,304,312 | 1,155,571 | 148,741 | 14,926 |
| KEB (Australia) Holdings ("KEBH") | 394,551 | 316,747 | 77,804 | 7,456 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 765,741 | 688,074 | 77,667 | 2,646 |
| PT. Bank KEB Indonesia ("KEBI") | 507,969 | 375,422 | 132,547 | 13,289 |
| Banco KEB do Brasil S. A. ("KEBB") | 160,226 | 118,179 | 42,047 | 5,399 |
| KEB NY Financial Corp. ("NYFinCo") | 465,773 | 425,715 | 40,058 | 4,374 |
| KEB LA Financial Corp. ("LAFinCo") | 278,932 | 234,688 | 44,244 | 3,026 |
| KEB USA Int'l Corp. ("USAI") | 7,038 | 3 | 7,035 | 47 |
| KEB Asia Finance Limited ("KAF") | 126,584 | 71,637 | 54,947 | 1,873 |
| KEB Bank (China) Co., Ltd. ("KEB China") | 2,630,733 | 2,205,309 | 425,424 | 10,637 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | 86 | 84 | 2 | - |
| Trust accounts guaranteeing the repayment of principal | 719,831 | 707,633 | 12,198 | (728) |
| Athenae 1st | 11,502 | 11,500 | 2 | 2 |
| Athenae 2nd | 5,152 | 5,150 | 2 | 2 |

## 1. Company information (cont'd)

| Subsidiaries | December 31, 2012 | | | |
|---|---|---|---|---|
| | Asset | Liabilities | Equity | Net income (loss) |
| KEB Capital Inc. ("KEBC") | ₩ 704,580 | ₩ 628,743 | ₩ 75,837 | ₩ (23,409) |
| KEB Futures Co.,Ltd. ("KEBF") | 696,372 | 629,764 | 66,608 | 2,501 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 13,869 | 1,718 | 12,151 | 1,291 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,179,779 | 1,033,271 | 146,508 | 12,815 |
| KEB (Australia) Holdings ("KEBH") | 506,005 | 421,826 | 84,179 | 9,402 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 440,243 | 366,865 | 73,378 | 3,034 |
| PT. Bank KEB Indonesia("KEBI") | 539,919 | 383,427 | 156,492 | 14,101 |
| Banco KEB do Brasil S. A.("KEBB") | 247,044 | 203,268 | 43,776 | 3,440 |
| KEB NY Financial Corp. ("NYFinCo") | 430,860 | 394,482 | 36,378 | 860 |
| KEB LA Financial Corp. ("LAFinCo") | 288,822 | 246,876 | 41,946 | 3,432 |
| KEB USA Int'l Corp. ("USAI") | 7,106 | 12 | 7,094 | 150 |
| KEB Asia Finance Limited ("KAF") | 85,346 | 31,408 | 53,938 | 1,076 |
| KEB Bank (China) Co., Ltd. ("KEB China") | 1,854,218 | 1,444,379 | 409,839 | 4,693 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | 86 | 83 | 3 | - |
| Trust accounts guaranteeing the repayment of principal | 689,812 | 676,887 | 12,925 | (393) |

There is no entity excluded from the Company's scope of consolidation as at December 31, 2013 even though the Company holds a majority of voting rights.

Details of the subsidiaries that are newly included in the Company's scope of consolidation for the year ended December 31, 2013 are as follows:

| Company | Reason |
|---|---|
| Trust accounts guaranteeing the repayment of principal | Amendment of standards |
| Athenae 1st | Holding of a substantial power |
| Athenae 2nd | Holding of a substantial power |

There was no subsidiary excluded from the Company's scope of consolidation for the year ended December 31, 2013

There were no subsidiaries that have significant non-controlling interests.

There were no significant restrictions and defence rights of non-controlling interests that can significantly restrict the ability to approach or use the assets of the Company to repay the Company's liabilities.

## 1. Company information (cont'd)

Nature and reason of the contractual arrangements for providing the financial support to a consolidated structured entity as at December 31, 2013 are as follows:

| Company | Contractual arrangement to financially support | Intended to provide support |
|---|---|---|
| Athenae 1st | The Company executed a loan in the amount of ₩11.5 billion to Athenae 1st which acquired privately-placed corporate bonds issued by other banks in the amount of ₩10.2 billion. The Company establishes the right of pledge on privately-placed corporate bonds. | Operating activities |
| Athenae 2nd | The Company executed a loan in the amount of ₩5.2 billion to Athenae 1st which acquired privately-placed corporate bonds issued by other banks in the amount of ₩4.8 billion. The Company establishes the right of pledge on privately-placed corporate bonds. | Operating activities |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | The Company is exposed to the risk that the Company shall guarantee a fixed rate of return and the repayment of principal to the trustee for which the Company manages the trustee's assets. | Operating activities |
| Trust accounts guaranteeing the repayment of principal | The Company is exposed to the risk that the Company shall make up a loss occurring when there is a loss in the principle of trustee's assets which are managed by the Company. | Operating activities |

## 2. Basis of preparation

The Company prepares statutory financial statements in the Korean language in accordance with Korea International Financial Reporting Standards (KIFRS) enacted by the Corporate External Audit Law.

The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective restatement or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies and retrospective restatement.It is referred in Note 3, 31 and 54.

## 3. Significant accounting policies

The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include *KIFRS 1110 Consolidated Financial Statements*, *KIFRS 1019 Employee Benefits* and amendments to *KIFRS 1001 Presentation of Financial Statements*. In addition, the application of *KIFRS 1112 Disclosure of Interests in Other Entities* resulted in additional disclosures in the separate financial statements. Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company.

The nature and impact of each new standard and amendment are described below:

### *KIFRS 1110 Consolidated Financial Statements, KIFRS 1027 Separate Financial Statements*

*KIFRS 1110* replaces the portion of *KIFRS 1027 Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in *KIFRS 2012 Consolidation - Special Purpose Entities*. *KIFRS 1110* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by *KIFRS 1110* will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent compared with the requirements that were in *KIFRS 1027*. The amendments made to *KIFRS 1027* are in conformity with the current *KIFRS 1027* that address the accounting principles and disclosures for consolidated financial statements.

| | December 31, 2012 | January 1, 2012 |
|---|---|---|
| Increase in total assets | ₩ 647,245 | ₩ 647,233 |
| Increase in total liabilities | 634,320 | 633,914 |
| Increase in retained earnings | 12,925 | 13,318 |

**3. Significant accounting policies (cont'd)**

| | | Amount |
|---|---|---|
| Income tax expense | ₩ | (125) |
| Profit | | (394) |
| Other comprehensive income | | - |

The amendments made to *KIFRS 1027* are in conformity with the current *KIFRS 1027* that address the accounting principles and disclosures for separate financial statements

***KIFRS 1019 Employee Benefits (Revised)***

The KASB has issued numerous amendments to *KIFRS 1019*. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company made a voluntary change in accounting policy to recognize actuarial gains and losses in other comprehensive income in the current period. However, the amended standard will impact the net benefit expense as the expected return on plan assets, and those assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

The Company has changed the accounting policy of expected returns on plan assets and past service costs according to the above revisions.

*KIFRS 1019 (Revised 2011)* has been retrospectively applied with the following permitted exceptions:
- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs included before January 1, 2012.
- Sensitivity disclosure for the defined benefit obligation for comparative period (year ended December 31, 2012) has not been provided.

The Company has applied *KIFRS 1019* and assessed the impact that this standard will have on the financial position or performance of the Company which is disclosed in Note 31.

***KIFRS 1001 Presentation of Financial Statements (Revised)***

The amendment to *KIFRS 1001* introduces a grouping of items presented in other comprehensive Income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time have to be separately presented from items that will never be reclassified. The amendment affected presentation only and had no impact on the Company's financial position or performance.

## 3. Significant accounting policies (cont'd)

### *KIFRS 1111 Joint Arrangements and KIFRS 1028 Investments in Associates and Joint Venture*

*KIFRS 1111* describes the application of the equity of method to investments in joint ventures in addition to associates. *KIFRS 1028* replaces joint ventures with joint arrangements and divides joint arrangements into jointly controlled business and jointly controlled entity. Moreover, *KIFRS 1111* removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendments affect presentation only and have no impact on the Company's financial position or performance.

### *KIFRS 1112 Disclosure of Interests in Other Entities*

*KIFRS 1112* includes all the disclosures that were previously in *KIFRS 1027* related to consolidated financial statements, as well as all the disclosures that were previously included in *KIFRS 1031* and *KIFRS 1028*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities including unconsolidated structured entities.

### *KIFRS 1113 Fair Value Measurement*

*KIFRS 1113* establishes a single source of guidance under KIFRS for all fair value measurements. *KIFRS 1113* does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under KIFRS. *KIFRS 1113* defines fair value as an exit price. As a result of the guidance in *KIFRS 1113,* the Company re-assessed its policies for measuring fair values, and in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. *KIFRS 1113* also requires additional disclosures.

Application of *KIFRS 1113* has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values are determined. Fair value hierarchy is provided in Note 5.

Personnel expenses accounted for as employee benefits has been reclassified as salaries for the current period and general expenses for the prior period have been restated for the comparative purposes.

Such reclassification has no effect on the Company's net assets and net income

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Classification | After | Before | After | Before |
| Employee benefits: | | | | |
| Salaries | ₩ 855,002 | ₩ 676,409 | ₩ 869,459 | ₩ 614,318 |
| Provision for severance and retirement benefits | 91,925 | 91,925 | 46,669 | 46,669 |
| Expenses for fringe benefits | 47,806 | 226,399 | 40,669 | 295,810 |

### 3. Significant accounting policies (cont'd)

| Classification | 2012 After | 2012 Before | 2011 After | 2011 Before |
|---|---|---|---|---|
| Depreciation and amortization: | | | | |
| Depreciation on property and equipment | 78,319 | 78,319 | 70,189 | 70,189 |
| Depreciation on investment property | 2,494 | 2,494 | 2,462 | 2,462 |
| Amortization | 24,900 | 24,900 | 27,179 | 27,179 |
| Other general and administrative expenses: | | | | |
| Rental expense | 131,015 | 131,015 | 121,999 | 121,999 |
| Entertainment expense | 12,300 | 12,300 | 13,879 | 13,879 |
| Taxes and dues | 44,240 | 44,240 | 44,981 | 44,981 |
| Advertising expenses | 42,193 | 42,193 | 31,139 | 31,139 |
| Others | 242,770 | 242,770 | 221,934 | 221,934 |
| | ₩ 1,572,964 | ₩ 1,572,964 | ₩ 1,490,559 | ₩ 1,490,559 |

### Principles of consolidation

The consolidated financial statements incorporated the financial statements of the Company and entities controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Subsidiaries are no longer consolidated from the date on which the Company loses control over them.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

The difference between the cost of investment and the Company's share of fair value of identifiable net assets and liabilities of the subsidiaries at the date of purchase accounting method application is presented as goodwill or negative goodwill. A review of impairment is performed at the end of each reporting date.

Changes in the Company's ownership interests in subsidiaries, without loss of control, are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

## 3. Significant accounting policies (cont'd)

### Principles of consolidation (cont'd)

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under *KIFRS 1039*, Financial Instruments: Recognition and Measurement, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

All significant intercompany transactions and account balances among consolidated companies are eliminated on consolidation. Unrealized gains or losses included in loans and borrowings arising from transactions between consolidated companies are eliminated on consolidation. The related accounts receivable and payable are also eliminated on consolidation.

Investments in entities over which the Company has control or significant influence are accounted for using the equity method. Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of profit or loss and other comprehensive income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests. The Company resumes the application of the equity method if the Company's share of income or change in equity of an investee exceeds the Company's share of losses accumulated during the period of suspension of the equity method of accounting.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill or negative goodwill. The amortization expense is included as a part of valuation gain or loss on the equity method investments in the statement of profit or loss and other comprehensive income. The difference related to goodwill is recorded as the carrying amount. Goodwill is reviewed for impairment when signs of damage arise and is not amortized over its useful life.

Further, the Company's share of any difference between the net fair value of the investee's identifiable assets and liabilities, and the net book value of such assets and liabilities are amortized based on the investee's accounting treatments on the related assets and liabilities and charged or credited to the valuation gain or loss on the equity method investments in the statement of profit or loss and other comprehensive income.

The Company's share in the investee's unrealized profits and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee.

## 3. Significant accounting policies (cont'd)

### Revenue recognition

Interest income (expense)

Interest income (expense) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or interest expense over the relevant period.

Fee and commission income

Based on the purpose of the fee and commission and related accounting standards for financial instruments, fee and commission income are classified as and accounted for as follows:

| Classification | Details |
|---|---|
| Fee and commission composing effective income of the financial instruments | Accounted for as an adjustment to the effective interest rate |
| Fee and commission by rendering services | Recognized when the services are provided |
| Fee and commission by performing significant activities | Recognized when significant activities have been completed |

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

### Financial assets

Financial assets, except for those financial assets classified as at FVTPL which are initially measured at fair value, are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets,. Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments are generally determined from a quoted price in an active market for identical financial assets or financial liabilities where these are available.

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss ("FVTPL"),' 'held-to-maturity investments,' 'available-for-sale financial assets,' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract that terms require delivery of the financial asset within the period established by the market concerned.

3. **Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held-for-trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held-for-trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held-for-trading if:

- It has been acquired principally for the purpose of selling it in the near term,
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking, or,
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- In accordance with the Company's documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, performance is evaluated based on its fair value, and this information is provided internally on that basis, or,
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039, Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Available-for-sale financial assets

Non-derivative financial assets that are not classified as at held-to-maturity, held-for-trading, designated at FVTPL, or loans and receivables are classified as available-for-sale financial assets.

Available-for-sale financial assets are subsequently measured at fair value at the closing date. Gains and losses arising from changes in fair value are recognized in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income.

3. **Significant accounting policies (cont'd)**

**Financial assets (cont'd)**

Dividends on available-for-sale equity securities are recognized in net income when the Bank's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the prevailed rate at the end of the reporting period. Available-for-sale non-monetary assets measured at amortized cost are translated with the exchange rate at the trade date, while assets measured at fair value are translated with the exchange rate when the fair value is determined.

Unquoted equity investments which fair values cannot be measured reliably and derivative instruments which are related to the unquoted equity investments that will be settled by delivering those investments are carried at cost after deducting the amount of impairment losses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment, with income recognized on an effective yield basis.

Loans and receivables

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. 'Loans and receivables' are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized based on applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Loans, due from banks, and guarantee money for business premise are classified as 'loans and receivables.'

Deferred loan origination fees ("LOF"s) and loan origination costs ("LOC"s)

The Company defers LOF\LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF\LOCs. The deferred LOF\LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, the impairment losses, expected as a result of future events, are not recognized.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

For equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

Objective evidence that a financial asset is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor,
- A breach of contract, such as a default or delinquency in interest or principal payments,
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It is probable that the borrower will enter bankruptcy or other financial reorganization,
- The disappearance of an active market for the financial asset due to the financial difficulties,
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, or
- Significant changes that bring negative effects caused by the changes in technology, market, economic, and legal environment where the issuer carries on business.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

Available-for-sale financial assets

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease for available-for-sale debt instruments can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Held-to-maturity investments

For held-to-maturity investments measured at amortized cost, impairment loss is measured base on the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Held-to-maturity investments (cont'd)

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events that occurred after recognition of impairment, the impairment loss previously recognized is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Loans and receivables

For loans and receivables measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The Company first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (Individual assessment of impairment).

For financial assets that are not individually significant, the Company assesses whether the objective evidence of impairment exists individually or collectively. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (Collective assessment of impairment).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognized based on the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering the borrower's management performance, financial position, overdue period, and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognized by adjusting Probability of Default ("PD") and Loss Given Default ("LGD") according to Basel II for the purpose of accounting and applying to the carrying amount. Such approach considers various elements, including borrower type, credit rating, and size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the transfer of a partial financial asset is qualified for derecognition, the entire carrying amount of the transferred financial asset shall, between the portion which is derecognized and the portion which is still recognized, be apportioned according to their respective relative fair value. The difference between the amounts of (1) the book value of the portions that is derecognized and (2) the sum of consideration of the portion that is still recognized and the portion of the accumulated gain or loss recognized in other comprehensive income previously related to the portion that is derecognized.

Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Company has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

**3. Significant accounting policies (cont'd)**

**Financial liabilities and equity instruments (cont'd)**

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when the financial liability is either held-for-trading or designated at FVTPL.

A financial liability is classified as held-for-trading if:

- It has been acquired principally for the purpose of repurchase it in the near term
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- In accordance with the Company's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039*, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. In addition, the transaction costs incurred related to issuance upon initial recognition is recognized in net income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost based on the effective interest rate method, with interest expense recognized on an effective yield basis.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, canceled or expires. The difference between the paid price and the book value of a derecognized financial liability is recognized in net income for the period.

3. **Significant accounting policies (cont'd)**

**Financial liabilities and equity instruments (cont'd)**

Hybrid equity securities

Hybrid equity securities are classified as an equity when all requirements for equity classification are satisfied in conformity with the contract terms.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at fair value and, if not designated at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with *KIFRS 1037, Provisions, Contingent Liabilities and Contingent Assets*
- The amount initially recognized, less cumulative amortization recognized in accordance with the *KIFRS 1018, Revenue*

**Fair values**

Fair values of financial assets or liabilities are determined as follows:

- Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where there are available under standard requirements for transactions.
- For other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are taken from observable market data .
- The quoted market prices are used for derivatives if it is traded in an active market. All other derivatives which quoted market price is not available are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis with option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using the yield curve derived from corresponding interest rate to published future exchange rate and maturity.

The Company classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

| Classification | Details |
|---|---|
| (Level 1) | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| (Level 2) | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| (Level 3) | Inputs for the asset or liability that are not based on the observable market data (unobservable inputs) |

**3. Significant accounting policies (cont'd)**

**Derivative financial instruments**

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL.

Hedge accounting

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

**3. Significant accounting policies (cont'd)**

**Derivative financial instruments (cont'd)**

Deferred Day 1 profit

The Company assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) coincides with a theoretical methodology commonly used for determining the price of financial instruments.

However, the Company defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology does not satisfy the above requirements.

Deferred Day 1 profit is recognized in net income for the period when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

**Investments in associates**

Associates are the entities that the Company has significant effect on, but neither their subsidiaries nor investments are joint ventures. Significant effect is the ability to participate in the determination of investees' financial and operating policies, but neither controlling nor joint control.

The financial results and assets and liabilities of associates are incorporated in these interim consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with *KIFRS 1105, Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the consolidated Group's share of net income and other comprehensive income of the associate. When the consolidated Group's share of losses of an associate exceeds the consolidated Group's interest in that associate (which includes any long-term interests that, in substance, form a part of the consolidated Group's net investment in the associate), the consolidated Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the consolidated Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of *KIFRS 1039* are applied to determine whether it is necessary to recognize any impairment loss with respect to the consolidated Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with *KIFRS 1036*, Impairment of Assets, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with *KIFRS 1036* to the extent that the recoverable amount of the investment subsequently increases.

When the consolidated entity transacts with its associate, net income resulting from the transactions with the associate is recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

3. **Significant accounting policies (cont'd)**

**Foreign currencies**

Functional currency and presentation currency

The individual financial statements of each branch are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial results and position of each branch are expressed in Korean won, which is the presentation currency of the Company and the presentation currency for the consolidated financial statements.

Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized based on the exchange rate prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognized in net income for the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (5) above for hedging accounting policies)
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment

Overseas branch

The Company identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at foreign exchange rates at the end of each reporting date while the income and expenses are translated into Korean won at average exchange rates for the period unless it does not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising from the translation of a foreign operation are recognized directly in other comprehensive income and included in net income for the period on its liquidation.

## 3. Significant accounting policies (cont'd)

### Retirement benefit costs

For defined benefit plans, the cost of retirement benefits is measured by an actuary services company, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

The Company enters into agreements such as retirement insurance, retirement trust, and retirement annuity in order to meet severance pay. The retirement benefit obligation recognized in the interim consolidated statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### Share-based payment

For equity-settled share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice of whether to settle in cash or by issuing equity instruments, the Company shall determine whether it has a present obligation to settle in cash. If no obligation exits, it shall be accounted for in accordance with the requirements applying to equity-settled share-based transactions. However, if the Company has a present obligation to settle in cash, it shall be accounted for in accordance with the requirements applying to cash-settled share-based transactions.

3. **Significant accounting policies (cont'd)**

**Property and equipment**

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the depreciation method over the estimated useful lives of the assets as follows except for land which is not depreciated:

| Classification | Estimated useful life | Depreciation method |
|---|---|---|
| Buildings | 40 years | Straight-line |
| Leasehold improvements | 3~10 years | Straight-line |
| Equipment and vehicles | 3~20 years | Declining-balance |

Property and equipment are derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

**Investment property**

Investment property is property held to earn rental income and\or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at depreciated cost. Gains and losses arising from changes in the fair value of investment property are included in net income for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated based on the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income for the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income for the period of the occurrence.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

3. **Significant accounting policies (cont'd)**

**Investment property (cont'd)**

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

**Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over 5 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

Expenditure on research activities is recognized as an expense for the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income for the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## 3. Significant accounting policies (cont'd)

### Intangible assets (cont'd)

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

### Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

### Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. Reversal of an impairment loss is recognized immediately in net income for the period.

**3. Significant accounting policies (cont'd)**

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Company does not recognize provisions for future operating losses.

The Company recognizes provisions related to unused credit card points amount, guarantee and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are recognized as property and equipment. Decommissioning or restoration costs are provided at the present value of expected costs of restoration using future cash outflows.

**Accounting for trust accounts**

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Company's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Company and are recorded as due to trust accounts of the Company's accounts. Also, the borrowings from the Company's accounts are recorded as due from trust accounts of the Company's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Company's accounts and receiving compensation contributions from the Company's accounts. If the Company pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Company's interim consolidated statements of profit or loss and other comprehensive income.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Amounts due from lessees under finance leases are recognized as receivables at the amount of Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

3. **Significant accounting policies (cont'd)**

**Merchant banking accounts**

As permitted by the Restructuring of Financial Institutions Act, the Company may continue its merchant banking operations, including leasing business, until the existing contracts acquired from the Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Company's merchant banking operations are summarized as follows:

Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of transaction based on the difference between the purchase prices and sales prices of the notes, adjusted for interest earned during the holding period.

Cash Management Accounts ("CMA")

The Company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

**Income tax expenses**

Income tax consists of current tax and deferred tax.

Current tax liabilities are calculated based on the taxable profit for the year. Taxable profit differs from profit as reported in the interim consolidated statements of profit or loss and other comprehensive income because taxable profit excludes items taxable or deductible for different tax years or not taxable or deductible permanently. The Company's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

**3. Significant accounting policies (cont'd)**

**Income tax expenses (cont'd)**

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

***Investment Entities (Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1027)***

These amendments, effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company, since none of the entities in the Company would qualify to be an investment entity under *KIFRS 1110*.

***KIFRS 1032 Offsetting Financial Assets and Financial Liabilities – Amendments***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Company.

**3. Significant accounting policies (cont'd)**

***Recoverable Amount Disclosures for Non-Financial Assets – Amendments to KIFRS 1036 Impairment of Assets***

These amendments remove the unintended consequences of *KIFRS 1113* on the disclosures required under *KIFRS 1036*. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs, for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

***KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments***

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

***KIFRS 2121 Levis- Amendments***

*KIFRS 2121* clarifies that an entity recognizes a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *KIFRS 2121* is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that *KIFRS 2121* will have material financial impact in future financial statements.

The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

**4. Estimation and accounting judgment**

In the application of the Company's accounting policies described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

## 4. Estimation and accounting judgment (cont'd)

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Determination of fair values

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors and, assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

Allowance for possible losses on credits

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees\unused credit limit liabilities by collective method.

Measurement of defined benefit obligation

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term.

## 5. Fair value measurement of financial assets and liabilities

The standards the Company applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.
B. If a market for a financial instrument is not active, the Company establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.
D. For an investment in equity instruments which quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

Fair value hierarchy of financial instruments as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 379,896 | ₩ 369,673 | ₩ - | ₩ 749,569 |
| Equity securities | 27,768 | - | - | 27,768 |
| Derivative assets held-for-trading | - | 1,354,903 | 1,706 | 1,356,609 |
| | 407,664 | 1,724,576 | 1,706 | 2,133,946 |
| Derivative assets used for hedging purposes | - | 23,070 | - | 23,070 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 2,661,212 | 5,545,883 | 21,197 | 8,228,292 |
| Equity securities | 674,443 | - | 293,257 | 967,700 |
| Others | - | - | 7,602 | 7,602 |
| | 3,335,655 | 5,545,883 | 322,056 | 9,203,594 |
| | ₩ 3,743,318 | ₩ 7,293,530 | ₩ 323,762 | ₩ 11,360,610 |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ 20 | ₩ 1,286,725 | ₩ - | ₩ 1,286,745 |
| Derivative liabilities used for hedging purposes | - | 12,562 | - | 12,562 |
| | ₩ 20 | ₩ 1,299,287 | ₩ - | ₩ 1,299,307 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | December 31, 2012 Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 284,144 | ₩ 253,468 | ₩ - | ₩ 537,612 |
| Equity securities | 26,779 | - | - | 26,779 |
| Derivative assets held-for-trading | - | 1,340,918 | 15,380 | 1,356,298 |
| | 310,923 | 1,594,386 | 15,380 | 1,920,689 |
| Derivative assets used for hedging purposes | - | 37,867 | - | 37,867 |
| Available-for-sale financial assets: | | | | |
| Debt securities | 2,760,184 | 3,629,875 | 21,490 | 6,411,549 |
| Equity securities | 7,786 | - | 568,675 | 576,461 |
| Others | - | 38,511 | - | 38,511 |
| | 2,767,970 | 3,668,386 | 590,165 | 7,026,521 |
| | ₩ 3,078,893 | ₩ 5,300,639 | ₩ 605,545 | ₩ 8,985,077 |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 1,308,582 | ₩ 171 | ₩ 1,308,753 |
| | ₩ - | ₩ 1,308,582 | ₩ 171 | ₩ 1,308,753 |

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are measured at fair value as at December 31, 2013 are as follows (Korean won in millions):

| Classification | December 31, 2013 Fair value | Valuation technique | Inputs |
|---|---|---|---|
| Financial assets: | | | |
| Financial assets at FVTPL | | | |
| Debt securities | ₩ 369,673 | DCF model | Discount rate |
| Derivative assets held-for-trading | 1,354,903 | DCF model | Discount rate, Variability, Exchange rate, Stock price, etc. |
| | 1,724,576 | | |
| Derivative assets used for hedging purposes | 23,070 | DCF model | Discount rate, Variability, Stock price, etc. |
| Available-for-sale financial assets | | | |
| Debt securities | 5,545,883 | DCF model | Discount rate |
| | ₩ 7,293,529 | | |
| Financial liabilities: | | | |
| Financial liabilities at FVTPL | ₩ 1,286,725 | DCF model | Discount rate, Variability, Exchange rate, Stock price, etc. |
| Derivative liabilities used for hedging purposes | 12,562 | DCF model | Discount rate, Variability, Exchange rate, etc. |
| | ₩ 1,299,287 | | |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Details of fair value, valuation technique, input to valuation, and significant unobservable inputs used to develop those measurements classified into level 3 assets and liabilities that are measured at fair value as at December 31, 2013 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs | Significant unobservable inputs | Range | Sensitivity of the input to fair value |
| Financial assets: | | | | | | |
| Financial assets at FVTPL | | | | | | |
| Derivative assets held-for-trading | ₩ 1,706 | Binomial model | Risk free rate, variability of stock price | Volatility of stock price | 33.25 % | Fair value increased due to the increase in its volatility |
| Available-for-sale financial assets | | | | | | |
| Debt securities | 21,197 | NAV Method | (*1) | - | - | Fair value increased due to the increase in value of portfolio |
| Equity securities | 293,257 | DCF Method, Comparative on similar business, | Discount rate | Discount rate | 7.46% ~ 20.77 % | Fair value increased due to the decrease in its discount rate |
| | | Risk adjusted discount rate method | Growth rate | Growth rate | 0% | Fair value increased due to the increase in its growth rate |
| Others | 7,602 | DCF Method, Comparative on similar business, | Discount rate | Discount rate | 6.46% | Fair value increased due to the decrease in its discount rate |
| | | Risk adjusted discount rate method | Bid rate | Bid rate | 55.12 % | Fair value increased due to the increase in its bid rate |
| | 322,056 | | | | | |
| | ₩ 323,762 | | | | | |

(*1) The Company used input data of soundness on individual assets composing portfolio.

### 5. Fair value measurement of financial assets and liabilities (cont'd)

Changes in the fair value level 3 financial instruments measured at fair value for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/ into | | | | Valuation | | | |
| Classification | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Income (expense) | Other comprehensive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 15,380 | ₩ - | ₩ - | ₩ 775 | ₩ (11,961) | ₩ (2,488) | ₩ - | ₩ - | ₩ 1,706 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 21,490 | - | - | - | - | (317) | 24 | - | 21,197 |
| Equity securities | 568,675 | (293,889) | | 73,352 | (21,155) | (22,093) | (10,028) | (1,605) | 293,257 |
| Others | - | - | - | 7,288 | - | - | 314 | - | 7,602 |
| | 590,165 | (293,889) | - | 80,640 | (21,155) | (22,410) | (9,690) | (1,605) | 322,056 |
| | ₩ 605,545 | ₩ (293,889) | ₩ - | ₩ 81,415 | ₩ (33,116) | ₩ (24,898) | ₩ (9,690) | ₩ (1,605) | ₩ 323,762 |
| Financial liabilities: | | | | | | | | | |
| Financial liabilities at FVTPL | ₩ 171 | ₩ - | ₩ - | ₩ (294) | ₩ - | ₩ 123 | ₩ - | ₩ - | ₩ - |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/ into | | | | Valuation | | | |
| Classification | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Income (expense) | Other comprehens-ive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 10,622 | ₩ - | ₩ - | ₩ 6,949 | ₩ (3,824) | ₩ 1,633 | ₩ - | ₩ - | ₩ 15,380 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 22,422 | - | - | - | - | (1,598) | 666 | - | 21,490 |
| Equity securities | 713,433 | (1,300) | | 69,696 | (269,961) | 173,740 | (116,933) | - | 568,675 |
| | 735,855 | (1,300) | - | 69,696 | (269,961) | 172,142 | (116,267) | - | 590,165 |
| | ₩ 746,477 | ₩ (1,300) | ₩ - | ₩ 76,645 | ₩ (273,785) | ₩ 173,775 | ₩ (116,267) | ₩ - | ₩ 605,545 |
| Financial liabilities: | | | | | | | | | |
| Financial liabilities at FVTPL | ₩ 3,486 | ₩ - | ₩ - | ₩ 202 | ₩ (1,285) | ₩ (2,184) | ₩ - | ₩ (48) | ₩ 171 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Total gains or losses recognized in profit or loss from changes in level 3 financial instruments measured at fair value for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Classification | Total gains or losses recognized in profit or loss | The line item in profit or loss in which those gains or losses are recognized | Total gains or losses recognized in profit or loss | The line item in profit or loss in which those gains or losses are recognized |
| Gain (loss) on financial assets at FVTPL | ₩ (2,611) | ₩ (296) | ₩ 3,817 | ₩ 3,817 |
| Other gain (loss) on financial instruments | 6,573 | (317) | 188,833 | (1,598) |
| Impairment loss on financial instruments | (28,983) | (28,983) | (16,691) | (16,691) |
| | ₩ (25,021) | ₩ (29,596) | ₩ 175,959 | ₩ (14,472) |

Details of the amounts of any transfers into or out of level 3 of the fair value hierarchy for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Transfers out of level 3 to level 1 | ₩ 293,889 | ₩ 1,300 |

Sensitivity of the fair value measurement for the each level 3 financial instruments upon the changes in significant unobservable input, whose results are favorable and unfavorable changes in profit or loss or other comprehensive income as at December 31, 2013 is as follows (Korean won in millions):

| | December 31, 2013 | |
|---|---|---|
| Classification | Favorable changes | Unfavorable changes |
| Financial assets: | | |
| Financial assets at FVTPL: | | |
| Derivative assets held-for-trading | ₩ 119 | ₩ (120) |
| Available-for-sale financial assets: | | |
| Debt securities | 87 | (89) |
| Equity securities | 15,792 | (7,114) |
| Others | 173 | (100) |
| | 16,052 | (7,303) |
| | ₩ 16,171 | ₩ (7,423) |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Fair value hierarchy of financial instruments disclosed but not measured at fair value as at December 31, 2013 is as follows (Korean won in millions):

| Classification | December 31, 2013 Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and due from banks (*1) | ₩ 1,691,037 | ₩ 6,556,400 | ₩ - | ₩ 8,247,437 |
| Held-to-maturity investments | 1,163,811 | 1,176,582 | - | 2,340,393 |
| Loans receivable | - | - | 73,604,072 | 73,604,072 |
| Other financial assets | - | - | 6,614,524 | 6,614,524 |
| Merchant banking account assets | - | - | 2,717,717 | 2,717,717 |
| | ₩ 2,854,848 | ₩ 7,732,982 | ₩ 82,936,313 | ₩ 93,524,143 |
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 70,351,972 | ₩ 70,351,972 |
| Borrowings | - | - | 6,840,247 | 6,840,247 |
| Debentures | - | 6,936,426 | - | 6,936,426 |
| Other financial liabilities | - | - | 9,957,335 | 9,957,335 |
| Merchant banking account liabilities | - | - | 1,679,336 | 1,679,336 |
| | ₩ - | ₩ 6,936,426 | ₩ 95,765,316 | ₩ 95,765,316 |

(*1) Fair value of level 2 is measured at book value, presuming that the book value is the reasonable value for the fair value measurement.

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are not measured at fair value at December 31, 2013 are as follows (Korean won in millions):

| Classification | December 31, 2013 Fair value | Valuation technique | Inputs |
|---|---|---|---|
| Financial assets: | | | |
| Cash and due from banks | ₩ 6,556,400 | DCF model | Discount rate |
| Held-to-maturity investments | 1,176,582 | DCF model | Discount rate |
| | ₩ 7,732,982 | | |
| Financial liabilities: | | | |
| Debentures | ₩ 6,936,426 | DCF model | Discount rate |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 3 assets and liabilities disclosed but not measured at fair value as at December 31, 2013 is as follows (Korean won in millions):

| | December 31, 2013 | | |
|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs |
| Financial assets: | | | |
| Loans receivable | ₩ 73,604,072 | DCF model | Discount rate |
| Other financial assets | 6,614,524 | DCF model | Discount rate |
| Merchant banking account assets | 2,717,717 | DCF model | Discount rate |
| | ₩ 82,936,313 | | |
| Financial liabilities: | | | |
| Deposits | ₩ 70,351,972 | DCF model | Discount rate |
| Borrowings | 6,840,247 | DCF model | Discount rate |
| Other financial liabilities | 9,957,335 | DCF model | Discount rate |
| Merchant banking account liabilities | 1,679,336 | DCF model | Discount rate |
| | ₩ 95,765,316 | | |

## 6. Fair value of financial instruments

Fair values of financial instruments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | |
| Cash and due from banks | ₩ 8,247,437 | ₩ 8,247,437 | ₩ 8,253,842 | ₩ 8,253,842 |
| Financial assets at FVTPL | | | | |
| Debt securities | 749,569 | 749,569 | 537,612 | 537,612 |
| Equity securities | 27,768 | 27,768 | 26,779 | 26,779 |
| Derivative assets held-for-trading | 1,356,609 | 1,356,609 | 1,356,298 | 1,356,298 |
| | 2,133,946 | 2,133,946 | 1,920,689 | 1,920,689 |
| Derivative assets used for hedging purposes | 23,070 | 23,070 | 37,867 | 37,867 |
| Available-for-sale financial assets | | | | |
| Debt securities | 8,228,292 | 8,228,292 | 6,411,549 | 6,411,549 |
| Equity securities | 967,700 | 967,700 | 576,461 | 576,461 |
| Other | 7,602 | 7,602 | 38,511 | 38,511 |
| | 9,203,594 | 9,203,594 | 7,026,521 | 7,026,521 |
| Held-to-maturity investments | 2,330,877 | 2,340,393 | 5,126,353 | 5,162,830 |
| Loans receivable (*1) | 73,684,397 | 73,604,072 | 70,392,937 | 70,516,385 |
| Other financial assets (*2) | 6,612,668 | 6,614,524 | 7,780,795 | 7,780,835 |
| Merchant banking account assets (*3) | 2,715,835 | 2,717,717 | 2,488,216 | 2,488,216 |
| | ₩ 104,951,824 | ₩ 104,884,753 | ₩ 103,027,220 | ₩ 103,187,185 |
| Financial liabilities: | | | | |
| Deposits | ₩ 69,777,325 | ₩ 70,351,972 | ₩ 67,425,972 | ₩ 67,445,837 |
| Financial liabilities at FVTPL | 1,286,745 | 1,286,745 | 1,308,753 | 1,308,753 |
| Derivative liabilities used for hedging purposes | 12,562 | 12,562 | - | - |
| Borrowings | 6,832,731 | 6,840,247 | 6,925,705 | 6,928,063 |
| Debentures | 6,769,818 | 6,936,426 | 6,173,426 | 6,259,622 |
| Other financial liabilities (*4) | 9,957,861 | 9,957,335 | 12,543,029 | 12,543,061 |
| Merchant banking account liabilities (*5) | 1,679,336 | 1,679,336 | 525,839 | 525,839 |
| | ₩ 96,316,378 | ₩ 97,064,623 | ₩ 94,902,724 | ₩ 95,011,175 |

(*1) Net carrying amount after deduction of allowance for possible loan losses and LOF/LOC
(*2) Including receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances, including merchant banking loans, merchant banking account trading securities, and CMA assets
(*4) Including payables spot exchange, domestic exchange settlement credit, trust accounts payable etc.
(*5) Including merchant banking account deposits and accrual expenses.

## 7. Classification of financial assets and liabilities by category

Financial assets and liabilities by category as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 8,247,437 | ₩ - | ₩ 8,247,437 |
| Financial assets at FVTPL | 2,133,946 | - | - | - | - | 2,133,946 |
| Derivative assets used for hedging purposes | - | - | - | - | 23,070 | 23,070 |
| Available-for-sale financial assets | - | 9,203,594 | - | - | - | 9,203,594 |
| Held-to-maturity investments | - | - | 2,330,877 | - | - | 2,330,877 |
| Loans receivable | - | - | - | 73,684,397 | - | 73,684,397 |
| Other financial assets | - | - | - | 6,612,668 | - | 6,612,668 |
| Merchant banking account assets | 2,166,515 | - | - | 549,320 | - | 2,715,835 |
| | ₩ 4,300,461 | ₩ 9,203,594 | ₩ 2,330,877 | ₩ 89,093,822 | ₩ 23,070 | ₩ 104,951,824 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 69,777,325 | ₩ - | ₩ 69,777,325 |
| Financial liabilities at FVTPL | 1,286,745 | - | - | - | - | 1,286,745 |
| Derivative liabilities used for hedging purposes | - | - | - | - | 12,562 | 12,562 |
| Borrowings | - | - | - | 6,832,731 | - | 6,832,731 |
| Debentures | - | - | - | 6,769,818 | - | 6,769,818 |
| Other financial liabilities | - | - | - | 9,957,861 | - | 9,957,861 |
| Merchant banking liabilities | - | - | - | 1,679,336 | - | 1,679,336 |
| | ₩ 1,286,745 | ₩ - | ₩ - | ₩ 95,017,071 | ₩ 12,562 | ₩ 96,316,378 |

## 7. Classification of financial assets and liabilities by category (cont'd)

| Classification | December 31, 2012 Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 8,253,842 | ₩ - | ₩ 8,253,842 |
| Financial assets at FVTPL | 1,920,689 | - | - | - | - | 1,920,689 |
| Derivative assets used for hedging purposes | - | - | - | - | 37,867 | 37,867 |
| Available-for-sale financial assets | - | 7,026,521 | - | - | - | 7,026,521 |
| Held-to-maturity investments | - | - | 5,126,353 | - | - | 5,126,353 |
| Loans receivable | - | - | - | 70,392,937 | - | 70,392,937 |
| Other financial assets | - | - | - | 7,780,795 | - | 7,780,795 |
| Merchant banking account assets | 1,805,965 | - | - | 682,251 | - | 2,488,216 |
| | ₩ 3,726,654 | ₩ 7,026,521 | ₩ 5,126,353 | ₩ 87,109,825 | ₩ 37,867 | ₩ 103,027,220 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 67,425,972 | ₩ - | ₩ 67,425,972 |
| Financial liabilities at FVTPL | 1,308,753 | - | - | - | - | 1,308,753 |
| Borrowings | - | - | - | 6,925,705 | - | 6,925,705 |
| Debentures | - | - | - | 6,173,426 | - | 6,173,426 |
| Other financial liabilities | - | - | - | 12,543,029 | - | 12,543,029 |
| Merchant banking liabilities | - | - | - | 525,839 | - | 525,839 |
| | ₩ 1,308,753 | ₩ - | ₩ - | ₩ 93,593,971 | ₩ - | ₩ 94,902,724 |

## 8. Risk management

The Company's risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management group which is composed of integrated risk management division, credit risk management division, loan review division and treasury settlement division.

Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors. The committee deliberates and determines major issues, such as risk management policies and strategies and risk tolerance limit. Risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Company distributes internal capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Company retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of internal capital.

The Company classifies risks as significant risks and residual risks.

- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined internal capital. The Company consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports this information to management.

The Company defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level of economic capital. It regularly assesses and manages the reasonableness of economic capital by comparing available capital and combined internal capital. Economic capital as a capital buffer is determined by the risk management committee so as to prepare for additional possibility of losses, emergency situations, and incompleteness of information systems and fluctuation of available capital and strictly managed by a risk propensity index.

In addition, the Company assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate regulated by the Financial Supervisory Service on a semi-annual basis.

The Company efficiently manages through preparing principles for assessment and management in order to maximize shareholders' profits and constructs a combined risk management system considering risks, profits and growth.

8. Risk management (cont'd)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that cause damage to the Company's soundness by improving assets soundness through setup of credit ratings, credit screening, and quantifying and managing credit risks on a regular basis.

The Company implements a system that divides and operates marketing and screening for management purpose. It also employs a total exposure limit system for solving weighted credits and hedging risks and an early alert system for monitoring an insolvent company and establishing countermeasures.

The Company measures expected losses and unexpected losses separately. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses which is computed through advanced internal ratings-based approach ("AIRB") under the Bank for International Settlements ("BIS") Basel II.

The Company's level of exposure to credit risk as at December 31, 2013 and 2012 is summarized as follows (Korean won in millions):

| Classification | | December 31, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| On balance: | | | | |
| Due from banks | ₩ | 6,556,400 | ₩ | 6,545,049 |
| Financial assets at FVTPL | | 2,106,178 | | 1,893,910 |
| Derivative assets used for hedging purposes | | 23,070 | | 37,867 |
| Available-for-sale financial assets | | 8,228,292 | | 6,411,549 |
| Held-to-maturity investments | | 2,330,877 | | 5,126,353 |
| Loans receivable | | | | |
| Household loans | | 22,562,756 | | 22,044,969 |
| Corporate loans | | | | |
| Large business | | 22,937,718 | | 21,903,604 |
| Small and medium business | | 19,293,512 | | 18,690,719 |
| Public sector and others | | 6,327,395 | | 5,177,013 |
| Credit card loans | | 2,563,016 | | 2,576,632 |
| | | 73,684,397 | | 70,392,937 |
| Other financial assets | | 6,612,668 | | 7,780,795 |
| Merchant banking account assets | | 2,715,835 | | 2,488,216 |
| | ₩ | 102,257,717 | ₩ | 100,676,676 |
| Off balance: | | | | |
| Loans and credit commitments | ₩ | 59,727,693 | ₩ | 59,485,926 |
| Guarantees and endorsed notes | | 17,623,509 | | 15,617,751 |
| | ₩ | 77,351,202 | ₩ | 75,103,677 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 1,137,950 | ₩ - | ₩ 1,137,950 | ₩ 645,996 | ₩ 57,818 | ₩ 434,136 |
| Bonds purchased under resale agreement | 700,000 | - | 700,000 | - | 700,000 | - |
| Domestic exchange settlement debits | 10,101,204 | 8,904,778 | 1,196,426 | - | - | 1,196,426 |
| Securities lent | 170,382 | - | 170,382 | - | 170,382 | - |
| | ₩ 12,109,536 | ₩ 8,904,778 | ₩ 3,204,758 | ₩ 645,996 | ₩ 928,200 | ₩ 1,630,562 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 1,165,704 | ₩ - | ₩ 1,165,704 | ₩ 670,973 | ₩ 117,010 | ₩ 377,721 |
| Bonds purchased under resale agreement | 490,000 | - | 490,000 | - | 490,000 | - |
| Domestic exchange settlement debits | 1,135,982 | 721,670 | 414,312 | - | - | 414,312 |
| | ₩ 2,791,686 | ₩ 721,670 | ₩ 2,070,016 | ₩ 670,973 | ₩ 607,010 | ₩ 792,033 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 852,350 | ₩ - | ₩ 852,350 | ₩ 645,996 | ₩ 4,620 | ₩ 201,734 |
| Bonds sold under repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 9,879,019 | 8,904,777 | 974,242 | - | 974,242 | - |
| | ₩ 10,731,559 | ₩ 8,904,777 | ₩ 1,826,782 | ₩ 646,186 | ₩ 978,862 | ₩ 201,734 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 959,571 | ₩ - | ₩ 959,571 | ₩ 670,973 | ₩ 57,940 | ₩ 230,658 |
| Bonds sold under repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 2,312,102 | 721,670 | 1,590,432 | - | 1,352,062 | 238,370 |
| | ₩ 3,271,863 | ₩ 721,670 | ₩ 2,550,193 | ₩ 671,163 | ₩ 1,410,002 | ₩ 469,028 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of collateral management and credit risk mitigation as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 139,617 | ₩ 50,282 | ₩ 7,793 | ₩ 5,932,533 | ₩ 6,130,225 |
| Deposit | 6,751 | 691 | 284 | 1,173,567 | 1,181,293 |
| Movable assets | 21,602 | - | - | 5,628 | 27,230 |
| Real estate | 175,744 | 90,528 | 33,083 | 21,315,975 | 21,615,330 |
| Securities | 22,857 | 2,059 | 93 | 2,131,516 | 2,156,525 |
| Others | - | - | - | 3,825 | 3,825 |
| | ₩ 366,571 | ₩ 143,560 | ₩ 41,253 | ₩ 30,563,044 | ₩ 31,114,428 |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 11,694 | ₩ 20,618 | ₩ 14,450 | ₩ 4,849,543 | ₩ 4,896,305 |
| Deposit | 6,024 | 2,443 | 481 | 1,293,413 | 1,302,361 |
| Movable assets | 73,925 | 231 | - | 26,200 | 100,356 |
| Real estate | 300,518 | 101,310 | 19,378 | 20,398,580 | 20,819,786 |
| Securities | 72,853 | 3,607 | 3,293 | 2,017,112 | 2,096,865 |
| Others | - | - | - | 7,731 | 7,731 |
| | ₩ 465,014 | ₩ 128,209 | ₩ 37,602 | ₩ 28,592,579 | ₩ 29,223,404 |

Details of delinquency rates on loans and receivable as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Neither past due nor impaired | ₩ 22,415,065 | ₩ 22,491,671 | ₩ 19,155,250 | ₩ 6,309,933 | ₩ 2,521,564 | ₩ 72,893,483 |
| Past due but unimpaired | 20,803 | 1,054 | 30,494 | 11,342 | 65,941 | 129,634 |
| Impaired | 135,275 | 725,339 | 390,484 | 37,631 | 62,028 | 1,350,757 |
| | 22,571,143 | 23,218,064 | 19,576,228 | 6,358,906 | 2,649,533 | 74,373,874 |
| Deferred loan fees | 44,729 | (11,002) | 1,609 | 689 | (81) | 35,944 |
| Allowance for possible loan losses | (53,116) | (269,344) | (284,325) | (32,200) | (86,436) | (725,421) |
| | ₩ 22,562,756 | ₩ 22,937,718 | ₩ 19,293,512 | ₩ 6,327,395 | ₩ 2,563,016 | ₩ 73,684,397 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Neither past due nor impaired | ₩ 21,924,953 | ₩ 21,618,661 | ₩ 18,455,055 | ₩ 5,173,511 | ₩ 2,474,904 | ₩ 69,647,084 |
| Past due but unimpaired | 25,523 | 16,531 | 33,105 | 565 | 127,058 | 202,782 |
| Impaired | 93,764 | 551,103 | 535,848 | 42,428 | 59,315 | 1,282,458 |
| | 22,044,240 | 22,186,295 | 19,024,008 | 5,216,504 | 2,661,277 | 71,132,324 |
| Deferred loan fees | 44,457 | (7,891) | (4,418) | 225 | (102) | 32,271 |
| Allowance for possible loan losses | (43,728) | (274,800) | (328,871) | (39,716) | (84,543) | (771,658) |
| | ₩ 22,044,969 | ₩ 21,903,604 | ₩ 18,690,719 | ₩ 5,177,013 | ₩ 2,576,632 | ₩ 70,392,937 |

Delinquency occurs when counterparty is unable to make principle and interest payments at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, damages incurred due to poor exposure.

Details on loans with no impairment or overdue payments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Grade 1 | ₩ 17,098,594 | ₩ 14,894,290 | ₩ 4,752,595 | ₩ 2,165,196 | ₩ 705,912 | ₩ 39,616,587 |
| Grade 2 | 5,230,364 | 6,184,138 | 11,371,938 | 3,037,014 | 1,733,278 | 27,556,732 |
| Grade 3 | 86,107 | 1,008,443 | 2,910,631 | 935,514 | 82,368 | 5,023,063 |
| Others | - | 404,800 | 120,086 | 172,209 | 6 | 697,101 |
| | ₩ 22,415,065 | ₩ 22,491,671 | ₩ 19,155,250 | ₩ 6,309,933 | ₩ 2,521,564 | ₩ 72,893,483 |

| Classification | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| | Household Loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Grade 1 | ₩ 17,451,067 | ₩ 14,615,562 | ₩ 5,011,554 | ₩ 1,631,926 | ₩ 700,639 | ₩ 39,410,748 |
| Grade 2 | 4,332,759 | 5,536,378 | 10,524,678 | 2,523,292 | 1,689,988 | 24,607,095 |
| Grade 3 | 141,127 | 1,215,563 | 2,769,258 | 816,015 | 84,277 | 5,026,240 |
| Others | - | 251,158 | 149,565 | 202,278 | - | 603,001 |
| | ₩ 21,924,953 | ₩ 21,618,661 | ₩ 18,455,055 | ₩ 5,173,511 | ₩ 2,474,904 | ₩ 69,647,084 |

8. Risk management (cont'd)

Credit risk (cont'd)

The Company classifies the grade of loan in accordance with the credit rating chart below, based on the character of borrowers

| Classification | Household loans / Credit card loans | Corporate loans |
|---|---|---|
| Grade 1 | Less or equal to 0.36% of PD | 1+ ~ 4 |
| Grade 2 | From 0.36% to 8.79% of PD | 5+ ~ 6 |
| Grade 3 | From 8.79% to 100% of PD | 6- ~ 7 |

The Company regards loans and receivable with delinquent payments of less than 90 days as unimpaired in case there is no credit information indicating its loss event. Classes of unimpaired loans and receivable with delinquent payments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 11,904 | ₩ 1,054 | ₩ 17,632 | ₩ 387 | ₩ 52,233 | ₩ 83,210 |
| 31 to 60 days | 6,419 | - | 8,522 | 160 | 7,493 | 22,594 |
| 61 to 90 days | 2,480 | - | 4,340 | 10,795 | 6,215 | 23,830 |
| | ₩ 20,803 | ₩ 1,054 | ₩ 30,494 | ₩ 11,342 | ₩ 65,941 | ₩ 129,634 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 14,062 | ₩ 16,447 | ₩ 18,368 | ₩ 111 | ₩ 109,087 | ₩ 158,075 |
| 31 to 60 days | 5,260 | - | 3,268 | 16 | 10,735 | 19,279 |
| 61 to 90 days | 6,201 | 84 | 11,469 | 438 | 7,236 | 25,428 |
| | ₩ 25,523 | ₩ 16,531 | ₩ 33,105 | ₩ 565 | ₩ 127,058 | ₩ 202,782 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Classes of impaired loans and receivable as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ 377 | ₩ 721,956 | ₩ 324,441 | ₩ 30,547 | ₩ - | ₩ 1,077,321 |
| Allowance for possible loan losses | (16) | (195,623) | (125,069) | (4,903) | - | (325,611) |
| | 361 | 526,333 | 199,372 | 25,644 | - | 751,710 |
| Collective impairment: | | | | | | |
| Book value | 134,898 | 3,383 | 66,043 | 7,084 | 62,028 | 273,436 |
| Allowance for possible loan losses | (27,474) | (643) | (22,828) | (1,685) | (48,742) | (101,372) |
| | 107,424 | 2,740 | 43,215 | 5,399 | 13,286 | 172,064 |
| | ₩ 107,785 | ₩ 529,073 | ₩ 242,587 | ₩ 31,043 | ₩ 13,286 | ₩ 923,774 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ 679 | ₩ 550,727 | ₩ 444,470 | ₩ 37,595 | ₩ - | ₩ 1,033,471 |
| Allowance for possible loan losses | (89) | (162,307) | (140,318) | (12,110) | - | (314,824) |
| | 590 | 388,420 | 304,152 | 25,485 | - | 718,647 |
| Collective impairment: | | | | | | |
| Book value | 93,085 | 376 | 91,378 | 4,833 | 59,315 | 248,987 |
| Allowance for possible loan losses | (18,521) | (169) | (28,875) | (1,177) | (46,028) | (94,770) |
| | 74,564 | 207 | 62,503 | 3,656 | 13,287 | 154,217 |
| | ₩ 75,154 | ₩ 388,627 | ₩ 366,655 | ₩ 29,141 | ₩ 13,287 | ₩ 872,864 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Overdue payments on debt securities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Neither past due nor impaired | ₩ 749,569 | ₩ 8,228,292 | ₩ 2,330,877 | ₩ 11,308,738 |
| Impaired | - | - | - | - |
| | ₩ 749,569 | ₩ 8,228,292 | ₩ 2,330,877 | ₩ 11,308,738 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Neither past due nor impaired | ₩ 537,612 | ₩ 6,411,549 | ₩ 5,126,353 | ₩ 12,075,514 |
| Impaired | - | - | - | - |
| | ₩ 537,612 | ₩ 6,411,549 | ₩ 5,126,353 | ₩ 12,075,514 |

Internal credit ratings of debt securities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Grade 1 | ₩ 746,388 | ₩ 8,222,474 | ₩ 2,218,010 | ₩ 11,186,872 |
| Grade 2 | 3,181 | 5,818 | 56,840 | 65,839 |
| Grade 3 | - | - | 56,027 | 56,027 |
| | ₩ 749,569 | ₩ 8,228,292 | ₩ 2,330,877 | ₩ 11,308,738 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Grade 1 | ₩ 537,612 | ₩ 6,411,549 | ₩ 5,058,517 | ₩ 12,007,678 |
| Grade 2 | - | - | 29,855 | 29,855 |
| Grade 3 | - | - | 37,981 | 37,981 |
| | ₩ 537,612 | ₩ 6,411,549 | ₩ 5,126,353 | ₩ 12,075,514 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

The credit rating classification of debt securities which are rated by external rating agencies is as follows:

| Classification | Domestic Rating Agencies | Overseas Rating Agencies: Moody's | Overseas Rating Agencies: S&P | Overseas Rating Agencies: Fitch |
|---|---|---|---|---|
| Grade 1 | AAA ~ A- | Aaa ~ Baa2 | AAA ~ BBB | AAA ~ BBB |
| Grade 2 | BBB+ ~ BB | Baa3 ~ B3 | BBB- ~ B- | BBB- ~ B- |
| Grade 3 | BB ~ B- | Caa1 ~ Caa3 | CCC+ ~ CCC- | CCC+ ~ CCC- |

Credit risk concentration in each major industry as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| | | December 30, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 2,157,178 | ₩ 4,143,394 | ₩ 6,300,572 | 96.13 |
| | Others | - | 255,828 | 255,828 | 3.87 |
| | | 2,157,178 | 4,399,222 | 6,556,400 | 100.00 |
| Financial assets held-for-trading | Financial services | 540,559 | 30,257 | 570,816 | 76.15 |
| | Wholesale & retail | 159,742 | 5,961 | 165,703 | 22.11 |
| | Public administration | 9,868 | 3,182 | 13,050 | 1.74 |
| | | 710,169 | 39,400 | 749,569 | 100.00 |
| Available-for-sale financial assets | Financial services | 2,806,544 | 510,905 | 3,317,449 | 40.32 |
| | Manufacturing | 109,845 | 5,818 | 115,663 | 1.41 |
| | Public administration | 4,075,387 | 51,956 | 4,127,343 | 50.16 |
| | Others | 662,684 | 5,153 | 667,837 | 8.12 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity investments | Financial services | 1,053,020 | 90,996 | 1,144,016 | 49.08 |
| | Manufacturing | - | 10,553 | 10,553 | 0.45 |
| | Public administration | 1,103,440 | 22,641 | 1,126,081 | 48.31 |
| | Others | 50,227 | - | 50,227 | 2.15 |
| | | 2,206,687 | 124,190 | 2,330,877 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| Loans receivable: | | | | | |
| Household loans | | ₩ 21,943,495 | ₩ 627,648 | ₩ 22,571,143 | 30.63 |
| Credit card loans | | 2,645,741 | 3,792 | 2,649,533 | 3.60 |
| Business loans | Manufacturing | 11,494,198 | 8,868,872 | 20,363,070 | 27.63 |
| | Construction | 1,659,309 | 421,448 | 2,080,757 | 2.82 |
| | Wholesale & retail | 3,201,835 | 3,494,604 | 6,696,439 | 9.09 |
| | Financial services | 2,223,793 | 1,954,789 | 4,178,582 | 5.67 |
| | Real estate rental | 4,769,065 | 667,506 | 5,436,571 | 7.38 |
| | Others | 6,005,485 | 4,392,294 | 10,397,779 | 14.11 |
| | | 53,942,921 | 20,430,953 | 74,373,874 | 100.93 |
| Deferred loan fees and expenses | | 38,163 | (2,219) | 35,944 | 0.05 |
| Allowance for possible loan losses | | (597,282) | (128,139) | (725,421) | (0.98) |
| | | 53,383,802 | 20,300,595 | 73,684,397 | 100.00 |
| | | ₩ 66,112,296 | ₩ 25,437,239 | ₩ 91,549,535 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 33,539 | ₩ 627,347 | ₩ 660,886 | 56.64 |
| | Construction | 43,989 | 43,079 | 87,068 | 7.46 |
| | Wholesale & retail | 4,061 | 89,224 | 93,285 | 8.00 |
| | Real estate rental | 22,000 | 11,186 | 33,186 | 2.84 |
| | Others | 11,706 | 280,589 | 292,295 | 25.06 |
| | | 115,295 | 1,051,425 | 1,166,720 | 100.00 |
| Guarantee contracts | Manufacturing | 574,713 | 6,154,047 | 6,728,760 | 40.89 |
| | Construction | 244,555 | 3,954,263 | 4,198,818 | 25.51 |
| | Wholesale & retail | 288,772 | 2,333,589 | 2,622,361 | 15.93 |
| | Real estate rental | 940 | 1,038,980 | 1,039,920 | 6.32 |
| | Others | 510,492 | 1,356,438 | 1,866,930 | 11.34 |
| | | 1,619,472 | 14,837,317 | 16,456,789 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| Commitment | Manufacturing | 17,714,188 | 4,287,457 | 22,001,645 | 36.84 |
| | Construction | 1,790,207 | 523,223 | 2,313,430 | 3.87 |
| | Wholesale & retail | 4,456,176 | 1,570,236 | 6,026,412 | 10.09 |
| | Financial services | 4,584,643 | 34,544 | 4,619,187 | 7.73 |
| | Real estate rental | 2,369,679 | 17,408 | 2,387,087 | 4.00 |
| | Others | 21,334,755 | 1,045,177 | 22,379,932 | 37.47 |
| | | 52,249,648 | 7,478,045 | 59,727,693 | 100.00 |
| | | ₩ 53,984,415 | ₩ 23,366,787 | ₩ 77,351,202 | |

| | | December 31, 2012 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 1,889,472 | ₩ 4,420,459 | ₩ 6,309,931 | 96.41 |
| | Others | - | 235,118 | 235,118 | 3.59 |
| | | 1,889,472 | 4,655,577 | 6,545,049 | 100.00 |
| Financial assets held-for-trading | Financial services | 392,177 | - | 392,177 | 72.95 |
| | Manufacturing | 125,324 | - | 125,324 | 23.31 |
| | Public administration | 20,111 | - | 20,111 | 3.74 |
| | | 537,612 | - | 537,612 | 100.00 |
| Available-for-sale financial assets | Financial services | 3,059,611 | 318,931 | 3,378,542 | 52.70 |
| | Manufacturing | 160,488 | - | 160,488 | 2.50 |
| | Public administration | 2,206,441 | 39,518 | 2,245,959 | 35.03 |
| | Others | 626,560 | - | 626,560 | 9.77 |
| | | 6,053,100 | 358,449 | 6,411,549 | 100.00 |
| Held-to-maturity investments | Financial services | 3,302,759 | 71,159 | 3,373,918 | 65.82 |
| | Manufacturing | - | 10,711 | 10,711 | 0.21 |
| | Public administration | 1,545,584 | 25,261 | 1,570,845 | 30.64 |
| | Others | 170,879 | - | 170,879 | 3.33 |
| | | 5,019,222 | 107,131 | 5,126,353 | 100.00 |
| Loans receivable: | | | | | |
| Household loans | | 21,406,168 | 638,072 | 22,044,240 | 31.32 |
| Credit card loans | | 2,659,188 | 2,089 | 2,661,277 | 3.78 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2012 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Industry | Korean won | Foreign currency | Amount | Ratio (%) |
| Business loans | Manufacturing | 11,438,166 | 8,443,042 | 19,881,208 | 28.24 |
| | Construction | 1,968,192 | 394,901 | 2,363,093 | 3.36 |
| | Wholesale & retail | 3,336,690 | 2,735,490 | 6,072,180 | 8.63 |
| | Financial services | 1,701,306 | 1,835,675 | 3,536,981 | 5.02 |
| | Real estate rental | 3,906,477 | 705,131 | 4,611,608 | 6.55 |
| | Others | 5,712,532 | 4,249,205 | 9,961,737 | 14.15 |
| | | 52,128,719 | 19,003,605 | 71,132,324 | 101.05 |
| Deferred loan fees and expenses | | 33,100 | (829) | 32,271 | 0.05 |
| Allowance for possible loan losses | | (627,800) | (143,858) | (771,658) | (1.10) |
| | | 51,534,019 | 18,858,918 | 70,392,937 | 100.00 |
| | | ₩ 65,033,425 | ₩ 23,980,075 | ₩ 89,013,500 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 57,627 | ₩ 325,804 | ₩ 383,431 | 52.41 |
| | Construction | 5,009 | 74,202 | 79,211 | 10.83 |
| | Wholesale & retail | 4,350 | 98,794 | 103,144 | 14.10 |
| | Real estate rental | 22,000 | 5,998 | 27,998 | 3.83 |
| | Others | 23,542 | 114,231 | 137,773 | 18.83 |
| | | 112,528 | 619,029 | 731,557 | 100.00 |
| Guarantee contracts | Manufacturing | 632,715 | 6,013,148 | 6,645,863 | 44.64 |
| | Construction | 193,051 | 2,999,696 | 3,192,747 | 21.45 |
| | Wholesale & retail | 375,237 | 1,928,304 | 2,303,541 | 15.47 |
| | Financial services | 968 | 1,096,489 | 1,097,457 | 7.37 |
| | Real estate rental | 13,906 | 27,042 | 40,948 | 0.28 |
| | Others | 440,267 | 1,165,371 | 1,605,638 | 10.79 |
| | | 1,656,144 | 13,230,050 | 14,886,194 | 100.00 |
| Commitment | Manufacturing | 16,200,586 | 3,463,591 | 19,664,177 | 33.06 |
| | Construction | 1,576,661 | 990,163 | 2,566,824 | 4.32 |
| | Wholesale & retail | 4,023,071 | 1,342,648 | 5,365,719 | 9.02 |
| | Financial services | 5,005,285 | 24,635 | 5,029,920 | 8.46 |
| | Real estate rental | 2,740,087 | 4,779 | 2,744,866 | 4.61 |
| | Others | 23,293,725 | 820,695 | 24,114,420 | 40.54 |
| | | 52,839,415 | 6,646,511 | 59,485,926 | 100.00 |
| | | ₩ 54,608,087 | ₩ 20,495,590 | ₩ 75,103,677 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Credit risk concentration in each country as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Country | Korean won | Foreign currency | Amount | Ratio (%) |
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 2,157,178 | ₩ 451,821 | ₩ 2,608,999 | 39.79 |
| | U.S | - | 1,720,851 | 1,720,851 | 26.25 |
| | China | - | 1,065,823 | 1,065,823 | 16.26 |
| | Japan | - | 163,324 | 163,324 | 2.49 |
| | Singapore | - | 150,902 | 150,902 | 2.30 |
| | Hong Kong | - | 28,082 | 28,082 | 0.43 |
| | Brazil | - | 2,054 | 2,054 | 0.03 |
| | Hungary | - | 1,888 | 1,888 | 0.03 |
| | Others | - | 814,477 | 814,477 | 12.42 |
| | | 2,157,178 | 4,399,222 | 6,556,400 | 100.00 |
| Financial assets held-for-trading | Korea | 710,169 | 39,400 | 749,569 | 100.00 |
| Available-for-sale financial assets | Korea | 7,654,460 | 547,483 | 8,201,943 | 99.68 |
| | Hong Kong | - | 5,153 | 5,153 | 0.06 |
| | Others | - | 21,196 | 21,196 | 0.26 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity Investments | Korea | 2,206,687 | 27,324 | 2,234,011 | 95.84 |
| | U.S | - | 10,553 | 10,553 | 0.45 |
| | Brazil | - | 27,146 | 27,146 | 1.16 |
| | Others | - | 59,167 | 59,167 | 2.54 |
| | | 2,206,687 | 124,190 | 2,330,877 | 100.00 |
| Loans receivable | Korea | 53,549,685 | 12,634,983 | 66,184,668 | 89.82 |
| | U.S | 104,345 | 830,061 | 934,406 | 1.27 |
| | China | 7,494 | 1,218,867 | 1,226,361 | 1.66 |
| | Hong Kong | 2,792 | 673,972 | 676,764 | 0.92 |
| | Singapore | 2,155 | 610,893 | 613,048 | 0.83 |
| | Others | 276,450 | 4,462,177 | 4,738,627 | 6.43 |
| | | 53,942,921 | 20,430,953 | 74,373,874 | 100.93 |
| Deferred loan fees and expenses | | 38,163 | (2,219) | 35,944 | 0.05 |
| Allowance for possible loan losses | | (597,282) | (128,139) | (725,421) | (0.98) |
| | | 53,383,802 | 20,300,595 | 73,684,397 | 100.00 |
| | | ₩ 66,112,296 | 25,437,239 | ₩ 91,549,535 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Country | December 31, 2013 Korean won | Foreign currency | Total Amount | Total Ratio (%) |
|---|---|---|---|---|---|
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 115,295 | ₩ 1,051,425 | ₩ 1,166,720 | 100.00 |
| Guarantee contracts | Korea | 1,618,922 | 13,147,604 | 14,766,526 | 89.73 |
| | U.S | - | 567,848 | 567,848 | 3.45 |
| | China | - | 473,180 | 473,180 | 2.88 |
| | Hong Kong | - | 131,843 | 131,843 | 0.80 |
| | Singapore | - | 143,999 | 143,999 | 0.88 |
| | Others | 550 | 372,843 | 373,393 | 2.27 |
| | | 1,619,472 | 14,837,317 | 16,456,789 | 100.00 |
| Commitment | Korea | 52,246,688 | 5,868,434 | 58,115,122 | 97.30 |
| | U.S | - | 303,696 | 303,696 | 0.51 |
| | Singapore | - | 258,480 | 258,480 | 0.43 |
| | Hong Kong | - | 140,017 | 140,017 | 0.23 |
| | Others | 2,960 | 907,418 | 910,378 | 1.52 |
| | | 52,249,648 | 7,478,045 | 59,727,693 | 100.00 |
| | | ₩ 53,984,415 | ₩ 23,366,787 | ₩ 77,351,202 | |

| Classification | Country | December 31, 2012 Korean won | Foreign currency | Total Amount | Total Ratio (%) |
|---|---|---|---|---|---|
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 1,889,472 | ₩ 376,358 | ₩ 2,265,830 | 34.62 |
| | U.S | - | 2,427,042 | 2,427,042 | 37.08 |
| | China | - | 722,753 | 722,753 | 11.04 |
| | Japan | - | 142,314 | 142,314 | 2.17 |
| | Singapore | - | 148,173 | 148,173 | 2.26 |
| | Hong Kong | - | 10,513 | 10,513 | 0.16 |
| | Brazil | - | 2,736 | 2,736 | 0.04 |
| | Hungary | - | 45 | 45 | 0.00 |
| | Others | - | 825,643 | 825,643 | 12.61 |
| | | 1,889,472 | 4,655,577 | 6,545,049 | 100.00 |
| Financial assets held-for-trading | Korea | 537,612 | - | 537,612 | 100.00 |
| Available-for-sale financial assets | Korea | 6,053,100 | 331,848 | 6,384,948 | 99.58 |
| | Hong Kong | - | 5,110 | 5,110 | 0.08 |
| | Others | - | 21,491 | 21,491 | 0.34 |
| | | 6,053,100 | 358,449 | 6,411,549 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2012 | | | |
|---|---|---|---|---|---|
| | | | | Total | |
| Classification | Country | Korean won | Foreign currency | Amount | Ratio (%) |
| Held-to-maturity Investments | Korea | 5,019,222 | 27,867 | 5,047,089 | 98.45 |
| | Brazil | - | 26,455 | 26,455 | 0.52 |
| | U.S | - | 10,711 | 10,711 | 0.21 |
| | Others | - | 42,098 | 42,098 | 0.82 |
| | | 5,019,222 | 107,131 | 5,126,353 | 100.00 |
| Loans receivable | Korea | 50,575,553 | 12,795,057 | 63,370,610 | 90.02 |
| | U.S | 96,973 | 914,156 | 1,011,129 | 1.44 |
| | China | 6,696 | 618,825 | 625,521 | 0.89 |
| | Japan | 22,992 | 520,087 | 543,079 | 0.77 |
| | Germany | 1,482 | 507,578 | 509,060 | 0.72 |
| | Others | 1,425,023 | 3,647,902 | 5,072,925 | 7.21 |
| | | 52,128,719 | 19,003,605 | 71,132,324 | 101.05 |
| Deferred loan fees and expenses | | 33,100 | (829) | 32,271 | 0.05 |
| Allowance for possible loan losses | | (627,800) | (143,858) | (771,658) | (1.10) |
| | | 51,534,019 | 18,858,918 | 70,392,937 | 100.00 |
| | | ₩ 65,033,425 | ₩ 23,980,075 | ₩ 89,013,500 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 112,528 | ₩ 619,029 | ₩ 731,557 | 100.00 |
| Guarantee contracts | Korea | 1,655,181 | 11,522,341 | 13,177,522 | 88.52 |
| | U.S | - | 652,133 | 652,133 | 4.38 |
| | China | - | 295,468 | 295,468 | 1.98 |
| | Singapore | 50 | 156,955 | 157,005 | 1.05 |
| | Japan | - | 60,352 | 60,352 | 0.41 |
| | Others | 913 | 542,801 | 543,714 | 3.66 |
| | | 1,656,144 | 13,230,050 | 14,886,194 | 100.00 |
| Commitment | Korea | 52,839,415 | 5,215,464 | 58,054,879 | 97.59 |
| | Singapore | - | 257,562 | 257,562 | 0.43 |
| | U.S | - | 247,603 | 247,603 | 0.42 |
| | Hong Kong | - | 174,509 | 174,509 | 0.29 |
| | Australia | - | 130,802 | 130,802 | 0.22 |
| | Others | - | 620,571 | 620,571 | 1.04 |
| | | 52,839,415 | 6,646,511 | 59,485,926 | 100.00 |
| | | ₩ 54,608,087 | ₩ 20,495,590 | ₩ 75,103,677 | |

**8. Risk management (cont'd)**

**Market risk**

Market risk is the uncertainty and possibility of losses arising from overall management activities which is divided into general market risk and specific risk. General market risk is the risk to the loss on the Company's earnings arising from the changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of the loss on trading position arising from the changes in credit risks.

Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The targets of the market risk management are interest rate, stock price, foreign currencies, and derivatives as follows:

- Assets classified as financial assets held-for-trading in accordance with KIFRS
- Derivative instruments held-for-trading and derivative instruments used for hedging purposes for which hedge accounting is not applied
- Trust account securities with agreements to guarantee principal or interest
- Foreign currency exchange position regulated by Korean Banking Laws

The Company uses an internal model for measurement of market risk. The purpose of the internal model is to compute required capital by VaR using a historical simulation with a confidence level of 99.0 percent and 10-day (1day) retaining period. VaR using historical simulation sets up 10 business days' (1 business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and arranges in order of values and computes the difference between the value of low second ranked portfolio and current portfolio. In addition, the Company reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by the Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Company performs back testing on a daily basis so as to procure the suitability of the internal model and stress testing to prepare for emergency situations not reflected in the recent market situation.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group or department is reported to the management on a daily basis and to the risk management operating committee on a monthly basis.

## 8. Risk management (cont'd)

### Market risk (cont'd)

Market risk VaR for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 13,057 | ₩ 5,361 | ₩ 9,119 | ₩ 10,606 | ₩ 21,197 | ₩ 4,316 | ₩ 11,549 | ₩ 6,266 |
| Stock price risk | 40,079 | 4,180 | 16,047 | 12,140 | 44,199 | 7,701 | 15,717 | 7,701 |
| Foreign currency risk | 81,264 | 20,790 | 41,700 | 50,364 | 84,126 | 4,404 | 32,073 | 52,205 |
| Option risk | 7,858 | 535 | 2,845 | 1,964 | 4,288 | 363 | 1,842 | 2,698 |
| Total risks (*) | ₩ 103,651 | ₩ 24,080 | ₩ 54,301 | ₩ 62,671 | ₩ 95,383 | ₩ 15,651 | ₩ 47,183 | ₩ 55,669 |

(*) The total portfolio risk is not equal to the sum of the individual component risks because the calculation includes consideration of the correlations of the risks.

Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in interest rate, using the VaR methodology, a key measure of market risk, to interest rate risk assessment.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index.

The result of interest rate measurement is reported to the risk management operating committee on a monthly basis.

Details of interest rate VaR except for trading portfolio for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 335,842 | ₩ 153,916 | ₩ 230,006 | ₩ 161,273 | ₩ 288,076 | ₩ 60,146 | ₩ 150,203 | ₩ 288,076 |

## 8. Risk management (cont'd)

### Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations arising from financial liabilities as they fall due.

The Company proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Moreover, the Company regularly performs liquidity stress test, comprehend deficit, and reflect in the emergency funding plan on a regular basis.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as the Basel III liquidity risk regulation ratio.

Liquidity risk management targets on and off balance assets, liabilities and derivatives, and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

Maturity structures of liabilities as at December 31, 2013 and 2012 are as follow (Korean won in millions):

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| Deposits | ₩ 29,262,525 | ₩ 7,264,185 | ₩ 9,281,791 | ₩ 22,239,566 | ₩ 2,244,050 | ₩ 668,460 | ₩ 70,960,577 |
| Financial liabilities at FVTPL | 1,286,745 | - | - | - | - | - | 1,286,745 |
| Derivative liabilities used for hedging purposes | 12,562 | - | - | - | - | - | 12,562 |
| Borrowings | 1,204,977 | 1,720,420 | 1,165,701 | 2,043,157 | 655,261 | 139,956 | 6,929,472 |
| Debentures | 122 | 218,993 | 242,945 | 1,499,424 | 4,283,194 | 1,343,476 | 7,588,154 |
| Other liabilities | 928 | 9,931,644 | 2,717 | 20,216 | 2,356 | - | 9,957,861 |
| Merchant banking account assets | 1,526,676 | 52,660 | 100,000 | - | - | - | 1,679,336 |
| | 33,294,535 | 19,187,902 | 10,793,154 | 25,802,363 | 7,184,861 | 2,151,892 | 98,414,707 |
| Loan commitment | 59,727,693 | - | - | - | - | - | 59,727,693 |
| Finance guarantee | 1,166,720 | - | - | - | - | - | 1,166,720 |
| | 60,894,413 | - | - | - | - | - | 60,894,413 |
| | ₩ 94,188,948 | ₩ 19,187,902 | ₩ 10,793,154 | ₩ 25,802,363 | ₩ 7,184,861 | ₩ 2,151,892 | ₩ 159,309,120 |

## 8. Risk management (cont'd)

### Liquidity risk (cont'd)

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| Deposits | ₩ 27,832,611 | ₩ 7,659,116 | ₩ 9,578,548 | ₩ 20,889,777 | ₩ 2,295,105 | ₩ 504,180 | ₩ 68,759,337 |
| Financial liabilities at FVTPL | 1,308,753 | - | - | - | - | - | 1,308,753 |
| Borrowings | 1,412,909 | 1,534,459 | 1,334,492 | 1,399,291 | 1,237,135 | 132,910 | 7,051,196 |
| Debentures | 132 | 168,240 | 457,289 | 1,440,266 | 4,017,427 | 767,276 | 6,850,630 |
| Other liabilities | 2,051 | 12,518,571 | 2,089 | 16,349 | 3,853 | 116 | 12,543,029 |
| Merchant banking account assets | 525,654 | 185 | - | - | - | - | 525,839 |
| | 31,082,110 | 21,880,571 | 11,372,418 | 23,745,683 | 7,553,520 | 1,404,482 | 97,038,784 |
| Loan commitment | 59,485,926 | - | - | - | - | - | 59,485,926 |
| Finance guarantee | 731,557 | - | - | - | - | - | 731,557 |
| | 60,217,483 | - | - | - | - | - | 60,217,483 |
| | ₩ 91,299,593 | ₩ 21,880,571 | ₩ 11,372,418 | ₩ 23,745,683 | ₩ 7,553,520 | ₩ 1,404,482 | ₩ 157,256,267 |

### Currency risk

Currency risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in foreign exchange rates. Currency risk arises in financial instruments expressed in currencies other than the functional currency. Currency risk does not arise in financial instruments expressed in the functional currency or in non-monetary items measured using historical foreign exchange rates. In order to establish stop loss and limits, the Company manages the foreign exchange net exposure amount of the trading and non-trading portfolios by each currency.

Significant assets and liabilities denominated in foreign currencies as at December 31, 2013 and 2012 are as follows (Korean won in millions or U.S. dollar in thousands):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Assets: | | | | |
| Cash and due from banks | USD | 2,923,521,828 | 2,923,522 | ₩ 3,088,545 |
| | JPY | 19,909,100,221 | 189,536 | 200,018 |
| | EUR | 326,564,307 | 450,621 | 475,539 |
| | CNY | 2,215,004,396 | 365,405 | 385,612 |
| | IDR | 44,034,941,599 | 3,609 | 3,805 |
| | BRL | 7,016,333 | 2,970 | 3,135 |
| | HKD | 342,483,379 | 44,171 | 46,612 |
| | Others | | 624,442 | 658,972 |
| | | | 4,604,276 | 4,862,238 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Financial assets held-for-trading | USD | 106,848,109 | 106,848 | 112,757 |
| Available-for-sale financial assets | USD | 548,509,040 | 548,509 | 578,486 |
| | Others | | 3,932 | 4,149 |
| | | | 552,441 | 582,635 |
| Held-to-maturity investments | USD | 35,891,935 | 35,892 | 37,877 |
| | EUR | 528,569 | 729 | 770 |
| | IDR | 648,463,545,509 | 53,091 | 56,027 |
| | BRL | 60,764,128 | 25,724 | 27,146 |
| | Others | | 2,246 | 2,370 |
| | | | 117,682 | 124,190 |
| Loans receivable | USD | 13,634,253,259 | 13,634,253 | 14,645,720 |
| | JPY | 104,465,301,501 | 994,524 | 1,049,521 |
| | EUR | 737,694,527 | 1,017,981 | 1,074,275 |
| | CNY | 7,019,171,939 | 1,157,934 | 1,221,968 |
| | CAD | 1,190,359,356 | 1,117,661 | 1,179,468 |
| | AUD | 257,757,927 | 229,586 | 242,282 |
| | Others | | 964,387 | 1,017,719 |
| | | | 19,116,326 | 20,430,953 |
| Derivative assets used for hedging purposes | USD | 21,860,657 | 21,861 | 23,070 |
| Other assets | USD | 2,037,706,048 | 2,037,706 | 2,150,391 |
| | JPY | 34,693,566,219 | 330,287 | 348,552 |
| | EUR | 67,178,142 | 92,702 | 97,829 |
| | CNY | 170,327,187 | 28,098 | 29,652 |
| | HKD | 538,131,897 | 69,397 | 73,234 |
| | Others | | 321,994 | 339,800 |
| | | | 2,880,184 | 3,039,458 |
| | | | 27,399,618 | ₩ 29,175,301 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Liabilities | | | | |
| Financial liabilities held-for-trading | USD | 114,658,174 | 114,658 | ₩ 120,999 |
| Deposits | USD | 10,646,879,905 | 10,647,079 | 11,235,862 |
| | JPY | 150,469,767,157 | 1,432,493 | 1,511,710 |
| | EUR | 875,818,645 | 1,208,585 | 1,275,420 |
| | CNY | 6,957,745,876 | 1,147,801 | 1,211,274 |
| | CAD | 1,105,886,653 | 1,038,347 | 1,095,768 |
| | Others | | 1,134,091 | 1,196,807 |
| | | | 16,608,396 | 17,526,841 |
| Borrowings | USD | 4,027,974,387 | 4,009,417 | 4,231,138 |
| | JPY | 18,893,323,447 | 179,867 | 189,814 |
| | EUR | 309,097,765 | 426,539 | 450,127 |
| | BRL | 103,355,256 | 43,754 | 46,174 |
| | AUD | 86,764,300 | 77,281 | 81,555 |
| | Others | | 60,555 | 63,902 |
| | | | 4,797,413 | 5,062,710 |
| Debentures | USD | 2,144,637,405 | 2,144,637 | 2,263,236 |
| | HKD | 310,000,000 | 39,977 | 42,188 |
| | AUD | 50,470 | 45 | 47 |
| | | | 2,184,660 | 2,305,471 |
| Derivative liabilities used for hedging purposes | USD | 11,903,354 | 11,903 | 12,562 |
| Other liabilities | USD | 2,512,514,286 | 2,512,514 | 2,651,456 |
| | JPY | 15,845,842,566 | 150,855 | 159,197 |
| | EUR | 175,898,713 | 242,731 | 256,154 |
| | CAD | 141,809,181 | 133,149 | 140,512 |
| | AUD | 27,466,004 | 24,464 | 25,817 |
| | Others | | 328,000 | 346,139 |
| | | | 3,391,713 | 3,579,275 |
| | | | 27,108,743 | ₩ 28,607,858 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Assets: | | | | |
| Cash and due from banks | USD | 3,105,000,074 | 3,105,000 | ₩ 3,325,766 |
| | JPY | 18,153,484,043 | 211,405 | 226,436 |
| | EUR | 429,591,788 | 568,007 | 608,392 |
| | CNY | 2,284,545,398 | 366,602 | 392,668 |
| | HKD | 271,622,300 | 35,041 | 37,533 |
| | Others | | 507,221 | 543,285 |
| | | | 4,793,276 | 5,134,080 |
| Financial assets held-for-trading | USD | 92,722,461 | 92,722 | 99,315 |
| Available-for-sale financial assets | USD | 338,189,040 | 338,189 | 361,854 |
| | Others | | 542 | 581 |
| | | | 338,731 | 362,435 |
| Held-to-maturity investments | USD | 36,017,167 | 36,017 | 38,578 |
| | EUR | 506,800 | 670 | 718 |
| | IDR | 341,864,101,856 | 35,554 | 37,981 |
| | BRL | 50,472,527 | 24,700 | 26,456 |
| | Others | | 3,174 | 3,399 |
| | | | 100,115 | 107,132 |
| Loans receivable | USD | 12,789,485,576 | 12,789,486 | 13,698,818 |
| | JPY | 134,428,056,112 | 1,565,671 | 1,676,990 |
| | EUR | 680,734,470 | 900,100 | 964,097 |
| | CNY | 4,073,128,144 | 653,617 | 700,089 |
| | CAD | 976,335,672 | 980,848 | 1,050,586 |
| | AUD | 307,327,497 | 318,899 | 341,573 |
| | Others | | 533,519 | 571,452 |
| | | | 17,742,140 | 19,003,605 |
| Derivative assets used for hedging purposes | USD | 35,353,690 | 35,354 | 37,867 |
| Other assets | USD | 2,609,218,475 | 2,609,218 | 2,794,734 |
| | JPY | 39,177,546,249 | 456,297 | 488,740 |
| | EUR | 234,554,144 | 310,139 | 332,190 |
| | CNY | 69,561,865 | 11,163 | 11,956 |
| | HKD | 469,971,202 | 60,630 | 64,941 |
| | Others | | 228,277 | 244,506 |
| | | | 3,675,724 | 3,937,067 |
| | | | 26,778,062 | ₩ 28,681,501 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Liabilities | | | | |
| Financial liabilities held-for-trading | USD | 154,728,360 | 154,728 | ₩ 165,730 |
| Deposits | USD | 9,189,052,466 | 9,200,986 | 9,855,176 |
| | JPY | 142,166,434,839 | 1,655,799 | 1,773,526 |
| | EUR | 1,541,906,935 | 2,038,784 | 2,183,741 |
| | CNY | 4,557,020,663 | 731,268 | 783,261 |
| | CAD | 897,666,681 | 901,815 | 965,934 |
| | Others | | 1,117,252 | 1,196,689 |
| | | | 15,645,904 | 16,758,327 |
| Borrowings | USD | 3,204,560,418 | 3,204,560 | 3,432,405 |
| | JPY | 59,680,960,856 | 695,098 | 744,520 |
| | EUR | 281,451,559 | 372,149 | 398,609 |
| | BRL | 116,559,983 | 57,041 | 61,096 |
| | AUD | 196,377,903 | 203,772 | 218,260 |
| | Others | | 143,168 | 153,345 |
| | | | 4,675,788 | 5,008,235 |
| Debentures | USD | 1,765,047,769 | 1,765,048 | 1,890,543 |
| | AUD | 31,800,470 | 32,998 | 35,344 |
| | | | 1,798,046 | 1,925,887 |
| Other liabilities | USD | 3,785,754,666 | 3,786,295 | 4,055,501 |
| | JPY | 15,404,090,382 | 179,410 | 192,166 |
| | EUR | 208,141,525 | 275,215 | 294,783 |
| | CAD | 114,167,212 | 114,695 | 122,850 |
| | AUD | 151,204,719 | 156,898 | 168,053 |
| | Others | | 240,166 | 257,242 |
| | | | 4,752,679 | 5,090,595 |
| | | | 27,027,145 | ₩ 28,948,774 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 9. Segment information

The business sectors of the Company are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

| Classification | | Business |
|---|---|---|
| Individual finance | Retail banking | Household credit and saving |
| | Credit card | Issue, use, payment of credit card and others |
| | Trust pension | Retirement pension and others |
| Corporate finance | Corporate banking | Corporate credit and saving, securities investment, derivatives transaction and others |
| Fund market | Fund market management | Security investments and management |
| Others | International banking | Corporate supporting for business development abroad and others |
| | Others | Administration and others |

9. **Segment information (cont'd)**

Net income by business segment for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 859,391 | ₩ 965,044 | ₩ 87,378 | ₩ (252,008) | ₩ 1,659,805 | ₩ 567,568 | ₩ 2,227,373 |
| Net commission income (expenses) | 349,998 | 266,394 | (1,091) | 100,614 | 715,915 | (544,076) | 171,839 |
| Net other operating income (expenses) | 398,637 | (336,526) | 79,022 | 62,005 | 203,138 | 14,693 | 217,831 |
| | 1,608,026 | 894,912 | 165,309 | (89,389) | 2,578,858 | 38,185 | 2,617,043 |
| Segment operating expense: | | | | | | | |
| General and administrative expense | 574,902 | 383,041 | 24,704 | 528,764 | 1,511,411 | 28,816 | 1,540,227 |
| Segment operating profit (loss) | 1,033,124 | 511,871 | 140,605 | (618,153) | 1,067,447 | 9,369 | 1,076,816 |
| Provision for (reversal of) possible losses on credits (*1) | 335,279 | 130,737 | - | (310,606) | 155,410 | 354,360 | 509,770 |
| Income tax expense | 168,878 | 100,108 | 34,026 | (74,426) | 228,586 | (105,663) | 122,923 |
| Net income (loss) | ₩ 528,967 | ₩ 281,026 | ₩ 106,579 | ₩ (233,121) | ₩ 683,451 | ₩ (239,328) | ₩ 444,123 |

(*1) Provision for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, provision for (reversal of) acceptances and guarantees, and provision for (reversal of) unused credit limit.

## 9. Segment information (cont'd)

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 854,520 | ₩ 1,039,023 | ₩ 70,918 | ₩ (113,108) | ₩ 1,851,353 | ₩ 617,741 | ₩ 2,469,094 |
| Net commission income (expenses) | 352,271 | 261,216 | (21,108) | 116,425 | 708,804 | (530,380) | 178,424 |
| Net other operating income (expenses) | 547,301 | 51,207 | 138,568 | 47,259 | 784,335 | (262,856) | 521,479 |
| | 1,754,092 | 1,351,446 | 188,378 | 50,576 | 3,344,492 | (175,495) | 3,168,997 |
| Segment operating expense: | | | | | | | |
| General and administrative expense | 558,391 | 372,633 | 25,523 | 639,521 | 1,596,068 | (31,189) | 1,564,879 |
| Segment operating profit (loss) | 1,195,701 | 978,813 | 162,855 | (588,945) | 1,748,424 | (144,306) | 1,604,118 |
| Provision for (reversal of) possible losses on credits (*1) | 239,270 | 303,787 | - | (381,911) | 161,146 | 510,385 | 671,531 |
| Income tax expense | 186,358 | 144,182 | 31,732 | (40,340) | 321,932 | (56,488) | 265,444 |
| Net income (loss) | ₩ 770,073 | ₩ 530,844 | ₩ 131,123 | ₩ (166,694) | ₩ 1,265,346 | ₩ (598,203) | ₩ 667,143 |

(*1) Provision for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, provision for (reversal of) acceptances and guarantees, and provision for (reversal of) unused credit limit.

Income from customers and transaction between segments by business segment for the three-month and the years ended December 31, 2013 and 2012 is as follow (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income from external customers | ₩ 1,537,169 | ₩ 775,000 | ₩ 180,038 | ₩ 86,651 | ₩ 2,578,858 | ₩ 38,185 | ₩ 2,617,043 |
| Income (expenses) from internal transactions | 70,857 | 119,912 | (14,729) | (176,040) | - | - | - |
| | ₩ 1,608,026 | ₩ 894,912 | ₩ 165,309 | ₩ (89,389) | ₩ 2,578,858 | ₩ 38,185 | ₩ 2,617,043 |

## 9. Segment information (cont'd)

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income (expenses) from external customers | ₩ 1,739,991 | ₩ 1,233,072 | ₩ 230,668 | ₩ 140,761 | ₩ 3,344,492 | ₩ (175,495) | ₩ 3,168,997 |
| Income (expenses) from internal transactions | 14,101 | 118,374 | (42,290) | (90,185) | - | - | - |
| | ₩ 1,754,092 | ₩ 1,351,446 | ₩ 188,378 | ₩ 50,576 | ₩ 3,344,492 | ₩ (175,495) | ₩ 3,168,997 |

Significant non cash item included in operating income by business segment for the years ended December 31, 2013 and 2012 is as follow (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Loss on equity method | ₩ - | ₩ - | ₩ - | ₩ 821 | ₩ 821 | ₩ - | ₩ 821 |
| Depreciation and amortization | 13,135 | 13,104 | - | 82,600 | 108,839 | (7) | 108,832 |
| | ₩ 13,135 | ₩ 13,104 | ₩ - | ₩ 83,421 | ₩ 109,660 | ₩ (7) | ₩ 109,653 |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Loss on equity method | ₩ - | ₩ - | ₩ - | ₩ 678 | ₩ 678 | ₩ - | ₩ 678 |
| Depreciation and amortization | 9,374 | 3,696 | - | 83,021 | 96,091 | 9,622 | 105,713 |
| | ₩ 9,374 | ₩ 3,696 | ₩ - | ₩ 83,699 | ₩ 96,760 | ₩ 9,622 | ₩ 106,391 |

## 9. Segment information (cont'd)

Financial information by region as at December 31, 2013 and 2012 and for the years then ended is as follows (Korean won in millions):

| Classification | Income from customers (*1) 2013 | Income from customers (*1) 2012 | Noncurrent assets (*2) December 31, 2013 | Noncurrent assets (*2) December 31, 2012 |
|---|---|---|---|---|
| Domestic | ₩ 2,228,156 | ₩ 2,852,833 | ₩ 1,439,627 | ₩ 1,448,138 |
| Overseas: | | | | |
| Hong Kong | 52,470 | 43,134 | 4,358 | 4,705 |
| Singapore | 14,328 | 13,887 | 326 | 221 |
| U.S | 22,304 | 23,504 | 449 | 711 |
| Japan | 18,464 | 25,369 | 4,904 | 5,834 |
| China | 56,866 | 63,733 | 18,110 | 18,705 |
| Indonesia | 27,580 | 25,992 | 409 | 226 |
| U.K. | 13,784 | 16,896 | 179 | 115 |
| Canada | 32,421 | 33,874 | 3,883 | 3,329 |
| Others | 65,615 | 70,799 | 4,104 | 2,325 |
| | 303,832 | 317,188 | 36,722 | 36,171 |
| Adjustments | 85,055 | (1,024) | - | - |
| | ₩ 2,617,043 | ₩ 3,168,997 | ₩ 1,476,349 | ₩ 1,484,309 |

(*1) Income from customers is divided into domestic and overseas categories.
(*2) Noncurrent assets consist of property and equipment, investment property, and intangible asset and are divided into domestic and overseas categories based on the location of assets.

## 10. Cash and due from banks

Details of cash and due from banks as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Account | Financial institution | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Cash | | ₩ 1,691,037 | ₩ 1,708,793 |
| Due from banks in Korean won: | | | |
| Reserve deposit | Bank of Korea ("BOK") | 1,703,601 | 1,599,521 |
| Monetary stabilization deposits | BOK | 200,000 | - |
| Other due from banks | Other financial institutions | 253,577 | 289,951 |
| | | 2,157,178 | 1,889,472 |
| Due from banks denominated in foreign currencies: | | | |
| Reserve deposit | BOK and others | 2,220,553 | 2,673,431 |
| Due from banks on time deposits | Other banks | 1,386,389 | 1,234,209 |
| Other due from banks | Other financial institutions | 792,280 | 747,937 |
| | | 4,399,222 | 4,655,577 |
| | | ₩ 8,247,437 | ₩ 8,253,842 |

## 10. Cash and due from banks (cont'd)

Restricted due from banks in Korean won and foreign currencies as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 | Restriction |
|---|---|---|---|
| Due from banks in Korean won: | | | |
| Reserve deposit | ₩ 1,703,601 | ₩ 1,599,521 | Required under the BOK Act |
| Monetary stabilization deposits | 200,000 | - | Deposits for the purpose of liquidity management by the BOK |
| Reserve for future trading | 3,513 | 3 | Subscription related to derivatives |
| Investors' deposit | 71,666 | 50,179 | Required under the Financial Investment Services and Capital Markets Act |
| | 1,978,780 | 1,649,703 | |
| Due from banks in foreign currencies: | | | |
| Reserve deposit | 638,678 | 1,552,881 | Required under the BOK Act and others |
| Other due from banks | 454,528 | 566,354 | Subscription related to derivatives |
| | 1,093,206 | 2,119,235 | |
| | ₩ 3,071,986 | ₩ 3,768,938 | |

## 11. Financial assets at FVTPL

Financial assets at FVTPL as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | | Interest rate (%) | Fair value (Book value) December 31, 2013 | Fair value (Book value) December 31, 2012 |
|---|---|---|---|---|
| Stocks | Samsung Electronics Co., Ltd. and others | - | ₩ 27,768 | ₩ 26,779 |
| Government and public bonds | Treasury bonds | 2.75~5.25 | 129,675 | 113,089 |
| | Other local bonds | - | - | 12,235 |
| | | | 129,675 | 125,324 |
| Financial bonds | Monetary stabilization securities | 2.70~3.28 | 250,221 | 171,054 |
| | Industrial finance bonds | 2.67~3.79 | 140,579 | 121,302 |
| | Deposit bank bonds | 2.69~3.93 | 110,042 | 89,556 |
| | Deposit bank bonds | 2.62~2.98 | 39,717 | - |
| | Small and medium-sized business banking bonds | | 540,559 | 381,912 |
| Corporate bonds and others | Industrial bonds financed by government | 3.09 | 9,868 | 30,376 |
| | Industrial bonds invested by government | 2.84~3.76 | 30,067 | - |
| | | | 39,935 | 30,376 |

## 11. Financial assets at FVTPL (cont'd)

| Classification | | Interest rate (%) | Fair value (Book value) December 31, 2013 | | Fair value (Book value) December 31, 2012 | |
|---|---|---|---|---|---|---|
| Securities denominated in foreign currencies | Bonds denominated in foreign currencies | 2.43~6.38 | | 39,400 | | - |
| Derivative assets held-for-trading (Note 18) | | - | | 1,356,609 | | 1,356,298 |
| | | | ₩ | 2,133,946 | ₩ | 1,920,689 |

Details of valuation of trading securities and bonds, by industry, as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Face value | | Acquisition cost | | Amortized cost | | Fair value (Book value) | |
|---|---|---|---|---|---|---|---|---|
| Government and public bonds | ₩ | 130,000 | ₩ | 128,729 | ₩ | 128,766 | ₩ | 129,675 |
| Financial bonds | | 540,000 | | 540,853 | | 540,490 | | 540,559 |
| Corporate bonds and others | | 40,000 | | 40,165 | | 40,076 | | 39,935 |
| Bond denominated in foreign currencies | | 39,046 | | 39,609 | | 39,370 | | 39,400 |
| | ₩ | 749,046 | ₩ | 749,356 | ₩ | 748,702 | ₩ | 749,569 |

| Classification | December 31, 2012 Face value | | Acquisition cost | | Amortized cost | | Fair value (Book value) | |
|---|---|---|---|---|---|---|---|---|
| Government and public bonds | ₩ | 122,200 | ₩ | 123,653 | ₩ | 123,677 | ₩ | 125,324 |
| Financial bonds | | 380,000 | | 381,996 | | 381,650 | | 381,912 |
| Corporate bonds and others | | 30,000 | | 30,103 | | 30,183 | | 30,376 |
| | ₩ | 532,200 | ₩ | 535,752 | ₩ | 535,510 | ₩ | 537,612 |

## 12. Available-for-sale financial assets

Details of available-for-sale financial assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Details | Interest rate (%) | Fair value (Book value) December 31, 2013 | Fair value (Book value) December 31, 2012 |
|---|---|---|---|---|
| Equity securities | SK Hynix Inc. and Others | - | ₩ 867,372 | ₩ 479,184 |
| Investments in partnership | Vogo fund and others | - | 82,687 | 86,862 |
| Government and public bonds | Treasury bonds | 2.75~5.00 | 971,573 | 786,863 |
| | Housing bonds | 2.50~3.00 | 644,238 | 48,641 |
| | Other local bonds | 2.81~5.56 | 351,808 | 463,431 |
| | | | 1,967,619 | 1,298,935 |
| Finance bonds | Monetary stabilization securities | 2.47~3.59 | 1,699,676 | 1,973,320 |
| | Industrial finance bonds | 2.67~3.86 | 380,639 | 330,098 |
| | Deposit bank bonds | 2.73~6.76 | 330,734 | 169,510 |
| | Small and medium-sized business banking bonds | 2.63~3.85 | 208,999 | 404,277 |
| | Export-import credit bonds | 2.88~4.87 | 60,612 | 80,455 |
| | | | 2,680,660 | 2,957,660 |
| Corporate and other bonds | Industrial bonds invested by government | 2.62~5.36 | 2,107,768 | 969,454 |
| | General bonds | 2.84~6.56 | 898,413 | 827,051 |
| | | | 3,006,181 | 1,796,505 |
| Beneficiary certificates | | - | 8,838 | 6,429 |
| Securities denominated in foreign currencies | Equity securities denominated in foreign currency | - | 8,001 | 3,184 |
| | Debt securities denominated in foreign currency | 1.00~8.00 | 573,832 | 358,449 |
| | Investments in partnership dominated in foreign currency | - | 802 | 802 |
| | | | 582,635 | 362,435 |
| Other securities | Beneficiary right certificate | - | 7,602 | 38,511 |
| | | | ₩ 9,203,594 | ₩ 7,026,521 |

## 12. Available-for-sale financial assets (cont'd)

Equity securities (including equity securities denominated in foreign currencies) as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Book value before valuation | Gain (loss) on valuation | Fair value (Book value) December 31, 2013 | Fair value (Book value) December 31, 2012 |
|---|---|---|---|---|
| Marketable securities | ₩ 523,942 | ₩ 150,525 | ₩ 674,467 | ₩ 305,407 |
| Non marketable securities | 234,470 | (33,564) | 200,906 | 176,961 |
| | ₩ 758,412 | ₩ 116,961 | ₩ 875,373 | ₩ 482,368 |

Non-marketable equity securities in the amount of ₩18,294 million and ₩35,240 million as at December 31, 2013 and 2012, respectively, including the Korea Asset Management Corporation were valued at cost as their fair values could not be reasonably estimated.

The fair value of the available-for-sale non-marketable equity securities was measured by independent valuation agencies using actuarial assumptions. The fair value was determined based on more than one valuation model such as the Discounted Cash Flow ("DCF") model, Imputed Market Value (IMV) model, and Risk Adjusted Discounted Cash Flow ("RADCF") model, depending on the characteristic of the equity securities as deemed appropriate.

## 12. Available-for-sale financial assets (cont'd)

The Company's equity securities under disposal restriction as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | December 31, 2013 | | |
|---|---|---|---|
| Classification | Number of shares | Book value | Restriction |
| Taihan Co., Inc. | 4,869,900 | ₩ 58,074 | Until December 31, 2015 |
| Kumho Tire Co., Inc. | 3,153,755 | 36,268 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 11,857,999 | 15,415 | Until December 31, 2016 |
| STX Engine Co., Inc. | 2,714,000 | 12,484 | Until December 31, 2017 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 8,281 | Until June 4, 2014 |
| STX Heavy Industry Co., Ltd. | 2,250,000 | 7,245 | Until December 31, 2017 |
| Taihan Co., Inc. | 3,019,100 | 7,201 | Until December 31, 2015 |
| STX Marine Shipbuilding Industry Co., Ltd. | 673,889 | 4,515 | Until December 31, 2017 |
| Elcomtec Co., Ltd. | 375,901 | 1,673 | Until November 22, 2014 |
| SAMT CO.,Ltd. | 677,264 | 1,463 | Until December 31, 2014 |
| Kumho Industrial Co.,Ltd | 123,527 | 1,451 | Until December 31, 2014 |
| Chinhung International Inc | 600,400 | 967 | Until December 31, 2014 |
| AJin P&P Co., Ltd | 53,850 | 782 | Until December 31, 2014 |
| Kores Co., Ltd. | 492,000 | 417 | Until December 31, 2015 |
| Jaeyoung Solutec Co., Ltd | 61,333 | 83 | Until December 31, 2014 |
| Young Gwang Stainless Co., Ltd | 10,000 | 14 | Until December 31, 2014 |
| ForceTEC Co., Ltd. | 2,524,280 | 3 | Until December 31, 2017 |
| Ssangyong Engineering & Construction | 5,913 | - | (*1) |
| | | ₩ 156,336 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditors' meeting.

| | December 31, 2012 | | |
|---|---|---|---|
| Classification | Number of shares | Book value | Disposal restriction |
| SK Hynix Inc | 10,092,500 | ₩ 252,413 | Until June 30 2013 |
| Kumho Tire Co., Inc. | 2,160,000 | 23,864 | Until December 31 2014 |
| Oriental Engineering & Engineering Co., Ltd. | 8,102,666 | 9,772 | Until December 31 2016 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 6,618 | Until June 04 2016 |
| Dongbu Daewoo Electronics Corp. (*1) | 36,142 | 5,359 | Until March 31 2013 |
| Chin Hung International Inc | 3,002,000 | 1,225 | Until March 31 2013 |
| SAMT Co.,Ltd | 677,264 | 1,187 | Until June 30 2013 |
| Kumho Industrial Co.,Ltd | 707,180 | 1,068 | Until December 31 2014 |
| Taesan LCD Co., Ltd | 648,046 | 976 | Until December 31 2013 |

## 12. Available-for-sale financial assets (cont'd)

| | December 31, 2012 | | |
|---|---|---|---|
| Classification | Number of shares | Book value | Disposal restriction |
| A jin Paper.Co.,Ltd | 53,850 | 794 | Until December 31 2015 |
| Hanil Engineering & Construction Co., Ltd | 955,800 | 667 | Until December 31 2014 |
| Ssangyong Engineering & Constuction Co., Ltd | 191,934 | 623 | (*1) |
| Pumyang Construction Co., Ltd | 28,157 | 473 | Until June 04 2013 |
| Kores.Co.,Ltd | 492,000 | 323 | Until December 31.2015 |
| Nam Kwang & Constructions Co., Ltd | 122,349 | 289 | Until December 31.2013 |
| JY Solutec.Co.,Ltd | 61,333 | 48 | Until December.31.2014 |
| Others | | 16 | |
| | | ₩ 305,715 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditors' meeting.

Investments in partnership (including investments in partnership denominated in foreign currencies) as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| | December 31, 2013 | | | December 31, 2012 |
|---|---|---|---|---|
| Classification | Book value before valuation | Loss on valuation | Fair value (Book value) | Fair value (Book value) |
| Investment in capital | ₩ 85,538 | ₩ (2,049) | ₩ 83,489 | ₩ 87,664 |

For available-for-sale financial assets over ₩1,000 million, the Bank uses a valued price measured by an external valuation agency on a semi-annual basis. Moreover, others are valued at the acquisition cost because a reliable fair value could not be reasonably estimated which amounts to ₩1,761 million and ₩5,790 million as at December 31, 2013 and 2012, respectively.

Debt securities as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 1,965,132 | ₩ 1,971,101 | ₩ 1,969,933 | ₩ 1,967,619 |
| Financial bonds | 2,674,139 | 2,687,283 | 2,682,891 | 2,680,660 |
| Corporate bonds | 2,994,800 | 3,021,342 | 3,013,338 | 3,006,181 |
| Bond denominated in foreign currencies | 553,327 | 586,622 | 567,795 | 573,832 |
| | ₩ 8,187,398 | ₩ 8,266,348 | ₩ 8,233,957 | ₩ 8,228,292 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | December 31, 2012 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,293,587 | ₩ 1,294,099 | ₩ 1,294,725 | ₩ 1,298,935 |
| Financial bonds | 2,938,739 | 2,957,220 | 2,955,266 | 2,957,660 |
| Corporate bonds | 1,780,000 | 1,836,950 | 1,791,970 | 1,796,505 |
| Bond denominated in foreign currencies | 336,480 | 359,432 | 357,537 | 358,449 |
| | ₩ 6,348,806 | ₩ 6,447,701 | ₩ 6,399,498 | ₩ 6,411,549 |

Changes in the unrealized gain (loss) of the Company's available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 Beginning balance | Unrealized gain (loss) | Realized loss | Tax effect | Ending Balance |
|---|---|---|---|---|---|
| Equity securities | ₩ 191,687 | ₩ 149,280 | ₩ (5,940) | ₩ (34,709) | ₩ 300,318 |
| Other equity securities | 24,206 | 174 | (25,803) | 6,183 | 4,760 |
| Government and public bonds | 3,191 | (4,362) | (2,162) | 1,579 | (1,754) |
| Finance bonds | 1,815 | (925) | (3,701) | 1,119 | (1,692) |
| Corporate bonds and others | 3,437 | (6,697) | (4,994) | 2,829 | (5,425) |
| Debt securities denominated in foreign currencies | 692 | 1,002 | (511) | (119) | 1,064 |
| | ₩ 225,028 | ₩ 138,472 | ₩ (43,111) | ₩ (23,118) | ₩ 297,271 |

## 12. Available-for-sale financial assets (cont'd)

| Classification | 2012 Beginning balance | Unrealized gain | Realized gain (loss) | Tax effect | Ending Balance |
|---|---|---|---|---|---|
| Equity securities | ₩ 277,670 | ₩ 41,841 | ₩ (155,272) | ₩ 27,448 | ₩ 191,687 |
| Other equity securities | 32,975 | 10,724 | (22,270) | 2,777 | 24,206 |
| Government and public bonds | 313 | 4,164 | (367) | (919) | 3,191 |
| Finance bonds | 1,586 | 1,761 | (1,459) | (73) | 1,815 |
| Corporate bonds and others | 2,474 | 3,635 | (2,365) | (307) | 3,437 |
| Debt securities denominated in foreign currencies | (3,640) | 2,058 | 3,657 | (1,383) | 692 |
| | ₩ 311,378 | ₩ 64,183 | ₩ (178,076) | ₩ 27,543 | ₩ 225,028 |

Realized gain and loss on the disposal of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| | Realized gain | Realized loss | Realized gain | Realized loss |
| Equity securities | ₩ 41,451 | ₩ 5,665 | ₩ 196,860 | ₩ 40 |
| Other equity Securities | 727 | 125 | 104 | - |
| Government and public bonds | 5,071 | - | 3,925 | - |
| Finance bonds | 3,268 | - | 4,901 | - |
| Corporate bonds and others | 8,383 | - | 9,554 | - |
| Others | 26,352 | - | 31,702 | - |
| Debt securities denominated in foreign currencies | 465 | 14 | - | - |
| | ₩ 85,717 | ₩ 5,804 | ₩ 247,046 | ₩ 40 |

Dividend income on available-for-sale financial assets for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Equity securities | ₩ 9,729 | ₩ 8,464 |
| Other equity securities | 1,247 | 3,448 |
| | ₩ 10,976 | ₩ 11,912 |

## 12. Available-for-sale financial assets (cont'd)

Transferred financial assets that are not fully derecognized as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Classification | Book value | Fair value | Book value | Fair value |
| Assets: | | | | |
| Available-for-sale financial assets | ₩ 229,920 | ₩ 229,920 | ₩ - | ₩ - |
| Liabilities: | | | | |
| Bonds sold under repurchase agreements | ₩ 190 | ₩ 190 | ₩ 190 | ₩ 190 |

## 13. Held-to-maturity investments

Details of held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | | | Book value | |
|---|---|---|---|---|
| Classification | Type | Interest rate (%) | December 31, 2013 | December 31, 2012 |
| Government and public bonds | Treasury bonds | 3.00~4.75 | ₩ 311,697 | ₩ 344,281 |
| | Housing bonds | 2.25~3.99 | 234,194 | 327,492 |
| | Local development bonds | 3.48~4.23 | 24,624 | 23,847 |
| | | | 570,515 | 695,620 |
| Finance bonds | Monetary stabilization securities | 2.78~3.59 | 850,313 | 3,221,941 |
| | Deposit bank bonds | 3.40~8.35 | 162,293 | 70,798 |
| | Small & medium industry finance bonds | 3.40~8.35 | 30,410 | - |
| | Industrial finance bonds | 6.12 | 10,004 | 10,020 |
| | | | 1,053,020 | 3,302,759 |
| Corporate bonds and others | General bonds | 4.05~5.94 | 50,227 | 170,879 |
| | Industrial bonds invested by government | 3.80~5.63 | 532,925 | 849,964 |
| | | | 583,152 | 1,020,843 |
| Securities denominated in foreign currency | Debt securities denominated in foreign currency | 0.59~7.63 | 124,190 | 107,131 |
| | | | ₩ 2,330,877 | ₩ 5,126,353 |

## 13. Held-to-maturity investments (cont'd)

Details of held-to-maturity securities as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Classification | December 31, 2013 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 571,292 | ₩ 574,845 | ₩ 570,515 | ₩ 570,515 |
| Financial bonds | 1,050,000 | 1,054,266 | 1,053,020 | 1,053,020 |
| Corporate bonds and others | 580,000 | 593,634 | 583,152 | 583,152 |
| Bond denominated in foreign currencies | 126,742 | 123,612 | 124,190 | 124,190 |
| | ₩ 2,328,034 | ₩ 2,346,357 | ₩ 2,330,877 | ₩ 2,330,877 |

| Classification | December 31, 2012 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 693,843 | ₩ 696,174 | ₩ 695,620 | ₩ 695,620 |
| Financial bonds | 3,300,000 | 3,303,882 | 3,302,759 | 3,302,759 |
| Corporate bonds and others | 1,010,000 | 1,033,844 | 1,020,843 | 1,020,843 |
| Bond denominated in foreign currencies | 108,324 | 106,428 | 107,131 | 107,131 |
| | ₩ 5,112,167 | ₩ 5,140,328 | ₩ 5,126,353 | ₩ 5,126,353 |

## 14. Maturities of debt securities

Maturities of debt securities included in available-for-sale financial assets and held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
|---|---|---|---|---|---|
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 79,981 | ₩ - | ₩ 10,602 | ₩ 90,583 |
| After 1 month but no later than 3 months | - | 169,470 | - | 2,652 | 172,122 |
| After 3 months but no later than 6 months | 41,157 | 50,013 | 20,116 | 42,142 | 153,428 |
| After 6 months but no later than 1 year | 202,601 | 950,105 | 211,812 | 57,043 | 1,421,561 |
| After 1 year but no later than 3 years | 1,245,100 | 1,311,436 | 2,374,203 | 436,749 | 5,367,488 |
| After 3 years but no later than 5 years | 478,761 | 71,124 | 370,869 | 24,644 | 945,398 |
| After 5 years but no later than 10 years | - | 48,531 | 29,181 | - | 77,712 |
| | ₩ 1,967,619 | ₩ 2,680,660 | ₩ 3,006,181 | ₩ 573,832 | ₩ 8,228,292 |

## 14. Maturities of debt securities (cont'd)

| Classification | December 31, 2013 Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
|---|---|---|---|---|---|
| Held-to-maturity investments: | | | | | |
| Within 1 month | ₩ 1,998 | ₩ - | ₩ 130,046 | ₩ 8,638 | ₩ 140,682 |
| After 1 month but no later than 3 months | 190,299 | 389,974 | 20,054 | 34,752 | 635,079 |
| After 3 months but no later than 6 months | 72,139 | 400,346 | 160,690 | 29,330 | 662,505 |
| After 6 months but no later than 1 year | 155,847 | 119,998 | 90,446 | 2,524 | 368,815 |
| After 1 year but no later than 3 years | 109,111 | - | 161,916 | 48,267 | 319,294 |
| After 3 years but no later than 5 years | 33,211 | 10,640 | - | 679 | 44,530 |
| After 5 years but no later than 10 years | 7,910 | 132,062 | 20,000 | - | 159,972 |
| | ₩ 570,515 | ₩ 1,053,020 | ₩ 583,152 | ₩ 124,190 | ₩ 2,330,877 |

| Classification | December 31, 2012 Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
|---|---|---|---|---|---|
| Available-for-sale financial assets | | | | | |
| Within 1 month | ₩ - | ₩ 419,757 | ₩ 29,964 | ₩ - | ₩ 449,721 |
| After 1 month but no later than 3 months | 10,056 | 430,215 | 10,027 | - | 450,298 |
| After 3 months but no later than 6 months | 141,693 | 360,960 | 90,375 | - | 593,028 |
| After 6 months but no later than 1 year | 113,217 | 470,687 | 50,415 | - | 634,319 |
| After 1 year but no later than 3 years | 710,878 | 1,116,612 | 1,304,122 | 358,449 | 3,490,061 |
| After 3 years but no later than 5 years | 323,091 | 120,065 | 311,602 | - | 754,758 |
| After 5 years but no later than 10 years | - | 39,364 | - | - | 39,364 |
| | ₩ 1,298,935 | ₩ 2,957,660 | ₩ 1,796,505 | ₩ 358,449 | ₩ 6,411,549 |

## 14. Maturities of debt securities (cont'd)

| Classification | December 31, 2012<br>Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
|---|---|---|---|---|---|
| Held-to-maturity investments | | | | | |
| After 1 month but no later than 3 months | ₩ 12,966 | ₩ 100,020 | ₩ 130,204 | ₩ 32,610 | ₩ 275,800 |
| After 3 months but no later than 6 months | 34,931 | 1,429,939 | 261,205 | 11,549 | 1,737,624 |
| After 6 months but no later than 1 year | 123,239 | 840,831 | 60,529 | 897 | 1,025,496 |
| After 1 year but no later than 3 years | 522,285 | 911,171 | 568,905 | 60,046 | 2,062,407 |
| After 3 years but no later than 5 years | 2,199 | 10,798 | - | 1,630 | 14,627 |
| After 5 years but no later than 10 years | - | 10,000 | - | 399 | 10,399 |
| | ₩ 695,620 | ₩ 3,302,759 | ₩ 1,020,843 | ₩ 107,131 | ₩ 5,126,353 |

## 15. Pledged assets

Assets pledged as collateral for the purpose of resale agreement bonds from other banks, futures options and security deposits for membership maintenance at the stock exchange for available-for-sale financial assets and held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Details | Book value<br>December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Available-for-sale financial assets | Settlement of BOK | ₩ 546,119 | ₩ 350,420 |
| | Borrowing denominated in foreign currency (CSA) | 10,011 | 29,997 |
| | Borrowings from BOK | 381,180 | 50,006 |
| | Margin for future trading | 120,415 | 26,465 |
| | Daylight credit | 390,999 | - |
| | Borrowing denominated in foreign currency | 30,294 | - |
| | Others | 60,228 | 60,361 |
| | | 1,539,246 | 517,249 |

## 15. Pledged assets (cont'd)

| Classification | Details | Book value December 31, 2013 | Book value December 31, 2012 |
|---|---|---|---|
| Held-to-maturity investments | Borrowing denominated in foreign currency | 640,111 | 961,821 |
| | Margin for future trading | 189,249 | 259,921 |
| | BOK payment | 802,710 | 1,000,612 |
| | Daylight credit | 160,434 | 550,077 |
| | Client RP | 909 | 921 |
| | Borrowing denominated in foreign currency (CSA) | - | 43,041 |
| | Borrowings from BOK | 148,646 | 510,654 |
| | Others | 50,533 | 718 |
| | | 1,992,592 | 3,327,765 |
| | | ₩ 3,531,838 | ₩ 3,845,014 |

## 16. Loans receivable

Details of loans receivable as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Loans receivable: | | |
| Loans in Korean won | ₩ 49,542,108 | ₩ 47,637,044 |
| Loans denominated in foreign currencies | 10,167,762 | 9,532,941 |
| Domestic import usance | 2,801,189 | 2,670,833 |
| Call loans | 1,318,102 | 1,460,939 |
| Bills purchased in Korean won | 90,508 | 86,052 |
| Bills purchased denominated in foreign currencies | 5,300,187 | 4,518,468 |
| Advance payments on acceptances and guarantees | 6,801 | 15,220 |
| Credit card loans | 2,649,533 | 2,661,277 |
| Bonds purchased under resale agreement | 700,000 | 490,000 |
| Installment receivables purchased | 1,268,848 | 1,340,271 |
| Privately-placed corporate bonds | 520,619 | 547,695 |
| Lease payment receivables under capital lease | - | 153,149 |
| Others | 8,217 | 18,435 |
| | 74,373,874 | 71,132,324 |
| Plus (less): | | |
| Deferred loan fees and expenses | 35,944 | 32,271 |
| Allowance for possible loan losses | (725,421) | (771,658) |
| | ₩ 73,684,397 | ₩ 70,392,937 |

**16. Loans receivable (cont'd)**

Changes in deferred loan fees, net of expenses, for the years ended December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | 2013 | | | |
|---|---|---|---|---|
| Classification | January 1, 2013 | Increase | Decrease | December 31, 2013 |
| Deferred loan fees, net of expenses | ₩ 32,271 | ₩ 39,257 | ₩ (35,584) | ₩ 35,944 |

| | 2012 | | | |
|---|---|---|---|---|
| Classification | January 1, 2012 | Increase | Decrease | December 31, 2012 |
| Deferred loan fees, net of expenses | ₩ (1,308) | ₩ 43,477 | ₩ (9,898) | ₩ 32,271 |

## 16. Loans receivable (cont'd)

Changes in allowance for possible loan losses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately-placed corporate bonds | Others | Total |
| As at January 1, 2013 | ₩ 531,816 | ₩ 118,492 | ₩ 4,148 | ₩ 4,219 | ₩ 84,542 | ₩ 3,478 | ₩ 24,963 | ₩ 771,658 |
| Disposal of non-performing loans | (34,999) | - | - | - | - | - | - | (34,999) |
| Write-offs | (444,042) | (2,640) | (228) | - | (108,085) | - | - | (554,995) |
| Collection of loans written-off in prior period | 88,405 | 2 | - | - | 33,749 | - | - | 122,156 |
| Debt-to-equity swap | (4,966) | - | - | - | - | - | - | (4,966) |
| Foreign currency translation and others | - | (1,797) | 1 | 8 | (5) | 56 | 50 | (1,687) |
| Provision for( reversal of) possible loan losses | 426,181 | (11,582) | (1,635) | 832 | 78,754 | 2,655 | 1,013 | 496,218 |
| Interest income from impaired loans | (62,719) | (2,535) | (109) | (40) | (2,519) | (42) | - | (67,964) |
| As at December 31, 2013 | ₩ 499,676 | ₩ 99,940 | ₩ 2,177 | ₩ 5,019 | ₩ 86,436 | ₩ 6,147 | ₩ 26,026 | ₩ 725,421 |

## 16. Loans receivable (cont'd)

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately-placed corporate bonds | Others | Total |
| As at January 1, 2012 | ₩ 477,572 | ₩ 149,866 | ₩ 2,938 | ₩ 5,409 | ₩ 67,507 | ₩ 5,057 | ₩ 30,837 | ₩ 739,186 |
| Disposal of non-performing loans | (59,882) | - | - | - | - | - | - | (59,882) |
| Write-offs | (289,295) | (63,602) | (52,648) | - | (109,904) | - | (45,096) | (560,545) |
| Collection of loans written-off in prior period | 69,413 | 7,171 | 1,074 | - | 37,300 | - | - | 114,958 |
| Debt-to-equity swap | (6,253) | - | - | - | - | - | - | (6,253) |
| Foreign currency translation and others | (724) | (39,149) | - | (415) | (11) | (4) | (12) | (40,315) |
| Provision for (reversal of) possible loan losses | 413,485 | 70,606 | 53,237 | (694) | 92,054 | (929) | 39,234 | 666,993 |
| Interest income from impaired loans | (72,500) | (6,400) | (453) | (81) | (2,404) | (646) | - | (82,484) |
| As at December 31, 2012 | ₩ 531,816 | ₩ 118,492 | ₩ 4,148 | ₩ 4,219 | ₩ 84,542 | ₩ 3,478 | ₩ 24,963 | ₩ 771,658 |

## 17. Structured securities

Details of structured securities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Structured securities related to credit risk: | | |
| Collateralized Debt Obligation ("CDO") | ₩ 21,197 | ₩ 21,491 |

## 18. Derivative instruments

Unsettled derivative contracts held-for-trading as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | | 2013 | | December 31, 2013 | |
|---|---|---|---|---|---|
| Classification | Notional amounts | Net valuation gain | Net valuation loss | Assets | Liabilities |
| Currency: | | | | | |
| Forward | ₩ 40,735,408 | ₩ 540,512 | ₩ 612,032 | ₩ 562,455 | ₩ 674,178 |
| Swap | 18,826,017 | 303,300 | 214,825 | 590,071 | 330,252 |
| Options purchased | 1,593,406 | 9,498 | 10,784 | 32,670 | - |
| Options sold | 2,117,718 | 18,190 | 14,333 | - | 41,020 |
| Futures | 144,893 | - | - | - | - |
| | 63,417,442 | 871,500 | 851,974 | 1,185,196 | 1,045,450 |
| Interest: | | | | | |
| Swap | 47,538,219 | 137,781 | 122,870 | 165,816 | 212,490 |
| Options purchased | 690,000 | 381 | 1,180 | 3,891 | - |
| Options sold | 1,325,000 | 1,348 | 257 | - | 4,168 |
| Futures | 493,841 | - | - | - | - |
| | 50,047,060 | 139,510 | 124,307 | 169,707 | 216,658 |
| Stock: | | | | | |
| Options purchased | 13,451 | 375 | 671 | 1,706 | - |
| Options sold | 477,452 | 597 | 95 | - | 9,350 |
| Futures | 25,237 | - | - | - | - |
| | 516,140 | 972 | 766 | 1,706 | 9,350 |
| Others: | | | | | |
| Credit risk adjustment | - | 2,197 | 85 | - | 12,432 |
| Bid-ask spread adjustment | - | - | 145 | - | 2,855 |
| | - | 2,197 | 230 | - | 15,287 |
| | ₩ 113,980,642 | ₩ 1,014,179 | ₩ 977,277 | ₩ 1,356,609 | ₩ 1,286,745 |

## 18. Derivative instruments (cont'd)

| | | 2012 | | December 31, 2012 | |
|---|---|---|---|---|---|
| Classification | Notional amounts | Net valuation gain | Net valuation loss | Assets | Liabilities |
| Currency: | | | | | |
| Forward | ₩ 40,148,304 | ₩ 627,882 | ₩ 742,214 | ₩ 634,582 | ₩ 678,862 |
| Swap | 15,502,216 | 487,316 | 316,613 | 438,531 | 268,483 |
| Options purchased | 1,862,223 | 5,833 | 9,097 | 22,427 | - |
| Options sold | 2,147,990 | 11,567 | 15,095 | - | 32,230 |
| | 59,660,733 | 1,132,598 | 1,083,019 | 1,095,540 | 979,575 |
| Interest: | | | | | |
| Swap | 44,454,777 | 120,639 | 145,086 | 240,301 | 309,183 |
| Options purchased | 980,000 | 1,416 | 620 | 5,077 | - |
| Options sold | 1,695,000 | 1,459 | 311 | - | 2,566 |
| Futures | 1,174,227 | - | - | - | - |
| | 48,304,004 | 123,514 | 146,017 | 245,378 | 311,749 |
| Stock: | | | | | |
| Options purchased | 38,538 | 3,350 | 1,717 | 15,380 | - |
| Options sold | 2,745 | 16 | 25 | - | 123 |
| Futures | 1,197 | - | - | - | - |
| | 42,480 | 3,366 | 1,742 | 15,380 | 123 |
| Others: | | | | | |
| Deferred gain on derivatives valuation | - | - | - | - | 48 |
| Credit risk adjustment | - | 4,556 | 1 | - | 14,548 |
| Bid-ask spread adjustment | - | 234 | - | - | 2,710 |
| | - | 4,790 | 1 | - | 17,306 |
| | ₩ 108,007,217 | ₩ 1,264,268 | ₩ 1,230,779 | ₩ 1,356,298 | ₩ 1,308,753 |

## 18. Derivative instruments (cont'd)

Unsettled derivative contracts used for hedging purposes edging as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Notional amounts | 2013 Net valuation gain | 2013 Net valuation loss | December 31, 2013 Assets | December 31, 2013 Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 2,163,365 | ₩ 191 | ₩ 29,956 | ₩ 23,070 | ₩ 12,562 |

| Classification | Notional amounts | 2012 Net valuation gain | 2012 Net valuation loss | December 31, 2012 Assets | December 31, 2012 Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 1,606,650 | ₩ 7,060 | ₩ 1,019 | ₩ 37,867 | ₩ - |

For derivative transactions involving both Korean won and foreign currency, the fair value of the unsettled amount for such transactions is presented using the basic foreign exchange rate of the contract amount in foreign currency. For a derivative transaction involving only foreign currency, the fair value of the unsettled amount is presented using the basic foreign exchange rate of the foreign currency purchased at the reporting date.

Gain or loss on valuation of hedged items for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 Realized gain | 2013 Realized loss | 2012 Realized gain | 2012 Realized loss |
|---|---|---|---|---|
| Finance debentures | ₩ 33,566 | ₩ 185 | ₩ - | ₩ 11,558 |

Hedged items applying to fair value hedge accounting as at December 31, 2013 include debt securities of available-for-sale financial assets. The Company recognized changes in fair values of hedged items due to fluctuation of interest rates in net income for the period. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

## 19. Investments in associates

Details of investments in associates as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Company | Country | Shares | Ownership (%) December 31, 2013 | Ownership (%) December 31, 2012 | Book value December 31, 2013 | Book value December 31, 2012 | Financial statements date | Business type |
|---|---|---|---|---|---|---|---|---|
| Flossom Co.,Ltd.(*1) | Korea | 165,000 | 1.92 | 1.92 | ₩ - | ₩ - | September 30, 2013 | Constructions |
| MIDAN City Development Co.,Ltd.(*1,2) | Korea | 387,800 | 2.17 | - | 671 | - | September 30, 2013 | Constructions |
| Masam Marine New Town Co.,Ltd.(*1) | Korea | 20,000 | 10.00 | - | 100 | - | December 31, 2013 | Constructions |
| | | | | | ₩ 771 | ₩ - | | |

(*1) The Company included investment in associates because the Company has significant influence over these companies by participating in the Board of Directors' meeting, decision-making organization.
(*2) The Company used the prior period financial statements as at December 31, 2013 because a reliable financial statement is not available as at the reporting date of the Company.

Changes in investments in associates for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Company | 2013 Acquisition cost | January 1, 2013 | Acquisition, disposal and others | Equity method valuation | December 31, 2013 |
|---|---|---|---|---|---|
| Flossom Co., Ltd. | ₩ 825 | ₩ - | ₩ - | ₩ - | ₩ - |
| MIDAN City Development Co.,Ltd. | 1,492 | - | 1,492 | (821) | 671 |
| Masam Marine New Town Co.,Ltd. | 100 | - | 100 | - | 100 |
| | ₩ 2,417 | ₩ - | ₩ 1,592 | ₩ (821) | ₩ 771 |

| Company | 2012 Acquisition cost | January 1, 2012 | Acquisition, disposal and others | Equity method valuation | December 31, 2012 |
|---|---|---|---|---|---|
| Flossom Co., Ltd. | ₩ 825 | ₩ 669 | ₩ 9 | ₩ (678) | ₩ - |

## 19. Investments in associates (cont'd)

Adjustments in book value of the associates' interests of net assets as at December 31, 2013 and 2012 are as follows (Korean won in millions

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Net assets | Percentage of ownership | Interests of net assets | Goodwill | Internal transaction | Others | Book value |
| Flossom Co., Ltd. | ₩ (16,191) | 1.92 | ₩ (311) | ₩ - | ₩ - | ₩ 311 | ₩ - |
| MIDAN City Development Co.,Ltd. | 30,888 | 2.17 | 670 | - | - | 1 | 671 |
| Masam Marine New Town Co.,Ltd. | 310 | 10.00 | 31 | - | - | 69 | 100 |
| | ₩ 15,007 | | ₩ 390 | ₩ - | ₩ - | ₩ 381 | ₩ 771 |

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Net assets | Percentage of ownership | Interests of net assets | Goodwill | Internal transaction | Others | Book value |
| Flossom Co., Ltd. | ₩ (16,191) | 1.92 | ₩ (311) | ₩ - | ₩ - | ₩ 311 | ₩ - |

Summary of financial information of associates as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Company | Assets | Liabilities | Shareholders' equity | Revenue | Net loss | Comprehensive expense |
| Flossom Co., Ltd | ₩ 111,705 | ₩ 127,896 | ₩ (16,191) | ₩ 6,518 | ₩ (6,647) | ₩ (6,649) |
| MIDAN City Development Co.,Ltd. | 892,537 | 861,649 | 30,888 | - | (18,030) | (18,030) |
| Masam Marine New Town Co.,Ltd. | 148,823 | 148,513 | 310 | 671 | (7) | (7) |
| | ₩ 1,153,065 | ₩ 1,138,058 | ₩ 15,007 | ₩ 7,189 | ₩ (24,684) | ₩ (24,686) |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Company | Assets | Liabilities | Shareholders' equity | Revenue | Net loss | Comprehensive expense |
| Flossom Co., Ltd | ₩ 103,636 | ₩ 113,179 | ₩ (9,543) | ₩ 1,722 | ₩ (30,567) | ₩ (30,617) |

The Company has no investments in associates whose shares are traded actively in an open market as at December 31, 2013 and 2012.

## 19. Investments in associates (cont'd)

The Company discontinued recognizing its shares of losses in Flossom Co., Ltd. since the losses exceed the Company interest in Flossom Co., Ltd. The excess of losses over the Company interest in Flossom Co., Ltd which are accumulated for the current year and before the current period are as follows (Korean won in millions):

| Company | Amount for the current year | Accumulated amount before the current year | Total |
|---|---|---|---|
| Flossom Co., Ltd. | ₩ (128) | ₩ (180) | ₩ (308) |

## 20. Property and equipment

Property and equipment as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Company | December 31, 2013 Acquisition cost | Accumulated depreciation | Government grants | Book value |
|---|---|---|---|---|
| Land | ₩ 811,634 | ₩ - | ₩ - | ₩ 811,634 |
| Buildings | 470,180 | (193,665) | - | 276,515 |
| Leasehold improvements | 182,156 | (138,106) | (354) | 43,696 |
| Equipments and vehicles | 687,565 | (599,824) | - | 87,741 |
| | ₩ 2,151,535 | ₩ (931,595) | ₩ (354) | ₩ 1,219,586 |

| Company | December 31, 2012 Acquisition cost | Accumulated depreciation | Government grants | Book value |
|---|---|---|---|---|
| Land | ₩ 816,715 | ₩ - | ₩ - | ₩ 816,715 |
| Buildings | 461,250 | (184,721) | - | 276,529 |
| Leasehold improvements | 163,467 | (127,851) | - | 35,616 |
| Equipments and vehicles | 703,934 | (609,836) | - | 94,098 |
| Operating lease assets | 3 | - | - | 3 |
| | ₩ 2,145,369 | ₩ (922,408) | ₩ - | ₩ 1,222,961 |

## 20. Property and equipment (cont'd)

Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | January 1, 2013 | Additions | Disposal | Depreciation | Transfer out | Others | December 31, 2013 |
|---|---|---|---|---|---|---|---|
| | 2013 | | | | | | |
| Land | ₩ 816,715 | ₩ 809 | ₩ (102) | ₩ - | ₩ (5,465) | ₩ (323) | ₩ 811,634 |
| Buildings | 276,529 | 13,402 | (35) | (11,263) | (2,034) | (84) | 276,515 |
| Leasehold improvements (*1) | 35,616 | 21,404 | (283) | (12,198) | - | (843) | 43,696 |
| Equipments and vehicles | 94,098 | 52,188 | (390) | (57,888) | - | (267) | 87,741 |
| Construction in progress | 3 | - | - | - | (3) | - | - |
| | ₩ 1,222,961 | ₩ 87,803 | ₩ (810) | ₩ (81,349) | ₩ (7,502) | ₩ (1,517) | ₩ 1,219,586 |

(*1) An increase of ₩1,211 million related to a provision for restoration cost was included in the acquisition amount.

| Classification | January 1, 2012 | Additions | Disposal | Depreciation | Transfer out | Others | December 31, 2012 |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| Land | ₩ 819,393 | ₩ 199 | ₩ (23) | ₩ - | ₩ (2,538) | ₩ (316) | ₩ 816,715 |
| Buildings | 275,447 | 15,425 | (28) | (11,438) | (2,170) | (707) | 276,529 |
| Leasehold improvements (*1) | 25,878 | 18,720 | (36) | (11,118) | - | 2,172 | 35,616 |
| Equipments and vehicles | 85,346 | 64,459 | (168) | (54,911) | - | (628) | 94,098 |
| Construction in progress | 322 | - | - | - | - | (319) | 3 |
| Operating lease assets | 994 | - | (142) | (852) | - | - | - |
| | ₩ 1,207,380 | ₩ 98,803 | ₩ (397) | ₩ (78,319) | ₩ (4,708) | ₩ 202 | ₩ 1,222,961 |

(*1) An increase of ₩1,054 million related to a provision for restoration cost was included in the acquisition amount.

## 21. Investment property

Details of investment property as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Land | ₩ 122,088 | ₩ - | (2,356) | ₩ 119,732 |
| Buildings | 117,228 | (51,310) | (2,388) | 63,530 |
| | ₩ 239,316 | ₩ (51,310) | (4,744) | ₩ 183,262 |

| Classification | December 31, 2012 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Land | ₩ 116,622 | ₩ - | (2,355) | ₩ 114,267 |
| Buildings | 113,201 | (46,768) | (2,388) | 64,045 |
| | ₩ 229,823 | ₩ (46,768) | (4,743) | ₩ 178,312 |

Changes in investment property for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 January 1, 2013 | Disposal | Depreciation | Transfer (*1) | December 31, 2013 |
|---|---|---|---|---|---|
| Land | ₩ 114,267 | ₩ - | ₩ - | ₩ 5,465 | ₩ 119,732 |
| Buildings | 64,045 | - | (2,549) | 2,034 | 63,530 |
| | ₩ 178,312 | ₩ - | ₩ (2,549) | ₩ 7,499 | ₩ 183,262 |

(*1) Due to the changes in the ratio of the leased investment properties

| Classification | 2012 January 1, 2012 | Disposal | Depreciation | Transfer (*1) | December 31, 2012 |
|---|---|---|---|---|---|
| Land | ₩ 112,073 | ₩ (344) | ₩ - | ₩ 2,538 | ₩ 114,267 |
| Buildings | 64,369 | - | (2,494) | 2,170 | 64,045 |
| | ₩ 176,442 | ₩ (344) | ₩ (2,494) | ₩ 4,708 | ₩ 178,312 |

(*1) Due to the changes in the ratio of the leased investment properties

Fair values of investment property are in the amount of ₩145,498 million and ₩155,197 million as at December 31, 2013 and 2012, respectively, which were measured by external independent agencies.

## 21. Investment property (cont'd)

Rental income and operating expenses arising from the Company's investment properties for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Rental income | ₩ 3,043 | ₩ 3,206 |

Investment properties not in use as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Land | ₩ 1,640 | ₩ 1,640 |
| Buildings | 301 | 386 |
| | ₩ 1,941 | ₩ 2,026 |

## 22. Intangible assets

Details of intangible assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book value |
| System development | ₩ 313,775 | ₩ (260,324) | ₩ (347) | ₩ 53,104 |
| Membership | 20,113 | - | (7,617) | 12,496 |
| Others | 16,545 | (8,614) | (31) | 7,900 |
| | ₩ 350,433 | ₩ (268,938) | ₩ (7,995) | ₩ 73,500 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book value |
| System development | ₩ 294,333 | ₩ (237,311) | ₩ (347) | ₩ 56,675 |
| Membership | 21,977 | - | (4,690) | 17,287 |
| Others | 14,776 | (5,699) | (3) | 9,074 |
| | ₩ 331,086 | ₩ (243,010) | ₩ (5,040) | ₩ 83,036 |

Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 | Additions | Disposal | Amortization | Impairment loss | Reclassifi-cation | December 31, 2013 |
| System development | ₩ 56,675 | ₩ 19,441 | ₩ - | ₩ (23,012) | ₩ - | ₩ - | ₩ 53,104 |
| Membership | 17,287 | 222 | (2,128) | - | (2,980) | 95 | 12,496 |
| Others | 9,074 | 829 | - | (1,922) | - | (81) | 7,900 |
| | ₩ 83,036 | ₩ 20,492 | ₩ (2,128) | ₩ (24,934) | ₩ (2,980) | ₩ 14 | ₩ 73,500 |

## 22. Intangible assets (cont'd)

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | January 1, 2012 | Additions | Disposal | Amortization | Impairment loss | Reclassifi-cation | December 31, 2012 |
| System development | ₩ 65,248 | ₩ 14,567 | ₩ - | ₩ (23,140) | ₩ - | ₩ - | ₩ 56,675 |
| Membership | 11,902 | 12 | (213) | - | (2,984) | 8,570 | 17,287 |
| Others | 9,426 | 1,970 | - | (1,760) | - | (562) | 9,074 |
| | ₩ 86,576 | ₩ 16,549 | ₩ (213) | ₩ (24,900) | ₩ (2,984) | ₩ 8,008 | ₩ 83,036 |

## 23. Other assets and merchant banking account assets

Details of other assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Guarantee deposits paid | ₩ 656,225 | ₩ 649,219 |
| Accounts receivable | 4,463,686 | 6,452,932 |
| Accrued income | 281,313 | 269,337 |
| Prepaid expenses | 119,785 | 63,094 |
| Suspense payments | 30,459 | 24,832 |
| Expenditures | 6,089 | 6,613 |
| Deposit money to court | 27,626 | 11,433 |
| Domestic exchange settlement debits | 1,196,426 | 414,312 |
| Others | 4,477 | 4,215 |
| Allowance for possible other asset losses | (9,301) | (4,032) |
| | ₩ 6,776,785 | ₩ 7,891,955 |

Changes in the allowance for possible losses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 4,032 | ₩ 9,548 |
| Write-offs | (2,720) | (6,152) |
| Provision for allowance for possible losses | 8,182 | 792 |
| Interest income on impaired assets | (193) | (156) |
| Ending balance | ₩ 9,301 | ₩ 4,032 |

## 23. Other assets and merchant banking account assets (cont'd)

Details of merchant banking account assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Merchant banking account loans | ₩ 154,400 | ₩ 450,000 |
| Merchant banking account trading bonds | 2,166,515 | 1,726,293 |
| CMA assets: | | |
| Loans receivable | 146,000 | 232,600 |
| Trading bonds | 249,589 | 79,672 |
| | 395,589 | 312,272 |
| Allowance for possible loan losses | (669) | (349) |
| | ₩ 2,715,835 | ₩ 2,488,216 |

## 24. Non-current assets held for sale

Non-current assets held-for-sale consist of two of real estates acquired through execution of security rights, which the management of the Company committed to sell, but not sold as at December 31, 2013. As of the reporting date, the asset held–for-sale is under negotiation for sale and is being actively marketed.

Details of non-current assets held-for-sale as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Acquisition cost | ₩ 871 | ₩ 1,439 |
| Accumulated depreciation | (211) | - |
| | ₩ 660 | ₩ 1,439 |

## 25. Financial liabilities at FVTPL

Details of financial liabilities at FVTPL as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Derivative liabilities held-for-trading (Note 18) | ₩ 1,286,745 | ₩ 1,308,753 |

## 26. Deposits

Details of deposits as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits in Korean won: | | |
| Checking deposits | ₩ 411,307 | ₩ 212,931 |
| Household checking deposits | 20,545 | 15,493 |
| Temporary deposits | 685,268 | 738,617 |
| Passbook deposits | 16,850,700 | 15,481,215 |
| Public fund deposits | 33,773 | 41,569 |
| Treasury deposits | 256 | 256 |
| Nonresident's deposit in Korean won | 216,241 | 268,586 |
| Nonresident's 'free-won' account | 21,404 | 29,742 |
| | 18,239,494 | 16,767,099 |
| Demand deposits denominated in foreign currency: | | |
| Checking deposits | 2,548,275 | 2,572,563 |
| Passbook deposits | 7,825,124 | 7,812,506 |
| Temporary deposits | 26,328 | 20,528 |
| | 10,399,727 | 10,405,597 |
| | 28,639,221 | 27,172,696 |
| Time and saving deposits: | | |
| Time and saving deposits in Korean won: | | |
| Time deposits | 29,687,997 | 29,926,516 |
| Apartment application deposits | 138,239 | 158,655 |
| Installment saving deposits | 2,938,681 | 2,400,031 |
| Non-resident deposits in Korean won | 418,057 | 351,050 |
| Non-resident free deposits in Korean won | 268,314 | 430,857 |
| Long-term housing saving deposits | 215,784 | 314,227 |
| Workers' preferential saving deposits | 115 | 153 |
| Mutual installment deposits | 84 | 99 |
| Mutual installment for housing | 15,062 | 18,809 |
| Others | 75,425 | 36 |
| | 33,757,758 | 33,600,433 |
| Time and saving deposits denominated in foreign currency: | | |
| Time deposits denominated in foreign currency | 6,907,294 | 6,179,157 |
| Others | 219,820 | 173,573 |
| | 7,127,114 | 6,352,730 |
| | 40,884,872 | 39,953,163 |
| Certificate of deposits | 253,232 | 278,803 |
| | ₩ 69,777,325 | ₩ 67,425,972 |

## 26. Deposits (cont'd)

Allocations of deposits by customer as at December 31, 2013 and 2012 are listed as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Individuals | ₩ 20,853,403 | ₩ 20,758,398 |
| Corporations | 24,788,471 | 24,638,478 |
| Other banks | 1,013,582 | 1,787,477 |
| Public institutions | 927,563 | 472,888 |
| Other financial institutions | 6,541,054 | 7,681,043 |
| Government | 202,502 | 267,319 |
| Non-profit organizations | 4,000,307 | 3,388,773 |
| Foreign corporations | 7,166,172 | 7,704,398 |
| Others | 4,284,271 | 727,198 |
| | ₩ 69,777,325 | ₩ 67,425,972 |

## 27. Borrowings

Details of borrowings as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Borrowings in Korean won: | | | | |
| Borrowings from BOK | BOK | 0.50~1.00 | ₩ 200,271 | ₩ 545,340 |
| Borrowings from government | KEMCO | 0.00~3.65 | 1,291,667 | 927,715 |
| Other borrowings | Small business corporation and others | 1.00~5.05 | 193,697 | 385,837 |
| | | | 1,685,635 | 1,858,892 |
| Borrowings denominated in foreign currencies: | | | | |
| Bank overdrafts | JPMorgan Chase and others | 1.83~15.75 | 205,563 | 175,916 |
| Other borrowings | SMBC and others | 0.69~5.77 | 4,025,461 | 4,603,611 |
| | | | 4,231,024 | 4,779,527 |
| Call money: | | | | |
| Call money denominated in foreign currencies | Export-Import Bank of Korea | 0.25~0.70 | 831,686 | 228,709 |
| Bonds sold under repurchase agreements: | | | | |
| Bonds sold under repurchase agreements in Korean won | Customers | 3.70~3.95 | 190 | 190 |
| Bills sold | Customers | 2.04~2.95 | 84,196 | 58,387 |
| | | | ₩ 6,832,731 | ₩ 6,925,705 |

## 28. Debentures

Details of debentures as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Debentures in Korean won: | | | | |
| Debentures | Institutions | 2.61~4.95 | ₩ 2,720,000 | ₩ 2,760,000 |
| Subordinated bonds | Institutions and customers | 3.07~7.80 | 1,750,122 | 1,500,132 |
| (less present value discount) | | | (5,775) | (12,593) |
| | | | 4,464,347 | 4,247,539 |
| Debentures denominated in foreign currencies: | | | | |
| Debentures | Morgan Stanley and others | 0.40~4.88 | 2,055,752 | 1,740,535 |
| Subordinated Financing debentures | Barclay and others | 4.63 | 204,641 | - |
| Floating rate bonds | HSBC and others | 1.27~2.37 | 52,765 | 160,665 |
| Net gain (loss) on fair value hedges (current period) | | | (33,381) | 11,558 |
| Net gain on fair value hedges (prior period) | | | 39,565 | 25,302 |
| (less present value discount) | | | (13,871) | (12,173) |
| | | | 2,305,471 | 1,925,887 |
| | | | ₩ 6,769,818 | ₩ 6,173,426 |

## 29. Provision

Details of provisions as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Provisions for possible losses on acceptances and guarantees: | | |
| Financial acceptances and guarantees (*1) | ₩ 1,022 | ₩ 1,783 |
| Non-financial acceptances and guarantees | 39,021 | 33,778 |
| Bills endorsed | 276 | 763 |
| | 40,319 | 36,324 |
| Provisions for unused commitments | 63,332 | 62,498 |
| Other provisions: | | |
| Provisions for retirement obligation | 17,931 | 17,786 |
| Provisions for reward points | 27,141 | 22,832 |
| Provisions for contingent (*2) | 122,059 | 45,392 |
| Others | 3,256 | 46,578 |
| | 170,387 | 132,588 |
| | ₩ 274,038 | ₩ 231,410 |

## 29. Provision (cont'd)

(*1) The Company recognizes the amount exceeding the unamortized amount of the initial fair value at subsequent measurement of the financing guarantee contract as provisions for guarantees. The Company recognizes the unamortized amount as financing guarantee contract liabilities in the amount of ₩28,581 million and ₩40,149 million as at December 31, 2013 and 2012, respectively.
(*2) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a damage suit against 5 companies, including the Company and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As at December 13, 2011, the Court ruled that $37.30 million of damages and 5 percent annual interest expenses of approximately $15.26 million that accrued from November. 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. Currently, OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs brought a lawsuit with the Seoul Central District Court to enforce an international arbitration judgment against the Company. Accordingly, the Company has credited provision for litigation in the amount of ₩38.7 billion as at December 31, 2013, which corresponds to approximately 50 percent of the amount mentioned above.

Changes in provisions for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2013 | Provision for allowance (reversal of allowance) | Allowance used | Others | December 31, 2013 |
| Provisions for possible losses on acceptances and guarantees | ₩ 36,324 | ₩ 4,230 | ₩ - | ₩ (235) | ₩ 40,319 |
| Provisions for unused commitments | 62,498 | 1,140 | - | (306) | 63,332 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 17,786 | (220) | (584) | 949 | 17,931 |
| Provisions for reward points | 22,832 | 16,652 | (33,244) | 20,901 | 27,141 |
| Provisions for contingent | 45,392 | 35,217 | - | 41,450 | 122,059 |
| Others | 46,578 | (1,231) | - | (42,091) | 3,256 |
| | 132,588 | 50,418 | (33,828) | 21,209 | 170,387 |
| | ₩ 231,410 | ₩ 55,788 | ₩ (33,828) | ₩ 20,668 | ₩ 274,038 |

## 29. Provision (cont'd)

| | 2012 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2012 | Provision for allowance (reversal of allowance) | Allowance used | Others | December 31, 2012 |
| Provisions for possible losses on acceptances and guarantees | ₩ 40,693 | ₩ (2,541) | ₩ - | ₩ (1,829) | ₩ 36,324 |
| Provisions for unused commitments | 56,726 | 6,291 | - | (519) | 62,498 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 12,567 | 3,191 | (266) | 2,294 | 17,786 |
| Provisions for reward points | 7,774 | 13,606 | (16,615) | 18,067 | 22,832 |
| Provisions for contingent | 43,554 | 1,846 | - | (8) | 45,392 |
| Others | 79,741 | (10,330) | (22,500) | (333) | 46,578 |
| | 143,636 | 8,313 | (39,381) | 20,020 | 132,588 |
| | ₩ 241,055 | ₩ 12,064 | ₩ (39,381) | ₩ 17,673 | ₩ 231,410 |

Details of payment guarantees and endorsed notes as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Acceptances and guarantees: | | |
| Financing acceptances and guarantees in Korean won: | | |
| Payment guarantee for issuance of debentures | ₩ - | ₩ 70 |
| Payment guarantee for loans | 99,814 | 86,539 |
| Others | 15,481 | 25,919 |
| | 115,295 | 112,528 |
| Financing acceptances and guarantees denominated in foreign currencies: | | |
| Local financing acceptances and guarantees | 1,051,425 | 619,029 |
| Confirmed acceptance and guarantee in Korean won: | | |
| Other acceptance and guarantees in Korean won | 1,483,313 | 1,553,450 |
| Confirmed acceptance and guarantee dominated in foreign currencies: | | |
| Acceptance on letter of credit | 699,924 | 814,905 |
| Acceptance on letters of guarantees | 89,730 | 96,408 |
| Others | 10,076,245 | 8,469,485 |
| | 10,865,899 | 9,380,798 |
| Contingent acceptances and guarantees: | | |
| Letters of credit | 4,020,963 | 3,892,703 |
| Others | 39,829 | 33,510 |
| | 4,060,792 | 3,926,213 |
| | 17,576,724 | 15,592,018 |
| Bills endorsed | 46,785 | 25,733 |
| | ₩ 17,623,509 | ₩ 15,617,751 |

## 29. Provision (cont'd)

Details of unused commitments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Outstanding balance | |
|---|---|---|
| | December 31, 2013 | December 31, 2012 |
| Commitments on loans in Korea won | ₩ 50,890,706 | ₩ 50,780,165 |
| Commitments on loan denominated in foreign currency | 7,478,045 | 6,646,511 |
| Commitments on purchase of asset-backed commercial papers | 493,242 | 581,034 |
| Commitments on credit lines on asset-backed securities | 865,700 | 1,478,216 |
| | ₩ 59,727,693 | ₩ 59,485,926 |

## 30. Other liabilities and merchant banking account liabilities

Details of other liabilities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Post-employment benefit obligation (see Note 31): | | |
| Defined benefit obligation | ₩ 361,462 | ₩ 282,459 |
| Less: Plan assets | (319,190) | (259,586) |
| | 42,272 | 22,873 |
| Due to trust accounts | 860,150 | 965,028 |
| Foreign exchange settlement credits: | | |
| Bills sold | 3,393 | 4,061 |
| Inward remittance payable | 284,089 | 366,803 |
| | 287,482 | 370,864 |
| Accounts payable: | | |
| Other accounts payable | 4,338,204 | 6,377,490 |
| Accounts payable (card) | 316,491 | 286,235 |
| | 4,654,695 | 6,663,725 |
| Accrued expenses | 863,038 | 950,506 |
| Unearned income | 79,410 | 75,992 |
| Deferred income | 66,515 | 52,836 |
| Deposits for letter of guarantees and others : | | |
| Acceptance and guarantee | 91,509 | 86,769 |
| Others | 48,509 | 52,272 |
| | 140,018 | 139,041 |

## 30. Other liabilities and merchant banking account liabilities (cont'd)

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Suspense receipt | 55,452 | 69,486 |
| Suspense receipt (card) | 13,639 | 11,282 |
| Withholding taxes | 30,239 | 28,415 |
| Agency business accounts | 89,478 | 92,007 |
| Due from treasury agencies | 2,060,594 | 1,803,353 |
| Financial acceptance and guarantees: | | |
| Financial acceptance and guarantees in Korean won | 22,601 | 35,903 |
| Financial guarantee contract denominated in foreign currencies | 5,980 | 4,246 |
| | 28,581 | 40,149 |
| Other liabilities: | | |
| Securities deposits received | 17,863 | 29,395 |
| Exchange settlement credits | 982,572 | 1,592,073 |
| Prepaid card | 10 | 10 |
| Debit card | 9,981 | 9,560 |
| Cash received from other banks | 152 | 400 |
| Other liabilities denominated in foreign currencies | 4,473 | 4,011 |
| | 1,015,051 | 1,635,449 |
| | ₩ 10,286,614 | ₩ 12,921,006 |

Details of merchant banking account liabilities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Deposits | ₩ 1,678,593 | ₩ 525,654 |
| Others: | | |
| Provision for unused commitments | 919 | 978 |
| Other liabilities (*1) | 1,292 | 2,094 |
| | 2,211 | 3,072 |
| | ₩ 1,680,804 | ₩ 528,725 |

(*1) Including accrued expenses, unearned income, and others.

## 31. Severance benefits

The Company operates a defined retirement benefit plan ("DB plan") in accordance with the Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Company has purchased severance benefits insurance and made deposits. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

## 31. Severance benefits (cont'd)

If a retiree is up for quasi-age limit special retirement, the Company pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by Hewitt, an actuary services company. Current and past service costs related to the present value of defined benefit obligation are measured using the projected unit credit method.

The Company provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for the service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by, an actuary service company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

The amendments to *KIFRS 1019* will be applied retrospectively as of January 1, 2012 the net interest of the defined benefit plan less the fair value of plant assets will be recognized in profit or loss and the net interest on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

Past service cost arises when the Company introduces a defined benefit plan that attributes to past service or changes the benefits payable for past service under an existing defined benefit plan. Such past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. Past service costs are recognized immediately if the benefits have already vested immediately following the introduction of, or changes to, a pension plan.

Reconciliation of the amendments to the interim consolidated statement of financial position ended as at December 31, 2013 and 2012 and January 1, 2012 and the consolidated statement of profit or loss and other comprehensive income as at December 31 2013 and 2012 and January 1, 2012, and for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| | Statement of financial position | | |
|---|---|---|---|
| Classification | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Changes in accumulated other comprehensive income | ₩ (10,028) | ₩ 16,663 | ₩ 22,968 |
| Changes in retained earnings | 10,028 | (16,663) | (22,968) |

| | Statement of profit or loss and other comprehensive income | |
|---|---|---|
| Classification | 2013 | 2012 |
| Income tax expense | ₩ 8,716 | ₩ 2,013 |
| Current net expense | 26,691 | 6,305 |
| Other comprehensive income | (26,691) | (6,305) |

## 31. Severance benefits (cont'd)

Key assumptions for actuarial valuation as at December 31, 2013 and 2012 are as follows:

| Classification | Ratio (%) December 31, 2013 | Ratio (%) December 31, 2012 | Notes |
|---|---|---|---|
| Demographic assumptions: | | | |
| Mortality | 0.002~0.268 | 0.002~0.268 | Mortality table for 2012 |
| Rates of employee turnover | 2.50~19.96 | 2.50~18.13 | |
| Financial assumptions: | | | |
| Expected rate of salary increase | 3.00~5.00 | 2.24~4.97 | Average rate over the past five years |
| Discount rate | 3.21~3.97 | 2.80~3.64 | Rate of return on bank AAA bonds |

Details of the post-employment benefit obligation as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Present value of defined benefit obligation deposited to plan assets | ₩ 344,898 | ₩ 267,894 |
| Fair value of plan assets | (319,190) | (259,586) |
| | 25,708 | 8,308 |
| Present value of defined benefit obligation not deposited to plan assets | 16,564 | 14,565 |
| Defined benefit obligation | ₩ 42,272 | ₩ 22,873 |

Changes in present value of defined benefit obligation for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 282,459 | ₩ 223,746 |
| Current service cost | 50,052 | 47,411 |
| Past service cost | 67 | 34,574 |
| Interest cost | 9,623 | 9,075 |
| Remeasurement of the net defined benefit liability | 39,004 | 9,370 |
| Payment of severance benefits | (18,886) | (40,432) |
| Transferred from other affiliates | 197 | 104 |
| Others | (1,054) | (1,389) |
| Ending balance | ₩ 361,462 | ₩ 282,459 |

## 31. Severance benefits (cont'd)

Details of losses (gains) incurred from defined benefit obligations for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Current service cost | ₩ 50,052 | ₩ 47,411 |
| Interest cost | 628 | 1,483 |
| Past service cost | 67 | 34,574 |
| Actuarial loss | 3,372 | - |
| Plan asset management cost | 516 | 148 |
| | 54,635 | 83,616 |
| Severance benefits due to defined contribution plan | 116 | - |
| | ₩ 54,751 | ₩ 83,616 |

Plan assets for severance benefit as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Plan assets which have a market price quoted in an active market: | | |
| Time deposits | ₩ 195,992 | ₩ 86,316 |
| Debt securities | 63,679 | 78,456 |
| Others | 59,519 | 94,814 |
| | ₩ 319,190 | ₩ 259,586 |

Changes in fair value of plan assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 259,586 | ₩ 182,637 |
| Interest income | 8,995 | 7,592 |
| Remeasurement of the net defined benefit liability | 225 | 1,052 |
| Employer contributions | 64,970 | 75,136 |
| Payment | (14,074) | (6,758) |
| Others | (512) | (78) |
| Ending balance | ₩ 319,190 | ₩ 259,586 |

## 31. Severance benefits (cont'd)

Details of the remeasurement of the net defined benefit liability for the years ended December 31, 2013 and 2012 are as follows (Korea won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Actual gain (loss) | | |
| Changes in demographic assumptions | ₩ (3,416) | ₩ (781) |
| Changes in financial assumptions | (12,348) | (10,059) |
| Others | (19,868) | 1,470 |
| | (35,632) | (9,370) |
| Income on planned assets | | |
| Actual income on planned assets | 9,220 | 8,644 |
| Amounts included in net interest on the net defined benefit liability | 8,995 | 7,592 |
| | 225 | 1,052 |
| | ₩ (35,407) | ₩ (8,318) |

Sensitivity of defined benefit liability due to the change in the discount rate as of December 31, 2013 is as follows (Korea won in millions):

| Classification | December 31, 2013 | 1% point increase | 1% point decrease |
|---|---|---|---|
| Present value of defined benefit liability | ₩ 344,898 | ₩ 328,929 | ₩ 362,129 |

Sensitivity of defined benefit liability due to the change in the rate of salary increase as of December 31, 2013 is as follows (Korea won in millions):

| Classification | December 31, 2013 | 1% point increase | 1% point decrease |
|---|---|---|---|
| Present value of defined benefit liability | ₩ 344,898 | ₩ 361,402 | ₩ 329,499 |

Expected contributions to the plan for the next annual reporting period as at December 31, 2013 amount to ₩ 57,609 million, and the weighted average duration of the defined benefit obligation as at December 31, 2013 is 10.34 years.

## 32. Issued Capital and other paid-in capital

Issued capital as at December 31, 2013 and 2012 is as follows (Korean won in millions, share):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Number of shares authorized | 1,000,000,000 | 1,000,000,000 |
| Par value per share (Korean won) | ₩ 5,000 | ₩ 5,000 |
| Number of shares issued | 644,906,826 | 644,906,826 |
| Common stock | ₩ 3,224,534 | ₩ 3,224,534 |

Other paid-in capital as at December 31, 2013 and 2012 is as follows (Korea won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Capital surplus (*1) | ₩ 940 | ₩ 940 |
| Hybrid securities (*2) | 429,509 | 249,772 |
| Capital adjustments: | | |
| Stock option | (237) | 40 |
| Loss on disposal of treasury stock | (17,869) | - |
| Others | (618) | - |
| | (18,724) | 40 |
| | ₩ 411,725 | ₩ 250,752 |

(*1) Amounts in capital surplus as at December 31, 2013 and 2012 were transferred from the stock option balance (accounted for as capital adjustment) as the lapsed exercisable period lapsed.
(*2) Korea Exchange Bank Hybrid securities have been issued by the Company. Upon expiration, the bonds can be extended under the same terms.

## 33. Retained earnings

Details of retained earnings as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Legal reserve: | | |
| Earned surplus reserve (*1) | ₩ 787,700 | ₩ 725,100 |
| Voluntary reserve: | | |
| Revaluation reserves on tangible assets (*2) | 431,931 | 431,936 |
| Other reserves (*3) | 94,040 | 91,423 |
| Regulatory reserve for bad debts (*4) | 737,322 | 680,621 |
| | 1,263,293 | 1,203,980 |
| Unappropriated retained earnings | 3,745,610 | 3,475,512 |
| | ₩ 5,796,603 | ₩ 5,404,592 |

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is restricted to the payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital. In addition, KEBIS accumulates indemnity reserve for an electronic financial incident in the amount of ₩500 million as at December 31, 2013.
(*2) The Company records gains from revaluation of property, and equipment to the voluntary reserve, as it applies the revaluation amount as a deemed cost at the first-time adoption of KIFRS. Such reserve is recognized retained earnings when the relevant property and equipment have been disposed.
(*3) Relevant Japanese regulations require the Company's overseas branches located in Japan to appropriate a minimum of 10% of net income for the period as a legal reserve, until such reserve equals ¥2,000 million. This reserve is restricted to the payment of cash dividends and allowed to be used upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.
(*4) The Company accumulated allowance for possible loan losses in accordance with KIFRS and regulatory reserve for bad debts in the amount described below the provision of allowance in accordance to the minimum accumulation ratio required by FSS.

Changes in appropriated retained earnings for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 5,404,592 | ₩ 4,755,679 |
| Net income for the period | 444,320 | 667,163 |
| Dividend | (32,245) | - |
| Dividend on hybrid securities | (20,064) | (18,250) |
| Ending balance | ₩ 5,796,603 | ₩ 5,404,592 |

## 34. Regulatory reserve for bad debts

Regulatory reserve for bad debts is computed and presented under article 29-1 and 29-2 of the regulation on Supervision of Banking Business of the Republic of Korea.

Details of regulatory reserve for bad debts as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 737,322 | ₩ | 680,621 |
| Planned reserve for bad debts (*1) | | 57,440 | | 56,701 |
| Ending balance | ₩ | 794,762 | ₩ | 737,322 |

(*1) The Company was given notice by the FSS to modify the credit conversion factor ("CCF") used in the calculation of its regulatory reserve for bad debts. Accordingly, the reserve for the years ended December 31, 2013 and 2012 increased by ₩52,342 million from the prior year period.

Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the years ended December 31, 2013 and 2012 are as follows (Korea in won):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Net income attributable to equity holders of the parent before deducting provisions for bad debt | ₩ | 444,320 million | ₩ | 667,163 million |
| Reversal of (provisions for) bad debt reserve | | (57,440)million | | (56,701)million |
| Adjusted income after deducting provisions for bad debt | | 386,880 million | | 610,462 million |
| Basic earnings per share on adjustment after reflecting reserve for bad debt (*1) | | 571 | | 918 |
| Diluted earnings per share on adjustment after reflecting reserve for bad debt (*1) | | 571 | | 918 |

(*1) Adjusted basic and diluted earnings per share on adjustment after reflecting the reserve for bad debt are computed by deducting the dividend of hybrid equity securities from the adjusted net income after reflecting the reserve for bad debt in the amount of ₩20,064 million and ₩18,250 million for the years ended December 31, 2013 and 2012, respectively (Note 45).

## 35. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 225,028 | ₩ (64,711) | ₩ (87) | ₩ 16,663 | ₩ 176,893 |
| Changes in the unrealized gain of available-for-sale financial asset | 138,472 | - | - | - | 138,472 |
| Realized loss of available-for-sale financial asset (including disposal) | (43,111) | - | - | - | (43,111) |
| Exchange differences on transaction of foreign operations | - | (73,834) | - | - | (73,834) |
| Exchange differences on translation of available-for-sale financial assets | - | - | - | (35,407) | (35,407) |
| Changes in remeasurement of the net defined benefit liability | - | - | (31) | - | (31) |
| Tax effect | (23,118) | - | 7 | 8,716 | (14,395) |
| Ending balance | ₩ 297,271 | ₩ (138,545) | ₩ (111) | ₩ (10,028) | ₩ 148,587 |

## 35. Accumulated other comprehensive income (cont'd)

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Loss on valuation of equity method investments | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 311,378 | ₩ (10) | ₩ 43,935 | ₩ (19) | ₩ 22,968 | ₩ 378,252 |
| Changes in the unrealized gain of available-for-sale financial asset | 64,183 | - | - | - | - | 64,183 |
| Realized loss of available-for-sale financial asset (including disposal) | (178,076) | - | - | - | - | (178,076) |
| Equity method investments | - | 10 | - | - | - | 10 |
| Exchange differences on transaction of foreign operations | - | - | (108,646) | - | - | (108,646) |
| Exchange differences on foreign currency translation of available-for-sale financial assets | - | - | - | - | (8,318) | (8,318) |
| Changes in remeasurement of the net defined benefit liability | - | - | - | (89) | - | (89) |
| Tax effect | 27,543 | - | - | 21 | 2,013 | 29,577 |
| Ending balance | ₩ 225,028 | ₩ - | ₩ (64,711) | ₩ (87) | ₩ 16,663 | ₩ 176,893 |

**36. Capital management**

The Company computes the capital ratio required by BIS and manages the ratio to be maintained at a rate of at least 8% or above. The Company meets the statutory externally assigned capital maintenance requirement (the "BIS capital ratio") as at December 31, 2013.

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholder's equity is computed by subtracting deductible items from the sum of basic capital and supplementary capital. Risk-weighted assets are the sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Basic capital is composed of issued capital, additional capital surplus paid-in capital, retained earnings, hybrid securities that satisfy the basic capital requirements, and differences in foreign currencies from other accumulated comprehensive income. Supplementary capital is composed of a revaluation reserve that satisfies with supplementary capital requirements, gains on valuation of available-for-sale financial assets and share of other comprehensive income of associates, high-ranked subordinated debts with more than a 10-year maturity or low-ranked subordinated debts with less than a 5-year maturity and others.

Items deducted from issued capital include considerable amounts of intangible assets and deferred tax assets, discount on issued capital, losses on valuation of available-for-sale financial assets and share of other comprehensive loss of associates, and treasury stock. Other deductible items are subtracted from basic and supplementary capital by 50% each. Additionally, the Company classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

**37. Interest income and interest expenses**

Details of interest income and interest expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | 2012 |
|---|---|---|---|
| Interest income: | | | |
| Due from banks | Banks | ₩ 40,861 | ₩ 58,422 |
| | Other financial institutions | 10,618 | 53,706 |
| | | 51,479 | 112,128 |
| Loans receivable | Banks | 54,048 | 58,011 |
| | Customers | 3,429,650 | 3,809,343 |
| | | 3,483,698 | 3,867,354 |
| Financial assets at FVTPL | | 17,524 | 19,715 |
| Available-for-sale financial assets | | 210,687 | 205,971 |
| Held-to-maturity investments | | 134,291 | 207,177 |
| | | 3,897,679 | 4,412,345 |

### 37. Interest income and interest expenses (cont'd)

| Classification | | 2013 | 2012 |
|---|---|---|---|
| Interest expenses: | | | |
| Deposits | Financial institutions | 1,617 | 1,702 |
| | Customers | 1,285,993 | 1,524,486 |
| | | 1,287,610 | 1,526,188 |
| Debentures | | 235,408 | 243,145 |
| Borrowings | | 110,216 | 128,498 |
| Others | | 37,072 | 45,420 |
| | | 1,670,306 | 1,943,251 |
| Net interest income | | ₩ 2,227,373 | ₩ 2,469,094 |

Details of interest income on impaired financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Loans receivable | ₩ 67,964 | ₩ 82,484 |
| Other assets | 193 | 156 |
| | ₩ 68,157 | ₩ 82,640 |

### 38. Fee and commission income and fee and commission expenses

Details of fee and commission income and fee and commission expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Fee and commission income: | | |
| Savings | ₩ 20,628 | ₩ 12,716 |
| Credits | 46,314 | 33,313 |
| Foreign exchange | 183,206 | 201,420 |
| Credit card | 116,902 | 89,846 |
| Asset management | 6,294 | 8,337 |
| Agency business | 36,538 | 42,929 |
| Guarantee service | 66,000 | 67,275 |
| Others | 62,868 | 65,459 |
| | 538,750 | 521,295 |

### 38. Fee and commission income and fee and commission expenses (cont'd)

| Classification | 2013 | 2012 |
|---|---|---|
| Fee and commission expense: | | |
| Credits | 6,635 | 2,870 |
| Foreign exchange | 38,693 | 40,723 |
| Agency business | 497 | 514 |
| Credit card | 288,953 | 274,678 |
| Others | 32,133 | 24,086 |
| | 366,911 | 342,871 |
| Net fee and commission income | ₩ 171,839 | ₩ 178,424 |

### 39. Gain (loss) on financial instruments

Details of gain (loss) on financial instruments for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Financial instruments at FVTPL: | | |
| Gain on financial instruments at FVTPL | | |
| Gain on valuation of trading securities | ₩ 413 | ₩ 793 |
| Gain on disposal of trading securities | 6,848 | 16,213 |
| Gain on valuation of trading bonds | 590 | 657 |
| Gain on disposal of trading bonds | 3,127 | 3,091 |
| Gain on valuation of derivatives held-for-trading (*1) | 1,014,179 | 1,264,268 |
| Gain on disposal of derivatives held-for-trading (*1) | 2,282,689 | 2,151,797 |
| | 3,307,846 | 3,436,819 |
| Loss on financial instruments at FVTPL | | |
| Loss on valuation of trading securities | 286 | 303 |
| Loss on disposal of trading securities | 8,393 | 16,384 |
| Loss on valuation of trading bonds | 125 | 28 |
| Loss on disposal of trading bonds | 5,361 | 2,029 |
| Loss on valuation of derivatives held-for-trading (*1) | 977,277 | 1,230,779 |
| Loss on disposal of derivatives held-for-trading (*1) | 2,236,124 | 2,194,614 |
| | 3,227,566 | 3,444,137 |
| Net income (expense) from financial instruments at FVTPL | ₩ 80,280 | ₩ (7,318) |

## 39. Gain (loss) on financial instruments (cont'd)

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Derivatives used for hedging purposes: | | | | |
| Gain on derivatives used for hedging purposes | | | | |
| Gain on valuation of derivatives used for hedging purposes | ₩ | 33,757 | ₩ | 7,060 |
| Gain on disposal of derivatives used for hedging purposes | | 270 | | 821 |
| | | 34,027 | | 7,881 |
| Loss on derivatives used for hedging purposes | | | | |
| Loss on valuation of derivatives used for hedging purposes | | 30,141 | | 12,577 |
| Loss on disposal of derivatives used for hedging purposes | | 241 | | 210 |
| | | 30,382 | | 12,787 |
| Net income (expense) on derivatives used for hedging purposes | ₩ | 3,645 | ₩ | (4,906) |
| Available-for-sale financial assets: | | | | |
| Gain on available-for-sale financial assets | | | | |
| Gain on disposal of equity securities | ₩ | 41,451 | ₩ | 196,860 |
| Gain on disposal of debt securities | | 44,266 | | 50,186 |
| | | 85,717 | | 247,046 |
| Loss on available-for-sale financial assets | | | | |
| Loss on disposal of equity securities | | 5,665 | | 40 |
| Loss on disposal of debt securities | | 139 | | - |
| | | 5,804 | | 40 |
| Net income on available-for-sale financial assets | ₩ | 79,913 | ₩ | 247,006 |

(*1) As the total amount of income and expenses on the synthetic option and swap were reclassified to net amounts, the Company accordingly reduced the income and expense on valuation of derivatives held-for-trading and the income and expense on disposal of derivatives held-for-trading in the amount of ₩2,391 million and ₩136,640 million, respectively, in the consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2013 and 2012, presented for the comparative purpose.

## 40. Impairment loss on financial instruments

Details of impairment loss on financial instruments for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Provision for possible loan losses (*1) | ₩ | 504,400 | ₩ | 667,781 |
| Impairment loss on available-for-sale financial assets | | 29,392 | | 16,137 |
| | ₩ | 533,792 | ₩ | 683,918 |

(*1) Provision for possible loan losses is set for loans receivable and other assets.

## 41. General and administrative expenses

Details of general and administrative expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Employee benefits: | | | | |
| Salaries | ₩ | 819,672 | ₩ | 824,164 |
| Provision for severance and retirement benefits | | 54,751 | | 83,616 |
| Expenses for fringe benefits | | 42,916 | | 47,806 |
| Termination benefits | | 33,623 | | 30,837 |
| | | 950,962 | | 986,423 |
| Depreciation and amortization: | | | | |
| Depreciation on property and equipment | | 81,349 | | 78,319 |
| Depreciation on investment property | | 2,549 | | 2,494 |
| Amortization | | 24,934 | | 24,900 |
| | | 108,832 | | 105,713 |
| Other general and administrative expenses: | | | | |
| Rental expense | | 135,565 | | 131,015 |
| Entertainment expense | | 14,113 | | 12,300 |
| Taxes and dues | | 39,512 | | 44,463 |
| Advertising expenses | | 48,874 | | 42,193 |
| Others | | 242,369 | | 242,772 |
| | | 480,433 | | 472,743 |
| | ₩ | 1,540,227 | ₩ | 1,564,879 |

## 42. Other operating income and expenses

Details of other operating income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Dividend income: | | | | |
| Financial assets at FVTPL | ₩ | 253 | ₩ | 827 |
| Available-for-sale financial assets | | 10,976 | | 11,912 |
| | | 11,229 | | 12,739 |
| Reversal of possible losses on acceptances and guarantees | | - | | 2,541 |
| Other income on financial instruments | | 866 | | 387 |
| Gain on foreign exchange transaction | | 1,207,636 | | 1,066,624 |
| Gain on foreign exchange difference | | 153,007 | | 170,566 |
| Gain on operating trust account | | 39,895 | | 36,510 |
| Point income | | 34,440 | | 27,191 |
| Gain on sales of loans | | 58,505 | | 1,515 |
| Gain on merchant banking accounts (*1) | | 73,649 | | 68,201 |
| Others | | 192 | | 156 |
| | ₩ | 1,579,419 | ₩ | 1,386,430 |

(*1) Details of gain on merchant banking accounts for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Interest income | ₩ | 49,816 | ₩ | 28,094 |
| Fee and commission income | | 795 | | 741 |
| Gain on disposal of trading bonds | | 722 | | 1,408 |
| Gain on valuation of trading bonds | | 19 | | 23 |
| Gain on valuation of CMA securities | | 3 | | 1 |
| Gain on disposal of bills | | 22,235 | | 33,288 |
| Reversal of possible loan losses | | - | | 4,614 |
| Reversal of unused commitments | | 59 | | 32 |
| | ₩ | 73,649 | ₩ | 68,201 |

### 42. Other operating income and expenses (cont'd)

Details of other operating expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Provision for acceptances and guarantees | ₩ | 4,230 | ₩ | - |
| Provision for unused commitments | | 1,140 | | 6,291 |
| Provision for others | | 50,418 | | 8,313 |
| Other expense on financial instruments | | 239 | | 669 |
| Loss on foreign exchange transaction | | 1,003,782 | | 730,577 |
| Loss on foreign exchange difference | | 102,493 | | 56,631 |
| Point expense | | 41,802 | | 31,870 |
| Contribution to guarantee fund | | 101,792 | | 99,233 |
| Insurance fee on deposits | | 105,494 | | 100,879 |
| Loss on sales of loans | | 20,478 | | 23,301 |
| Loss on merchant banking accounts (*1) | | 48,106 | | 42,528 |
| | ₩ | 1,479,974 | ₩ | 1,100,292 |

(*1) Details of loss on merchant banking accounts for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Interest expense | ₩ | 47,536 | ₩ | 42,437 |
| Provision for possible loan losses | | 320 | | - |
| Others | | 250 | | 91 |
| | ₩ | 48,106 | ₩ | 42,528 |

### 43. Non-operating income and expenses

Details of non-operating income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Gain on disposal of property and equipment | ₩ | 285 | ₩ | 37 |
| Gain on disposal of investment property | | - | | 38 |
| Gain on disposal of intangible assets | | 301 | | - |
| Rental income | | 3,043 | | 3,206 |
| Gain on exemption of debts | | 7,021 | | 11,383 |
| Others | | 12,799 | | 45,008 |
| | ₩ | 23,449 | ₩ | 59,672 |

### 43. Non-operating income and expenses (cont'd)

Details of non-operating expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Loss on disposal of property and equipment | ₩ 606 | ₩ 298 |
| Loss on disposal of investment property | - | 111 |
| Loss on valuation of investment in investments | 821 | 678 |
| Donation | 17,575 | 19,872 |
| Expenses on collection of management of charge-offs | 704 | 973 |
| Commission expense on collection of management of charge-offs | 815 | 700 |
| Others | 24,358 | 24,094 |
| | ₩ 44,879 | ₩ 46,726 |

### 44. Income tax expense

The major components of income tax expense for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| <KEB> | | |
| Income tax currently payable (receivable) (*1) | ₩ 35,773 | ₩ 222,029 |
| Changes of deferred income taxes due to the tax effect of temporary differences | 48,658 | (19,995) |
| Total income tax effect | 84,431 | 202,034 |
| Current and deferred income taxes recognized directly to equity | 14,781 | 29,355 |
| Income tax expense of foreign branches | 7,498 | 10,330 |
| Income tax expense of KEB | 106,710 | 241,719 |
| <Subsidiaries> | | |
| Income tax currently payable (*1) | 25,010 | 25,085 |
| Changes of deferred income taxes due to the tax effect of temporary differences | (9,193) | (1,647) |
| Current and deferred income taxes recognized directly to equity | 396 | 287 |
| Income tax expense of subsidiaries | 16,213 | 23,725 |
| | ₩ 122,923 | ₩ 265,444 |

(*1) The amount of addition and refund of prior year's income tax is included.

**44. <u>Income tax expense (cont'd)</u>**

Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Income before income tax | ₩ 567,046 | ₩ 932,587 |
| Tax at domestic statutory income tax rate | 136,762 | 225,471 |
| Reconciliation: | | |
| Income not subject to tax | (10,879) | (5,923) |
| Expenses not deductible for tax purposes | 9,715 | 4,670 |
| Tax deduction | (7,687) | (7,936) |
| Addition (refund) of prior year's income tax | (15,887) | 22,557 |
| Income tax expense of foreign branches | 7,498 | 36,444 |
| Others | 3,401 | (9,839) |
| | (13,839) | 39,973 |
| Income tax expense | ₩ 122,923 | ₩ 265,444 |
| Effective income tax rate (%) | 21.68 | 28.46 |

Details of deferred income tax assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| KEBC | ₩ 28,850 | ₩ 16,305 |
| KEBIS | 263 | 154 |
| NYFinCo | 2,814 | 4,459 |
| USAI | 13 | 11 |
| LAFinCo | 2,071 | 3,907 |
| KEBOC | 1,181 | - |
| KEBH | 2,154 | 2,424 |
| KEBB | 662 | 551 |
| | ₩ 38,008 | ₩ 27,811 |

Details of deferred income tax liabilities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| KEB (*1) | ₩ 80,326 | ₩ 31,668 |
| KEBF | 1,910 | 2,413 |
| KEBOC | - | 1,266 |
| KEBB | 2,956 | 2,223 |
| KEBChina | 2,499 | 64 |
| KEBIS | 319 | 482 |
| Trust accounts guaranteeing the repayment of principal | 3,895 | 4,127 |
| | ₩ 91,905 | ₩ 42,243 |

## 44. Income tax expense (cont'd)

(*1) Changes in temporary differences and deferred income tax assets (liabilities) for the year ended December 31, 2013 are as follows (Korean won in millions):

| | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 |
| Temporary differences: | | | | | | | | |
| Gain or loss on valuation of securities | ₩ (60,852) | ₩ 219,245 | ₩ 182,784 | ₩ (97,313) | ₩ (12,499) | ₩ 53,057 | ₩ 42,007 | ₩ (23,549) |
| Accrued income | (66,362) | (66,362) | (79,254) | (79,254) | (16,060) | (16,060) | (19,179) | (19,179) |
| Other provisions and others | 207,633 | 207,633 | 249,646 | 249,646 | 51,023 | 51,023 | 60,414 | 60,414 |
| Gain or loss on valuation of derivatives | (90,240) | (90,240) | (115,778) | (115,778) | (21,838) | (21,838) | (28,018) | (28,018) |
| Debt-for-equity swap securities | 91,847 | 93 | 50,800 | 142,554 | 22,227 | 23 | 12,294 | 34,498 |
| Advanced depreciation provisions | (62,466) | - | - | (62,466) | (15,117) | - | - | (15,117) |
| Investment in kind at KEB China | 137,879 | - | - | 137,879 | 33,367 | - | - | 33,367 |
| Financial guarantee contract | 40,149 | 40,149 | 28,581 | 28,581 | 6,056 | 9,716 | 10,577 | 6,917 |
| Deferred reward points income | 52,836 | 52,836 | 66,515 | 66,515 | 12,786 | 12,786 | 16,097 | 16,097 |
| Accrued expenses | 79,145 | 79,145 | 78,344 | 78,344 | 19,153 | 19,153 | 18,959 | 18,959 |
| Gain on revaluation of tangible assets | (553,765) | - | - | (553,765) | (134,011) | - | - | (134,011) |
| Others | 278,578 | 63,199 | (10,994) | 204,385 | 97,202 | 37,516 | (1,422) | 58,264 |
| | 54,382 | 505,698 | 450,644 | (672) | 42,289 | 145,376 | 111,729 | 8,642 |

## 44. Income tax expense (cont'd)

| Classification | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 |
| Accumulated other comprehensive income: | | | | | | | | |
| Unrealized gain or loss of available-for-sale financial assets | (283,283) | (283,283) | (380,489) | (380,489) | (68,554) | (68,554) | (92,078) | (92,078) |
| Gain on foreign currency translation of available-for-sale financial assets | 114 | 114 | 145 | 145 | 28 | 28 | 35 | 35 |
| Remeasurement of the net defined benefit liability (*3) | (22,442) | (22,442) | 12,709 | 12,709 | (5,431) | (5,431) | 3,075 | 3,075 |
| | (305,611) | (305,611) | (367,635) | (367,635) | (73,957) | (73,957) | (88,968) | (88,968) |
| | ₩ (251,229) | ₩ 200,087 | ₩ 83,009 | ₩ (368,307) | ₩ (31,668) | ₩ 71,419 | ₩ 22,761 | ₩ (80,326) |

(*1) Beginning balance reflects adjustments for the difference in the reserved amount of ₩46,449 million at the time of the final tax return and the claim for rectification in the amount of ₩73,867 million as at December 31, 2012. Such adjustments decrease deferred tax assets by ₩29,129 million compared to that of December 31, 2012.

(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).

(*3) Included due to the retrospective reclassification of actuarial gain (loss) on obligation from current income to the accumulated other comprehensive income.

## 45. Earnings per share

Weighted-average numbers of ordinary shares for the years ended December 31, 2013 and 2012 are as follows (shares in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning | 644,906,823 | 644,906,823 |
| Exercise of appraisal rights by shareholders | (52,016,715) | - |
| Number of treasury stock after disposal | 49,878,791 | - |
| Ending | 642,768,899 | 644,906,823 |

The Company's basic earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Net income for the period | ₩ 444,320 | ₩ 667,163 |
| Dividends on hybrid equity securities | (20,064) | (18,250) |
| Net income attributable to ordinary stock | 424,256 | 648,913 |
| Weighted-average number of shares of ordinary stocks outstanding | 642,768,899 | 644,906,823 |
| Basic earnings per share (Korean won) | ₩ 660 | ₩ 1,006 |

Weighted-average numbers of ordinary shares adjusted for the effect of dilution for the years ended December 31, 2013 and 2012 are as follows (shares in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Weighted-average number shares of ordinary stocks outstanding (basic) | 642,768,899 | 644,906,823 |
| Stock options | - | 80,613 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 642,768,899 | 644,987,436 |

## 45. Earnings per share (cont'd)

The Company's diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Net income attributable to ordinary stock | ₩ 424,256 | ₩ 648,913 |
| Recognized revenue related to employee stock options (after-tax effect of 24.2%) | - | (257) |
| Net income for the diluted net income per share | 424,256 | 648,656 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 642,768,899 | 644,987,436 |
| Diluted earnings per share (Korean won) | ₩ 660 | ₩ 1,006 |

## 46. Share-based payment

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive ("Rose Bonus" and\or "Rose Share") to employees for the purpose of motivation to improve long-term performance. The equity-linked special incentive is settled in cash. It can be exercised from 1 to 3 years after the grant date for the following 3 to 4 years.

Details of the share-based payment as at December 31, 2013 are as follows:

Assumptions for evaluation of stock options as at December 31, 2013 are as follows (Korean won and share):

| Grant date | Exercise period | Risk-free rate | Expected service period | Volatility of the underlying stock price | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 2011-03-13 ~ 2016-03-12 | 2.68% | 5.87 | 27.56% | ₩ 882 | ₩ 5,700 | ₩ 1,986 |
| 2009-08-04 | 2011-08-05 ~ 2016-08-04 | 2.71% | 5.87 | 29.06% | 882 | 11,700 | 215 |

**46. Share-based payment (cont'd)**

| Grant date | Exercise period | Risk-free rate | Expected service period | Volatility of the underlying stock price | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| 2010-03-10 | 2013-03-11 ~ 2017-03-10 | 2.77% | 5.87 | 31.38% | 882 | 13,450 | 161 |
| 2010-03-30 | 2013-03-31 ~ 2017-03-30 | 2.78% | 5.87 | 31.77% | 882 | 13,600 | 158 |
| 2010-08-04 | 2013-08-05 ~ 2017-08-04 | 2.81% | 5.87 | 38.18% | 882 | 12,300 | 446 |
| 2010-09-29 | 2013-09-29 ~ 2017-09-28 | 2.83% | 5.87 | 37.60% | 882 | 13,550 | 354 |
| 2011-08-10 | 2014-08-11 ~ 2018-08-10 | 2.95% | 5.87 | 37.82% | 882 | 8,060 | 964 |
| 2011-08-26 | 2014-08-27 ~ 2018-08-26 | 2.96% | 5.87 | 37.82% | 882 | 7,720 | 1,081 |
| 2011-09-02 | 2014-09-03 ~ 2018-09-02 | 2.96% | 5.87 | 37.72% | 882 | 7,930 | 1,098 |

Changes in shares of stock options for the year ended December 31, 2013 are as follows (Korean won and share):

| Grant date | Shares at beginning | Exercise | Divesture | Extinction at maturity | Shares at ending | Stock option outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 284,325 | (17,120) | - | - | 267,205 | 267,205 | ₩ 5,800 |
| 2009-08-04 | 415,610 | - | - | - | 415,610 | 415,610 | 10,900 |
| 2010-03-10 | 312,350 | - | - | - | 312,350 | 312,350 | 13,200 |
| 2010-03-30 | 237,140 | - | - | - | 237,140 | 237,140 | 13,500 |
| 2010-08-04 | 251,890 | - | - | - | 251,890 | 251,890 | 12,400 |
| 2010-09-29 | 17,810 | - | - | - | 17,810 | 17,810 | 13,500 |
| 2011-08-10 | 333,000 | - | - | - | 333,000 | 333,000 | 9,100 |
| 2011-08-26 | 42,290 | - | - | - | 42,290 | 42,290 | 8,500 |
| 2011-09-02 | 11,250 | - | - | - | 11,250 | 11,250 | 8,400 |
| | 1,905,665 | (17,120) | - | - | 1,888,545 | 1,888,545 | |

Weighted average stock price as of the stock option date exercised is in the amount of ₩7,085 for the year ended December 31, 2013.

Weighted average residual expiration of exercisable stock options is 3.14 years as at December 31, 2013.

**46. Share-based payment (cont'd)**

Details of the share-based payment as at March 31, 2014 are as follows:

Equity-linked special incentives are measured at fair value based on the binomial model and become exercisable from 1 to 3 years after the grant date for the following 3 to 4 years. Details of the equity-linked special incentives as at December 31, 2013 are as follows (share):

| Classification | Grant date | Exercise period | Payment date | Stock option outstanding |
|---|---|---|---|---|
| Rose 4 | 2009-12-11 | 2011-12-11 ~ 2014-12-10 | 2011-12-11 | 11,070 |
| Rose 5 | 2010-08-04 | 2012-08-04 ~ 2015-08-04 | 2012-08-04 | 22,650 |
| Rose 6 | 2011-09-21 | 2013-09-21 ~ 2016-09-20 | 2013-09-21 | 316,180 |
| Rose share 1-1 | 2010-02-19 | 2011-02-19 ~ 2015-02-18 | 2011-02-19 | - |
| Rose share 1-2 | 2010-02-19 | 2012-02-19 ~ 2015-02-18 | 2012-02-19 | 10,630 |
| Rose share 2-1 | 2010-03-19 | 2011-03-19 ~ 2015-03-18 | 2011-03-19 | - |
| Rose share 2-2 | 2010-03-19 | 2012-03-19 ~ 2015-03-19 | 2012-03-19 | 1,405 |
| Rose share 3-1 | 2010-08-11 | 2011-08-11 ~ 2015-08-10 | 2011-08-11 | 3,205 |
| Rose share 3-2 | 2010-08-11 | 2012-08-11 ~ 2015-08-11 | 2012-08-11 | 3,555 |
| Rose share 4-1 | 2011-02-21 | 2012-02-21 ~ 2015-02-20 | 2012-02-21 | 10,190 |
| Rose share 4-2 | 2011-02-21 | 2013-02-21 ~ 2016-02-21 | 2013-02-21 | 4,140 |
| Rose share 5-1 | 2011-02-21 | 2012-02-21 ~ 2015-02-20 | 2012-02-21 | 9,835 |
| Rose share 5-2 | 2011-02-21 | 2013-02-21 ~ 2016-02-21 | 2013-02-21 | 4,760 |
| Rose share 6-1 | 2011-03-21 | 2012-03-20 ~ 2015-03-20 | 2012-03-20 | 50 |
| Rose share 6-2 | 2011-03-21 | 2013-03-20 ~ 2016-03-19 | 2013-03-20 | 316 |
| Rose share 6-3 | 2011-03-21 | 2014-03-20 ~ 2017-03-19 | 2014-03-20 | 1,470 |
| Rose share 7-1 | 2011-09-08 | 2012-09-08 ~ 2015-09-08 | 2012-09-08 | 1,770 |
| Rose share 7-2 | 2011-09-08 | 2013-09-08 ~ 2016-09-07 | 2013-09-08 | 1,770 |
| Rose share 8-1 | 2012-02-21 | 2013-02-22 ~ 2017-02-21 | 2013-02-22 | 7,105 |
| Rose share 8-2 | 2012-02-21 | 2014-02-22 ~ 2017-02-21 | 2014-02-22 | 21,635 |
| Rose share 9-1 | 2012-02-21 | 2013-02-22 ~ 2017-02-21 | 2013-02-22 | 19,560 |
| Rose share 9-2 | 2012-02-21 | 2014-02-22 ~ 2017-02-21 | 2014-02-22 | 42,225 |
| | | | | 493,521 |

Changes in shares of equity linked special incentives for the years ended December 31, 2013 and 2012 are as follows (share in units):

| Classification | Outstanding number of share 2013 | 2012 |
|---|---|---|
| Beginning | 5,026,733 | 7,054,210 |
| Number of shares given | - | 127,720 |
| Number of shares forfeited | (34,136) | (109,896) |
| Number of shares exercised | (4,499,076) | (2,045,301) |
| Ending | 493,521 | 5,026,733 |

Weighted average stock price of equity linked special incentives at the exercise date are in the amount of ₩7,697 for the year ended December 31, 2013.

Weighted average residual maturity of equity linked is 3.08 years as at December 31, 2013.

**46. Share-based payment (cont'd)**

Hana Financial Group ("HFG") provided the Company's employees with stock rights and stock grants linked to performance and computed the compensation costs are by applying the fair value approach for such rights. Details of share-based payment arrangement and share-based payment linked to performance as at December 31, 2013 are as follows:

| Classification | 1st | 2nd | 3rd |
|---|---|---|---|
| Grant date | 2011-01-01 | 2012-01-01 | 2013-01-01 |
| Grant method | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG |
| Grant period | 2011-01-01~2013-12-31 | 2012-01-01~2014-12-31 | 2013-01-01~2015-12-31 |
| Payment date | 2013-12-31 | 2014-12-31 | 2015-12-31 |
| Shares at settlement date (*1) | 6,680 | 30,560 | 19,880 |

(*1) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

Details of liabilities related to share-based payment and total intrinsic value of rights accounted for as accounts payable in case that option holders achieve rights to receive cash or other assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Book value of liabilities related to share-based payment: | | |
| Stock options | ₩ 1,206 | ₩ 772 |
| Equity-linked special incentives (granted by KEB) | 6,289 | 41,707 |
| Equity-linked special incentives (granted by HFG) | 2,609 | 452 |
| | ₩ 10,104 | ₩ 42,931 |

The compensation costs for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Costs recognized due to share-based payment: | | |
| Stock options | ₩ 462 | ₩ (2,453) |
| Equity-linked special incentives (granted by the Bank) | 18,912 | 33,350 |
| Equity-linked special incentives (granted by HFG) | 1,882 | 492 |
| Diluted earnings per share (Korean won) | ₩ 21,256 | ₩ 31,389 |

## 47. Cash flow information

Cash and cash equivalents in the interim consolidated statement of cash flows consists of cash and due from bank (excluding restricted due from bank) in the interim consolidated statement of financial position. Cash and cash equivalents as at December 31, 2013 and 2012 are adjusted as follows (Korean won in millions):

| Classification | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Cash and due from banks | ₩ | 8,247,437 | ₩ | 8,253,842 |
| Less: restricted due from bank | | (3,071,986) | | (3,768,938) |
| Due from banks with original maturities exceeding three months from the date of acquisition | | (448,616) | | - |
| Cash and cash equivalents | ₩ | 4,726,835 | ₩ | 4,484,904 |

Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Unrealized loss on available-for-sale financial assets | ₩ | 72,243 | ₩ | (86,350) |
| Gain on foreign currency translation of available-for-sale financial assets | | (24) | | (68) |
| Transfer from property and equipment to investment property | | 7,499 | | 4,708 |
| Transfer from loans receivable to available-for-sale financial assets resulting from debt-to-equity swap | | 4,667 | | 23,929 |

## 48. Related party transactions

The Company's major related parties as at December 31, 2013 are as follows:

| Subsidiaries | Relationship |
|---|---|
| Hana Financial Group ("HFG") | Controlling company |
| Hana Daetoo Securities Co., Ltd. | Entity under common control |
| Hana Bank | Entity under common control |
| Hana Capital, Co., Ltd. | Entity under common control |
| Hana Institute of Finance | Entity under common control |
| Hana SK Card | Entity under common control |
| Hana I&S | Entity under common control |
| Hana Daol Trust | Entity under common control |
| Hana HSBC Life Insurance Co.,Ltd | Entity under common control |
| Flossom Co., Ltd. | Associates |
| MIDAN City Development Co., Ltd | Associates |
| Masam Marine New Town Co., Ltd | Associates |

## 48. Related party transactions (cont'd)

Outstanding balances with related parties arising from the below transactions as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Controlling company | Under common control | Associates | Total |
| Assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 55,547 | ₩ - | ₩ 55,547 |
| Loans receivable | - | 19,603 | 25,665 | 45,268 |
| Allowance for possible loan losses | - | - | (64) | (64) |
| Others | - | 49,875 | - | 49,875 |
| | ₩ - | ₩ 125,025 | ₩ 25,601 | ₩ 150,626 |
| Liabilities: | | | | |
| Deposits | ₩ - | ₩ 19,844 | ₩ - | ₩ 19,844 |
| Financial liabilities at FVTPL | - | 13,703 | - | 13,703 |
| Provisions | - | - | 25 | 25 |
| Others | 2,360 | 49,912 | - | 52,272 |
| | ₩ 2,360 | ₩ 83,459 | ₩ 25 | ₩ 85,844 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Controlling company | Under common control | Associates | Total |
| Assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 33,703 | ₩ - | ₩ 33,703 |
| Others | 514 | 45,526 | - | 46,040 |
| | ₩ 514 | ₩ 79,229 | ₩ - | ₩ 79,743 |
| Liabilities: | | | | |
| Deposits | - | 52,953 | - | 52,953 |
| Financial liabilities at FVTPL | - | 11,727 | - | 11,727 |
| Others | 960 | 48,441 | - | 49,401 |
| | ₩ 960 | ₩ 113,121 | ₩ - | ₩ 114,081 |

**48. Related party transactions (cont'd)**

Details of transactions with related parties for the years ended 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Classification | 2013 Controlling company | 2013 Under common control | 2013 Associates | 2013 Total |
|---|---|---|---|---|
| Income: | | | | |
| Interest income | ₩ 632 | ₩ 4 | ₩ 1,763 | ₩ 2,399 |
| Gain on financial instruments at FVTPL | - | 91,291 | - | 91,291 |
| Fee and commission income | - | 19,805 | - | 19,805 |
| Other income | - | - | 57 | 57 |
| | ₩ 632 | ₩ 111,100 | ₩ 1,820 | ₩ 113,552 |
| Expense: | | | | |
| Interest expense | ₩ - | ₩ 1,505 | ₩ - | ₩ 1,505 |
| Loss on financial instruments at FVTPL | - | 61,589 | - | 61,589 |
| Fee and commission expense | - | 4,050 | - | 4,050 |
| Other expense | - | - | (4) | (4) |
| | ₩ - | ₩ 67,144 | ₩ (4) | ₩ 67,140 |

| Classification | 2012 Controlling company | 2012 Under common control | 2012 Associates | 2012 Total |
|---|---|---|---|---|
| Income: | | | | |
| Interest income | ₩ 1,567 | ₩ 1,302 | ₩ - | ₩ 2,869 |
| Gain on financial instruments at FVTPL | - | 101,117 | - | 101,117 |
| Fee and commission income | - | 319 | - | 319 |
| Other income | - | 32 | - | 32 |
| | ₩ 1,567 | ₩ 102,770 | ₩ - | ₩ 104,337 |
| Expense: | | | | |
| Interest expense | ₩ - | ₩ 2,672 | ₩ - | ₩ 2,672 |
| Loss on financial instruments at FVTPL | - | 64,784 | - | 64,784 |
| Fee and commission expense | - | 123 | - | 123 |
| | ₩ - | ₩ 67,579 | ₩ - | ₩ 67,579 |

## 48. Related party transactions (cont'd)

Details of compensation paid to key management personnel for the years ended December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Short-term employee benefits | ₩ | 2,838 | ₩ | 4,819 |
| Post-retirement employee benefits | | 203 | | 1,298 |
| Stock options | | (5) | | (98) |

## 49. Contingencies and commitments

The Company holds written-off loans, on which the relevant statute of limitations has not expired or the Company has not lost its claim rights to borrowers and guarantors, in the amount of ₩1,836,831 million and ₩1,958,940 million as at December 31, 2013 and 2012, respectively.

Endorsed notes with collateral amount to ₩46,785 million and ₩25,733 million as at December 31, 2013 and 2012, respectively. Endorsed notes without collateral held at the merchant banking amount to ₩7,834,800 million and ₩7,530,500 million as at December 31, 2013 and 2012, respectively.

The Company has pending litigations as a plaintiff or a defendant in various lawsuits arising from the normal course of operations. The aggregate amounts of these claims brought by and against the Company are approximately ₩292,374 million (570 cases) and ₩559,335 million (204 cases) as at December 31, 2013, respectively. The Company recognized provisions is in the amount of ₩122,059 million for such lawsuits.

The Company believes that the outcome of these matters will not have a material impact on the Company's interim consolidated financial statements.

Regular bonus and other benefits paid periodically, uniformly, and steadily shall be included in ordinary wages according to the Supreme Court's decision made in the current year. The Company did not recognize provisions in the decision based on the judgment that it is not probable that the Company is required to pay additional wages due to the Supreme Court's decision, and the amount of the obligation cannot be measured with sufficient reliability as at December 31, 2013.

## 49. Contingencies and commitments (cont'd)

Asset-backed commercial paper ("ABCP") purchase agreements and unused commitments relating to project financing ("PF") as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| ABCP purchase agreement | ₩ 325,000 | ₩ 300,000 |
| Unused commitments on PF loan | 321,213 | 311,277 |
| | ₩ 646,213 | ₩ 611,277 |

## 50. Operation performance of trust accounts

Details of total assets of trust accounts as at December 31, 2013 and 2012 and operating income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | Total assets | | Operating income | |
|---|---|---|---|---|
| | December 31, 2013 | December 31, 2012 | 2013 | 2012 |
| Trust accounts | ₩ 30,316,196 | ₩ 23,967,287 | ₩ 478,097 | ₩ 306,478 |

The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Trust accounts guaranteeing the repayment of principal: | | |
| Installment trust | ₩ 64 | ₩ 86 |
| Household trust | 534 | 550 |
| Old-age pension trust | 1,756 | 2,110 |
| Corporate trust | 5 | 38 |
| Personal pension trust | 192,685 | 194,976 |
| Retirement trust | 56,773 | 82,421 |
| New personal pension trust | 84,887 | 76,245 |
| New old-age pension trust | 956 | 1,226 |
| Pension trust | 307,449 | 263,792 |
| | 645,109 | 621,444 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal: | | |
| Unspecified monetary trust | 59 | 59 |
| Development money trust | 5 | 5 |
| | 64 | 64 |
| | ₩ 645,173 | ₩ 621,508 |

## 51. Dividends

Details of the Company's dividend distribution for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Number of shares | | 644,906,826 | | 644,906,823 |
| Dividends per share (dividend rate) | ₩ | 120.07(2.4%) | ₩ | 50(1.0%) |
| Total amounts of dividends | | 77,433 | | 32,245 |

Details of dividends payout ratio for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Dividends | ₩ | 77,433 | ₩ | 32,245 |
| Net income | | 444,320 | | 667,163 |
| Dividends payout ratio (per net income) | | 17.43% | | 4.83% |
| Adjusted income after deducting regulatory reserve for bad debt (*1) | | 385,446 | | 610,464 |
| Dividends payout ratio (per adjusted income after deducting regulatory reserve for bad debt) | | 20.09% | | 5.28% |

(*1) Net income and adjusted income after deducting regulatory reserve for bad debt are equity holders of the parent's.

## 52. Unconsolidated structured entities

Details of the nature of the Company's interests in unconsolidated structured entities as at December 31, 2013 are as follows (Korean won in millions):

| Classification | Purpose | Major activity | Financing arrangement | | Total assets |
|---|---|---|---|---|---|
| Special purpose company | Financing through asset liquidation and securitization | Collection of securitized assets and financing | Issuing ABL/ABCP and others | ₩ | 7,313,872 |
| Real estate finance | Operation for real estate (including SOC) development | Managing real estate development | Investment and borrowing | | 17,872,746 |
| Shipping finance and accepting finance | Financing to purchase ships and ownership | Building or purchasing ships and financing | Investment and borrowing | | 6,587,181 |
| Investment fund and trust | Managing investment fund and trust | Managing investment property | Issuing beneficiary certificates | | 6,385,442 |

**52. Unconsolidated structured entities (cont'd)**

Details of the Company's maximum exposure to loss from its interests in unconsolidated structured entities as at December 31, 2013 are as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Special purpose company | Real estate finance | Shipping finance and accepting finance | Investment fund and trust |
| Assets: | | | | |
| Loans receivable (A) | ₩ 450,628 | ₩ 1,252,507 | ₩ 465,566 | ₩ 504,721 |
| Securities (B) | 1 | 24,123 | - | 68,098 |
| Derivatives (C) | 1,998 | - | 1,062 | 4,588 |
| Others (D) | 21,181 | 3,510 | 988 | 2,120 |
| Liabilities: | | | | |
| Derivatives | 16,950 | - | - | 14,544 |
| Provision | 43 | 435 | 41 | - |
| Others | 21,228 | 564 | - | - |
| Net asset | ₩ 435,587 | ₩ 1,279,141 | ₩ 467,575 | ₩ 564,983 |
| Maximum exposure to loss | 1,442,666 | 1,413,544 | 508,864 | 580,158 |
| Financial assets (A+B+C+D) | 473,808 | 1,280,140 | 467,616 | 579,527 |
| Credit and other commitment | 968,858 | 133,404 | 41,248 | 631 |

**53. Business combination**

In accordance with the regulations of the Bank Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia ("KEBI"), a subsidiary of the KEB, and PT Bank Hana, a subsidiary of Hana Bank, are undergoing a merger process as at December 31, 2013.

## 54. Loss on prior year error correction

With respect to the long term deposits without activities after 5 years from the final transaction, the Bank classifies these accounts as completed extinctive prescription dormant deposits and recognized the relative amount as gain from liabilities exempted and also a portion has appeared in the Smile Microcredit Bank. However, in accordance with the Supreme Court judgment made on August 23, 2012 stating that the extinctive prescription is not completed in case the Bank has made deposit interest after the final transaction, which is regarded as an act of acknowledgement of debt, the Bank has the obligation to return the deposits as at December 31, 2013. The Company restated the accompanying separate financial statements for the prior period presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earnings for the years ended December 31, 2013 and 2012 to be decreased in the amount of ₩5,930 million and ₩9,648 million, respectively, operating income, other operating income and other operating expenses for the year ended December 31, 2012 to be decreased in the amount of ₩10,071 million, ₩6,858 million and ₩2,942 million, respectively, and income tax expense and net income for the year ended December 31, 2012 to be increased in the amount of ₩2,437 million and ₩3,718 million, respectively.

On March 5, 2013, the Bank received an organization warning from the Financial Supervisory Service in accordance to the Pricing Guideline as a result of directing a raise in other interest rates and accordingly, 7 prior and current executives were under indictment as of July 25, 2013 upon the investigation from the Public Prosecutors Office. The Public Prosecutors Office has requested the Financial Supervisory Service to order the Bank to return the received interest to the relevant customers. The Company the accompanying separate financial statements for the prior period presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earnings for the years ended December 31, 2013 and 2012 to be decreased in the amount of ₩30,031 million and ₩28,694 million, respectively, and interest income and net income for the year ended December 31, 2012 to be increased in the amount of ₩1,337 million, respectively.

Details of the restated net income and earnings per share over the prior periods are as follows (Korean won in millions):

| Classification | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Net income (before) (*) | ₩ 658,852 | ₩ 1,654,665 | ₩ 1,122,448 | ₩ 891,951 | ₩ 782,582 | ₩ 961,143 |
| Amount of errors correction | 2,381 | (4,738) | (13,533) | (14,192) | (5,328) | (551) |
| Net income (restated) | ₩ 661,233 | ₩ 1,649,927 | ₩ 1,108,915 | ₩ 877,759 | ₩ 777,254 | ₩ 960,592 |
| Earnings per share (before) (*) | | | | | | |
| Basic earnings per share | ₩ 993 | ₩ 2,538 | ₩ 1,712 | ₩ 1,383 | ₩ 1,213 | ₩ 1,490 |
| Diluted earnings per share | 993 | 2,533 | 1,711 | 1,383 | 1,213 | 1,490 |
| Earnings per share (restated) | | | | | | |
| Basic earnings per share | 997 | 2,531 | 1,691 | 1,361 | 1,205 | 1,489 |
| Diluted earnings per share | 997 | 2,526 | 1,690 | 1,361 | 1,205 | 1,489 |

(*) Net income and earnings per share over the prior periods are in accordance with accounting standards applied prior to adopting Korea International Financial Reporting Standards.

### 55. Spinoff plan for credit card division

On December 24, 2013, the Company's Board of Directors approved an equity spinoff of credit card division aiming to strengthen the competitiveness of credit card business and applied to the Financial Services Commission for the permission of equity spinoff and credit card business for the newly established company after the spinoff.

Based on the spinoff plan, the Company plans to obtain the Financial Services Commission's permission and approve the equity spinoff at general meeting of shareholders.

EY 한영
Building a better working world

Ernst & Young Han Young
Taeyoung Building, 111, Yeouigongwon-ro,
Yeongdeungpo-gu, Seoul 150-777 Korea

Tel: +82 2 3787 6600
Fax: +82 2 783 5890
ey.com/kr

# Independent auditors' report

The Board of Directors and Shareholders
Korea Exchange Bank

We have audited the accompanying separate financial statements of Korea Exchange Bank (the "Bank"), which comprise the separate statement of financial position as at December 31, 2013, and the related separate statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

The separate statement of financial position as at December 31, 2012, and the related separate statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended were audited by Deloitte Anjin LLC, in accordance with auditing standards generally accepted in the Republic of Korea, whose report dated March 8, 2013 expressed an unqualified opinion thereon. The financial statements of the Bank for the year ended December 31, 2012, which Deloitte Anjin LLC has expressed their opinion thereon, had not been amended by the adjustments described in Note 53. Such adjustments were applied to the comparative 2012 finacial statements presented herein.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of Korea Exchange Bank as at December 31, 2013 and the result of its financial performance and cash flows for the year then ended in accordance with Korea International Financial Reporting Standards (KIFRS).

As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

Ernst & Young Han Young

March 4, 2014

This audit report is effective as at March 4, 2014, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this report is used. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modification to this report.

**Korea Exchange Bank**
**Separate statements of financial position**
**As at December 31, 2013 and December 31, 2012 and January 1, 2012**
(Korean won in millions)

| | Notes | | December 31, 2013 | | December 31, 2012 | | January 1, 2012 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and due from banks | 5,6,7,8,10,47,48 | ₩ | 6,646,083 | | 6,929,182 | ₩ | 7,409,044 |
| Financial assets at FVTPL | 5,6,7,8,11,18,48 | | 1,606,733 | | 1,472,758 | | 1,481,282 |
| Derivative assets used for hedging purposes | 5,6,7,8,18 | | 23,070 | | 37,867 | | 32,537 |
| Available-for-sale financial assets | 5,6,7,8,12,14,15,17,48 | | 9,155,708 | | 6,969,864 | | 6,054,791 |
| Held-to-maturity investments | 5,6,7,8,13,14,15 | | 2,195,558 | | 5,017,636 | | 5,332,794 |
| Loans receivable | 5,6,7,8,16,17,48 | | 69,711,992 | | 66,457,419 | | 64,691,036 |
| Investments in subsidiaries and associates | 19 | | 985,207 | | 1,071,522 | | 1,052,873 |
| Property and equipment | 20 | | 1,199,048 | | 1,204,775 | | 1,188,863 |
| Investment property | 21 | | 183,262 | | 178,312 | | 176,442 |
| Intangible assets | 22 | | 60,884 | | 68,643 | | 73,688 |
| Deferred income tax assets | | | 56 | | 1,217 | | 963 |
| Other assets | 5,6,7,8,23,48 | | 6,688,282 | | 7,812,749 | | 7,089,628 |
| Merchant banking account assets | 5,6,7,8,23 | | 2,715,835 | | 2,578,216 | | 2,392,454 |
| Non-current assets held for sale | 24 | | 290 | | 192 | | - |
| **Total assets** | | ₩ | 101,172,008 | ₩ | 99,800,352 | ₩ | 96,976,395 |
| **Liabilities and equity** | | | | | | | |
| **Liabilities** | | | | | | | |
| Deposits | 5,6,7,8,26,48 | ₩ | 65,135,250 | | 63,570,114 | ₩ | 61,937,441 |
| Financial liabilities at FVTPL | 5,6,7,8,25,48 | | 1,286,767 | | 1,308,602 | | 967,748 |
| Derivative liabilities used for hedging purposes | 5,6,7,8,18 | | 12,562 | | - | | 897 |
| Borrowings | 5,6,7,8,27,48 | | 6,520,691 | | 6,562,502 | | 9,175,095 |
| Debentures | 5,6,7,8,28 | | 6,582,000 | | 5,810,107 | | 4,975,857 |
| Provisions | 29,48,49 | | 266,657 | | 224,432 | | 234,595 |
| Current income tax liabilities | | | 31,174 | | 34,810 | | 380,327 |
| Deferred income tax liabilities | 44 | | 59,052 | | 31,668 | | 51,663 |
| Other liabilities | 5,6,7,8,30,31,46,48 | | 10,180,326 | | 12,820,052 | | 10,083,430 |
| Merchant banking account liabilities | 5,6,7,8,30 | | 1,680,804 | | 528,735 | | 753,304 |
| **Total liabilities** | | | 91,755,283 | | 90,891,022 | | 88,560,357 |
| **Equity** | | | | | | | |
| Issued capital | 32 | | 3,224,534 | | 3,224,534 | | 3,224,534 |
| Capital surplus | 32 | | 940 | | 940 | | 940 |
| Hybrid equity securities | 32 | | 429,509 | | 249,772 | | 249,772 |
| Capital adjustments | 32 | | (18,714) | | 40 | | - |
| Retained earnings | 33 | | 5,537,826 | | 5,229,692 | | 4,613,561 |
| (Regulatory reserve for bad debts in the amount of ₩697,881, ₩680,066 and ₩- as at December 31, 2013 and 2012 and January 1, 2012, respectively) | 34 | | | | | | |
| (Required reserve for bad debts in the amount of ₩50,713 , ₩17,815 and ₩680,066 as at December 31, 2013 and 2012 and January 1, 2012, respectively) | | | | | | | |
| (Planned reserve for bad debts in the amount of ₩50,713, ₩17,815 and ₩680,066 as at December 31, 2013 and 2012 and January 1, 2012, respectively) | | | | | | | |
| Accumulated other comprehensive income | 35 | | 242,630 | | 204,352 | | 327,231 |
| **Total equity** | | | 9,416,725 | | 8,909,330 | | 8,416,038 |
| **Total liabilities and equity** | | ₩ | 101,172,008 | ₩ | 99,800,352 | ₩ | 96,976,395 |

The accompanying notes are an integral part of the financial statements.

**Korea Exchange Bank**
**Separate statements of profit or loss and other comprehensive income**
**For the years ended December 31, 2013 and 2012**
(Korean won in millions, except per share amounts)

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Net interest income** | 37,48 | | |
| Interest income | | ₩ 3,650,625 | ₩ 4,142,699 |
| Interest expenses | | (1,576,259) | (1,836,134) |
| | | 2,074,366 | 2,306,565 |
| **Net fee and commission income** | 38,48 | | |
| Fee and commission income | | 486,097 | 468,029 |
| Fee and commission expenses | | (359,214) | (334,848) |
| | | 126,883 | 133,181 |
| **Net gain (loss) on financial instrument at FVTPL** | 39,48 | | |
| Gain on financial instrument at FVTPL | | 3,297,432 | 3,426,891 |
| Loss on financial instrument at FVTPL | | (3,219,852) | (3,431,333) |
| | | 77,580 | (4,442) |
| **Net gain (loss) on derivative financial instruments used for hedging purposes** | 39 | | |
| Gain on derivative financial instruments used for hedging purposes | | 33,757 | 7,816 |
| Loss on derivative financial instruments used for hedging purposes | | (30,141) | (12,577) |
| | | 3,616 | (4,761) |
| **Net gain of available-for-sale financial assets** | 39 | | |
| Gain on available-for-sale financial assets | | 82,833 | 238,560 |
| Loss on available-for-sale financial assets | | (5,187) | (22) |
| | | 77,646 | 238,538 |
| **Impairment losses** | 40,48 | | |
| Impairment losses on financial assets | | (483,715) | (612,707) |
| | | (483,715) | (612,707) |
| **General and administrative expenses** | 41,46 | (1,434,818) | (1,462,589) |
| **Net other operating income** | 42,48 | | |
| Other operating income | | 1,522,093 | 1,297,202 |
| Other operating expenses | | (1,410,251) | (1,027,370) |
| | | 111,842 | 269,832 |
| **Operating income** | | 553,400 | 863,617 |
| **Non-operating income (expenses)** | 43 | | |
| Non-operating income | | 21,690 | 56,799 |
| Non-operating expenses | | (129,211) | (44,316) |
| | | (107,521) | 12,483 |
| **Net income before income tax expense** | | 445,879 | 876,100 |
| **Income tax expense** | 44 | (85,436) | (241,719) |
| **Net income** | | 360,443 | 634,381 |
| (Adjusted income after regulatory reserve for bad debt in the amount of ₩309,730 and ₩616,566 for the years ended December 31, 2013 and 2012, respectively) | 34 | | |
| **Other comprehensive income** | 35 | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Gain (loss) on valuation of available-for-sale financial assets | | 97,206 | (113,021) |
| Exchange differences on translation of available-for-sale financial assets | | (31) | (89) |
| Exchange differences on translation of foreign operations | | (8,735) | (30,931) |
| Tax effect | | (23,517) | 27,372 |
| | | 64,923 | (116,669) |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurements of the net defined benefit liability | | (35,151) | (8,192) |
| Tax effect | | 8,506 | 1,982 |
| | | (26,645) | (6,210) |
| **Total comprehensive income** | | ₩ 398,721 | ₩ 511,502 |
| **Earnings per share** | 45 | | |
| Basic earnings per share | | ₩ 530 | ₩ 955 |
| Diluted earnings per share | | ₩ 530 | ₩ 955 |

The accompanying notes are an integral part of the financial statements.

**Korea Exchange Bank**
**Separate statements of changes in equity**
**For the years ended December 31, 2013 and 2012**
(Korean won in millions)

| | Notes | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|---|---|
| As at January 1, 2012 | | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,675,124 | ₩ 304,010 | ₩ 8,454,380 |
| Accumulated effect of accounting policy change | 3,31 | - | - | - | - | (23,221) | 23,221 | - |
| Loss on prior year error correction | 53 | - | - | - | - | (38,342) | - | (38,342) |
| Restated balance as at January 1, 2012 | | 3,224,534 | 940 | 249,772 | - | 4,613,561 | 327,231 | 8,416,038 |
| Dividends on hybrid equity securities | | - | - | - | - | (18,250) | - | (18,250) |
| Share-based payment transactions | | - | - | - | 40 | - | - | 40 |
| | | 3,224,534 | 940 | 249,772 | 40 | 4,595,311 | 327,231 | 8,397,828 |
| Net income for the period | | - | - | - | - | 634,381 | - | 634,381 |
| Loss on valuation of available-for-sale financial assets | | - | - | - | - | - | (85,670) | (85,670) |
| Exchange differences on transaction of foreign operations | | - | - | - | - | - | (30,931) | (30,931) |
| Exchange differences on translation of available-for-sale financial assets | | - | - | - | - | - | (68) | (68) |
| Changes in remeasurement of the net defined benefit liability | | - | - | - | - | - | (6,210) | (6,210) |
| Total comprehensive expenses for the period | | - | - | - | - | 634,381 | (122,879) | 511,502 |
| As at December 31, 2012 | | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,229,692 | ₩ 204,352 | ₩ 8,909,330 |

| | Notes | Common stock | Capital surplus | Hybrid equity securities | Capital adjustments | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|---|---|
| As at January 1, 2013 | | ₩ 3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,282,664 | ₩ 187,341 | ₩ 8,945,291 |
| Accumulated effect of accounting policy change | 3,31 | - | - | - | - | (17,011) | 17,011 | - |
| Loss on prior year error correction | 53 | - | - | - | - | (35,961) | - | (35,961) |
| Restated balance as at January 1, 2013 | | 3,224,534 | 940 | 249,772 | 40 | 5,229,692 | 204,352 | 8,909,330 |
| Dividends on hybrid equity securities | | - | - | - | - | (20,064) | - | (20,064) |
| Share-based payment transactions | | - | - | - | (267) | - | - | (267) |
| Loss on disposal of treasury stock | | - | - | - | (17,869) | - | - | (17,869) |
| Change in other capital adjustments | | - | - | - | (618) | - | - | (618) |
| Dividends | | - | - | - | - | (32,245) | - | (32,245) |
| Issuance of hybrid equity securities | | - | - | 179,737 | - | - | - | 179,737 |
| | | 3,224,534 | 940 | 429,509 | (18,714) | 5,177,383 | 204,352 | 9,018,004 |
| Net income for the period | | - | - | - | - | 360,443 | - | 360,443 |
| Gain on valuation of available-for-sale financial assets | | - | - | - | - | - | 73,682 | 73,682 |
| Exchange differences on transaction of foreign operations | | - | - | - | - | - | (8,735) | (8,735) |
| Exchange differences on translation of available-for-sale financial assets | | - | - | - | - | - | (24) | (24) |
| Changes in remeasurement of the net defined benefit liability | | - | - | - | - | - | (26,645) | (26,645) |
| Total comprehensive income for the period | | - | - | - | - | 360,443 | 38,278 | 398,721 |
| As at December 31, 2013 | | ₩ 3,224,534 | ₩ 940 | ₩ 429,509 | ₩ (18,714) | ₩ 5,537,826 | ₩ 242,630 | ₩ 9,416,725 |

The accompanying notes are an integral part of the financial statements.

**Korea Exchange Bank**
**Separate statements of cash flows**
**For the years ended December 31, 2013 and 2012**

(Korean won in millions)

| | | 2013 | | 2012 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | ₩ | 360,443 | ₩ | 634,381 |
| Adjustments to reconcile net income to net cash flows: | | | | |
| Income tax expense | | 85,436 | | 241,719 |
| Interest income, net | | (2,074,366) | | (2,306,565) |
| Gain on valuation of financial assets held-for-trading, net | | (270) | | (382) |
| Gain on valuation of derivatives held-for-trading, net | | (36,815) | | (34,263) |
| Loss (gain) on valuation of derivatives used for hedging purposes, net | | (3,616) | | 5,517 |
| Gain on disposal of available-for-sale financial asset, net | | (77,646) | | (238,538) |
| Impairment loss on available-for-sale financial assets | | 28,463 | | 15,305 |
| Provision for possible loan losses | | 455,252 | | 597,402 |
| Impairment loss on investments in subsidiaries and associates | | 87,907 | | 748 |
| Depreciation on property and equipment | | 76,013 | | 71,540 |
| Depreciation on investment property | | 2,549 | | 2,494 |
| Amortization | | 22,123 | | 22,455 |
| Loss on disposal of property and equipment, net | | 50 | | 71 |
| Loss on disposal of investment property, net | | - | | 73 |
| Gain on disposal of intangible assets | | (296) | | - |
| Impairment losses on intangible assets | | 2,533 | | 2,074 |
| Provision for post-employment benefit obligation | | 52,571 | | 81,778 |
| Long-term compensation expense for performance bonus | | 20,729 | | 33,842 |
| Stock compensation expense (income) | | 462 | | (2,453) |
| Provision for (reversal of) acceptances and guarantees | | 3,466 | | (3,867) |
| Provision for unused credit limit | | 138 | | 6,642 |
| Provision for other allowances | | 51,013 | | 8,178 |
| Gain on foreign currency transactions, net | | (85,926) | | (34,989) |
| Dividend income | | (10,303) | | (9,060) |
| Rental income | | (3,043) | | (3,206) |
| Loss on valuation of financial assets held-for-trading (Merchant banking account), net | | 172 | | 32 |
| Provision for (reversal of) possible loan losses (Merchant banking account) | | 320 | | (4,664) |
| Gain on valuation of CMA securities (Merchant banking account) | | 11 | | 4 |
| Reversal of unused credit limit (Merchant banking account) | | (69) | | (82) |
| | | (1,403,142) | | (1,548,195) |
| Changes in operating assets and liabilities: | | | | |
| Financial assets held-for-trading | | (116,205) | | 288,978 |
| Derivative assets held-for-trading | | 32,398 | | (245,906) |
| Derivative assets used for hedging purposes | | 18,598 | | 711 |
| Loans receivable | | (3,752,121) | | (2,684,997) |
| Other assets | | (927,512) | | 986,382 |
| Merchant banking account assets | | (138,122) | | (181,134) |
| Deposits | | 1,565,136 | | 1,904,595 |
| Derivative liabilities held-for-trading | | (21,803) | | 340,878 |
| Derivative liabilities used for hedging purposes | | 12,562 | | (897) |
| Contributions to plan assets | | (64,000) | | (74,300) |
| Payment of severance benefits | | (4,359) | | (33,486) |
| Provisions | | (12,260) | | (20,167) |
| Other liabilities | | (529,007) | | 1,717,426 |
| Merchant banking account liabilities | | 1,152,939 | | (224,487) |
| | | (2,783,756) | | 1,773,596 |

(Continued)

**Korea Exchange Bank**
**Separate statements of cash flows**
**For the years ended December 31, 2013 and 2012**
(Korean won in millions)

| | 2013 | 2012 |
|---|---|---|
| Cash received from operating activities: | | |
| Interest receipts | 3,679,928 | 4,038,046 |
| Dividend receipts | 10,303 | 9,061 |
| Income tax refunds | 47,513 | 12,165 |
| | 3,737,744 | 4,059,272 |
| Cash payment for operating activities: | | |
| Interest payments | 1,644,581 | 2,445,092 |
| Payment of income tax | 106,476 | 592,277 |
| | (1,751,057) | (3,037,369) |
| **Net cash flows provided by (used in) operating activities** | (1,839,768) | 1,881,685 |
| **Investing activities** | | |
| Cash inflow related to investing activities: | | |
| Decrease in restricted due from banks, net | 259,690 | 1,343,932 |
| Proceeds from disposal of available-for-sale financial assets | 5,374,932 | 4,166,280 |
| Proceeds from disposal of held-to-maturity investments | 5,715,458 | 5,092,832 |
| Proceeds from disposal of property and equipment | 237 | 183 |
| Proceeds from disposal of intangible assets | 2,424 | 213 |
| Proceeds from disposal of investment property | - | 271 |
| Cash inflow related to lease | 2,773 | 2,199 |
| | 11,355,514 | 10,605,910 |
| Cash outflow related to investing activities: | | |
| Purchase of available-for-sale financial assets | 7,514,575 | 4,982,732 |
| Purchase of held-to-maturity investments | 2,875,751 | 4,783,204 |
| Acquisition of investments in subsidiaries | - | 19,397 |
| Acquisition of intangible assets | 19,049 | 13,298 |
| Acquisition of property and equipment | 78,527 | 90,410 |
| Increase in guarantee deposits paid, net | 6,279 | 8,844 |
| | (10,494,181) | (9,897,885) |
| **Net cash flows provided by investing activities** | 861,333 | 708,025 |
| **Financing activities** | | |
| Cash inflow related to financing activities: | | |
| Increase in call money | 441,763 | - |
| Increase in bills sold | 40,223 | - |
| Increase in borrowings | 1,131,162 | 1,855,301 |
| Issuance of debentures | 3,002,977 | 3,286,743 |
| Issue of hybrid equity securities | 179,737 | - |
| | 4,795,862 | 5,142,044 |

(Continued)

**Korea Exchange Bank**
**Separate statements of cash flows**
**For the years ended December 31, 2013 and 2012**

(Korean won in millions)

| | 2013 | 2012 |
|---|---|---|
| Cash outflow related to financing activities: | | |
| Decrease in call money | - | 962,275 |
| Decrease in bills sold | - | 33,607 |
| Decrease in bonds sold under repurchase agreements | - | 22,055 |
| Decrease in borrowings | 1,628,687 | 3,328,499 |
| Redemption of debentures | 2,147,120 | 2,482,774 |
| Dividends paid | 32,245 | - |
| Dividends on hybrid equity securities | 20,064 | 18,250 |
| | (3,828,116) | (6,847,460) |
| **Net cash flows provided by (used in) financing activities** | 967,746 | (1,705,416) |
| **Net increase (decrease) in cash and cash equivalents** | (10,689) | 884,294 |
| **Cash and cash equivalents at the beginning of the period** | 3,552,314 | 2,688,244 |
| **Effect of exchange rate changes on cash and cash equivalents** | (12,720) | (20,224) |
| **Cash and cash equivalents at the end of the period** | ₩ 3,528,905 | ₩ 3,552,314 |

The accompanying notes are an integral part of the financial statements.

## 1. Bank information

Korea Exchange Bank (the “Bank”) was established on January 30, 1967, as a government-invested bank which primarily enages in foreign exchange and trade finance business under the Korea Exchange Bank Act published on July 28, 1966. On December 30, 1989, the Korea Exchange Bank Act was repealed ,and the Bank was reorganized as a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, the Bank was listed on the Korean Stock Exchange. The merger between the Bank and the Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004.

The Bank primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business as a result of the merger with Korea International Merchant Bank, a domestic subsidiary of the Bank, and other related operations as permitted under the Korea Exchange Bank Act, and other relevant laws, and regulations in the Republic of Korea. As at December 31, 2013, the Bank operates 354 branches (including 29 depositary offices) and 3 subsidiaries in the Republic of Korea and 23 branches (including 3 depositary offices and 6 offices) and 10 subsidiaries overseas.

As at December 31, 2013, the Bank is authorized to issue 1,000 million shares (at ₩5,000 per value) and has issued 644,906,826 ordinary shares amounting to ₩3,224,534 million in issued capital.

On April 5, 2013, the Bank became a wholly-owned subsidiary of Hana Financial Group resulting from a share-for-share exchange.

## 2. Basis of preparation

The Bank prepares statutory separate financial statements in the Korean language in accordance with Korea International Financial Reporting Standards (KIFRS) enacted by the Corporate External Audit Law.

The accompanying separate financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors’ report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The separate financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of financial position at the beginning of the ealiest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these separate financial statements due to retrospective application of certain accounting policies and retrospective restatement referred in Note 31 and 53.

## 3. Summary of significant accounting policies

The Bank applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include *KIFRS 1019 Employee Benefits* and amendments to *KIFRS 1001 Presentation of Financial Statements*. In addition, the application of *KIFRS 1112 Disclosure of Interests in Other Entities* resulted in additional disclosures in the separate financial statements Several other amendments apply for the first time in 2013. However, they do not impact the annual separate financial statements of the Bank.

The nature and impact of each new standard and amendment are described below:

### *KIFRS 1019 Employee Benefits (Revised)*

*KIFRS 1019* revisions include a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss;instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation and; unvested past service costs are now recognized in profit or loss earlier, when the amendment occurs or when the related restructuring or termination costs are recognized.

The Bank has changed the accounting policy of expected returns on plan assets and past service costs according to the above revisions.

*KIFRS 1019 (Revised 2011*) also requires more extensive disclosures. These have been provided in Note 31.

*KIFRS 1019 (Revised 2011)* has been applied retrospectively with the following permitted exceptions:
- The carrying amounts of other assets have not been adjusted based on the changes in employee benefit costs included before January 1, 2012.
- Sensitivity disclosures for the defined benefit obligation for comparative period (year ended December 31, 2012) have not been provided.

The Bank has applied *KIFRS 1019* and assessed the impact that this standard will have on the financial position or performance of the Bank which is disclosed in Note 31.

### *KIFRS 1001 Presentation of Financial Statements (Revised)*

The amendments *to KIFRS 1001* introduce a grouping of items presented in OCI. Items that will be reclassified (‘recycled’) to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Bank’s financial position or performance.

3. Summary of significant accounting policies (cont'd)

***KIFRS 1110 Consolidated Financial Statements and KIFRS 1027 Separate Financial Statements***

*KIFRS 1110* replaces the portion of *KIFRS 1027 Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in *KIFRS 2012 Consolidation — Special Purpose Entities*. *KIFRS 1110* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by *KIFRS 1110* will require management to exercise significant judgment to determine, which entities are controlled and therefore are required to be consolidated by a parent compared with the requirements that were in *KIFRS 1027*. The amendments made to *KIFRS 1027* are in conformity with the current *KIFRS 1027* that address the accounting principles and disclosures for separate financial statements.

***KIFRS 1111 Joint Arrangements and KIFRS 1028 Investments in Associates and Joint Ventures***

*KIFRS 1111* describes the application of the equity method to investments in joint ventures in addition to associates. *KIFRS 1028 replaces joint ventures with joint arrangements and divides joint arrangements into jointly controlled business, and jointly controlled entity.* Moreover, *KIFRS 1111* removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

***KIFRS 1112 Disclosure of Interests in Other Entities***

*KIFRS 1112* includes all of the disclosures that were previously in *KIFRS 1027* related to consolidated financial statements, as well as all the disclosures that were previously included in *KIFRS 1031* and *KIFRS 1028*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities including unconsolidated structured entities.

## 3. Summary of significant accounting policies (cont'd)

### *KIFRS 1113 Fair Value Measurement*

*KIFRS 1113* establishes a single source of guidance under KIFRS for all fair value measurements. *KIFRS 1113* does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under KIFRS. *KIFRS 1113* defines fair value as an exit price. As a result of the guidance in *KIFRS 1113*, the Bank re-assesses its policies for measuring fair values, and in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. *KIFRS 1113* also requires additional disclosures.

Application of *KIFRS 1113* has not materially impacted the fair value measurements of the Bank. Additional disclosures where required are provided in the individual notes relating to the assets and liabilities whose fair values were determinded. Fair value hireachy is provided in Note 5.

Personnel expenses accounted for as employee benefits have been reclassified as salaries for the current period, and general expenses for the prior period have been restated for comparative purposes.

Such reclassification has no effect on the Bank's net assets and net income.

Changes in the components of general and administrative expenses for the years ended December 31, 2012 and 2011 due to the reclassification are as follows (Korean won in millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| | After | Before | After | Before |
| Employee benefits: | | | | |
| Salaries | ₩ 811,184 | ₩ 632,591 | ₩ 816,793 | ₩ 561,652 |
| Provision for severance and retirement benefits | 89,971 | 89,971 | 45,151 | 45,151 |
| Expenses for fringe benefits | 36,547 | 215,140 | 32,581 | 287,722 |
| Depreciation and amortization: | | | | |
| Depreciation on property and equipment | 71,540 | 71,540 | 63,474 | 63,474 |
| Depreciation on investment property | 2,494 | 2,494 | 2,462 | 2,462 |
| Amortization | 22,455 | 22,455 | 25,308 | 25,308 |
| Other general and administrative expenses: | | | | |
| Rental expense | 116,238 | 116,238 | 109,516 | 109,516 |
| Entertainment expense | 10,890 | 10,890 | 12,286 | 12,286 |
| Taxes and dues | 42,486 | 42,486 | 44,065 | 44,065 |
| Advertising expenses | 41,604 | 41,604 | 30,569 | 30,569 |
| Others | 225,373 | 225,373 | 213,312 | 213,312 |
| | ₩ 1,470,782 | ₩ 1,470,782 | ₩ 1,395,517 | ₩ 1,395,517 |

## 3. Summary of significant accounting policies (cont'd)

### Revenue recognition

Interest income (expense)

Interest income (expense) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or interest expense over the relevant period.

Fee and commission income

Based on the purpose of the fee and commission and related accounting standards for financial instruments, fee and commission income are classified as and accounted for as follows:

| Classification | Details |
|---|---|
| Fee and commission composing effective income of the financial instruments | Accounted for as an adjustment to the effective interest rate |
| Fee and commission by rendering services | Recognized when the services are provided |
| Fee and commission by performing significant activities | Recognized when significant activities have been completed |

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

### Financial assets

Financial assets, except for those financial assets classified as at FVTPL which are initially measured at fair value, are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets,. Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments are generally determined from a quoted price in an active market for identical financial assets or financial liabilities where these are available.

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss ("FVTPL"),' 'held-to-maturity investments,' 'available-for-sale financial assets,' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract that terms require delivery of the financial asset within the period established by the market concerned.

## 3. Summary of significant accounting policies (cont'd)

### Financial assets (cont'd)

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held-for-trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held-for-trading if it is a derivative that is not designated and effective as a hedging instrument

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held-for-trading if:

- It has been acquired principally for the purpose of selling it in the near term,
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking, or,
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- In accordance with the Bank's documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, performance is evaluated based on its fair value, and this information is provided internally on that basis, or,
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039, Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Available-for-sale financial assets

Non-derivative financial assets that are not classified as at held-to-maturity, held-for-trading, designated at FVTPL, or loans and receivables are classified as available-for-sale financial assets.

Available-for-sale financial assets are subsequently measured at fair value at the closing date. Gains and losses arising from changes in fair value are recognized in other comprehensive income, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in net income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to net income.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Dividends on available-for-sale equity securities are recognized in net income when the Bank's right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in foreign currency is determined in that foreign currency and translated at the prevailed rate at the end of the reporting period. Available-for-sale non-monetary assets measured at amortized cost are translated with the exchange rate at the trade date, while assets measured at fair value are translated with the exchange rate when the fair value is determined.

Unquoted equity investments which fair values cannot be measured reliably and derivative instruments which are related to the unquoted equity investments that will be settled by delivering those investments are carried at cost after deducting the amount of impairment losses.

#### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment, with income recognized on an effective yield basis.

#### Loans and receivable

Non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. 'Loans and receivables' are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized based on applying the effective interest rate method, except for short-term receivables, when the recognition of interest would be immaterial.

Loans, due from banks, and guarantee money for business premise are classified as 'loans and receivables.'

#### Deferred loan origination fees ("LOF"s) and loan origination costs ("LOC"s)

The Bank defers LOF/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF/LOCs. The deferred LOF/LOCs are amortized based on the effective interest rate method with the amortization recognized as adjustments to interest income.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, the impairment losses, expected as a result of future events, are not recognized.

For equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

Objective evidence that a financial asset is impaired includes the following loss events:

- Significant financial difficulty of the issuer or obligor,
- A breach of contract, such as a default or delinquency in interest or principal payments,
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider,
- It is probable that the borrower will enter bankruptcy or other financial reorganization,
- The disappearance of an active market for the financial asset due to the financial difficulties,
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, or
- Significant changes that bring negative effects caused by the changes in the technology, market, economic, and legal environment where the issuer carries on business.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

Available-for-sale financial assets

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of available-for-sale equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease for available-for-sale debt instruments can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Held-to-maturity investments

For held-to-maturity investments measured at amortized cost, impairment loss is measured based on the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

In case the impairment loss decreases in a subsequent period and such decrease is objectively related to the events that occurred after recognition of impairment, the impairment loss previously recognized is reversed through net income to the extent that it does not increase the carrying amount to what it would have been had the impairment loss never been recognized.

Loans and receivables

For loans and receivables measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The Bank first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (Individual assessment of impairment).

For financial assets that are not individually significant, the Bank assesses whether the objective evidence of impairment exists individually or collectively. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (Collective assessment of impairment).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits is recognized based on the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering the borrower's management performance, financial position, overdue period, and mortgage amount.

Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits is recognized based on adjusting Probability of Default ("PD") and Loss Given Default ("LGD") according to Basel II for the purpose of accounting and applying to the carrying amount. Such approach considers various elements, including borrower type, credit rating, and size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inbuilt loss and determine variables based on historical loss experience and current conditions.

## 3. Significant accounting policies (cont'd)

### Financial assets (cont'd)

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the transfer of a partial financial asset is qualified for derecognition, the entire carrying amount of the transferred financial asset shall, between the portion which is derecognized and the portion which is still recognized, be apportioned according to their respective relative fair value. The difference between the amounts of (1) the book value of the portions that is derecognized and (2) the sum of consideration of the portion that is still recognized and the portion of the accumulated gain or loss recognized in other comprehensive income previously related to the portion that is derecognized.

Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Bank has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

## 3. Significant accounting policies (cont'd)

### Financial liabilities and equity instruments (cont'd)

Financial liabilities at FVTPL

Financial liabilities are classified as financial liabilities at FVTPL when the financial liability is either held-for-trading or designated at FVTPL.

A financial liability is classified as held-for-trading if:

- It has been acquired principally for the purpose of repurchase in the near term
- On initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held-for-trading may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- In accordance with the Bank's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis
- It forms a part of a contract containing one or more embedded derivatives, and *KIFRS 1039, Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. In addition, the transaction costs incurred related to issuance upon initial recognition is recognized in net income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost based on the effective interest rate method, with interest expense recognized on an effective yield basis.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

## 3. Significant accounting policies (cont'd)

### Financial liabilities and equity instruments (cont'd)

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, canceled, or expires. The difference between the paid price and the book value of a derecognized financial liability is recognized in net income for the period.

Hybrid equity securities

Hybrid securities are classified as an equity when all requirements for equity classification are satisfied in conformity with the contract terms.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at fair value and, if not designated at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with *KIFRS 1037, Provisions, Contingent Liabilities and Contingent Assets*
- The amount initially recognized, less cumulative amortization recognized in accordance with the *KIFRS 1018, Revenue*

### Fair values

Fair values of financial assets or liabilities are determined as follows:

- Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where there are available under standard requirements for transactions.
- For other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are taken from observable market data.
- The quoted market prices are used for derivatives if it is traded in an active market. All other derivatives which quoted market price is not available are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis with option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using the yield curve derived from corresponding interest rate to published future exchange rate and maturity.

**3. Significant accounting policies (cont'd)**

**Fair values (cont'd)**

The Bank classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

| Classification | Details |
|---|---|
| (Level 1) | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| (Level 2) | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| (Level 3) | Inputs for the asset or liability that are not based on the observable market data (unobservable inputs) |

**Derivative financial instruments**

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship. The Bank designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable

forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and when the host contracts are not measured at FVTPL.

Hedge accounting

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

## 3. Significant accounting policies (cont'd)

### Derivative financial instruments (cont'd)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

Deferred Day 1 profit

The Bank assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) coincides with a theoretical methodology commonly used for determining the price of financial instruments.

However, the Bank defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology does not satisfy the above requirements.

Deferred Day 1 profit is recognized in net income for the period when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

### Investments in subsidiaries and associates

The Bank's financial statements are separate financial statements under *KIFRS 1027* and *1028*, accounting and presenting investments in subsidiaries and associates with cost method not based on investees' reported financial results and net assets, but based on direct interests. The Bank accounts for investments in subsidiaries and associates with cost method in accordance with *KIFRS 1027*. Dividends received from subsidiaries and associates are recognized in net income for the period when the right to receive dividends is determined.

### Foreign currencies

Functional currency and presentation currency

The individual financial statements of each branch are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the financial results and position of each branch are expressed in Korean won, which is the presentation currency of the Bank and the presentation currency for the separate financial statements.

3. **Significant accounting policies (cont'd)**

**Foreign currencies (cont'd)**

Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized based on the exchange rate prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated using the closing rate. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Exchange differences are recognized in net income for the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (5) above for hedging accounting policies)
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment

Overseas branch

The Bank identifies the most appropriate functional currency for each foreign operation based on the foreign operation's activities. If Korean won is not the foreign operation's functional currency, its assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at foreign exchange rates at the end of each reporting date while the income and expenses are translated into Korean won at average exchange rates for the period unless it does not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising from the translation of a foreign operation are recognized directly in other comprehensive income and included in net income for the period on its liquidation.

**Retirement benefit costs**

For defined benefit plans, the cost of retirement benefits is measured by an actuary services Bank, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in net income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

## 3. Significant accounting policies (cont'd)

### Retirement benefit costs (cont'd)

The Bank enters into agreements such as retirement insurance, retirement trust, and retirement annuity in order to meet severance pay. The retirement benefit obligation recognized in the separate statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### Share-based payment

For equity-settled share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Bank with the choice of whether to settle in cash or by issuing equity instruments, the Bank shall determine whether it has a present obligation to settle in cash. If no obligation exits, it shall be accounted for in accordance with the requirements applying to equity-settled share-based transactions. However, if the Bank has a present obligation to settle in cash, it shall be accounted for in accordance with the requirements applying to cash-settled share-based transactions.

### Property and equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Bank and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

Depreciation expense is computed using the depreciation method over the estimated useful lives of the assets as follows except for land which is not depreciated:

| Classification | Estimated useful life | Depreciation method |
|---|---|---|
| Buildings | 40 years | Straight-line |
| Leasehold improvements | 5 years | Straight-line |
| Equipment and vehicles | 4 years | Declining-balance |

## 3. Significant accounting policies (cont'd)

### Property and equipment (cont'd)

Property and equipment are derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

### Investment property

Investment property is property held to earn rental income and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at depreciated cost. Gains and losses arising from changes in the fair value of investment property are included in net income for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated based on the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income for the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income for the period of the occurrence.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

### Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over 5 years.

The estimated useful life and amortization method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

## 3. Significant accounting policies (cont'd)

### Intangible assets (cont'd)

Expenditure on research activities is recognized as an expense for the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income for the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are measured at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured based on the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income for the period when the asset is derecognized.

### Non-current assets held–for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

3. **Significant accounting policies (cont'd)**

**Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. Reversal of an impairment loss is recognized immediately in net income for the period.

**Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Bank does not recognize provisions for future operating losses.

The Bank recognizes provisions related to unused credit card points amount, guarantee and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are recognized as property and equipment. Decommissioning or restoration costs are provided at the present value of expected costs of restoration using future cash outflows.

## 3. Significant accounting policies (cont'd)

### Accounting for trust accounts

The Bank separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Bank's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Bank and are recorded as due to trust accounts of the Bank's accounts. Also, the borrowings from the Bank's accounts are recorded as due from trust accounts of the Bank's accounts. The Bank receives fees for operation and management of the trust business and accounts for them as fee and commission income from trust accounts.

With respect to certain trust account products, the Bank guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Bank's accounts and receiving compensation contributions from the Bank's accounts. If the Bank pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as fee and commission expense from trust accounts in the Bank's separate statements of profit or loss and other comprehensive income.

### Merchant banking accounts

As permitted by the Restructuring of Financial Institutions Act, the Bank may continue its merchant banking operations, including leasing business, until the existing contracts acquired from the Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Bank's merchant banking operations are summarized as follows:

#### Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of transaction based on the difference between the purchase prices and sales prices of the notes, adjusted for interest earned during the holding period.

#### Cash Management Accounts ("CMA")

The Bank recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

3. Significant accounting policies (cont'd)

**Income tax expenses**

Income tax consists of current tax and deferred tax.

Current tax liabilities are calculated based on the taxable profit for the year. Taxable profit differs from profit as reported in the separate statements of profit or loss and other comprehensive income because taxable profit excludes items taxable or deductible for different tax years or not taxable or deductible permanently. The Bank's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. **Summary of significant accounting policies (cont'd)**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

***Investment Entities* (Amendments to *KIFRS 1110, KIFRS 1112 and KIFRS 1027)***

These amendments are effective for annual periods beginning on or after January 1, 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank since none of the entities in the Bank would qualify to be an investment entity under *KIFRS 1110*.

***KIFRS 1032 Offsetting Financial Assets and Financial Liabilities – Amendments***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Bank.

**Recoverable Amount Disclosures for Non-Financial Assets – Amendments to *KIFRS 1036* Impairment of Assets**

These amendments remove the unintended consequences of *KIFRS 1113* on the disclosures required under *KIFRS 1036*. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

***KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments***

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

***KIFRS 2121 Levies – Amendments***

*KIFRS 2121* clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. *KIFRS 2121* is effective for annual periods beginning on or after January 1, 2014. The Bank does not expect that *KIFRS 2121* will have material financial impact in future financial statements.

The Bank has not early adopted any other standard, interpretation or amendment that have been issued but are not yet effective.

## 4. Estimation and accounting judgment

In the application of the Bank's accounting policies described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

### Determination of fair values

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors, assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

### Allowance for possible losses on credits

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by observing assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees/unused credit limit liabilities calculated using collective method.

### Measurement of defined benefit obligation

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term.

## 5. Fair value measurement of financial assets and liabilities

The standards the Bank applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.
B. If a market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.
C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.
D. For an investment in equity instruments which quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

Fair value hierarchy of financial instruments measured at fair value as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ 199,200 | ₩ 39,400 | ₩ - | ₩ 238,600 |
| Equity securities | 12,776 | - | - | 12,776 |
| Derivative assets held-for-trading | - | 1,354,277 | 1,080 | 1,355,357 |
| | 211,976 | 1,393,677 | 1,080 | 1,606,733 |
| Derivative assets used for hedging purposes | - | 23,070 | - | 23,070 |
| Available-for-sale financial assets | | | | |
| Debt securities | 2,661,212 | 5,545,883 | 21,197 | 8,228,292 |
| Equity securities | 671,973 | - | 247,841 | 919,814 |
| Others | - | - | 7,602 | 7,602 |
| | 3,333,185 | 5,545,883 | 276,640 | 9,155,708 |
| | ₩ 3,545,161 | ₩ 6,962,630 | ₩ 277,720 | ₩ 10,785,511 |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ 20 | ₩ 1,286,747 | ₩ - | ₩ 1,286,767 |
| Derivative liabilities used for hedging purposes | - | 12,562 | - | 12,562 |
| | ₩ 20 | ₩ 1,299,309 | ₩ - | ₩ 1,299,329 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| Classification | | Quoted market price (Level 1) | | Observable input (Level 2) | | Unobservable input (Level 3) | | Total |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2012 | | | | | | | |
| Financial assets: | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | |
| Debt securities | ₩ | 100,674 | ₩ | - | ₩ | - | ₩ | 100,674 |
| Equity securities | | 21,107 | | - | | - | | 21,107 |
| Derivative assets held-for-trading | | - | | 1,340,821 | | 10,156 | | 1,350,977 |
| | | 121,781 | | 1,340,821 | | 10,156 | | 1,472,758 |
| Derivative assets used for hedging purposes | | - | | 37,867 | | - | | 37,867 |
| Available-for-sale financial assets | | | | | | | | |
| Debt securities | | 2,760,183 | | 3,629,875 | | 21,491 | | 6,411,549 |
| Equity securities | | 4,527 | | - | | 515,277 | | 519,804 |
| Others | | - | | 38,511 | | - | | 38,511 |
| | | 2,764,710 | | 3,668,386 | | 536,768 | | 6,969,864 |
| | ₩ | 2,886,491 | ₩ | 5,047,074 | ₩ | 546,924 | ₩ | 8,480,489 |
| Financial liabilities: | | | | | | | | |
| Financial liabilities at FVTPL | ₩ | - | ₩ | 1,308,431 | ₩ | 171 | ₩ | 1,308,602 |
| | ₩ | - | ₩ | 1,308,431 | ₩ | 171 | ₩ | 1,308,602 |

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are measured at fair value as at December 31, 2013 are as follows (Korean won in millions):

| Classification | | Fair value | Valuation technique | Inputs |
|---|---|---|---|---|
| | December 31, 2013 | | | |
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Debt securities | ₩ | 39,400 | DCF model | Discount rate |
| Derivative assets held-for-trading | | 1,354,277 | DCF model | Discount rate, Variability, Exchange rate, Stock price, etc. |
| | | 1,393,677 | | |
| Derivative assets used for hedging purposes | | 23,070 | DCF model | Discount rate, Variability,Stock price, etc |
| Available-for-sale financial assets | | | | |
| Debt securities | | 5,545,883 | DCF model | Discount rate |
| | ₩ | 6,962,630 | | |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ | 1,286,747 | DCF model | Discount rate, Variability, Exchange rate, Stock price, etc |
| Derivative liabilities used for hedging purposes | | 12,562 | DCF model | Discount rate, Variability, Stock price, etc |
| | ₩ | 1,299,309 | | |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Description of fair value, valuation technique, input to valuation, and significant unobservable inputs used to develop those measurements classified into level 3 assets and liabilities that are measured at fair value as at December 31, 2013 are as follows(Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs | Significant unobservable inputs | Range | Sensitivity of the input to fair value |
| Financial assets: | | | | | | |
| Financial assets at FVTPL | | | | | | |
| Derivative assets held-for-trading | ₩ 1,080 | Binomial model | Risk free rate, Variability of stock price | Volatility of stock price | 33.25% | Fair value increased due the increased in its volatility |
| Available-for-sale financial assets | | | | | | |
| Debt securities | 21,197 | DCF Method | Discount rate | Discount rate | | Fair value increased due the decreased in its discount rate |
| Equity securities | 247,841 | DCF Method, Comparative on similar business, | Discount rate | Discount rate | 7.46% ~ 20.77% | Fair value increased due the decreased in its discount rate |
| | | Risk adjusted discount rate method | Growth rate | Growth rate | 0% | Fair value increased due the decreased in its growth rate |
| Others | 7,602 | DCF Method, Comparative on similar business, | Discount rate | Discount rate | 6.46% | Fair value increased due the decreased in its discount rate |
| | | Risk adjusted discount rate method | Bid rate | Bid rate | 55.12% | Fair value increased due the decreased in its bid rate |
| | 276,640 | | | | | |
| | ₩ 277,720 | | | | | |

**5. Fair value measurement of financial assets and liabilities (cont'd)**

Changes in the fair value of Level 3 financial instruments measured at fair value for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/into | | | | Valuation | | | |
| | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Income (expense) | Other comprehens -ive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 10,156 | ₩ - | ₩ - | ₩ 775 | ₩ (7,924) | ₩ (1,927) | ₩ - | ₩ - | ₩ 1,080 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 21,491 | - | - | - | - | (317) | 23 | - | 21,197 |
| Equity securities | 515,277 | (293,889) | | 70,493 | (12,313) | (22,887) | (7,235) | (1,605) | 247,841 |
| Others | - | - | - | 7,288 | - | - | 314 | - | 7,602 |
| | 536,768 | (293,889) | - | 77,781 | (12,313) | (23,204) | (6,898) | (1,605) | 276,640 |
| | ₩ 546,924 | ₩ (293,889) | ₩ - | ₩ 78,556 | ₩ (20,237) | ₩ (25,131) | ₩ (6,898) | ₩ (1,605) | ₩ 277,720 |
| Financial liabilities: | | | | | | | | | |
| Financial liabilities at FVTPL | ₩ 171 | ₩ - | ₩ - | ₩ - | ₩ (294) | ₩ - | ₩ 123 | ₩ - | ₩ - |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

| | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Transfer out/into | | | | Valuation | | | |
| Classification | Beginning balance | Transfer out of level 3 | Transfer into level 3 | Acquisition/ issuance | Disposal/ payment | Income (expense) | Other comprehens -ive income | Others | Ending balance |
| Financial assets: | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | |
| Derivative assets held-for-trading | ₩ 10,623 | ₩ - | ₩ - | ₩ - | ₩ (2,820) | ₩ 2,353 | ₩ - | ₩ - | ₩ 10,156 |
| Available-for-sale Financial assets | | | | | | | | | |
| Debt securities | 22,422 | - | - | - | - | (1,598) | 667 | - | 21,491 |
| Equity securities | 649,080 | (1,300) | | 65,724 | (255,156) | 171,765 | (114,836) | - | 515,277 |
| | 671,502 | (1,300) | - | 65,724 | (255,156) | 170,167 | (114,169) | - | 536,768 |
| | ₩ 682,125 | ₩ (1,300) | ₩ - | ₩ 65,724 | ₩ (257,976) | ₩ 172,520 | ₩ (114,169) | ₩ - | ₩ 546,924 |
| Financial liabilities: | | | | | | | | | |
| Financial liabilities at FVTPL | ₩ 3,486 | ₩ - | ₩ - | ₩ 202 | ₩ (1,285) | ₩ (2,184) | ₩ - | ₩ (48) | ₩ 171 |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Total gains or losses recognized in profit or loss of changes in level 3 financial instruments measured at fair value for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 Total gains or losses recognized in profit or loss | 2013 The line item in profit or loss in which those gains or losses are recognized | 2012 Total gains or losses recognized in profit or loss | 2012 The line item in profit or loss in which those gains or losses are recognized |
|---|---|---|---|---|
| Gain (loss) on financial assets at FVTPL | ₩ (2,050) | ₩ 265 | ₩ 4,537 | ₩ 4,537 |
| Other gain (loss) on financial instruments | 5,779 | (317) | 186,858 | (1,598) |
| Impairment loss on financial instruments | (28,983) | (28,983) | (16,691) | (16,691) |
| | ₩ (25,254) | ₩ (29,035) | ₩ 174,704 | ₩ (13,752) |

Details of the amounts of any transfers into or out of level 3 of the fair value hierarchy for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Transfers out of level 3 to level 1 | ₩ 293,889 | ₩ 1,300 |

Sensitivity of the fair value measurement for the each level 3 financial instrument upon the changes in significant unobservable input, whose results are favorable and unfavorable changes in profit or loss or other comprehensive income as at December 31, 2013 is as follows (Korean won in millions):

| Classification | December 31, 2013 Favorable changes | December 31, 2013 Unfavorable changes |
|---|---|---|
| Financial assets: | | |
| Financial assets at FVTPL | | |
| Derivative assets held-for-trading | ₩ 119 | ₩ (120) |
| Available-for-sale financial assets | | |
| Debt securities | 87 | (89) |
| Equity securities | 15,792 | (7,114) |
| Others | 173 | (100) |
| | 16,052 | (7,303) |
| | ₩ 16,171 | ₩ (7,423) |

5. Fair value measurement of financial assets and liabilities (cont'd)

Fair value hierarchy of financial instruments for items disclosed but not measured at fair value as at December 31, 2013 is as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Cash and due from banks (*1) | ₩ 1,680,759 | ₩ 4,965,324 | ₩ - | ₩ 6,646,083 |
| Held-to-maturity investments | 1,163,811 | 1,036,671 | - | 2,200,482 |
| Loans receivable | - | - | 69,610,227 | 69,610,227 |
| Other financial assets | - | - | 6,533,731 | 6,533,731 |
| Merchant banking account assets | - | - | 2,717,717 | 2,717,717 |
| | ₩ 2,844,570 | ₩ 6,001,995 | ₩ 78,861,675 | ₩ 87,708,240 |
| Financial liabilities: | | | | |
| Deposits | ₩ - | ₩ - | ₩ 65,685,740 | ₩ 65,685,740 |
| Borrowings | - | - | 6,526,554 | 6,526,554 |
| Debentures | - | 6,748,339 | - | 6,748,339 |
| Other financial liabilities | - | - | 9,867,626 | 9,867,626 |
| Merchant banking account liabilities | - | - | 1,679,336 | 1,679,336 |
| | ₩ - | ₩ 6,748,339 | ₩ 83,759,256 | ₩ 90,507,595 |

(*1) Fair value of level 2 is measured at book value, presuming that the book value is the reasonable value for the fair value measurement.

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 2 assets and liabilities that are not measured at fair value as at December 31, 2013 are as follows (Korean won in millions):

| | December 31, 2013 | | |
|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs |
| Financial assets: | | | |
| Cash and due from banks | ₩ 4,965,324 | DCF model | Discount rate |
| Held-to-maturity investments | 1,036,671 | DCF model | Discount rate |
| | ₩ 6,001,995 | | |
| Financial liabilities: | | | |
| Debentures | ₩ 6,748,339 | DCF model | Discount rate |

## 5. Fair value measurement of financial assets and liabilities (cont'd)

Details of fair value, valuation technique, and inputs used to develop those measurements classified into level 3 assets and liabilities disclosed but not measured at fair value as at December 31, 2013 is as follows (Korean won in millions):

| | December 31, 2013 | | |
|---|---|---|---|
| Classification | Fair value | Valuation technique | Inputs |
| Financial assets: | | | |
| Loans receivable | ₩ 69,610,227 | DCF model | Discount rate |
| Other financial assets | 6,533,731 | DCF model | Discount rate |
| Merchant banking account assets | 2,717,717 | DCF model | Discount rate |
| | ₩ 78,861,675 | | |
| Financial liabilities: | | | |
| Deposits | ₩ 65,685,740 | DCF model | Discount rate |
| Borrowings | 6,526,554 | DCF model | Discount rate |
| Other financial liabilities | 9,867,626 | DCF model | Discount rate |
| Merchant banking accountLiabilities | 1,679,336 | DCF model | Discount rate |
| | ₩ 83,759,256 | | |

## 6. Fair value of financial instruments

Fair values of financial instruments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Classification | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | |
| Cash and due from banks | ₩ 6,646,083 | ₩ 6,646,083 | ₩ 6,929,182 | ₩ 6,929,182 |
| Financial assets at FVTPL | | | | |
| Debt securities | 238,600 | 238,600 | 100,674 | 100,674 |
| Equity securities | 12,776 | 12,776 | 21,107 | 21,107 |
| Derivative assets held-for-trading | 1,355,357 | 1,355,357 | 1,350,977 | 1,350,977 |
| | 1,606,733 | 1,606,733 | 1,472,758 | 1,472,758 |
| Derivative assets used for hedging purposes | 23,070 | 23,070 | 37,867 | 37,867 |
| Available-for-sale financial assets | | | | |
| Debt securities | 8,228,292 | 8,228,292 | 6,411,549 | 6,411,549 |
| Equity securities | 919,814 | 919,814 | 519,804 | 519,804 |
| Other | 7,602 | 7,602 | 38,511 | 38,511 |
| | 9,155,708 | 9,155,708 | 6,969,864 | 6,969,864 |
| Held-to-maturity investments | 2,195,558 | 2,200,482 | 5,017,636 | 5,050,423 |
| Loans receivable (*1) | 69,711,992 | 69,610,227 | 66,457,419 | 66,600,683 |
| Other financial assets (*2) | 6,531,875 | 6,533,731 | 7,711,143 | 7,715,465 |
| Merchant banking account assets (*3) | 2,715,835 | 2,717,717 | 2,578,216 | 2,578,571 |
| | ₩ 98,586,854 | ₩ 98,493,751 | ₩ 97,174,085 | ₩ 97,354,813 |

### 6. Fair value of financial instruments (cont'd)

Fair values of financial instruments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Classification | Book value | Fair value | Book value | Fair value |
| Financial liabilities: | | | | |
| Deposits | ₩ 65,135,250 | ₩ 65,685,740 | ₩ 63,570,114 | ₩ 63,622,722 |
| Financial liabilities at FVTPL | 1,286,767 | 1,286,767 | 1,308,602 | 1,308,602 |
| Derivative liabilities used for hedging purposes | 12,562 | 12,562 | - | - |
| Borrowings | 6,520,691 | 6,526,554 | 6,562,502 | 6,564,403 |
| Debentures | 6,582,000 | 6,748,339 | 5,810,107 | 6,011,901 |
| Other financial liabilities (*4) | 9,868,152 | 9,867,626 | 12,453,468 | 12,453,500 |
| Merchant banking account liabilities (*5) | 1,679,336 | 1,679,336 | 525,839 | 525,839 |
| | ₩ 91,084,758 | ₩ 91,806,924 | ₩ 90,230,632 | ₩ 90,486,967 |

(*1) Net carrying amount after deduction of allowance for possible loan losses and LOF/LOC
(*2) Including receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances, including merchant banking loans, merchant banking account trading securities, and CMA assets
(*4) Including payables spot exchange, domestic exchange settlement credit, trust accounts payable etc.
(*5) Including merchant banking account deposits

### 7. Classification of financial assets and liabilities by category

Financial assets and liabilities by category as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 6,646,083 | ₩ - | ₩ 6,646,083 |
| Financial assets at FVTPL | 1,606,733 | - | - | - | - | 1,606,733 |
| Derivative assets used for hedging purposes | - | - | - | - | 23,070 | 23,070 |
| Available-for-sale financial assets | - | 9,155,708 | - | - | - | 9,155,708 |
| Held-to-maturity investments | - | - | 2,195,558 | - | - | 2,195,558 |
| Loans receivable | - | - | - | 69,711,992 | - | 69,711,992 |
| Other financial assets | - | - | - | 6,531,875 | - | 6,531,875 |
| Merchant banking account assets | - | - | - | 2,715,835 | - | 2,715,835 |
| | ₩ 1,606,733 | ₩ 9,155,708 | ₩ 2,195,558 | ₩ 85,605,785 | ₩ 23,070 | ₩ 98,586,854 |

## 7. Classification of financial assets and liabilities by category (cont'd)

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 65,135,250 | ₩ - | ₩ 65,135,250 |
| Financial liabilities at FVTPL | 1,286,767 | - | - | - | - | 1,286,767 |
| Derivative liabilities used for hedging purposes | - | - | - | - | 12,562 | 12,562 |
| Borrowings | - | - | - | 6,520,691 | - | 6,520,691 |
| Debentures | - | - | - | 6,582,000 | - | 6,582,000 |
| Other financial liabilities | - | - | - | 9,868,152 | - | 9,868,152 |
| Merchant banking liabilities | - | - | - | 1,679,336 | - | 1,679,336 |
| | ₩ 1,286,767 | ₩ - | ₩ - | ₩ 89,785,429 | ₩ 12,562 | ₩ 91,084,758 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Financial instruments held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Financial instruments measured at amortized cost | Derivative instruments used for hedging purposes | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 6,929,182 | ₩ - | ₩ 6,929,182 |
| Financial assets at FVTPL | 1,472,758 | - | - | - | - | 1,472,758 |
| Derivative assets used for hedging purposes | - | - | - | - | 37,867 | 37,867 |
| Available-for-sale financial assets | - | 6,969,864 | - | - | - | 6,969,864 |
| Held-to-maturity investments | - | - | 5,017,636 | - | - | 5,017,636 |
| Loans receivable | - | - | - | 66,457,419 | - | 66,457,419 |
| Other financial assets | - | - | - | 7,711,143 | - | 7,711,143 |
| Merchant banking account assets | 1,895,965 | - | - | 682,251 | - | 2,578,216 |
| | ₩ 3,368,723 | ₩ 6,969,864 | ₩ 5,017,636 | ₩ 81,779,995 | ₩ 37,867 | ₩ 97,174,085 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 63,570,114 | ₩ - | ₩ 63,570,114 |
| Financial liabilities at FVTPL | 1,308,602 | - | - | - | - | 1,308,602 |
| Borrowings | - | - | - | 6,562,502 | - | 6,562,502 |
| Debentures | - | - | - | 5,810,107 | - | 5,810,107 |
| Other financial liabilities | - | - | - | 12,453,468 | - | 12,453,468 |
| Merchant banking liabilities | - | - | - | 525,839 | - | 525,839 |
| | ₩ 1,308,602 | ₩ - | ₩ - | ₩ 88,922,030 | ₩ - | ₩ 90,230,632 |

## 8. Risk management

The Bank's risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management group which is composed of integrated risk management division ,credit risk management division, loan review division, and treasury settlement division.

Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors. The committee deliberates and determines major issues such as risk management policies and strategies and risk tolerance limit. Risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Bank distributes internal capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Bank retains and manages reasonable equity capital so ato manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of internal capital.

The Bank classifies risks as significant risks and residual risks.

- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined internal capital. The Bank consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports this information to management.

The Bank defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level of economic capital. It regularly assesses and manages the reasonableness of economic capital by comparing available capital and combined internal capital. Economic capital as a capital buffer is determined by the risk management committee so as to prepare for additional possibility of losses, emergency situations, and incompleteness of information systems and fluctuation of available capital and strictly managed by a risk propensity index.

In addition, the Bank assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate regulated by the Financial Supervisory Service on a semi-annual basis.

The Bank efficiently manages through preparing principles for assessment and management in order to maximize shareholders' profits and constructs a combined risk management system considering risks, profits and growth.

**8. Risk management (cont'd)**

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that cause damage to the Bank's soundness by improving assets soundness through setup of credit ratings, credit screening, quantifying and managing credit risks on a regular basis.

The Bank implements a system that divides and operates marketing and screening for management purpose. It also employs a total exposure limit system for solving weighted credits and hedging risks and an early alert system for monitoring an insolvent company and establishing countermeasures.

The Bank measures expected losses and unexpected losses separately. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses which is computed through advanced internal ratings-based approach ("AIRB") under the Bank for International Settlements ("BIS") Basel II.

The Bank's level of exposure to credit risk as at December 31, 2013 and 2012 is summarized as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| On balance: | | |
| Due from banks | ₩ 4,965,324 | ₩ 5,233,114 |
| Financial assets at FVTPL | 1,593,957 | 1,451,651 |
| Derivative assets used for hedging purposes | 23,070 | 37,867 |
| Available-for-sale financial assets | 8,228,292 | 6,411,550 |
| Held-to-maturity investments | 2,195,558 | 5,017,636 |
| Loans receivable | | |
| Household loans | 21,937,961 | 21,393,411 |
| Corporate loans | | |
| Large business | 21,642,856 | 20,735,331 |
| Small and medium business | 17,384,827 | 16,799,728 |
| Public sector and others | 6,183,333 | 4,952,317 |
| Credit card loans | 2,563,015 | 2,576,632 |
| | 69,711,992 | 66,457,419 |
| Other financial assets | 6,531,875 | 7,711,143 |
| Merchant banking account assets | 2,715,835 | 2,578,216 |
| | ₩ 95,965,903 | ₩ 94,898,596 |
| Off balance: | | |
| Loans and credit commitments | ₩ 58,673,350 | ₩ 58,632,251 |
| Guarantees and endorsed notes | 16,572,177 | 14,911,656 |
| | ₩ 75,245,527 | ₩ 73,543,907 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 1,137,950 | ₩ - | ₩ 1,137,950 | ₩ 645,996 | ₩ 57,818 | ₩ 434,136 |
| Repurchase agreement | 700,000 | - | 700,000 | - | 700,000 | - |
| Domestic exchange settlement credits | 10,101,204 | 8,904,778 | 1,196,426 | - | - | 1,196,426 |
| Securities lent | 170,382 | - | 170,382 | - | 170,382 | - |
| | ₩ 12,109,536 | ₩ 8,904,778 | ₩ 3,204,758 | ₩ 645,996 | ₩ 928,200 | ₩ 1,630,562 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities set off in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash collateral received | Net amount |
| Derivatives | ₩ 1,165,704 | ₩ - | ₩ 1,165,704 | ₩ 670,973 | ₩ 117,010 | ₩ 377,721 |
| Repurchase agreement | 490,000 | - | 490,000 | - | 490,000 | - |
| Domestic exchange settlement credits | 1,135,982 | 721,670 | 414,312 | - | - | 414,312 |
| | ₩ 2,791,686 | ₩ 721,670 | ₩ 2,070,016 | ₩ 670,973 | ₩ 607,010 | ₩ 792,033 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 852,350 | ₩ - | ₩ 852,350 | ₩ 645,996 | ₩ 4,620 | ₩ 201,734 |
| Repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 9,879,019 | 8,904,777 | 974,242 | - | 974,242 | - |
| | ₩ 10,731,559 | ₩ 8,904,777 | ₩ 1,826,782 | ₩ 646,186 | ₩ 978,862 | ₩ 201,734 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related amounts not set off in the statement of financial position | | |
| Classification | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets set off in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives | ₩ 959,571 | ₩ - | ₩ 959,571 | ₩ 670,973 | ₩ 57,940 | ₩ 230,658 |
| Repurchase agreement | 190 | - | 190 | 190 | - | - |
| Domestic exchange settlement credits | 2,312,102 | 721,670 | 1,590,432 | - | 1,352,062 | 238,370 |
| | ₩ 3,271,863 | ₩ 721,670 | ₩ 2,550,193 | ₩ 671,163 | ₩ 1,410,002 | ₩ 469,028 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Details of collateral management and credit risk mitigation as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 139,355 | ₩ 50,282 | ₩ 7,793 | ₩ 5,266,319 | ₩ 5,463,749 |
| Deposit | 6,751 | 691 | 275 | 1,034,076 | 1,041,793 |
| Movable assets | - | - | - | 518 | 518 |
| Real estate | 146,562 | 87,525 | 19,833 | 20,156,981 | 20,410,901 |
| Securities | 22,857 | 2,057 | 34 | 2,123,179 | 2,148,127 |
| Others | - | - | - | 3,825 | 3,825 |
| | ₩ 315,525 | ₩ 140,555 | ₩ 27,935 | ₩ 28,584,898 | ₩ 29,068,913 |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Impaired | | Unimpaired | | |
| Classification | Individual assessment | Collective assessment | Past due | Non past due | Total |
| Guarantees | ₩ 11,519 | ₩ 20,618 | ₩ 9,048 | ₩ 4,356,371 | ₩ 4,397,556 |
| Deposit | 6,024 | 2,443 | 481 | 1,225,689 | 1,234,637 |
| Movable assets | - | - | - | 7,915 | 7,915 |
| Real estate | 210,715 | 98,539 | 13,065 | 19,175,616 | 19,497,935 |
| Securities | 72,853 | 3,607 | 3,276 | 2,004,700 | 2,084,436 |
| Others | - | - | - | 6,547 | 6,547 |
| | ₩ 301,111 | ₩ 125,207 | ₩ 25,870 | ₩ 26,776,838 | ₩ 27,229,026 |

Details of delinquency rates on loans and receivable as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Neither past due nor impaired | ₩ 21,791,186 | ₩ 21,188,911 | ₩ 17,292,368 | ₩ 6,165,660 | ₩ 2,521,564 | ₩ 68,959,689 |
| Past due but unimpaired | 20,364 | - | 9,157 | 11,343 | 65,941 | 106,805 |
| Impaired | 134,667 | 725,189 | 321,678 | 37,631 | 62,028 | 1,281,193 |
| | 21,946,217 | 21,914,100 | 17,623,203 | 6,214,634 | 2,649,533 | 70,347,687 |
| Deferred loan fees | 44,778 | (10,140) | 2,647 | 690 | (81) | 37,894 |
| Allowance for possible loan losses | (53,034) | (261,104) | (241,023) | (31,991) | (86,437) | (673,589) |
| | ₩ 21,937,961 | ₩ 21,642,856 | ₩ 17,384,827 | ₩ 6,183,333 | ₩ 2,563,015 | ₩ 69,711,992 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Household loans | Corporate loans: Large business | Corporate loans: Small and medium business | Corporate loans: Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | December 31, 2012 | | | | | |
| Neither past due nor impaired | ₩ 21,275,586 | ₩ 20,469,174 | ₩ 16,680,900 | ₩ 4,947,959 | ₩ 2,474,904 | ₩ 65,848,523 |
| Past due but unimpaired | 24,030 | 464 | 17,047 | 565 | 127,058 | 169,164 |
| Impaired | 92,777 | 536,143 | 380,066 | 42,428 | 59,315 | 1,110,729 |
| | 21,392,393 | 21,005,781 | 17,078,013 | 4,990,952 | 2,661,277 | 67,128,416 |
| Deferred loan fees | 44,568 | (7,770) | (3,668) | 226 | (102) | 33,254 |
| Allowance for possible loan losses | (43,550) | (262,680) | (274,617) | (38,861) | (84,543) | (704,251) |
| | ₩ 21,393,411 | ₩ 20,735,331 | ₩ 16,799,728 | ₩ 4,952,317 | ₩ 2,576,632 | ₩ 66,457,419 |

Delinquency occurs when counterparty is unable to make principle and interest payments at the due date. A financial item is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the item (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, delinquency in interest for more than 90 days, credit deterioration resulting in misleading information, damages incurred due to poor exposure.

Details on loans with no impairment or overdue payments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Household Loans | Corporate loans: Large business | Corporate loans: Small and medium business | Corporate loans: Public institution and others | Credit card loans | Total |
|---|---|---|---|---|---|---|
| | December 31, 2013 | | | | | |
| Grade 1 | ₩ 16,631,074 | ₩ 15,409,446 | ₩ 4,695,671 | ₩ 2,133,860 | ₩ 705,912 | ₩ 39,575,963 |
| Grade 2 | 5,074,289 | 4,964,998 | 10,191,057 | 2,924,913 | 1,733,277 | 24,888,534 |
| Grade 3 | 85,823 | 814,467 | 2,405,640 | 934,678 | 82,369 | 4,322,977 |
| Others | - | - | - | 172,209 | 6 | 172,215 |
| | ₩ 21,791,186 | ₩ 21,188,911 | ₩ 17,292,368 | ₩ 6,165,660 | ₩ 2,521,564 | ₩ 68,959,689 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household Loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Grade 1 | ₩ 16,946,546 | ₩ 15,031,731 | ₩ 4,922,023 | ₩ 1,590,173 | ₩ 700,638 | ₩ 39,191,111 |
| Grade 2 | 4,189,096 | 4,430,094 | 9,310,452 | 2,340,402 | 1,689,989 | 21,960,033 |
| Grade 3 | 139,944 | 1,007,349 | 2,448,425 | 815,106 | 84,277 | 4,495,101 |
| Others | - | - | - | 202,278 | - | 202,278 |
| | ₩ 21,275,586 | ₩ 20,469,174 | ₩ 16,680,900 | ₩ 4,947,959 | ₩ 2,474,904 | ₩ 65,848,523 |

The Bank classifies the grade of loan in accordance with the credit rating chart below, based on the character of borrowers

| Classification | Household loans / Credit card loans | Corporate loans |
|---|---|---|
| Grade 1 | Less or equal to 0.36% of PD | 1 ~ 4 |
| Grade 2 | From 0.36% to 8.79% of PD | 5+ ~ 6 |
| Grade 3 | From 8.79% to 100% of PD | 6- ~ 7 |

The Bank regards loans and receivable with delinquent payments of less than 90 days as unimpaired in case there is no credit information indicating its loss event. Classes of unimpaired loans and receivable with delinquent payments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 11,847 | ₩ - | ₩ 6,802 | ₩ 387 | ₩ 52,233 | ₩ 71,269 |
| 31 to 60 days | 6,048 | - | 1,641 | 161 | 7,494 | 15,344 |
| 61 to 90 days | 2,469 | - | 714 | 10,795 | 6,214 | 20,192 |
| | ₩ 20,364 | ₩ - | ₩ 9,157 | ₩ 11,343 | ₩ 65,941 | ₩ 106,805 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Less than 30 days | ₩ 12,581 | ₩ 380 | ₩ 14,151 | ₩ 111 | ₩ 109,087 | ₩ 136,310 |
| 31 to 60 days | 5,260 | - | 2,121 | 16 | 10,735 | 18,132 |
| 61 to 90 days | 6,189 | 84 | 775 | 438 | 7,236 | 14,722 |
| | ₩ 24,030 | ₩ 464 | ₩ 17,047 | ₩ 565 | ₩ 127,058 | ₩ 169,164 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Classes of impaired loans and receivable as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ - | ₩ 721,806 | ₩ 260,493 | ₩ 30,547 | ₩ - | ₩ 1,012,846 |
| Allowance for possible loan losses | - | (195,623) | (88,595) | (4,903) | - | (289,121) |
| | - | 526,183 | 171,898 | 25,644 | - | 723,725 |
| Collective impairment: | | | | | | |
| Book value | 134,667 | 3,383 | 61,185 | 7,084 | 62,028 | 268,347 |
| Allowance for possible loan losses | (27,474) | (529) | (21,185) | (1,685) | (48,742) | (99,615) |
| | 107,193 | 2,854 | 40,000 | 5,399 | 13,286 | 168,732 |
| | ₩ 107,193 | ₩ 529,037 | ₩ 211,898 | ₩ 31,043 | ₩ 13,286 | ₩ 892,457 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| Classification | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Individual impairment: | | | | | | |
| Book value | ₩ - | ₩ 535,767 | ₩ 294,896 | ₩ 37,595 | ₩ - | ₩ 868,258 |
| Allowance for possible loan losses | - | (158,858) | (96,485) | (12,110) | - | (267,453) |
| | - | 376,909 | 198,411 | 25,485 | - | 600,805 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Corporate loans | | | | |
| | Household loans | Large business | Small and medium business | Public institution and others | Credit card loans | Total |
| Collective impairment: | | | | | | |
| Book value | 92,777 | 376 | 85,170 | 4,833 | 59,315 | 242,471 |
| Allowance for possible loan losses | (18,458) | (169) | (27,399) | (1,177) | (46,028) | (93,231) |
| | 74,319 | 207 | 57,771 | 3,656 | 13,287 | 149,240 |
| | ₩ 74,319 | ₩ 377,116 | ₩ 256,182 | ₩ 29,141 | ₩ 13,287 | ₩ 750,045 |

Overdue payments on debt securities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | | |
|---|---|---|---|---|
| | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Neither past due nor impaired | ₩ 238,600 | ₩ 8,228,292 | ₩ 2,195,558 | ₩ 10,662,450 |
| Impaired | - | - | - | - |
| | ₩ 238,600 | ₩ 8,228,292 | ₩ 2,195,558 | ₩ 10,662,450 |

| Classification | December 31, 2012 | | | |
|---|---|---|---|---|
| | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Neither past due nor impaired | ₩ 100,674 | ₩ 6,411,549 | ₩ 5,017,636 | ₩ 11,529,859 |
| Impaired | - | - | - | - |
| | ₩ 100,674 | ₩ 6,411,549 | ₩ 5,017,636 | ₩ 11,529,859 |

Internal credit ratings of debt securities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | | |
|---|---|---|---|---|
| | Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
| Grade 1 | ₩ 235,419 | ₩ 8,222,474 | ₩ 2,165,864 | ₩ 10,623,757 |
| Grade 2 | 3,181 | 5,818 | 29,694 | 38,693 |
| | ₩ 238,600 | ₩ 8,228,292 | ₩ 2,195,558 | ₩ 10,662,450 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | December 31, 2012 Financial assets held-for-trading | Available-for-sale financial assets | Held-to-maturity investments | Total |
|---|---|---|---|---|
| Grade 1 | ₩ 100,674 | ₩ 6,411,549 | ₩ 5,014,237 | ₩ 11,526,460 |
| Grade 2 | - | - | 3,399 | 3,399 |
| | ₩ 100,674 | ₩ 6,411,549 | ₩ 5,017,636 | ₩ 11,529,859 |

The credit rating classification of debt securities which are rated by external rating agencies is as follows:

| Classification | Domestic Rating Agencies | Overseas Rating Agencies Moody's | S&P | Fitch |
|---|---|---|---|---|
| Grade 1 | AAA ~ A- | Aaa ~ Baa2 | AAA ~ BBB | AAA ~ BBB |
| Grade 2 | BBB+ ~ BB | Baa3 ~ B3 | BBB- ~ B- | BBB- ~ B- |
| Grade 3 | BB ~ B- | Caa1 ~ Caa3 | CCC+ ~ CCC- | CCC+ ~ CCC- |

Credit risk concentration in each major industry as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | Industry | December 31, 2013 Korean won | Foreign currency | Total Amount | Ratio (%) |
|---|---|---|---|---|---|
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 1,954,237 | ₩ 2,757,311 | ₩ 4,711,548 | 94.88 |
| | Others | - | 253,776 | 253,776 | 5.12 |
| | | 1,954,237 | 3,011,087 | 4,965,324 | 100.00 |
| Financial assets held-for-trading | Financial services | 160,099 | 30,257 | 190,356 | 79.78 |
| | Public administration | 39,101 | 5,961 | 45,062 | 18.90 |
| | Others | - | 3,182 | 3,182 | 1.32 |
| | | 199,200 | 39,400 | 238,600 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

Credit risk concentration in each major industry as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| | | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | | Foreign | Total | |
| Classification | Industry | Korean won | currency | Amount | Ratio(%) |
| Available-for-sale financial assets | Financial services | 2,806,544 | 510,905 | 3,317,449 | 40.32 |
| | Manufacturing | 109,845 | 5,818 | 115,663 | 1.41 |
| | Public administration | 4,075,387 | 51,956 | 4,127,343 | 50.15 |
| | Others | 662,684 | 5,153 | 667,837 | 8.12 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity investments | Financial services | 1,053,020 | 27,324 | 1,080,344 | 49.21 |
| | Public administration | 1,062,617 | 2,370 | 1,064,987 | 48.50 |
| | Others | 50,227 | - | 50,227 | 2.29 |
| | | 2,165,864 | 29,694 | 2,195,558 | 100.00 |
| Loans receivable: | | | | | |
| Household loans | | 21,920,704 | 25,513 | 21,946,217 | 31.48 |
| Credit card loans | | 2,645,741 | 3,792 | 2,649,533 | 3.80 |
| Business loans | Manufacturing | 11,468,309 | 7,387,305 | 18,855,614 | 27.06 |
| | Construction | 3,193,124 | 2,937,794 | 6,130,918 | 8.79 |
| | Wholesale & retail | 4,769,065 | 351,460 | 5,120,525 | 7.34 |
| | Real estate rental | 2,208,068 | 2,189,283 | 4,397,351 | 6.31 |
| | Financial services | 1,625,331 | 390,972 | 2,016,303 | 2.89 |
| | Others | 5,948,528 | 3,282,698 | 9,231,226 | 13.24 |
| | | 53,778,870 | 16,568,817 | 70,347,687 | 100.91 |
| Deferred loan fees and expenses | | 38,243 | (349) | 37,894 | 0.05 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | December 31, 2013<br>Korean won | Foreign currency | Total<br>Amount | Ratio(%) |
|---|---|---|---|---|---|
| Allowance for possible loan losses | | (584,513) | (89,076) | (673,589) | (0.96) |
| | | 53,232,600 | 16,479,392 | 69,711,992 | 100.00 |
| | | ₩65,206,361 | ₩ 20,133,405 | ₩85,339,766 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 33,539 | ₩ 627,347 | ₩ 660,886 | 56.64 |
| | Construction | 43,989 | 43,079 | 87,068 | 7.46 |
| | Wholesale & retail | 4,061 | 89,224 | 93,285 | 8.00 |
| | Real estate rental | 22,000 | 11,186 | 33,186 | 2.84 |
| | Others | 11,705 | 280,588 | 292,293 | 25.06 |
| | | 115,294 | 1,051,424 | 1,166,718 | 100.00 |
| Guarantee contracts | Manufacturing | 574,713 | 5,943,585 | 6,518,298 | 42.31 |
| | Construction | 244,555 | 3,885,702 | 4,130,257 | 26.81 |
| | Wholesale & retail | 288,772 | 1,745,192 | 2,033,964 | 13.20 |
| | Financial services | 940 | 1,082,216 | 1,083,156 | 7.03 |
| | Real estate rental | 13,882 | 31,403 | 45,285 | 0.29 |
| | Others | 496,610 | 1,097,889 | 1,594,499 | 10.36 |
| | | 1,619,472 | 13,785,987 | 15,405,459 | 100.00 |
| Commitment | Manufacturing | 17,714,188 | 3,858,871 | 21,573,059 | 36.77 |
| | Construction | 1,790,207 | 520,763 | 2,310,970 | 3.94 |
| | Wholesale & retail | 4,456,176 | 1,287,732 | 5,743,908 | 9.79 |
| | Financial services | 4,584,643 | 25,657 | 4,610,300 | 7.86 |
| | Real estate rental | 2,369,679 | 1,108 | 2,370,787 | 4.04 |
| | Others | 21,331,794 | 732,532 | 22,064,326 | 37.60 |
| | | 52,246,687 | 6,426,663 | 58,673,350 | 100.00 |
| | | ₩53,981,453 | ₩ 21,264,074 | ₩75,245,527 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | December 31, 2012 Korean won | Foreign currency | Total Amount | Total Ratio(%) |
|---|---|---|---|---|---|
| On balance accounts: | | | | | |
| Due from banks | Financial services | ₩ 1,643,584 | ₩ 3,430,757 | ₩ 5,074,341 | 96.97 |
| | Others | - | 158,773 | 158,773 | 3.03 |
| | | 1,643,584 | 3,589,530 | 5,233,114 | 100.00 |
| Financial assets held-for-trading | Financial services | 100,674 | - | 100,674 | 100.00 |
| Available-for-sale financial assets | Financial services | 3,059,611 | 318,931 | 3,378,542 | 52.70 |
| | Manufacturing | 160,488 | - | 160,488 | 2.50 |
| | Public administration | 2,206,441 | 39,518 | 2,245,959 | 35.03 |
| | Others | 626,560 | - | 626,560 | 9.77 |
| | | 6,053,100 | 358,449 | 6,411,549 | 100.00 |
| Held-to-maturity investments | Financial services | 3,302,759 | 27,867 | 3,330,626 | 66.38 |
| | Public administration | 1,512,732 | 3,399 | 1,516,131 | 30.22 |
| | Others | 170,879 | - | 170,879 | 3.40 |
| | | 4,986,370 | 31,266 | 5,017,636 | 100.00 |
| Loans receivable: | | | | | |
| Household loans | | 21,366,801 | 25,592 | 21,392,393 | 32.19 |
| Credit card loans | | 2,659,188 | 2,089 | 2,661,277 | 4.00 |
| Business loans | Manufacturing | 11,301,538 | 7,310,229 | 18,611,767 | 28.01 |
| | Construction | 1,903,534 | 358,751 | 2,262,285 | 3.40 |
| | Wholesale & retail | 3,265,342 | 2,291,184 | 5,556,526 | 8.36 |
| | Real estate rental | 3,906,477 | 382,607 | 4,289,084 | 6.45 |
| | Financial services | 1,663,257 | 2,152,905 | 3,816,162 | 5.74 |
| | Others | 5,545,713 | 2,993,209 | 8,538,922 | 12.85 |
| | | 51,611,850 | 15,516,566 | 67,128,416 | 101.01 |
| Deferred loan fees and expenses | | 33,676 | (422) | 33,254 | 0.05 |
| Allowance for possible loan losses | | (599,978) | (104,273) | (704,251) | (1.06) |
| | | 51,045,548 | 15,411,871 | 66,457,419 | 100.00 |
| | | ₩63,829,276 | ₩ 19,391,116 | ₩ 83,220,392 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| | | December 31, 2012 | | | |
|---|---|---|---|---|---|
| | | | Foreign | Total | |
| Classification | Industry | Korean won | currency | Amount | Ratio(%) |
| Off-balance accounts: | | | | | |
| Financial guarantees | Manufacturing | ₩ 57,627 | ₩ 325,804 | ₩ 383,431 | 52.41 |
| | Construction | 5,009 | 74,202 | 79,211 | 10.83 |
| | Wholesale & retail | 4,350 | 98,794 | 103,144 | 14.10 |
| | Real estate rental | 22,000 | 5,998 | 27,998 | 3.83 |
| | Others | 23,542 | 114,231 | 137,773 | 18.83 |
| | | 112,528 | 619,029 | 731,557 | 100.00 |
| Guarantee contracts | Manufacturing | 632,715 | 5,846,408 | 6,479,123 | 45.69 |
| | Construction | 193,051 | 2,964,070 | 3,157,121 | 22.26 |
| | Wholesale & retail | 375,237 | 1,525,534 | 1,900,771 | 13.40 |
| | Financial services | 968 | 1,143,364 | 1,144,332 | 8.07 |
| | Real estate rental | 13,906 | 9,859 | 23,765 | 0.17 |
| | Others | 440,267 | 1,034,720 | 1,474,987 | 10.41 |
| | | 1,656,144 | 12,523,955 | 14,180,099 | 100.00 |
| Commitment | Manufacturing | 16,200,586 | 3,134,935 | 19,335,521 | 32.98 |
| | Construction | 1,576,661 | 986,580 | 2,563,241 | 4.37 |
| | Wholesale & retail | 4,023,071 | 1,052,379 | 5,075,450 | 8.66 |
| | Financial services | 5,005,285 | 22,078 | 5,027,363 | 8.57 |
| | Real estate rental | 2,740,087 | 47 | 2,740,134 | 4.67 |
| | Others | 23,290,763 | 599,779 | 23,890,542 | 40.75 |
| | | 52,836,453 | 5,795,798 | 58,632,251 | 100.00 |
| | | ₩ 54,605,125 | ₩ 18,938,782 | ₩ 73,543,907 | |

8. Risk management (cont'd)

Credit risk (cont'd)

Credit risk concentration in each country as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | Industry | December 31, 2013 | | | |
|---|---|---|---|---|---|
| | | Korean won | Foreign currency | Total Amount | Total Ratio(%) |
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 1,954,237 | ₩ 386,944 | ₩ 2,341,181 | 47.15 |
| | U.S | - | 1,630,398 | 1,630,398 | 32.84 |
| | China | - | 249,751 | 249,751 | 5.03 |
| | Japan | - | 133,295 | 133,295 | 2.68 |
| | Singapore | - | 119,205 | 119,205 | 2.40 |
| | Hong Kong | - | 24,492 | 24,492 | 0.49 |
| | Others | - | 467,002 | 467,002 | 9.41 |
| | | 1,954,237 | 3,011,087 | 4,965,324 | 100.00 |
| Financial assets held-for-trading | Korea | 199,200 | 39,400 | 238,600 | 100.00 |
| Available-for-sale financial assets | Korea | 7,654,460 | 547,483 | 8,201,943 | 99.68 |
| | Hong Kong | - | 5,153 | 5,153 | 0.06 |
| | Others | - | 21,196 | 21,196 | 0.26 |
| | | 7,654,460 | 573,832 | 8,228,292 | 100.00 |
| Held-to-maturity investments | Korea | 2,165,864 | 27,324 | 2,193,188 | 99.89 |
| | Others | - | 2,370 | 2,370 | 0.11 |
| | | 2,165,864 | 29,694 | 2,195,558 | 100.00 |
| Loans receivable: | Korea | 53,385,633 | 12,681,867 | 66,067,500 | 94.77 |
| | Hong Kong | 2,792 | 577,453 | 580,245 | 0.83 |
| | Japan | 13,482 | 431,209 | 444,691 | 0.64 |
| | Singapore | 2,155 | 610,893 | 613,048 | 0.88 |
| | Panama | - | 431,623 | 431,623 | 0.62 |
| | Others | 374,808 | 1,835,772 | 2,210,580 | 3.17 |
| | | 53,778,870 | 16,568,817 | 70,347,687 | 100.91 |
| Deferred loan fees and expenses | | 38,243 | (349) | 37,894 | 0.05 |
| Allowance for possible loan losses | | (584,513) | (89,076) | (673,589) | (0.96) |
| | | 53,232,600 | 16,479,392 | 69,711,992 | 100.00 |
| | | ₩ 65,206,361 | ₩ 20,133,405 | ₩85,339,766 | |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | December 31, 2013 Korean won | Foreign currency | Total Amount | Total Ratio(%) |
|---|---|---|---|---|---|
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 115,294 | ₩ 1,051,424 | ₩ 1,166,718 | 100.00 |
| Guarantee contracts | Korea | 1,618,922 | 12,882,282 | 14,501,204 | 94.13 |
| | U.S | - | 500,013 | 500,013 | 3.25 |
| | Singapore | - | 143,979 | 143,979 | 0.93 |
| | Japan | - | 57,555 | 57,555 | 0.37 |
| | Germany | 346 | 51,631 | 51,977 | 0.34 |
| | Others | 204 | 150,527 | 150,731 | 0.98 |
| | | 1,619,472 | 13,785,987 | 15,405,459 | 100.00 |
| Commitment | Korea | 52,246,687 | 5,580,245 | 57,826,932 | 98.56 |
| | Singapore | - | 258,480 | 258,480 | 0.44 |
| | Hong Kong | - | 134,372 | 134,372 | 0.23 |
| | Japan | - | 61,880 | 61,880 | 0.11 |
| | Others | - | 391,686 | 391,686 | 0.66 |
| | | 52,246,687 | 6,426,663 | 58,673,350 | 100.00 |
| | | ₩53,981,453 | ₩ 21,264,074 | ₩ 75,245,527 | |

| Classification | Industry | December 31, 2012 Korean won | Foreign currency | Total Amount | Total Ratio(%) |
|---|---|---|---|---|---|
| On balance accounts: | | | | | |
| Due from banks | Korea | ₩ 1,643,584 | ₩ 301,912 | ₩ 1,945,496 | 37.18 |
| | U.S | - | 2,394,462 | 2,394,462 | 45.76 |
| | China | - | 32,940 | 32,940 | 0.63 |
| | Japan | - | 140,185 | 140,185 | 2.68 |
| | Singapore | - | 148,173 | 148,173 | 2.83 |
| | Hong Kong | - | 9,231 | 9,231 | 0.18 |
| | Others | - | 562,627 | 562,627 | 10.74 |
| | | 1,643,584 | 3,589,530 | 5,233,114 | 100.00 |
| Financial assets held-for-trading | Korea | 100,674 | - | 100,674 | 100.00 |
| Available-for-sale financial assets | Korea | 6,053,100 | 331,848 | 6,384,948 | 99.58 |
| | Hong Kong | - | 5,110 | 5,110 | 0.08 |
| | Others | - | 21,491 | 21,491 | 0.34 |
| | | 6,053,100 | 358,449 | 6,411,549 | 100.00 |

## 8. Risk management (cont'd)

### Credit risk (cont'd)

| Classification | Industry | December 31, 2012 Korean won | Foreign currency | Total Amount | Total Ratio(%) |
|---|---|---|---|---|---|
| Held-to-maturity investments | Korea | 4,986,370 | 27,867 | 5,014,237 | 99.90 |
| | Others | - | 3,399 | 3,399 | 0.10 |
| | | 4,986,370 | 31,266 | 5,017,636 | 100.00 |
| Loans receivable: | Korea | 50,058,684 | 12,454,195 | 62,512,879 | 94.06 |
| | Japan | 22,992 | 518,267 | 541,259 | 0.81 |
| | Panama | - | 470,375 | 470,375 | 0.71 |
| | Germany | 1,482 | 402,696 | 404,178 | 0.61 |
| | Hong Kong | 2,015 | 365,898 | 367,913 | 0.55 |
| | Others | 1,526,677 | 1,305,135 | 2,831,812 | 4.27 |
| | | 51,611,850 | 15,516,566 | 67,128,416 | 101.01 |
| Deferred loan fees and expenses | | 33,676 | (422) | 33,254 | 0.05 |
| Allowance for possible loan losses | | (599,978) | (104,273) | (704,251) | (1.06) |
| | | 51,045,548 | 15,411,871 | 66,457,419 | 100.00 |
| | | ₩ 63,829,276 | ₩ 19,391,116 | ₩ 83,220,392 | |
| Off-balance accounts: | | | | | |
| Financial guarantees | Korea | ₩ 112,528 | ₩ 619,029 | ₩ 731,557 | 100.00 |
| Guarantee contracts | Korea | 1,655,181 | 11,421,407 | 13,076,588 | 92.22 |
| | U.S | - | 597,641 | 597,641 | 4.21 |
| | Singapore | 50 | 156,955 | 157,005 | 1.11 |
| | Japan | - | 60,222 | 60,222 | 0.42 |
| | Hong Kong | - | 56,454 | 56,454 | 0.40 |
| | Others | 913 | 231,276 | 232,189 | 1.64 |
| | | 1,656,144 | 12,523,955 | 14,180,099 | 100.00 |
| Commitment | Korea | 52,836,453 | 4,997,194 | 57,833,647 | 98.64 |
| | Singapore | - | 257,562 | 257,562 | 0.44 |
| | Hong Kong | - | 161,746 | 161,746 | 0.28 |
| | Japan | - | 49,218 | 49,218 | 0.08 |
| | Others | - | 330,078 | 330,078 | 0.56 |
| | | 52,836,453 | 5,795,798 | 58,632,251 | 100.00 |
| | | ₩ 54,605,125 | ₩ 18,938,782 | ₩ 73,543,907 | |

## 8. Risk management (cont'd)

### Market risk

Market risk is the uncertainty and possibility of losses arising from overall management activities which is divided into general market risk and specific risk. General market risk is the risk to the loss on the Bank's earnings arising from the changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of the loss on trading position arising from the changes in credit risks.

Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The targets of the market risk management are interest rate, stock price, foreign currencies, and derivatives as follows:

- Assets classified as financial assets held-for-trading in accordance with KIFRS
- Derivatives instruments held-for-trading and derivative instruments used for hedging purposes for which hedge accounting is not applied
- Trust account securities with agreements to guarantee principal or interest
- Foreign currency exchange position regulated by Korean Banking Laws

The Bank uses an internal model for measurement of market risk. The purpose of the internal model is to compute required capital by VaR using a historical simulation with a confidence level of 99.0 percent and 10-day (1day) retaining period. VaR using historical simulation sets up 10 business days' (1 business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and arranges in order of values and computes the difference between the value of low second ranked portfolio and current portfolio. In addition, the Bank reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by the Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Bank performs back testing on a daily basis so as to procure the suitability of the internal model and stress testing to prepare for emergency situations not reflected in the recent market situation.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group or department is reported to the management on a daily basis and to the risk management operating committee on a monthly basis.

## 8. Risk management (cont'd)

### Market risk (cont'd)

Market risk VaR for the years endedt December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 13,057 | ₩ 5,361 | ₩ 9,119 | ₩ 10,606 | ₩ 21,197 | ₩ 4,316 | ₩ 11,549 | ₩ 6,266 |
| Stock price risk | 40,079 | 4,180 | 16,047 | 12,140 | 44,199 | 7,851 | 15,717 | 7,701 |
| Foreign currency risk | 81,264 | 20,790 | 41,700 | 50,364 | 84,126 | 4,404 | 32,073 | 52,205 |
| Option risk | 7,858 | 535 | 2,845 | 1,964 | 4,288 | 363 | 1,842 | 2,698 |
| Total risks (*) | 103,651 | 24,080 | 54,301 | 62,671 | 95,383 | 15,651 | 47,183 | 55,669 |

(*) The total portfolio risk is not equal to the sum of the individual component risks because the calculation includes consideration of the correlations of the risks.

Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in interest rate, using the VaR methodology, a key measure of market risk, to interest rate risk assessment.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index..

The result of interest rate measurement is reported to the risk management operating committee on a monthly basis.

Details of interest rate VaR except for trading portfolio for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 335,842 | ₩ 153,916 | ₩ 230,006 | ₩ 161,273 | ₩ 288,076 | ₩ 60,146 | ₩ 150,203 | ₩ 288,076 |

## 8. Risk management (cont'd)

### Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they fall due.

The Bank proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Moreover, the Bank regularly performs liquidity stress test, comprehend deficit, and reflect in the emergency funding plan on a regular basis.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as the Basel III liquidity risk regulation ratio.

Liquidity risk management targets on and off balance assets, liabilities and derivatives, and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

Maturity structures of liabilities as at December 31, 2013 and 2012 are as follow (Korean won in millions):

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| On balance: | | | | | | | |
| Deposits | ₩27,793,212 | ₩ 6,783,993 | ₩ 8,708,803 | ₩21,056,149 | ₩ 1,606,111 | ₩ 252,047 | ₩ 66,200,315 |
| Financial liabilities held-for-trading | 1,286,767 | - | - | - | - | - | 1,286,767 |
| Derivative liabilities used for hedging purposes | 12,562 | - | - | - | - | - | 12,562 |
| Borrowings | 1,429,544 | 1,159,892 | 997,742 | 2,106,559 | 753,428 | 166,237 | 6,613,402 |
| Debentures | 122 | 218,993 | 237,668 | 1,396,612 | 4,200,955 | 1,343,476 | 7,397,826 |
| Other liabilities | 928 | 9,841,935 | 2,717 | 20,216 | 2,356 | - | 9,868,152 |
| Merchant banking account liabilities | 1,526,676 | 52,660 | 100,000 | - | - | - | 1,679,336 |
| | 32,049,811 | 18,057,473 | 10,046,930 | 24,579,536 | 6,652,850 | 1,761,760 | 93,508,360 |
| Off balance: | | | | | | | |
| Loan commitment | 58,673,350 | - | - | - | - | - | 58,673,350 |
| Finance guarantee | 1,166,718 | - | - | - | - | - | 1,166,718 |
| | 59,840,068 | - | - | - | - | - | 59,840,068 |
| | 91,889,879 | ₩18,057,473 | ₩10,046,930 | ₩24,579,536 | ₩ 6,652,850 | ₩ 1,761,760 | ₩152,898,428 |

## 8. Risk management (cont'd)

### Liquidity risk

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | On demand | Less than 1 month | 1–3 months | 3 months – 1 year | 1 year – 5 years | More than 5 years | Total |
| On balance: | | | | | | | |
| Deposits | ₩26,438,125 | ₩ 7,244,957 | ₩ 9,097,404 | ₩20,035,122 | ₩ 1,815,347 | ₩ 177,776 | ₩ 64,808,731 |
| Financial liabilities held-for-trading | 1,308,602 | - | - | - | - | - | 1,308,602 |
| Borrowings | 1,564,218 | 1,136,239 | 1,202,530 | 1,280,183 | 1,342,798 | 159,601 | 6,685,569 |
| Debentures | 132 | 166,295 | 332,247 | 1,356,923 | 3,863,872 | 767,276 | 6,486,745 |
| Other liabilities | 2,051 | 12,429,451 | 2,067 | 16,047 | 3,852 | - | 12,453,468 |
| Merchant banking account liabilities | 525,654 | 185 | - | - | - | - | 525,839 |
| | 29,838,782 | 20,977,127 | 10,634,248 | 22,688,275 | 7,025,869 | 1,104,653 | 92,268,954 |
| Off balance: | | | | | | | |
| Loan commitment | 58,632,251 | - | - | - | - | - | 58,632,251 |
| Finance guarantee | 731,557 | - | - | - | - | - | 731,557 |
| | 59,363,808 | - | - | - | - | - | 59,363,808 |
| | ₩89,202,590 | ₩20,977,127 | ₩10,634,248 | ₩22,688,275 | ₩ 7,025,869 | ₩ 1,104,653 | ₩151,632,762 |

### Currency risk

Currency risk is the risk that the value of a financial instrument or future cash flows will fluctuate due to changes in foreign exchange rates. Currency risk arises in financial instruments expressed in currencies other than the functional currency. Currency risk does not arise in financial instruments expressed in the functional currency or in non-monetary items measured using historical foreign exchange rates. In order to establish stop loss and limits, the Bank manages the foreign exchange net exposure amount of the trading and non-trading portfolios by each currency.

Significant assets and liabilities denominated in foreign currencies as at December 31, 2013 and 2012 are as follows (Korean won in millions or U.S. dollar in thousands):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Assets: | | | | |
| Cash and due from banks | USD | 2,180,126,395 | 2,180,126 | ₩ 2,300,687 |
| | JPY | 19,794,769,691 | 188,447 | 198,868 |
| | EUR | 244,776,941 | 337,775 | 356,454 |
| | CNY | 362,960,710 | 59,879 | 63,190 |
| | HKD | 340,857,147 | 43,960 | 46,392 |
| | Others | | 472,124 | 498,232 |
| | | | 3,282,311 | 3,463,823 |

8. **Risk management (cont'd)**

**Currency risk (cont'd)**

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Financial assets held-for-trading | USD | 106,869,427 | 106,869 | 112,779 |
| Available-for-sale financial assets | USD | 548,509,040 | 548,509 | 578,486 |
| | Others | | 3,932 | 4,149 |
| | | | 552,441 | 582,635 |
| Held-to-maturity investments | USD | 25,891,935 | 25,892 | 27,324 |
| | Others | | 2,246 | 2,370 |
| | | | 28,138 | 29,694 |
| Loans receivable | USD | 12,928,363,304 | 12,928,363 | 13,643,302 |
| | JPY | 104,361,127,338 | 993,532 | 1,048,475 |
| | EUR | 593,530,824 | 819,042 | 864,335 |
| | CNY | 529,870,934 | 87,411 | 92,245 |
| | CAD | 66,287,657 | 62,239 | 65,681 |
| | AUD | 89,864,574 | 80,043 | 84,469 |
| | Others | | 729,945 | 770,310 |
| | | | 15,700,575 | 16,568,817 |
| Derivative assets used for hedging purposes | USD | 21,860,657 | 21,861 | 23,070 |
| Other assets | USD | 2,024,461,590 | 2,024,462 | 2,136,414 |
| | JPY | 34,652,622,313 | 329,898 | 348,141 |
| | EUR | 62,847,477 | 86,726 | 91,522 |
| | HKD | 533,029,034 | 68,739 | 72,540 |
| | CAD | 5,094,051 | 4,783 | 5,047 |
| | Others | | 290,559 | 306,629 |
| | | | 2,805,167 | 2,960,293 |
| | | | 22,497,362 | ₩ 23,741,111 |
| Liabilities | | | | |
| Financial liabilities held-for-trading | USD | 114,679,491 | 114,679 | ₩ 121,021 |
| Deposits | USD | 9,297,714,409 | 9,297,714 | 9,812,088 |
| | JPY | 150,435,323,647 | 1,432,165 | 1,511,364 |
| | EUR | 678,151,663 | 935,815 | 987,565 |
| | HKD | 1,057,697,553 | 136,399 | 143,942 |
| | AUD | 95,849,236 | 85,373 | 90,094 |
| | Others | | 957,199 | 1,009,921 |
| | | | 12,844,665 | 13,554,974 |

8. **Risk management (cont'd)**

**Currency risk (cont'd)**

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Borrowings | USD | 3,885,214,217 | 3,885,214 | 4,100,067 |
| | JPY | 18,810,234,498 | 179,076 | 188,979 |
| | EUR | 301,435,769 | 415,966 | 438,969 |
| | CNY | 233,636,525 | 38,542 | 40,674 |
| | HKD | 2,776,274 | 358 | 378 |
| | CAD | 705,548 | 662 | 699 |
| | Others | | 19,810 | 20,903 |
| | | | 4,539,628 | 4,790,669 |
| Debentures | USD | 2,098,677,312 | 2,089,677 | 2,205,236 |
| | HKD | 310,000,000 | 39,977 | 42,188 |
| | | | 2,129,654 | 2,247,424 |
| Derivative liabilities used for hedging purposes | USD | 11,903,354 | 11,903 | 12,562 |
| Other liabilities | USD | 2,500,053,141 | 2,500,053 | 2,638,306 |
| | JPY | 15,811,951,158 | 150,532 | 158,856 |
| | EUR | 174,360,872 | 240,609 | 253,915 |
| | CAD | 132,492,342 | 124,401 | 131,280 |
| | AUD | 23,376,429 | 20,821 | 21,973 |
| | Others | | 260,375 | 274,775 |
| | | | 3,296,791 | 3,479,105 |
| | | | 22,937,320 | ₩ 24,205,755 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Assets: | | | | |
| Cash and due from banks | USD | 2,666,498,189 | 2,666,833 | ₩ 2,856,444 |
| | JPY | 18,132,108,753 | 211,155 | 226,168 |
| | EUR | 312,162,940 | 412,699 | 442,042 |
| | CNY | 258,329,027 | 41,454 | 44,402 |
| | HKD | 268,732,027 | 34,668 | 37,133 |
| | Others | | 419,307 | 449,120 |
| | | | 3,786,116 | 4,055,309 |
| Financial assets held-for-trading | USD | 92,722,461 | 92,722 | 99,315 |
| Available-for-sale financial assets | USD | 338,189,040 | 338,189 | 361,854 |
| | Others | | 542 | 581 |
| | | | 338,731 | 362,435 |
| Held-to-maturity investments | USD | 26,017,167 | 26,017 | 27,867 |
| | Others | | 3,174 | 3,399 |
| | | | 29,191 | 31,266 |
| Loans receivable | USD | 11,917,582,409 | 11,917,582 | 12,764,923 |
| | JPY | 134,381,624,152 | 1,565,130 | 1,676,411 |
| | EUR | 553,218,615 | 731,492 | 783,501 |
| | HKD | 162,563,702 | 20,970 | 22,461 |
| | CAD | 13,223,725 | 13,285 | 14,230 |
| | AUD | 4,765,441 | 4,944 | 5,296 |
| | Others | | 233,168 | 249,744 |
| | | | 14,486,571 | 15,516,566 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Derivative assets used for hedging purposes | USD | 35,353,690 | 35,354 | 37,867 |
| Other assets | USD | 2,579,697,434 | 2,579,697 | 2,763,114 |
| | JPY | 39,106,629,777 | 455,471 | 487,855 |
| | EUR | 231,691,703 | 306,354 | 328,136 |
| | HKD | 464,626,689 | 59,940 | 64,202 |
| | AUD | 7,812,298 | 8,106 | 8,683 |
| | Others | | 201,431 | 215,751 |
| | | | 3,610,999 | 3,867,741 |
| | | | 22,379,684 | ₩ 23,970,499 |
| Liabilities | | | | |
| Financial liabilities held-for-trading | USD | 154,728,360 | 154,728 | ₩ 165,730 |
| Deposits | USD | 6,906,484,280 | 6,906,484 | 7,410,317 |
| | JPY | 88,527,891,495 | 1,031,076 | 1,104,385 |
| | EUR | 1,272,124,185 | 1,682,064 | 1,801,659 |
| | HKD | 427,536,206 | 55,155 | 59,077 |
| | AUD | 117,571,042 | 121,998 | 130,672 |
| | Others | | 375,809 | 402,529 |
| | | | 10,172,586 | 10,908,639 |
| Borrowings | USD | 3,313,766,689 | 3,313,767 | 3,549,376 |
| | JPY | 59,680,960,856 | 695,098 | 744,520 |
| | EUR | 273,829,457 | 362,070 | 387,814 |
| | CAD | 851,410 | 855 | 916 |
| | AUD | 344,415 | 357 | 383 |
| | IDR | 16,414,490,443 | 1,703 | 1,824 |

## 8. Risk management (cont'd)

### Currency risk (cont'd)

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Currency | Amount in foreign currency in units | U.S. dollars (*) | Korean won equivalent |
| Borrowings | Others | | 116,424 | 124,700 |
| | | | 4,490,274 | 4,809,533 |
| Debentures | USD | 1,673,187,269 | 1,673,187 | 1,792,151 |
| Other liabilities | USD | 3,768,665,703 | 3,768,666 | 4,036,618 |
| | JPY | 15,357,905,483 | 178,872 | 191,590 |
| | EUR | 206,065,453 | 272,470 | 291,842 |
| | CAD | 105,691,917 | 106,180 | 113,730 |
| | AUD | 145,439,106 | 150,915 | 161,645 |
| | Others | | 209,791 | 224,707 |
| | | | 4,686,894 | 5,020,132 |
| | | | 21,177,669 | ₩ 22,696,185 |

(*) All foreign currencies other than USD are expressed in USD amounts at the reporting date.

## 9. Segment information

The business sectors of the Bank are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

| Classification | | Business |
|---|---|---|
| Individual finance | Retail banking | Household credit and saving |
| | Credit card | Issue, use, payment of credit card and others |
| | Trust pension | Retirement pension and others |
| Corporate finance | Corporate banking | Corporate credit and saving, securities investment, derivatives transaction and others |
| Fund market | Fund market management | Security investments and management |
| Others | International banking | Corporate supporting for business development abroad and others |
| | Others | Administration |

## 9. Segment information (cont'd)

Net income by business segment for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 859,391 | ₩ 816,309 | ₩ 87,378 | ₩ (252,008) | ₩ 1,511,070 | ₩ 563,296 | ₩ 2,074,366 |
| Net commission income (expenses) | 349,997 | 216,712 | (1,091) | 100,614 | 666,232 | (539,349) | 126,883 |
| Net other operating income (expenses) | 398,637 | (330,541) | 79,022 | 62,002 | 209,120 | (70,816) | 138,304 |
| | 1,608,025 | 702,480 | 165,309 | (89,392) | 2,386,422 | (46,869) | 2,339,553 |
| Segment operating expense: | | | | | | | |
| General and administrative expenses | 574,902 | 276,026 | 24,704 | 528,764 | 1,404,396 | 30,422 | 1,434,818 |
| Segment operating profit (loss) | 1,033,123 | 426,454 | 140,605 | (618,156) | 982,026 | (77,291) | 904,735 |
| Provision for (reversal of) possible losses on credits (*1) | 335,279 | 79,779 | - | (310,608) | 104,450 | 354,406 | 458,856 |
| Income tax expense | 168,878 | 83,894 | 34,026 | (74,426) | 212,372 | (126,936) | 85,436 |
| Net income (losses) | ₩ 528,966 | ₩ 262,781 | ₩ 106,579 | ₩ (233,122) | ₩ 665,204 | ₩ (304,761) | ₩ 360,443 |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Segment operating income: | | | | | | | |
| Net interest income (expenses) | ₩ 854,520 | ₩ 877,416 | ₩ 70,918 | ₩ (113,108) | ₩ 1,689,746 | ₩ 616,819 | ₩ 2,306,565 |
| Net commission income (expenses) | 352,271 | 211,529 | (21,108) | 116,426 | 659,118 | (525,937) | 133,181 |
| Net other operating income (expenses) | 547,301 | 31,347 | 138,568 | 47,258 | 764,474 | (265,354) | 499,120 |
| | 1,754,092 | 1,120,292 | 188,378 | 50,576 | 3,113,338 | (174,472) | 2,938,866 |
| Segment operating expense: | | | | | | | |
| General and administrative expenses | 558,390 | 269,594 | 25,523 | 639,521 | 1,493,028 | (30,439) | 1,462,589 |
| Segment operating profit (loss) | 1,195,702 | 850,698 | 162,855 | (588,945) | 1,620,310 | (144,033) | 1,476,277 |
| Provision for (reversal of) possible losses on credits (*1) | 239,271 | 232,485 | - | (381,911) | 89,845 | 510,332 | 600,177 |
| Income tax expense | 186,358 | 120,457 | 31,732 | (40,340) | 298,207 | (56,488) | 241,719 |
| Net income (losses) | ₩ 770,073 | ₩ 497,756 | ₩ 131,123 | ₩ (166,694) | ₩ 1,232,258 | ₩(597,877) | ₩ 634,381 |

(*1) Provision for (reversal of) possible loss on credits include provision for (reversal of) possible loan losses, provision for (reversal of) acceptances and guarantees, and provision for (reversal of) unused credit limit.

## 9. Segment information (cont'd)

Income from customers and transaction between segments by business segment for the years ended December 31, 2013 and 2012 is as follow (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income (expenses) from external customers | ₩1,537,168 | ₩ 582,568 | ₩180,038 | ₩ 86,648 | ₩2,386,422 | ₩ (46,869) | ₩2,339,553 |
| Income (expenses) from internal transactions | 70,857 | 119,912 | (14,729) | (176,040) | - | - | - |
| | ₩1,608,025 | ₩ 702,480 | ₩165,309 | ₩ (89,392) | ₩2,386,422 | ₩ (46,869) | ₩2,339,553 |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Income (expenses) from external customers | ₩1,739,991 | ₩1,001,918 | ₩230,668 | ₩ 140,761 | ₩3,113,338 | ₩(174,472) | ₩2,938,866 |
| Income (expenses) from internal transactions | 14,101 | 118,374 | (42,290) | (90,185) | - | - | - |
| | ₩1,754,092 | ₩1,120,292 | ₩188,378 | ₩ 50,576 | ₩3,113,338 | ₩(174,472) | ₩2,938,866 |

Significant non cash item included in operating income by business segment for the years ended December 31, 2013 and 2012 is as follow (Korean won in millions):

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Depreciation and amortization | ₩ 13,135 | ₩ 4,956 | ₩ - | ₩ 82,600 | ₩100,691 | ₩ (6) | ₩ 100,685 |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Retail banking | Corporate banking | Capital market | Others | Subtotal | Adjustment | Total |
| Depreciation and amortization | ₩ 9,374 | ₩ 3,696 | ₩ - | ₩ 83,021 | ₩96,091 | ₩ 398 | ₩ 96,489 |

## 9. Segment information (cont'd)

Financial information by region as at December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| | Income from customers (*1) | | Non current assets (*2) | |
|---|---|---|---|---|
| Classification | 2013 | 2012 | December 31, 2013 | December 31, 2012 |
| Domestic | ₩ 2,203,525 | ₩ 2,798,584 | ₩ 1,430,735 | ₩ 1,439,274 |
| Overseas: | | | | |
| Hong Kong | 46,034 | 37,232 | 4,031 | 4,322 |
| Singapore | 14,328 | 13,887 | 326 | 221 |
| Japan | 18,464 | 25,369 | 4,904 | 5,834 |
| China | 11,351 | 11,632 | 165 | 238 |
| U.K. | 13,784 | 16,896 | 179 | 115 |
| Others | 32,067 | 35,266 | 2,854 | 1,726 |
| | 136,028 | 140,282 | 12,459 | 12,456 |
| | ₩ 2,339,553 | ₩ 2,938,866 | ₩ 1,443,194 | ₩ 1,451,730 |

(*1) Income from customers is divided into domestic and overseas categories.
(*2) Non current assets consist of property and equipment, investment property, and intangible asset and are divided into domestic and overseas categories based on the location of assets.

## 10. Cash and due from banks

Details of cash and due from banks as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Account | Financial institution | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| Cash | | ₩ 1,680,759 | ₩ 1,696,068 |
| Due from banks in Korean won: | | | |
| Reserve deposit | Bank of Korea ("BOK") | 1,703,602 | 1,599,521 |
| Monetary stabilization deposits | BOK | 200,000 | - |
| Other due from banks | Other financial institutions | 50,635 | 44,063 |
| | | 1,954,237 | 1,643,584 |
| Due from banks denominated in foreign currencies: | | | |
| Reserve deposit | BOK and others | 2,076,756 | 2,645,603 |
| Due from banks on time deposits | Other banks | 694,482 | 744,907 |
| Other due from banks | Other financial institutions | 239,849 | 199,020 |
| | | 3,011,087 | 3,589,530 |
| | | ₩ 6,646,083 | ₩ 6,929,182 |

### 10. Cash and due from banks (cont'd)

Restricted due from banks in Korean won and foreign currencies as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 | Restriction |
|---|---|---|---|
| Due from banks in Korean won: | | | |
| Reserve deposit | ₩ 1,703,602 | ₩ 1,599,521 | Required under the BOK Act |
| Monetary stabilization deposits | 200,000 | - | Deposits for the purpose of liquidity management by the BOK |
| Reserve for future trading | 3,513 | 3 | Subscription related to derivatives |
| Investors' deposit | 38,699 | 25,523 | Required under the Financial Investment Services and Capital Markets Act |
| | 1,945,814 | 1,625,047 | |
| Due from banks denominated in foreign currencies: | | | |
| Reserve deposit | 637,095 | 1,552,881 | Required under the BOK Act and others |
| Other due from banks | 236,293 | 198,940 | Subscription related to derivatives |
| | 873,388 | 1,751,821 | |
| | ₩ 2,819,202 | ₩ 3,376,868 | |

### 11. Financial assets at FVTPL

Financial assets at FVTPL as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | | Interest rate (%) | Fair value (Book value) December 31, 2013 | Fair value (Book value) December 31, 2012 |
|---|---|---|---|---|
| Stocks | Samsung Electronics Co., Ltd. and others | - | ₩ 12,776 | ₩ 21,107 |
| Government and public bonds | Treasury bonds | 2.75~5.25 | 39,101 | - |
| Financial bonds | Monetary stabilization securities | 2.70~3.28 | 160,099 | 100,674 |
| Securities denominated in foreign currencies | Debt securities denominated in foreign currencies | 2.43~6.38 | 39,400 | - |
| Derivative assets held-for-trading (Note 18) | | - | 1,355,357 | 1,350,977 |
| | | | ₩ 1,606,733 | ₩ 1,472,758 |

## 11. Financial assets at FVTPL (cont'd)

Details of valution of trading securities and bonds, by industry, as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Face value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 40,000 | ₩ 38,993 | ₩ 39,008 | ₩ 39,101 |
| Financial bond | 160,000 | 160,044 | 160,048 | 160,099 |
| Debt securities denominated in foreign currencies | 39,046 | 39,609 | 39,370 | 39,400 |
| | ₩ 239,046 | ₩ 238,646 | ₩ 238,426 | ₩ 238,600 |

| Classification | December 31, 2012 Face value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Financial bond | ₩ 100,000 | ₩ 100,691 | ₩ 100,672 | ₩ 100,674 |

## 12. Available-for-sale financial assets

Details of available-for-sale financial assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Details | Interest rate (%) | Fair value (Book value) December 31, 2013 | Fair value (Book value) December 31, 2012 |
|---|---|---|---|---|
| Equity securities | Hynix and others | - | ₩ 853,122 | ₩ 462,833 |
| Investment in partnership | Vogo fund and others | - | 51,846 | 52,110 |
| Government and public bonds | Treasury bonds | 2.75~5.00 | 971,573 | 786,863 |
| | Housing bonds | 2.50~3.00 | 644,238 | 48,641 |
| | Other local bonds | 2.81~5.56 | 351,808 | 463,431 |
| | | | 1,967,619 | 1,298,935 |
| Finance bonds | Monetary stabilization securities | 2.47~3.59 | 1,699,676 | 1,973,320 |
| | Industrial finance bonds | 2.67~3.86 | 380,639 | 404,277 |
| | Deposit bank bonds | 2.73~6.76 | 330,734 | 330,098 |
| | Small and medium-sized business banking bonds | 2.63~3.85 | 208,999 | 169,510 |
| | Export-import credit bonds | 2.88~4.87 | 60,612 | 80,455 |
| | | | 2,680,660 | 2,957,660 |
| Corporate and other bonds | Industrial bonds invested by government | 2.62~5.36 | 2,107,768 | 827,051 |
| | General bonds | 2.84~6.56 | 898,413 | 969,454 |
| | | | 3,006,181 | 1,796,505 |
| Beneficiary certificates | KDB 1st Private Equity and others. | - | 6,043 | 875 |
| Securites denominated in foreign currencies | Equity securities denominated in foreign currency | - | 8,001 | 3,184 |
| | Debt securities denominated in foreign currency | 1.00~8.00 | 573,832 | 358,449 |
| | Investment in partnership denominated in foreign currency | - | 802 | 802 |
| | | | 582,635 | 362,435 |
| Other securities | Beneficiary right certificate | - | 7,602 | 38,511 |
| | | | ₩ 9,155,708 | ₩ 6,969,864 |

## 12. Available-for-sale financial assets (cont'd)

Equity securities (including equity securities denominated in foreign currencies) as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Book value before valuation | Gain (loss) on valuation | Fair value (Book value) December 31, 2013 | Fair value (Book value) December 31, 2012 |
|---|---|---|---|---|
| Marketable securities | ₩ 521,782 | ₩ 150,215 | ₩ 671,997 | ₩ 302,147 |
| Non- marketable securities | 221,380 | (32,254) | 189,126 | 163,870 |
| | ₩ 743,162 | ₩ 117,961 | ₩ 861,123 | ₩ 466,017 |

Non-marketable equity securities in the amount of ₩18,135 million and ₩35,080 million as at December 31, 2013 and 2012, respectively, including the Korea Asset Management Corporation were valued at cost as their fair values could not be reasonably estimated.

The fair value of the available-for-sale non-marketable equity securities was measured by independent valuation agencies using actuarial assumptions. The fair value was determined based on more than one valuation model such as the Discounted Cash Flow (DCF) model, Imputed Market Value (IMV) model, and Risk Adjusted Discounted Cash Flow (RADCF) model, depending on the characteristic of the equity securities as deemed appropriate.

The Bank's equity securities under disposal restriction as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Classification | December 31, 2013 Number of shares | Book value | Restriction |
|---|---|---|---|
| Taihan Electric Wire Co., Ltd. (preferred stock) | 4,869,900 | ₩ 58,074 | Until December 31, 2015 |
| Kumho Tire Co., Inc. | 3,153,755 | 36,268 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 9,958,000 | 12,945 | Until December 31, 2016 |
| STX Engine Co., Ltd. | 2,714,000 | 12,484 | Until December 31, 2017 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 8,281 | Until June 4, 2014 |
| STX Heavy Industries Co., Ltd. | 2,250,000 | 7,245 | Until December 31, 2017 |
| Taihan Electric Wire Co., Ltd. | 3,019,100 | 7,201 | Until December 31, 2015 |
| STX Offshore & Shipbuilding Co., Ltd. | 673,889 | 4,515 | Until December 31, 2017 |
| Elcomtec Co., Ltd. | 375,901 | 1,673 | Until November 22, 2014 |
| SAMT CO.,Ltd. | 677,264 | 1,463 | Until December 31, 2014 |
| Kumho Industrial Co.,Ltd | 123,527 | 1,451 | Until December 31, 2014 |
| Chinhung International Inc | 600,400 | 967 | Until December 31, 2014 |
| AJin P&P Co., Ltd | 53,850 | 782 | Until December 31, 2015 |
| Kores Co., Ltd. | 492,000 | 417 | Until December 31, 2015 |
| Jaeyoung Solutec Co., Ltd | 61,333 | 83 | Until December 31, 2014 |
| Young Gwang Stainless Co., Ltd | 10,000 | 14 | Until December 31, 2014 |
| ForceTEC Co., Ltd. | 2,524,280 | 3 | Until December 31, 2017 |
| Ssangyong Engineering & Construction | 5,913 | - | (*1) |
| | | ₩ 153,866 | |

## 12. Available-for-sale financial assets (cont'd)

| | December 31, 2012 | | |
|---|---|---|---|
| Classification | Number of shares | Book value | Restriction |
| SK Hynix Inc. | 10,092,500 | ₩ 252,413 | Until June 30, 2013 |
| Kumho Tire Co., Inc. | 2,160,000 | 23,864 | Until December 31, 2014 |
| Oriental Precision & Engineering Co., Ltd. | 6,774,000 | 8,169 | Until December 31, 2016 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 6,618 | Until June 4, 2016 |
| Dongbu Daewoo Electronics Co.,Ltd. | 36,142 | 5,359 | Until March 31, 2013 |
| Chinhung International Inc. | 3,002,000 | 1,225 | Until March 31, 2013 |
| SAMT CO.,Ltd. | 677,264 | 1,187 | Until June 30, 2013 |
| Kumho Industrial Co.,Ltd | 707,180 | 1,068 | Until December 31, 2014 |
| Taesan LCD Co., Ltd. | 648,046 | 976 | Until December 31, 2013 |
| A Jin Paper Co., Ltd. | 53,850 | 794 | Until December 31, 2015 |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 667 | Until December 31, 2014 |
| Ssangyong Engineering & Construction | 191,934 | 623 | (*1) |
| Pumyang Construction Co., Ltd. | 28,157 | 473 | Until June 4, 2013 |
| Kores Co., Ltd. | 492,000 | 323 | Until December 31, 2015 |
| Namkwang Engineering & Construction Co., Ltd. | 122,349 | 289 | Until March 31, 2013 |
| Jaeyoung Solutec Co., Ltd. | 61,333 | 48 | Until December 31, 2014 |
| Others | | 16 | |
| | | ₩ 304,112 | |

(*1) The item has no specific term of restriction and is planned to be disposed during the creditor's meeting.

Investments in partnership (including investments in partnership denominated in foreign currencies) as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| | December 31, 2013 | | | December 31, 2012 |
|---|---|---|---|---|
| Classification | Book value before valuation | Loss on valuation | Fair value (Book value) | Fair value (Book value) |
| Investment in capital | ₩ 52,912 | ₩ (264) | ₩ 52,648 | ₩ 52,912 |

For available-for-sale financial assets over ₩1,000 million, the Bank uses a valued price measured by a external valuation agency on a semi-annual basis. Moreover, investment incapital in the amount ₩802 million as at December 31, 2013 and 2012, respectively, were valued at the cost as their fair values could not be reasonably estimated.

## 12. Available-for-sale financial assets (cont'd)

Debt securities as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Classification | December 31, 2013 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,965,132 | ₩ 1,971,101 | ₩ 1,969,933 | ₩ 1,967,619 |
| Finance bonds | 2,674,139 | 2,687,283 | 2,682,891 | 2,680,660 |
| Corporate bonds and others | 2,994,800 | 3,021,342 | 3,013,338 | 3,006,181 |
| Debt securities denominated in foreign currencies | 553,327 | 586,622 | 567,795 | 573,832 |
| | ₩ 8,187,398 | ₩ 8,266,348 | ₩ 8,233,957 | ₩ 8,228,292 |

| Classification | December 31, 2012 Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,293,587 | ₩ 1,294,099 | ₩ 1,294,725 | ₩ 1,298,935 |
| Finance bonds | 2,938,739 | 2,957,220 | 2,955,266 | 2,957,660 |
| Corporate bonds and others | 1,780,000 | 1,836,950 | 1,791,970 | 1,796,505 |
| Debt securities denominated in foreign currencies | 336,480 | 359,432 | 357,537 | 358,449 |
| | ₩ 6,348,806 | ₩ 6,447,701 | ₩ 6,399,498 | ₩ 6,411,549 |

Changes in the unrealized gain (loss) of the Bank's available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 Beginning balance | Unrealized gain (loss) | Realized loss | Tax effect | Ending balance |
|---|---|---|---|---|---|
| Equity securities | ₩ 184,648 | ₩ 150,282 | ₩ (5,985) | ₩ (34,919) | ₩ 294,026 |
| Other equity securities | 20,945 | 243 | (24,984) | 5,987 | 2,191 |
| Government and public bonds | 3,191 | (4,362) | (2,162) | 1,579 | (1,754) |
| Finance bonds | 1,815 | (925) | (3,701) | 1,119 | (1,692) |
| Corporate bonds and others | 3,437 | (6,697) | (4,994) | 2,829 | (5,425) |
| Debt securities denominated in foreign currencies | 692 | 1,003 | (512) | (119) | 1,064 |
| | ₩ 214,728 | ₩ 139,544 | ₩ (42,338) | ₩ (23,524) | ₩ 288,410 |

## 12. Available-for-sale financial assets (cont'd)

| | 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Beginning balance | | Unrealized gain (loss) | | Realized gain (loss) | | Tax effect | | Ending balance | |
| Equity securities | ₩ | 270,557 | ₩ | 41,936 | ₩ | (155,272) | ₩ | 27,427 | ₩ | 184,648 |
| Other equity securities | | 29,108 | | 9,685 | | (20,454) | | 2,606 | | 20,945 |
| Government and public bonds | | 313 | | 4,164 | | (367) | | (919) | | 3,191 |
| Finance bonds | | 1,586 | | 1,761 | | (1,459) | | (73) | | 1,815 |
| Corporate bonds and others | | 2,474 | | 3,635 | | (2,365) | | (307) | | 3,437 |
| Debt securities denominated in foreign currencies | | (3,640) | | 2,058 | | 3,657 | | (1,383) | | 692 |
| | ₩ | 300,398 | ₩ | 63,239 | ₩ | (176,260) | ₩ | 27,351 | ₩ | 214,728 |

Realized gain and loss on the disposal of available-for-sale financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Realized gain | | Realized loss | | Realized gain | | Realized loss | |
| Equity securities | ₩ | 39,397 | ₩ | 5,187 | ₩ | 188,478 | ₩ | 22 |
| Other equity securities | | 5,071 | | - | | 3,925 | | - |
| Government and public bonds | | 3,268 | | - | | 4,901 | | - |
| Finance bonds | | 8,383 | | - | | 9,554 | | - |
| Corporate bonds and others | | 26,352 | | - | | 31,702 | | - |
| Debt securities denominated in foreign currencies | | 362 | | - | | - | | - |
| | ₩ | 82,833 | ₩ | 5,187 | ₩ | 238,560 | ₩ | 22 |

Dividend income on available-for-sale financial assets for the years ended December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Equity securities | ₩ | 9,595 | ₩ | 8,197 |
| Other equity securities | | 67 | | 12 |
| | ₩ | 9,662 | ₩ | 8,209 |

## 12. Available-for-sale financial assets (cont'd)

Transferred financial assets that are not fully derecognized as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Book value | December 31, 2013 Fair value | December 31, 2012 Book value | December 31, 2012 Fair value |
|---|---|---|---|---|
| Assets: | | | | |
| Available-for-sale financial assets | ₩ 229,920 | ₩ 229,920 | ₩ - | ₩ - |
| Liabilities: | | | | |
| Bonds sold under repurchase agreements | ₩ 190 | ₩ 190 | ₩ 190 | ₩ 190 |

## 13. Held-to-maturity investments

Details of held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Type | Interest rate (%) | Book value December 31, 2013 | Book value December 31, 2012 |
|---|---|---|---|---|
| Government and public bonds | Treasury bonds | 3.00~4.75 | ₩ 311,697 | ₩ 344,281 |
| | Housing bonds | 2.25~3.00 | 208,013 | 298,566 |
| | Local development bonds | 4.09 | 9,982 | 19,921 |
| | | | 529,692 | 662,768 |
| Finance bonds | Monetary stabilization securities | 2.78~3.59 | 850,313 | 3,221,941 |
| | Deposit bank bonds | 3.40~8.35 | 162,293 | 70,798 |
| | Small & medium industry finance bonds | 3.40~8.35 | 30,410 | - |
| | Industrial finance bonds | 6.12 | 10,004 | 10,020 |
| | | | 1,053,020 | 3,302,759 |
| Corporate bonds and others | General bonds | 4.05~5.94 | 50,227 | 170,879 |
| | Industrial bonds invested by government | 3.80~5.63 | 532,925 | 849,964 |
| | | | 583,152 | 1,020,843 |
| Securities denominated in foreign currency | Debt securities denominated in foreign currency | 0.59~7.63 | 29,694 | 31,266 |
| | | | ₩ 2,195,558 | ₩ 5,017,636 |

### 13. Held-to-maturity investments (cont'd)

Details of held-to-maturity securities as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | December 31, 2013 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 530,700 | ₩ 534,081 | ₩ 529,692 | ₩ 529,692 |
| Finance bonds | 1,050,000 | 1,054,266 | 1,053,020 | 1,053,020 |
| Corporate bonds and others | 580,000 | 593,634 | 583,152 | 583,152 |
| Debt securities denominated in foreign currencies | 30,079 | 30,142 | 29,694 | 29,694 |
| | ₩ 2,190,779 | ₩ 2,212,123 | ₩ 2,195,558 | ₩ 2,195,558 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Par value | Acquisition cost | Amortized cost | Fair value (Book value) |
| Government and public bonds | ₩ 660,700 | ₩ 663,877 | ₩ 662,768 | ₩ 662,768 |
| Finance bonds | 3,300,000 | 3,303,882 | 3,302,759 | 3,302,759 |
| Corporate bonds and others | 1,010,000 | 1,033,844 | 1,020,843 | 1,020,843 |
| Debt securities denominated in foreign currencies | 32,168 | 31,559 | 31,266 | 31,266 |
| | ₩ 5,002,868 | ₩ 5,033,162 | ₩ 5,017,636 | ₩ 5,017,636 |

## 14. Maturities of debt securities

Maturities of debt securities included in available-for-sale financial assets and held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 79,981 | ₩ - | ₩ 10,602 | ₩ 90,583 |
| After 1 month but no later than 3 months | - | 169,470 | - | 2,652 | 172,122 |
| After 3 months but no later than 6 months | 41,157 | 50,013 | 20,116 | 42,142 | 153,428 |
| After 6 months but no later than 1 year | 202,601 | 950,105 | 211,812 | 57,043 | 1,421,561 |
| After 1 year but no later than 3 years | 1,245,100 | 1,311,436 | 2,374,203 | 436,749 | 5,367,488 |
| After 3 years but no later than 5 years | 478,761 | 71,124 | 370,869 | 24,644 | 945,398 |
| After 5 years but no later than 10 years | - | 48,531 | 29,181 | - | 77,712 |
| | ₩ 1,967,619 | ₩ 2,680,660 | ₩ 3,006,181 | ₩ 573,832 | ₩ 8,228,292 |
| Held-to-maturity investments: | | | | | |
| Within 1 month | ₩ - | ₩ - | ₩ 130,046 | ₩ 33 | ₩ 130,079 |
| After 1 month but no later than 3 months | 190,299 | 389,974 | 20,054 | 19 | 600,346 |

## 14. Maturities of debt securities (cont'd)

| Classification | December 31, 2013 Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
|---|---|---|---|---|---|
| After 3 months but no later than 6 months | 70,147 | 400,346 | 160,690 | 945 | 632,128 |
| After 6 months but no later than 1 year | 150,879 | 119,998 | 90,446 | 23 | 361,346 |
| After 1 year but no later than 3 years | 89,919 | - | 161,916 | 27,995 | 279,830 |
| After 3 years but no later than 5 years | 28,448 | 10,640 | - | 679 | 39,767 |
| After 5 years but no later than 10 years | - | 132,062 | 20,000 | - | 152,062 |
| | ₩ 529,692 | ₩ 1,053,020 | ₩ 583,152 | ₩ 29,694 | ₩ 2,195,558 |

| Classification | December 31, 2012 Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
|---|---|---|---|---|---|
| Available-for-sale financial assets: | | | | | |
| Within 1 month | ₩ - | ₩ 419,757 | ₩ 29,964 | ₩ - | ₩ 449,721 |
| After 1 month but no later than 3 months | 10,056 | 430,215 | 10,027 | - | 450,298 |
| After 3 months but no later than 6 months | 141,693 | 360,960 | 90,375 | - | 593,028 |
| After 6 months but no later than 1 year | 113,217 | 470,687 | 50,415 | - | 634,319 |
| After 1 year but no later than 3 years | 710,878 | 1,116,612 | 1,304,122 | 358,449 | 3,490,061 |

## 14. Maturities of debt securities (cont'd)

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| Classification | Government and public bonds | Finance bonds | Corporate bonds and others | Bonds denominated in foreign currencies | Total |
| After 3 years but no later than 5 years | 323,091 | 120,065 | 311,602 | - | 754,758 |
| After 5 years but no later than 10 years | - | 39,364 | - | - | 39,364 |
| | ₩ 1,298,935 | ₩ 2,957,660 | ₩ 1,796,505 | ₩ 358,449 | ₩ 6,411,549 |
| Held-to-maturity investments: | | | | | |
| After 1 month but no later than 3 months | ₩ 9,981 | ₩ 100,020 | ₩ 130,204 | ₩ 65 | ₩ 240,270 |
| After 3 months but no later than 6 months | 29,964 | 1,429,939 | 261,205 | 802 | 1,721,910 |
| After 6 months but no later than 1 year | 119,331 | 840,831 | 60,529 | 179 | 1,020,870 |
| After 1 year but no later than 3 years | 503,492 | 911,171 | 568,905 | 28,191 | 2,011,759 |
| After 3 years but no later than 5 years | - | 10,798 | - | 1,630 | 12,428 |
| After 5 years but no later than 10 years | - | 10,000 | - | 399 | 10,399 |
| | ₩ 662,768 | ₩ 3,302,759 | ₩ 1,020,843 | ₩ 31,266 | ₩ 5,017,636 |

## 15. Pledged assets

Assets pledged as collateral for the purpose of resale agreement bonds from other banks, futures options and security deposits for membership maintenance at the stock exchange for available-for-sale financial assets and held-to-maturity investments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | | Book value | |
|---|---|---|---|
| Classification | Details | December 31, 2013 | December 31, 2012 |
| Available-for-sale financial assets | Settlement of BOK | ₩ 546,119 | ₩ 350,420 |
| | Borrowings denominated in foreign currency (CSA) | 10,011 | 29,997 |
| | Borrowings from BOK | 381,180 | 50,006 |
| | Margin for future trading | 120,415 | 26,465 |
| | Daylight credit | 390,999 | - |
| | Foreign currency borrowing | 30,294 | - |
| | Others | 60,228 | 60,361 |
| | | 1,539,246 | 517,249 |
| Held-to-maturity investments | Borrowings denominated in foreign currency | 640,111 | 961,821 |
| | Margin for future trading | 189,249 | 259,921 |
| | BOK payment | 802,710 | 1,000,612 |
| | Daylight credit | 160,434 | 550,077 |
| | Client RP | 909 | 921 |
| | Borrowings denominated in foreign currency (CSA) | - | 43,041 |
| | Borrowings from BOK | 148,646 | 510,654 |
| | | 1,942,059 | 3,327,047 |
| | | ₩ 3,481,305 | ₩ 3,844,296 |

## 16. Loans receivable

Details of loans receivable as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Loans receivable: | | |
| Loans in Korean won | ₩ 49,423,163 | ₩ 47,168,501 |
| Loans denominated in foreign currencies | 6,459,002 | 6,148,799 |
| Domestic import usance | 2,450,925 | 2,499,667 |
| Call loans | 1,406,504 | 1,758,030 |
| Bills purchased in Korean won | 88,753 | 83,945 |
| Bills purchased denominated in foreign currencies | 5,589,418 | 4,508,471 |
| Advance payments on acceptances and guarantees | 6,801 | 15,220 |
| Credit card loans | 2,649,533 | 2,661,277 |
| Bonds purchased under resale agreement | 700,000 | 490,000 |
| Installment receivables purchased | 1,268,848 | 1,340,271 |
| Privately-placed corporate bonds | 296,523 | 435,800 |
| Others | 8,217 | 18,435 |
| | 70,347,687 | 67,128,416 |
| Plus (less): | | |
| Deferred loan fees and expenses | 37,894 | 33,254 |
| Allowance for possible loan losses | (673,589) | (704,251) |
| | ₩ 69,711,992 | ₩ 66,457,419 |

Changes in deferred loan fees, net of expenses for the years ended December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | 2013 | | | |
|---|---|---|---|---|
| | January 1, 2013 | Increase | Decrease | December 31, 2013 |
| Deferred loan fees, net of expenses | ₩ 33,254 | ₩ 36,834 | ₩ (32,194) | ₩ 37,894 |

| | 2012 | | | |
|---|---|---|---|---|
| | January 1, 2012 | Increase | Decrease | December 31, 2012 |
| Deferred loan fees, net of expenses | ₩ 128 | ₩ 43,812 | ₩ (10,686) | ₩ 33,254 |

## 16. Loans receivable (cont'd)

Changes in allowance for possible loan losses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately placed corporate bonds | Others | Total |
| As at Jan 1, 2013 | ₩ 507,557 | ₩ 98,317 | ₩ 4,148 | ₩ 4,208 | ₩ 84,543 | ₩ 3,384 | ₩ 2,094 | ₩ 704,251 |
| Disposal of non-performing loans | (34,999) | - | - | - | - | - | - | (34,999) |
| Write-offs | (379,479) | (751) | (228) | - | (108,085) | - | | (488,543) |
| Collection of loans written-off in prior period | 87,327 | - | - | - | 33,749 | - | - | 121,076 |
| Debt-to-equity swap | (4,667) | - | - | - | - | - | - | (4,667) |
| Foreign currency translation and others | - | (3,687) | - | - | (5) | - | - | (3,691) |
| Provision for possible loan losses | 376,507 | (8,336) | (1,635) | 836 | 78,754 | 2,069 | (334) | 447,861 |
| Interest income from impaired loans | (62,121) | (2,868) | (109) | (40) | (2,519) | (42) | - | (67,699) |
| As at Dec 31, 2013 | ₩ 490,125 | ₩ 82,675 | ₩ 2,177 | ₩ 5,004 | ₩ 86,437 | ₩ 5,411 | ₩ 1,760 | ₩ 673,589 |

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans denominated in foreign currencies | Advance payments on acceptances and guarantees | Bills purchased denominated in foreign currencies | Credit card loans | Privately placed corporate bonds | Others | Total |
| As at Jan 1, 2012 | ₩ 456,475 | ₩ 125,709 | ₩ 2,938 | ₩ 5,404 | ₩ 67,510 | ₩ 4,894 | ₩ 4,042 | ₩ 666,972 |
| Disposal of non-performing loans | (59,882) | - | - | - | - | - | - | (59,882) |
| Write-offs | (279,513) | (47,431) | (52,648) | - | (109,904) | - | - | (489,496) |
| Collection of loans written-off in prior period | 69,367 | 7,171 | 1,074 | - | 37,300 | - | - | 114,912 |
| Debt-to-equity swap | (6,253) | - | - | - | - | - | - | (6,253) |
| Foreign currency translation and others | - | (35,487) | - | (414) | (13) | - | - | (35,914) |
| Provision for possible loan losses | 399,863 | 54,346 | 53,237 | (701) | 92,054 | (864) | (1,948) | 595,987 |
| Interest income from impaired loans | (72,500) | (5,991) | (453) | (81) | (2,404) | (646) | - | (82,075) |
| As at Dec 31, 2012 | ₩ 507,557 | ₩ 98,317 | ₩ 4,148 | ₩ 4,208 | ₩ 84,543 | ₩ 3,384 | ₩ 2,094 | ₩ 704,251 |

## 17. Structured securities

Details of structured securities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Structured securities related to credit risk: | | |
| Collateralized Debt Obligation (“CDO”) | ₩ 21,197 | ₩ 21,491 |

## 18. Derivative instruments

Unsettled derivative contracts held-for-trading as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | | December 31, 2013 | | December 31, 2013 | |
|---|---|---|---|---|---|
| Classification | Notional amounts | Net valuation gain | Net valuation loss | Assets | Liabilities |
| Currency: | | | | | |
| Forward | ₩ 40,669,665 | ₩ 539,914 | ₩ 612,083 | ₩ 561,806 | ₩ 674,178 |
| Swap | 18,826,017 | 303,300 | 214,825 | 590,071 | 330,252 |
| Options purchased | 1,593,406 | 9,498 | 10,784 | 32,670 | - |
| Options sold | 2,117,718 | 18,190 | 14,333 | - | 41,020 |
| Currency futures | 144,893 | - | - | - | - |
| | 63,351,699 | 870,902 | 852,025 | 1,184,547 | 1,045,450 |
| Interest: | | | | | |
| Swap | 47,541,311 | 137,795 | 122,884 | 165,839 | 212,512 |
| Options purchased | 690,000 | 381 | 1,180 | 3,891 | - |
| Options sold | 1,325,000 | 1,348 | 257 | - | 4,168 |
| Futures | 493,841 | - | - | - | - |
| | 50,050,152 | 139,524 | 124,321 | 169,730 | 216,680 |
| Stock: | | | | | |
| Options purchased | 5,751 | 305 | 40 | 1,080 | - |
| Options sold | 477,452 | 597 | 94 | - | 9,350 |
| Futures | 25,237 | - | - | - | - |
| | 508,440 | 902 | 134 | 1,080 | 9,350 |
| Others: | | | | | |
| Credit risk adjustment | - | 2,196 | 84 | - | 12,432 |
| Bid-ask spread adjustment | - | - | 145 | - | 2,855 |
| | - | 2,196 | 229 | - | 15,287 |
| | ₩ 113,910,291 | ₩ 1,013,524 | ₩ 976,709 | ₩ 1,355,357 | ₩ 1,286,767 |

## 18. Derivative instruments (cont'd)

| Classification | Notional amounts | December 31, 2012 Net valuation gain | Net valuation loss | December 31, 2012 Assets | Liabilities |
|---|---|---|---|---|---|
| Currency: | | | | | |
| Forward | ₩ 40,103,392 | ₩ 627,840 | ₩ 742,119 | ₩ 634,485 | ₩ 678,712 |
| Swap | 15,502,216 | 487,316 | 316,613 | 438,531 | 268,483 |
| Options purchased | 1,862,223 | 5,833 | 9,097 | 22,427 | - |
| Options sold | 2,147,990 | 11,567 | 15,095 | - | 32,230 |
| | 59,615,821 | 1,132,556 | 1,082,924 | 1,095,443 | 979,425 |
| Interest: | | | | | |
| Swap | 44,454,777 | 120,639 | 145,086 | 240,301 | 309,183 |
| Options purchased | 980,000 | 1,416 | 620 | 5,077 | - |
| Options sold | 1,695,000 | 1,459 | 311 | - | 2,566 |
| Futures | 1,174,227 | - | - | - | - |
| | 48,304,004 | 123,514 | 146,017 | 245,378 | 311,749 |
| Stock: | | | | | |
| Options purchased | 17,588 | 2,412 | 58 | 10,156 | - |
| Options sold | 2,745 | 15 | 25 | - | 123 |
| Futures | 1,197 | - | - | - | - |
| | 21,530 | 2,427 | 83 | 10,156 | 123 |
| Others: | | | | | |
| Deferred gain on derivatives valuation | - | - | - | - | 48 |
| Credit risk adjustment | - | 4,555 | - | - | 14,547 |
| Bid-ask spread adjustment | - | 235 | - | - | 2,710 |
| | - | 4,790 | - | - | 17,305 |
| | ₩ 107,941,355 | ₩ 1,263,287 | ₩ 1,229,024 | ₩ 1,350,977 | ₩ 1,308,602 |

Unsettled derivative contracts held-for-hedging as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Notional amounts | 2013 Net valuation gain | Net valuation loss | December 31, 2013 Assets | Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 2,163,365 | ₩ 191 | ₩ 29,956 | ₩ 23,070 | ₩ 12,562 |

| Classification | Notional amounts | 2012 Net valuation gain | Net valuation loss | December 31, 2012 Assets | Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest swap | ₩ 1,606,650 | ₩ 7,060 | ₩ 1,019 | ₩ 37,867 | ₩ - |

## 18. Derivative instruments (cont'd)

For derivative transactions involving both Korean won and foreign currency, the fair value of the unsettled amount for such transactions is presented using the basic foreign exchange rate of the contract amount in foreign currency. For a derivative transaction involving only foreign currency, the fair value of the unsettled amount is presented using the basic foreign exchange rate of the foreign currency purchased at the reporting date.

Gain or loss on valuation of hedged items for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Classification | Realized gain | Realized loss | Realized gain | Realized loss |
| Finance debentures | ₩ 33,566 | ₩ 185 | ₩ - | ₩ 11,558 |

Hedged items applying to fair value hedge accounting as at December 31, 2013 include debt securities of available-for-sale financial assets. The Bank recognized changes in fair values of hedged items due to fluctuation of interest rates in net income for the period. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

## 19. Investments in subsidiaries and associates

Details of investments in subsidiaries and associates as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | | | | | | Book value | |
|---|---|---|---|---|---|---|---|
| Classification | Type | Country | Financial statements date | Business type | Owner-ship (%) | December 31, 2013 | December 31, 2012 |
| KEB Capital Inc. ("KEBC")(*1) | Subsidiary | Korea | December 31, 2013 | Financial services | 99.31 | ₩ 27,387 | ₩ 115,294 |
| KEB Futures Co., Ltd. ("KEBF") | Subsidiary | Korea | December 31, 2013 | Financial services | 100.00 | 52,808 | 52,808 |
| KEB Fund Services Co., Ltd. ("KEBIS") | Subsidiary | Korea | December 31, 2013 | Financial services | 100.00 | 2,550 | 2,550 |
| Korea Exchange Bank of Canada ("KEBOC") | Subsidiary | Canada | December 31, 2013 | Financial services | 100.00 | 111,056 | 111,056 |
| KEB Australia Ltd. ("KEBA") | Subsidiary | Australia | December 31, 2013 | Financial services | 100.00 | 48,792 | 48,792 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | Subsidiary | Germany | December 31, 2013 | Financial services | 100.00 | 73,698 | 73,698 |
| PT. Bank KEB Indonesia ("KEBI") | Subsidiary | Indonesia | December 31, 2013 | Financial services | 99.00 | 131,454 | 131,454 |
| Banco KEB do Brasil S. A. ("KEBB") | Subsidiary | Brazil | December 31, 2013 | Financial services | 100.00 | 42,544 | 42,544 |
| KEB NY Financial Corp.("KEBNYFINCO") | Subsidiary | U.S | December 31, 2013 | Financial services | 100.00 | 36,169 | 36,169 |
| KEB LA Financial Corp.("KEBLAFINCO") | Subsidiary | U.S | December 31, 2013 | Financial services | 100.00 | 32,037 | 32,037 |
| KEB USA Int'l Corp. ("USAI") | Subsidiary | U.S | December 31, 2013 | Financial services | 100.00 | 6,459 | 6,459 |

## 19. Investments in subsidiaries and associates (cont'd)

| Classification | Type | Country | Financial statements date | Business type | Owner-ship(%) | Book value December 31, 2013 | Book value December 31, 2012 |
|---|---|---|---|---|---|---|---|
| KEB Asia Finance Limited ("KAF") | Subsidiary | Hong Kong | December 31, 2013 | Financial services | 100.00 | 54,212 | 54,212 |
| KEB Bank (China) Co., Ltd.("KEB China") | Subsidiary | China | December 31, 2013 | Financial services | 100.00 | 364,449 | 364,449 |
| Trust agreement to preserve income (*1) | Subsidiary | Korea | December 31, 2013 | Trust business | - | - | - |
| Trust agreement to preserve principle (*1) | Subsidiary | Korea | December 31, 2013 | Trust business | - | - | - |
| Athenae 1st (*2) | Subsidiary | Korea | December 31, 2013 | SPC | - | - | - |
| Athenae 2nd (*2) | Subsidiary | Korea | December 31, 2013 | SPC | - | - | - |
| Flossom (*3) | Associate | Korea | September 31, 2013 | Construction | 1.92 | - | - |
| MIDAN City Development Co.,Ltd (*3) | Associate | Korea | September 31, 2013 | Construction | 2.17 | 1,492 | - |
| Masam Marine New Town Co.,Ltd.(*3) | Associate | Korea | December 31, 2013 | Construction | 10.00 | 100 | - |
| | | | | | | ₩ 985,207 | ₩ 1,071,522 |

(*1) The Bank, a subsidiary of Hana Financial Group, is prohibited to own any subsidiary which operates in the specialized credit industry after January 31, 2014 according to the Financial Holding Company Act. Accordingly, KEBC, a subsidiary of the Bank, held a Board of Directors' meeting on October 17, 2013 and voted to close down the equipment rental, installment financing, new technology business financing and loan business under the Specialized Credit Financial Business Act, and change its operations to asset management and investments regarding insolvent assets under the Asset-Backed Securitization Act.
(*2) These structured entittes were classicfied as subsidiaries based on consideration of activities and exposure to variable income.
(*3) These companies were classified as an investment in associates as the Bank excercises significant influence over these companies through participating in the Board of Directors' meeting.

Summary of the financial statements of investments in subsidiaries and associates as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | December 31, 2013 Assets | Liabilities | Equity (deficit) | Net income (loss) |
|---|---|---|---|---|
| KEB Capital Inc. ("KEBC") | ₩ 259,926 | ₩ 232,348 | ₩ 27,578 | ₩ (47,927) |
| KEB Futures Co., Ltd. ("KEBF") | 546,310 | 480,759 | 65,551 | 19 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 17,346 | 2,073 | 15,273 | 3,207 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,304,312 | 1,155,571 | 148,741 | 14,926 |
| KEB Australia Ltd. ("KEBA") | 394,551 | 316,747 | 77,804 | 7,456 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 765,741 | 688,074 | 77,667 | 2,646 |

## 19. Investments in subsidiaries and associates (cont'd)

| Classification | December 31, 2013 Assets | Liabilities | Equity (deficit) | Net income (loss) |
|---|---|---|---|---|
| PT. Bank KEB Indonesia ("KEBI") | ₩ 507,969 | ₩ 375,422 | ₩ 132,547 | ₩ 13,289 |
| Banco KEB do Brasil S. A. ("KEBB") | 160,226 | 118,179 | 42,047 | 5,399 |
| KEB NY Financial Corp. ("KEBNYFINCO") | 465,773 | 425,715 | 40,058 | 4,374 |
| KEB LA Financial Corp. ("KEBLAFINCO") | 278,932 | 234,688 | 44,244 | 3,026 |
| KEB USA Int'l Corp. ("USAI") | 7,038 | 3 | 7,035 | 47 |
| KEB Asia Finance Limited ("KAF") | 126,584 | 71,637 | 54,947 | 1,873 |
| KEB Bank (China) Co., Ltd. ("KEB China") | 2,630,733 | 2,205,309 | 425,424 | 10,637 |
| Trust agreement to preserve income | 86 | 84 | 2 | - |
| Trust agreement to preserve principle | 719,831 | 707,633 | 12,198 | (728) |
| Athenae 1st | 11,502 | 11,500 | 2 | 2 |
| Athenae 2nd | 5,152 | 5,150 | 2 | 2 |
| Flossom | 111,705 | 127,896 | (16,191) | (6,647) |
| MIDAN City Development Co.,Ltd | 892,537 | 861,649 | 30,888 | (18,030) |
| Masam Marine New Town Co.,Ltd. | 148,823 | 148,513 | 310 | (7) |

| Classification | December 31, 2012 Assets | Liabilities | Equity (deficit) | Net income (loss) |
|---|---|---|---|---|
| KEB Capital Inc. ("KEBC") | ₩ 704,580 | ₩ 628,743 | ₩ 75,837 | ₩ (23,409) |
| KEB Futures Co., Ltd. ("KEBF") | 696,372 | 629,764 | 66,608 | 2,501 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 13,869 | 1,718 | 12,151 | 1,291 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,179,779 | 1,033,271 | 146,508 | 12,815 |
| KEB Australia Ltd. ("KEBA") | 506,005 | 421,826 | 84,179 | 9,402 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 440,243 | 366,865 | 73,378 | 3,034 |
| PT. Bank KEB Indonesia ("KEBI") | 539,919 | 383,427 | 156,492 | 14,101 |
| Banco KEB do Brasil S. A. ("KEBB") | 247,044 | 203,268 | 43,776 | 3,440 |
| KEB NY Financial Corp. ("KEBNYFINCO") | 430,860 | 394,482 | 36,378 | 860 |
| KEB LA Financial Corp. ("KEBLAFINCO") | 288,822 | 246,876 | 41,946 | 3,432 |

## 19. Investments in subsidiaries and associates (cont'd)

| Classification | December 31, 2012 Assets | Liabilities | Equity (deficit) | Net income (loss) |
|---|---|---|---|---|
| KEB Capital Inc. ("KEBC") | ₩ 704,580 | ₩ 628,743 | ₩ 75,837 | ₩ (23,409) |
| KEB Futures Co., Ltd. ("KEBF") | 696,372 | 629,764 | 66,608 | 2,501 |
| KEB Fund Services Co., Ltd. ("KEBIS") | 13,869 | 1,718 | 12,151 | 1,291 |
| Korea Exchange Bank of Canada ("KEBOC") | 1,179,779 | 1,033,271 | 146,508 | 12,815 |
| KEB Australia Ltd. ("KEBA") | 506,005 | 421,826 | 84,179 | 9,402 |
| Korea Exchange Bank (Deutschland) A.G. ("KEBDAG") | 440,243 | 366,865 | 73,378 | 3,034 |
| PT. Bank KEB Indonesia ("KEBI") | 539,919 | 383,427 | 156,492 | 14,101 |
| Banco KEB do Brasil S. A. ("KEBB") | 247,044 | 203,268 | 43,776 | 3,440 |
| KEB NY Financial Corp. ("KEBNYFINCO") | 430,860 | 394,482 | 36,378 | 860 |
| KEB LA Financial Corp. ("KEBLAFINCO") | 288,822 | 246,876 | 41,946 | 3,432 |
| KEB USA Int'l Corp. ("USAI") | 7,106 | 12 | 7,094 | 150 |
| KEB Asia Finance Limited ("KAF") | 85,346 | 31,408 | 53,938 | 1,076 |
| KEB Bank (China) Co., Ltd. ("KEB China") | 1,854,218 | 1,444,379 | 409,839 | 4,693 |
| Trust agreement to preserve income | 86 | 83 | 3 | - |
| Trust agreement to preserve principle | 689,812 | 676,887 | 12,925 | (393) |
| Flossom | 103,836 | 113,179 | (9,343) | (30,417) |

## 20. Property and equipment

Property and equipment as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | December 31, 2013 Acquisition cost | Accumulated depreciation | Government grants | Book value |
|---|---|---|---|---|
| Land | ₩ 811,634 | ₩ - | ₩ - | ₩ 811,634 |
| Buildings | 461,572 | (191,162) | - | 270,410 |
| Leasehold improvements | 169,452 | (132,092) | (353) | 37,007 |
| Equipment and vehicles | 658,069 | (578,072) | - | 79,997 |
| | ₩ 2,100,727 | ₩ (901,326) | ₩ (353) | ₩ 1,199,048 |

20. Property and equipment (cont'd)

| Classification | December 31, 2012 Acquisition cost | Accumulated depreciation | Government grants | Book value |
|---|---|---|---|---|
| Land | ₩ 816,715 | ₩ - | ₩ - | ₩ 816,715 |
| Buildings | 452,750 | (182,366) | - | 270,384 |
| Leasehold improvements | 153,776 | (122,620) | - | 31,156 |
| Equipment and vehicles | 675,251 | (588,734) | - | 86,517 |
| Construction in progress | 3 | - | - | 3 |
| | ₩ 2,098,495 | ₩ (893,720) | ₩ - | ₩ 1,204,775 |

Changes in property and equipment for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 January 1, 2013 | Additions | Disposal | Depreciation | Transfer out | Others | December 31, 2013 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 816,715 | ₩ 809 | ₩ (102) | ₩ - | ₩ (5,465) | ₩ (323) | ₩ 811,634 |
| Buildings | 270,384 | 13,404 | (35) | (11,142) | (2,034) | (167) | 270,410 |
| Leasehold improvements (*1) | 31,156 | 17,302 | 2 | (10,629) | - | (824) | 37,007 |
| Equipments and vehicles | 86,517 | 48,223 | (152) | (54,242) | - | (349) | 79,997 |
| Construction in progress | 3 | - | - | - | (3) | - | - |
| | ₩ 1,204,775 | ₩ 79,738 | ₩ (287) | ₩ (76,013) | ₩ (7,502) | ₩ (1,663) | ₩ 1,199,048 |

(*1) An increase of ₩1,211 million related to a provision for restoration cost was included in the acquisition amount.

## 20. Property and equipment (cont'd)

| Classification | 2012 January 1, 2012 | Additions | Disposal | Depreciation | Transfer out | Others | December 31, 2012 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 819,393 | ₩ 199 | ₩ (23) | ₩ - | ₩ (2,538) | ₩ (316) | ₩ 816,715 |
| Buildings | 270,685 | 13,540 | (28) | (11,204) | (2,170) | (439) | 270,384 |
| Leasehold improvements (*1) | 21,830 | 16,911 | (36) | (9,501) | - | 1,952 | 31,156 |
| Equipments and vehicles | 76,633 | 60,814 | (167) | (50,835) | - | 72 | 86,517 |
| Construction in progress | 322 | - | - | - | - | (319) | 3 |
| | ₩ 1,188,863 | ₩ 91,464 | ₩ (254) | ₩ (71,540) | ₩ (4,708) | ₩ 950 | ₩ 1,204,775 |

(*1) An increase of ₩1,054 million related to a provision for restoration cost was included in the acquisition amount.

## 21. Investment property

Details of investment property as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Land | ₩ 122,088 | ₩ - | ₩ (2,356) | ₩ 119,732 |
| Buildings | 117,228 | (51,310) | (2,388) | 63,530 |
| | ₩ 239,316 | ₩ (51,310) | ₩ (4,744) | ₩ 183,262 |

| Classification | December 31, 2012 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Land | ₩ 116,622 | ₩ - | (2,356) | ₩ 114,267 |
| Buildings | 113,201 | (46,768) | (2,388) | 64,045 |
| | ₩ 229,823 | ₩ (46,768) | (4,743) | ₩ 178,312 |

Changes in investment property for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 January 1, 2013 | Disposal | Depreciation | Transfer (*1) | December 31, 2013 |
|---|---|---|---|---|---|
| Land | ₩ 114,267 | ₩ - | ₩ - | ₩ 5,465 | ₩ 119,732 |
| Buildings | 64,044 | - | (2,549) | 2,034 | 63,530 |
| | ₩ 178,311 | ₩ - | ₩ (2,549) | ₩ 7,499 | ₩ 183,262 |

## 21. Investment property (cont'd)

| Classification | 2012 January 1, 2012 | Disposal | Depreciation | Transfer (*1) | December 31, 2012 |
|---|---|---|---|---|---|
| Land | ₩ 112,073 | ₩ (344) | ₩ - | ₩ 2,538 | ₩ 114,267 |
| Buildings | 64,369 | - | (2,494) | 2,170 | 64,045 |
| | ₩ 176,442 | ₩ (344) | ₩ (2,494) | ₩ 4,708 | ₩ 178,312 |

(*1) Due to the changes in the ratio of the leased investment properties

Fair values of investment property are in the amount of ₩145,498 million and ₩155,197 million as at December 31, 2013 and 2012, respectively, which were measured by external independent agencies.

Rental income and operating expenses arising from the Bank's investment properties for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Rental income | ₩ 3,043 | ₩ 3,206 |

Investment property not in use as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Land | ₩ 1,640 | ₩ 1,640 |
| Buildings | 274 | 386 |
| | ₩ 1,914 | ₩ 2,026 |

## 22. Intangible assets

Details of intangible assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| System development | ₩ 306,075 | ₩ (255,406) | ₩ - | ₩ 50,669 |
| Membership | 16,350 | - | (6,252) | 10,098 |
| Others | 2,189 | (2,044) | (28) | 117 |
| | ₩ 324,614 | ₩ (257,450) | ₩ (6,280) | ₩ 60,884 |

## 22. Intangible assets (cont'd)

| Classification | December 31, 2012 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| System development | ₩ 287,078 | ₩ (233,382) | ₩ - | ₩ 53,696 |
| Membership | 18,499 | - | (3,763) | 14,736 |
| Others | 2,384 | (2,173) | - | 211 |
| | ₩ 307,961 | ₩ (235,555) | ₩ (3,763) | ₩ 68,643 |

Changes in intangible assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 January 1, 2013 | Additions | Disposal | Amortization | Impairment loss | Reclassifi-cation | December 31, 2013 |
|---|---|---|---|---|---|---|---|
| System development | ₩ 53,696 | ₩ 18,997 | ₩ - | ₩ (22,024) | ₩ - | ₩ - | ₩ 50,669 |
| Membership | 14,736 | 31 | (2,128) | - | (2,533) | (8) | 10,098 |
| Others | 211 | 21 | - | (99) | - | (16) | 117 |
| | ₩ 68,643 | ₩ 19,049 | ₩ (2,128) | ₩ (22,123) | ₩ (2,533) | ₩ (24) | ₩ 60,884 |

| Classification | 2012 January 1, 2012 | Additions | Disposal | Amortization | Impairment loss | Reclassifi-cation | December 31, 2012 |
|---|---|---|---|---|---|---|---|
| System development | ₩ 62,813 | ₩ 13,225 | ₩ - | ₩ (22,342) | ₩ - | ₩ - | ₩ 53,696 |
| Membership | 10,579 | 11 | (213) | - | (2,074) | 6,433 | 14,736 |
| Others | 296 | 62 | - | (113) | - | (34) | 211 |
| | ₩ 73,688 | ₩ 13,298 | ₩ (213) | ₩ (22,455) | ₩ (2,074) | ₩ 6,399 | ₩ 68,643 |

## 23. Other assets and merchant banking account assets

Details of other assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Guarantee deposits paid | ₩ 647,674 | ₩ 641,969 |
| Accounts receivable | 4,436,807 | 6,428,675 |
| Accrued income | 235,310 | 231,178 |
| Prepaid expenses | 113,671 | 56,763 |
| Suspense payments | 28,495 | 21,408 |
| Expenditures | 6,089 | 6,613 |
| Deposit money to court | 27,548 | 11,354 |
| Domestic exchange settlement debits | 1,196,426 | 414,312 |
| Others | 4,474 | 4,211 |
| Allowance for possible other asset losses | (8,212) | (3,734) |
| | ₩ 6,688,282 | ₩ 7,812,749 |

## 23. Other assets and merchant banking account assets (cont'd)

Changes in the allowance for possible losses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 3,734 | ₩ 8,627 |
| Write-offs | (2,720) | (6,152) |
| Provision for allowance for possible losses | 7,391 | 1,415 |
| Interest income from impaired assets | (193) | (156) |
| Ending balance | ₩ 8,212 | ₩ 3,734 |

Details of merchant banking account assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Merchant banking account loans | ₩ 154,400 | ₩ 450,000 |
| Merchant banking account trading bonds | 2,166,515 | 1,816,293 |
| CMA assets: | | |
| Loans receivable | 146,000 | 232,600 |
| Trading bonds | 249,589 | 79,672 |
| | 395,589 | 312,272 |
| Allowance for possible loan losses | (669) | (349) |
| | ₩ 2,715,835 | ₩ 2,578,216 |

## 24. Non-current assets held for sale

Non-current assets held-for-sale consist of two real estates acquired through execution of security rights, which the management of the Bank committed to sell, but not sold as at December 31, 2013. As of the reporting date, the asset held-for-sale is under negotiation for sale and is being actively marketed.

Details of non-current assets held-for-sale as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Acquisition cost | ₩ 290 | ₩ 192 |
| Accumulated depreciation | - | - |
| | ₩ 290 | ₩ 192 |

## 25. Financial liabilities at FVTPL

Details of financial liaiblities at FVTPL as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Derivative liabilities used for hedging purposes (Note 18) | ₩ 1,286,767 | ₩ 1,308,602 |

## 26. Deposits

Details of deposits as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits in Korean won: | | |
| Checking deposits | ₩ 411,353 | ₩ 213,786 |
| Household checking deposits | 20,545 | 15,493 |
| Temporary deposits | 685,268 | 738,617 |
| Passbook deposits | 16,820,267 | 15,466,365 |
| Public fund deposits | 33,773 | 41,569 |
| Treasury deposits | 256 | 256 |
| Nonresident's deposit in Korean won | 216,241 | 268,586 |
| Nonresident's 'free-won' account | 21,404 | 29,742 |
| | 18,209,107 | 16,774,414 |
| Demand deposits denomiated in foreign currency: | | |
| Checking deposits | 1,994,659 | 1,992,033 |
| Passbook deposits | 7,118,467 | 7,234,386 |
| Temporary deposits | 18,113 | 15,979 |
| | 9,131,239 | 9,242,398 |
| | 27,340,346 | 26,016,812 |
| Time and saving deposits: | | |
| Time and saving deposits in Korean won: | | |
| Time deposits | 29,691,497 | 29,930,016 |
| Apartment application deposits | 138,239 | 158,655 |
| Installment saving deposits | 2,292,114 | 1,776,894 |
| Non-resident deposits in Korean won | 421,302 | 351,073 |
| Non-resident free deposits in Korean won | 268,314 | 432,394 |
| Long-term housing saving deposits | 215,784 | 314,227 |
| Workers' preferential saving deposits | 115 | 153 |
| Mutual installment deposits | 84 | 99 |
| Mutual installment for housing | 15,062 | 18,809 |
| Others | 75,426 | 36 |
| | 33,117,937 | 32,982,356 |

## 26. Deposits (cont'd)

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Time and saving deposits denominated in foreign currency: | | |
| Time deposits denominated in foreign currency | 4,383,814 | 4,256,864 |
| Others | 39,921 | 35,279 |
| | 4,423,735 | 4,292,143 |
| | 37,541,672 | 37,274,499 |
| Certificate of deposits | 253,232 | 278,803 |
| | ₩ 65,135,250 | ₩ 63,570,114 |

Allocations of deposits by customer as at December 31, 2013 and 2012 are listed as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Individuals | ₩ 19,254,217 | ₩ 19,049,515 |
| Corporations | 22,111,389 | 22,492,675 |
| Other banks | 862,647 | 1,982,905 |
| Public institutions | 926,291 | 472,166 |
| Other financial institutions | 6,372,318 | 7,545,600 |
| Government | 178,514 | 238,405 |
| Non-profit corporations | 3,988,257 | 3,377,445 |
| Foreign organizations | 7,166,172 | 7,685,601 |
| Others | 4,275,445 | 725,802 |
| | ₩ 65,135,250 | ₩ 63,570,114 |

## 27. Borrowings

Details of borrowings as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Borrowings in Korean won: | | | | |
| Borrowings from BOK | BOK | 0.50~1.00 | ₩ 200,271 | ₩ 545,340 |
| Borrowings from government | KEMC and others | 0.00~3.65 | 1,291,667 | 927,715 |
| Other borrowings | Small business corporation and others | 1.00~5.05 | 153,697 | 221,337 |
| | | | 1,645,635 | 1,694,392 |
| Borrowings denominated in foreign currencies: | | | | |

## 27. Borrowings (cont'd)

| Classification | Lender | Interest rate (%) | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Bank overdrafts | JP Morgan Chase and others | 1.83~15.75 | 206,355 | 180,643 |
| Other borrowings | SMBC and others | 0.69~5.77 | 3,901,155 | 4,492,917 |
| | | | 4,107,510 | 4,673,560 |
| Call money: | | | | |
| Call money denominated in foreign currencies | EXIM Bank of Korea and others | 0.32~0.55 | 683,160 | 135,973 |
| Bonds sold under repurchase agreement: | | | | |
| Bonds sold under repurchase agreements in Korean won | Customers | 3.70~3.95 | 190 | 190 |
| Bills sold | Customers | 2.04~2.95 | 84,196 | 58,387 |
| | | | ₩ 6,520,691 | ₩ 6,562,502 |

## 28. Debentures

Details of debentures as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Lender | Interest rate (%) | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| Debentures in Korean won: | | | | |
| Debentures | Institutions | 2.61~3.82 | ₩ 2,590,000 | ₩ 2,530,000 |
| Subordinated bonds | Institutions and customers | 3.07~7.80 | 1,750,122 | 1,500,132 |
| (less present value discount) | | | (5,546) | (12,176) |
| | | | 4,334,576 | 4,017,956 |
| Debentures denominated in foreign currencies: | | | | |
| Debentures | Morgan Stanley and others | 1.75~4.88 | 1,997,663 | 1,606,650 |
| Subordinated debentures | Barclays and others | 4.63 | 204,641 | - |
| Floating rate bonds | HSBC and others | 1.27~2.37 | 52,765 | 160,665 |
| Net gain (loss) on fair value hedges (current period) | | | (33,381) | 11,558 |
| Net gain on fair value hedges (prior period) | | | 39,565 | 25,302 |
| (less present value discount) | | | (13,829) | (12,024) |
| | | | 2,247,424 | 1,792,151 |
| | | | ₩ 6,582,000 | ₩ 5,810,107 |

## 29. Provision

Details of provisions as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Provisions for possible losses on acceptances and guarantees: | | | | |
| Financial acceptances and guarantees (*1) | ₩ | 1,022 | ₩ | 1,783 |
| Non-financial acceptances and guarantees | | 36,739 | | 32,245 |
| Bills endorsed | | 276 | | 763 |
| | | 38,037 | | 34,791 |
| Provisions for unused commitments | | 60,043 | | 60,003 |
| Other provisions: | | | | |
| Provisions for retirement obligation | | 17,931 | | 17,786 |
| Provisions for reward points | | 27,141 | | 22,832 |
| Provisions for contingent (*2) | | 122,059 | | 45,352 |
| Others | | 1,446 | | 43,668 |
| | | 168,577 | | 129,638 |
| | ₩ | 266,657 | ₩ | 224,432 |

(*1) The Bank recognizes the amount exceeding the unamortized amount of the initial fair value at subsequent measurement of the financing guarantee contract as provisions for guarantees. The Bank recognizes the unamortized amount as financing guarantee contract liabilities in the amount of ₩28,581 million and ₩40,149 million as at December 31, 2013 and 2012, respectively.
(*2) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a lawsuit against 5 companies, including the Bank and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As at December 13, 2011, the Court ruled that $37.30 million of damages and 5 percent annual interest expenses of approximately $15.26 million that accrued from November. 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. Currently, OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a lawsuit with the Seoul Central District Court to enforce an international arbitration judgment against the Bank. Accordingly, the Bank has recognized a provision for contingent in the amount of ₩38.7 billion as at December 31, 2013 which corresponds to approximately 50 percent of the amount mentioned above.

## 29. Provision (cont'd)

Changes in provisions for for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | 2013 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2013 | Provision for allowance (reversal of allowance) | Allowance used | Others | December 31, 2013 |
| Provisions for possible losses on acceptances and guarantees | ₩ 34,791 | ₩ 3,466 | ₩ - | ₩ (220) | ₩ 38,037 |
| Provisions for unused commitments | 60,003 | 138 | - | (98) | 60,043 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 17,786 | (220) | (584) | 949 | 17,931 |
| Provisions for reward points | 22,832 | 16,652 | (33,244) | 20,901 | 27,141 |
| Provisions for contingent | 45,352 | 35,217 | - | 41,490 | 122,059 |
| Others | 43,668 | (636) | - | (41,586) | 1,446 |
| | 129,638 | 51,013 | (33,828) | 21,754 | 168,577 |
| | ₩ 224,432 | ₩ 54,617 | ₩ (33,828) | ₩ 21,436 | ₩ 266,657 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| Classification | January 1, 2012 | Provision for allowance (reversal of allowance) | Allowance used | Others | December 31, 2012 |
| Provisions for possible losses on acceptances and guarantees | ₩ 40,414 | ₩ (3,867) | ₩ - | ₩ (1,756) | ₩ 34,791 |
| Provisions for unused commitments | 53,692 | 6,642 | - | (331) | 60,003 |
| Other provisions: | | | | | |
| Provisions for restoration cost | 12,567 | 3,191 | (266) | 2,294 | 17,786 |
| Provisions for reward points | 7,774 | 13,606 | (16,615) | 18,067 | 22,832 |
| Provisions for contingent | 43,506 | 1,846 | - | - | 45,352 |
| Others | 76,642 | (10,465) | (22,500) | (9) | 43,668 |
| | 140,489 | 8,178 | (39,381) | 20,352 | 129,638 |
| | ₩ 234,595 | ₩ 10,953 | ₩ (39,381) | ₩ 18,265 | ₩ 224,432 |

## 29. Provision (cont'd)

Details of payment gurantees and endorsed notes as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Acceptances and guarantees: | | |
| Financial acceptances and guarantees in Korean won: | | |
| Payment guarantee for issuance of debentures | ₩ - | ₩ 70 |
| Payment guarantee for loans | 99,814 | 86,539 |
| Others | 15,480 | 25,919 |
| | 115,294 | 112,528 |
| Financial acceptances and guarantees denominated in foreign currencies: | | |
| Local financial acceptances and guarantees | 1,051,424 | 619,029 |
| Confirmed acceptances and guarantees in Korean won: | | |
| Other acceptances and guarantees in Korean won | 1,483,313 | 1,553,450 |
| Confirmed acceptances and guarantees denominated in foreign currencies: | | |
| Acceptance on letter of credit | 385,002 | 540,812 |
| Acceptance on letters of guarantees | 89,730 | 98,290 |
| Others | 9,425,544 | 8,092,141 |
| | 9,900,276 | 8,731,243 |
| Contingent acceptances and guarantees: | | |
| Letters of credit | 3,935,256 | 3,836,163 |
| Others | 39,829 | 33,510 |
| | 3,975,085 | 3,869,673 |
| | 16,525,392 | 14,885,923 |
| Bills endorsed | 46,785 | 25,733 |
| | ₩ 16,572,177 | ₩ 14,911,656 |

Details of unused commitments as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | Outstanding balance | |
|---|---|---|
| | December 31, 2013 | December 31, 2012 |
| Commitments on loans in Korean won | ₩ 50,887,746 | ₩ 50,777,204 |
| Commitments on loans denominated in foreign currency | 6,426,662 | 5,795,797 |
| Commitments on purchase of asset-backed commercial papers | 493,242 | 581,034 |
| Commitments on credit lines on asset-backed securities | 865,700 | 1,478,216 |
| | ₩ 58,673,350 | ₩ 58,632,251 |

## 30. Other liabilities and merchant banking account liabilities

Details of other liabilities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Post-employment benefit obligation (see Note 31): | | |
| Defined benefit obligation | ₩ 356,194 | ₩ 276,815 |
| Less: Plan assets | (315,153) | (254,986) |
| | 41,041 | 21,829 |
| Due to trust accounts | 912,277 | 1,010,055 |
| Foreign exchange settlement credits: | | |
| Bills sold | 3,393 | 4,061 |
| Inward remittance payable | 276,908 | 360,267 |
| | 280,301 | 364,328 |
| Accounts payable: | | |
| Other accounts payable | 4,307,234 | 6,347,118 |
| Accounts payable (card) | 316,491 | 286,235 |
| | 4,623,725 | 6,633,353 |
| Accrued expenses | 762,130 | 870,573 |
| Unearned income | 68,121 | 68,301 |
| Deferred income | 66,515 | 52,836 |
| Deposit for letter of guarantees and others: | | |
| Acceptance and guarantee | 89,004 | 84,799 |
| Others | 48,236 | 36,495 |
| | 137,240 | 121,294 |
| Suspense receipt | 52,871 | 67,767 |
| Suspense receipt (card) | 13,639 | 11,282 |
| Withholding taxes | 28,762 | 27,477 |
| Agency business accounts | 89,478 | 92,007 |
| Due from treasury agencies | 2,060,594 | 1,803,352 |
| Financial acceptances and guarantees contract: | | |
| Financial acceptances and guarantees in Korean won | 22,601 | 35,903 |
| Financial acceptances and guarantees denominated in foreign currencies | 5,980 | 4,246 |
| | 28,581 | 40,149 |
| Other liabilities: | | |
| Security deposits received | 17,863 | 29,395 |
| Exchange settlement credits | 982,572 | 1,592,073 |
| Prepaid card | 10 | 10 |
| Debit card | 9,981 | 9,560 |
| Cash received from other banks | 152 | 400 |
| Other liabilities denominated in foreign currencies | 4,473 | 4,012 |
| | 1,015,051 | 1,635,450 |
| | ₩ 10,180,326 | ₩ 12,820,053 |

### 30. Other liabilities and merchant banking account liabilities (cont'd)

Details of merchant banking account liabilities as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Merchant banking account deposits | ₩ 1,678,593 | ₩ 525,654 |
| Others: | | |
| Provision for unused commitments | 919 | 987 |
| Other liabilities (*1) | 1,292 | 2,094 |
| | 2,211 | 3,081 |
| | ₩ 1,680,804 | ₩ 528,735 |

(*1) Including accrued expenses, unearned income and others.

### 31. Severance benefits

The Bank operates a defined retirement benefit plan ("DB plan") in accordance with the Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Bank has purchased severance benefits insurance and made deposits. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Bank pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by an actuary services company. Current and past service costs related to the present value of defined benefit obligation are measured using the projected unit credit method.

The Bank provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for the service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by an actuary service company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

The amendments to *KIFRS 1019* will be applied retrospectively as of January 1, 2012 the net interest of the defined benefit plan less the fair value of plant assets will be recognized in profit or loss and the net interest on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation.

### 31. Severance benefits (cont'd)

Reconciliation of the amendments to the separate statement of financial position as at December 31, 2013, 2012 and January 1, 2012, and the separate statement of profit or loss and other comprehensive income for the year ended December, 2013 and 2012 is as follows (Korean won in millions):

| | Statement of financial position | | |
|---|---|---|---|
| Classification | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Changes in accumulated other comprehensive income | ₩ (9,634) | ₩ 17,011 | ₩ 23,221 |
| Changes in retained earning | 9,634 | (17,011) | (23,221) |

| | Statement of profit or loss and other comprehensive income | |
|---|---|---|
| Classification | 2013 | 2012 |
| Income tax expense | ₩ 8,506 | ₩ 1,982 |
| Current net expense | 26,645 | 6,210 |
| Other comprehensive income | (26,645) | (6,210) |

Key assumptions for actuarial valuation as at December 31, 2013 and 2012 are as follows:

| | Ratio (%) | | |
|---|---|---|---|
| Classification | December 31, 2013 | December 31, 2012 | Notes |
| Demographic assumptions: | | | |
| Mortality | 0.002~0.268 | 0.002 ~ 0.268 | Mortality table for 2012 |
| Rates of employee turnover | 3.74 | 3.08 | |
| Financial assumptions: | | | |
| Expected rate of salary increase | 3.05 | 2.24 | Average rate over the past five years |
| Discount rate | 3.93 | 3.55 | Rate of return on bank AAA bonds |

Details of the post-empoyment benefit obligation as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Present value of defined benefit obligation deposited to plan assets | ₩ 339,630 | ₩ 262,250 |
| Fair value of plan assets | (315,153) | (254,986) |
| | 24,477 | 7,264 |
| Present value of defined benefit obligation not deposited to plan assets | 16,564 | 14,565 |
| Post-employment benefit obligation | ₩ 41,041 | ₩ 21,829 |

## 31. Severance benefits (cont'd)

Changes in present value of defined benefit obligation for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Beginning balance | ₩ | 276,815 | ₩ | 218,861 |
| Current service cost | | 47,979 | | 45,582 |
| Past service cost | | 99 | | 34,574 |
| Interest cost | | 9,461 | | 8,916 |
| Remeasurement of the net defined benefit liability | | 38,759 | | 9,198 |
| Payment of severance benefits | | (16,768) | | (39,855) |
| Transferred from other affiliates | | 197 | | 104 |
| Others | | (348) | | (565) |
| Ending balance | ₩ | 356,194 | ₩ | 276,815 |

Details of losses incurred from defined benefit obligations for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Current service cost | ₩ | 47,979 | ₩ | 45,582 |
| Interest cost | | 627 | | 1,488 |
| Past service cost | | 99 | | 34,574 |
| Actuarial losses | | 3,367 | | - |
| Plan assets management cost | | 499 | | 134 |
| | ₩ | 52,571 | ₩ | 81,778 |

Plan assets for severance benefit as at December 31, 2013 and 2012 consist of the following (Korean won in millions):

| Classification | | December 31, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| Plan assets which have a market price quoted in an active market: | | | | |
| Time deposits | ₩ | 191,956 | ₩ | 81,716 |
| Debt securities | | 63,679 | | 78,456 |
| Others | | 59,518 | | 94,814 |
| | ₩ | 315,153 | ₩ | 254,986 |

**31. Severance benefits (cont'd)**

Changes in fair value of plan assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 254,986 | ₩ 178,756 |
| Interest income | 8,834 | 7,428 |
| Remeasurement of the net defined benefit liability | 241 | 1,006 |
| Employer contributions | 64,000 | 74,300 |
| Payment | (12,409) | (6,369) |
| Others | (499) | (135) |
| Ending balance | ₩ 315,153 | ₩ 254,986 |

Details of the remeasurement of the net defined benefit liability for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Acturial gain (loss) | | |
| Changes in demographic assumptions | ₩ (3,387) | ₩ (752) |
| Changes in financial assumptions | (12,576) | (9,965) |
| Others | (19,429) | 1,519 |
| | (35,392) | (9,198) |
| Income on planned assets | | |
| Actual income on planned assets | 9,075 | 8,434 |
| Amounts included in net interest on the net defined benefit liability | (8,834) | (7,428) |
| | 241 | 1,006 |
| | ₩ (35,151) | ₩ (8,192) |

Sensitivity of defined benefit liability due to the changes in the discount rate as of December 31, 2013 is as follows (Korean won in millions):

| Classification | December 31, 2013 | 1% point increase | 1% point decrease |
|---|---|---|---|
| Present value of defined benefit liability | ₩ 336,406 | ₩ 320,614 | ₩ 353,446 |

Sensitivity of defined benefit liability due to the changes in the rate of salary increase as of December 31, 2013 is as follows (Korean won in millions):

| Classification | December 31, 2013 | 1% point increase | 1% point decrease |
|---|---|---|---|
| Present value of defined benefit liability | ₩ 336,406 | ₩ 352,720 | ₩ 321,183 |

Expected contributions to the plan for the next annual reporting period as at December 31, 2013 amounts to ₩56,903 million. Also the weighted average duration of the defined benefit obligation as at December 31, 2013 is 10.36 years.

## 32. Issued Capital and other paid-in capital

Issued capital as at December 31, 2013 and 2012 is as follows (Korean won in millions, share):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Number of shares authorized | 1,000,000,000 | 1,000,000,000 |
| Par value per share (Korean won) | ₩ 5,000 | ₩ 5,000 |
| Number of shares issued | 644,906,826 | 644,906,826 |
| Common stock | ₩ 3,224,534 | ₩ 3,224,534 |

Other paid-in capital as at December 31, 2013 and 2012 is as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Capital surplus (*1) | ₩ 940 | ₩ 940 |
| Hybrid securities (*2) | 429,509 | 249,772 |
| Capital adjustments: | | |
| Stock option | (227) | 40 |
| Loss on disposal of treasury stock | (17,869) | - |
| Others | (618) | - |
| | (18,714) | 40 |
| | ₩ 411,735 | ₩ 250,752 |

(*1) Amounts in capital surplus as at December 31, 2013 and 2012 were transferred from the stock option balance (accounted for as capital adjustment) as the exercisable period lapsed.
(*2) Korea Exchange Bank Hybrid securities have been issued by the Bank. Upon expiration, the bonds can be extended under the same terms.

## 33. Retained earnings

Details of retained earnings as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Legal reserve: | | | | |
| Earned surplus reserve (*1) | ₩ | 787,200 | ₩ | 724,600 |
| Voluntary reserve: | | | | |
| Revaluation reserves on tangible assets (*2) | | 431,931 | | 431,936 |
| Other reserves (*3) | | 56,902 | | 57,152 |
| Regulatory reserve for bad debts (*4) | | 697,881 | | 680,066 |
| | | 1,186,714 | | 1,169,154 |
| Unappropriated retained earnings | | 3,563,912 | | 3,335,938 |
| | ₩ | 5,537,826 | ₩ | 5,229,692 |

(*1) The Korean Banking Law requires the Bank to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not restricted to the payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.
(*2) The Bank records gains from revaluation of property and equipment to the voluntary reserve, as it applies the revaluation amount as a deemed cost at the first-time adoption of KIFRS. Such reseve is recognized in retained earnings when the relevant property and equipment have been disposed.
(*3) Relevant Japanese regulations require the Bank's overseas branches located in Japan to appropriate a minimum of 10% of net income for the period as a legal reserve, until such reserve equals ¥2,000 million. This reserve is restricted to the payment of cash dividends and allowed to be used upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.
(*4) The Bank accumulated allowances for possible loan losses in accordance with KIFRS and regulatory reserve for bad debts in the amount described below the provision of allowances in accordance to the minimum accumulation ratio required by FSS.

Changes in appropriated retained for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 5,229,692 | ₩ | 4,613,561 |
| Net income for the period | | 360,443 | | 634,381 |
| Dividend | | (32,245) | | - |
| Dividend on hybrid securities | | (20,064) | | (18,250) |
| Ending balance | ₩ | 5,537,826 | ₩ | 5,229,692 |

## 33. Retained earnings (cont'd)

Statements of appropriation of retained earning as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Retained earning: | | |
| Unappropriated retained earning carried forward | ₩ 3,276,500 | ₩ 2,781,298 |
| Accumulated effect of accounting policy change | (17,011) | - |
| Loss on prior year error correction | (35,961) | - |
| Dividend on hybrid securities | (20,064) | (18,250) |
| Transfer from revaluation reserves on tangible assets | 5 | 72 |
| Net income for the period | 360,443 | 625,790 |
| | 3,563,912 | 3,388,910 |
| Transfer from voluntary reserves: | | |
| Other reserves | - | 2,414 |
| | - | 2,414 |
| Appropriate retained earning: | | |
| Earned surplus reserve | 36,100 | 62,600 |
| Other reserves | 5,244 | 2,164 |
| Regulatory reserve for bad debts | 50,713 | 17,815 |
| Loss on disposal of treasury stock | 17,869 | - |
| Other capital adjustment | 160 | - |
| Dividend | | |
| Dividend per share in the amount of ₩120.07(2.4%) and ₩50.00(1.06%) for the years ended December 31, 2013 and 2012 | 77,433 | 32,245 |
| | (187,519) | (114,824) |
| Unappropriated retained earning | ₩ 3,376,393 | ₩ 3,276,500 |

## 34. Regulatory reserve for bad debts

Regulatory reserve for bad debts is computed and presented under article 29-1 and 29-2 of the regulation on Supervision of Banking Business of the Republic of Korea.

Details of regulatory reserve for bad debts as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Beginning balance (*1) | ₩ 697,881 | ₩ 680,066 |
| Planned reserve for bad debts (*2) | 50,713 | 17,815 |
| Ending balance | ₩ 748,594 | ₩ 697,881 |

(*1) Appropriation date for the 2012 fiscal year was on March 21, 2013.
(*2) The Bank was given notice by the FSS to modify the credit conversion factor ("CCF") used in the calculation of its regulatory reserve for bad debts. Accordingly, the reserve for the year ended December 31, 2013 increased by ₩52,342 million from the prior year period.

## 34. Regulatory reserve for bad debts (cont'd)

Provisions for bad debt reserve and income adjusted for deductions of provisions for bad debt for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Net income before deducting provisions for bad debt | ₩ 360,443 million | ₩ 634,381 million |
| Provisions for bad debt reserve | (50,713)million | (17,815)million |
| Adjusted income after deducting provisions for bad debt | 309,730 million | 616,566 million |
| Basic earnings per share on adjustment after reflecting reserve for bad debt | 451 | 928 |
| Diluted earnings per share on adjustment after reflecting reserve for bad debt (*1) | 451 | 927 |

(*1) Adjusted basic and diluted earning per share on adjustment after reflecting the reserve for bad debt are computed by deducting the dividend of hybrid equity securities from the adjusted net income after reflecting the reserve for bad debt in the amount of ₩20,064 million and ₩18,250 million for the years ended December 31, 2013 and 2012, respectively (Note 45).

## 35. Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2013 and for the year ended December 31, 2012 are as follows (Korean won in millions):

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 214,728 | ₩ (27,300) | ₩ (87) | ₩ 17,011 | ₩ 204,352 |
| Changes in the unrealized gain (loss) of available-for-sale financial assets | 139,544 | - | - | - | 139,544 |
| Realized gain (loss) of available-for-sale financial assets (including disposal) | (42,338) | - | - | - | (42,338) |

## 35. Accumulated other comprehensive income (cont'd)

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Exchange differences on transaction of foreign operations | - | (8,735) | - | - | (8,735) |
| Exchange differences on foreign currency translation of available-for-sale financial assets | - | - | (31) | - | (31) |
| Changes in remeasurement of the net defined benefit liability | - | - | - | (35,151) | (35,151) |
| Tax effect | (23,524) | - | 7 | 8,506 | (15,011) |
| Ending balance | ₩ 288,410 | ₩ (36,035) | ₩ (111) | ₩ (9,634) | ₩ 242,630 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Beginning balance | ₩ 300,398 | ₩ 3,631 | ₩ (19) | ₩ 23,221 | ₩ 327,231 |
| Changes in the unrealized gain (loss) of available-for-sale financial assets | 63,239 | - | - | - | 63,239 |
| Realized gain (loss) of available-for-sale financial assets (including disposal) | (176,260) | - | - | - | (176,260) |
| Exchange differences on transaction of foreign operations | - | (30,931) | - | - | (30,931) |
| Exchange differences on foreign currency translation of available-for-sale financial assets | - | - | (89) | - | (89) |

## 35. Accumulated other comprehensive income (cont'd)

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Items that may be reclassified subsequently to profit or loss | | | Items that will not be reclassified subsequently to profit or loss | |
| Classification | Gain (loss) on valuation of available-for-sale financial assets | Exchange differences on transaction of foreign operations | Gain (loss) on foreign currency translation of available-for-sale financial assets | Remeasurement of the net defined benefit liability | Total |
| Changes in remeasurement of the net defined benefit liability | - | - | - | (8,192) | (8,192) |
| Tax effect | 27,351 | - | 21 | 1,982 | 29,354 |
| Ending balance | ₩ 214,728 | ₩ (27,300) | ₩ (87) | ₩ 17,011 | ₩ 204,352 |

## 36. Capital management

The Bank computes the capital ratio required by BIS and manages the ratio to be maintained at a rate of at least 8% or above. The Bank meets the statutory externally assigned capital maintenance requirement (the "BIS capital ratio") as at December 31, 2013.

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholder's equity is computed by subtracting deductible items from the sum of basic capital and supplementary capital. Risk-weighted assets are the sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Basic capital is composed of issued capital, additional capital surplus paid-in capital, retained earnings, hybrid securities that satisfy the basic capital requirements, and differences in foreign currencies from other accumulated comprehensive income. Supplementary capital is composed of a revaluation reserve that are in line with supplementary capital requirements, gains on valuation of available-for-sale financial assets and share of other comprehensive income of associates, high-ranked subordinated debts with more than a 10-year maturity or low-ranked subordinated debts with less than a 5 year maturity and others.

Items deducted from issued capital include considerable amounts of intangible assets and deferred tax assets, discount on issued capital, losses on valuation of available-for-sale financial assets and share of other comprehensive loss of associates, and treasury stock. Other deductible items are subtracted from basic and supplementary capital by 50% each. Additionally, the Bank classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

## 37. Interest income and interest expenses

Details of interest income and interest expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | | 2013 | | 2012 |
|---|---|---|---|---|---|
| Interest income: | | | | | |
| Due from banks | Banks | ₩ | 18,237 | ₩ | 25,931 |
| | Other financial institutions | | 9,540 | | 52,625 |
| | | | 27,777 | | 78,556 |
| Loans receivable | Banks | | 42,484 | | 57,749 |
| | Customers | | 3,237,930 | | 3,594,997 |
| | | | 3,280,414 | | 3,652,746 |
| Financial assets at FVTPL | | | 3,943 | | 4,011 |
| Available-for-sale financial assets | | | 210,674 | | 205,971 |
| Held-to-maturity investments | | | 127,817 | | 201,415 |
| | | | 3,650,625 | | 4,142,699 |
| Interest expenses: | | | | | |
| Deposits | Financial institutions | | 1,620 | | 1,713 |
| | Customers | | 1,209,952 | | 1,447,233 |
| | | | 1,211,572 | | 1,448,946 |
| Debentures | | | 224,216 | | 222,442 |
| Borrowings | | | 101,210 | | 117,341 |
| Others | | | 39,261 | | 47,405 |
| | | | 1,576,259 | | 1,836,134 |
| Net interest income | | ₩ | 2,074,366 | ₩ | 2,306,565 |

Details of interest income on impaired financial assets for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Loans receivable | ₩ | 67,699 | ₩ | 82,075 |
| Other assets | | 193 | | 156 |
| | ₩ | 67,892 | ₩ | 82,231 |

## 38. Fee and commission income and fee and commission expenses

Details of fee and commission income and fee and commission expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Fee and commission income: | | |
| Savings | ₩ 2,371 | ₩ 2,465 |
| Credits | 41,589 | 29,172 |
| Foreign exchange | 154,645 | 164,868 |
| Credit card | 116,902 | 89,848 |
| Asset management | 6,294 | 8,337 |
| Agency business | 36,538 | 42,929 |
| Guarantee service | 64,890 | 66,125 |
| Others | 62,868 | 64,285 |
| | 486,097 | 468,029 |
| Fee and commission expense: | | |
| Credits | 6,635 | 2,870 |
| Foreign exchange | 32,691 | 34,076 |
| Agency business | 497 | 514 |
| Credit card | 288,952 | 274,678 |
| Others | 30,439 | 22,710 |
| | 359,214 | 334,848 |
| Net fee and commission income | ₩ 126,883 | ₩ 133,181 |

## 39. Gain (loss) on financial instruments

Details of gain (loss) on financial instruments for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Financial instruments at FVTPL: | | |
| Gain on financial instruments at FVTPL | | |
| Gain on valuation of trading securities | ₩ 145 | ₩ 603 |
| Gain on disposal of trading securities | 5,502 | 12,891 |
| Gain on valuation of trading bonds | 227 | 3 |
| Gain on disposal of trading bonds | 2,272 | 2,176 |
| Gain on valuation of derivatives held-for-trading | 1,013,524 | 1,263,287 |
| Gain on disposal of derivatives held-for-trading | 2,275,762 | 2,147,931 |
| | 3,297,432 | 3,426,891 |

### 39. Gain (loss) on financial instruments (cont'd)

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Loss on financial instruments at FVTPL | | | | |
| Loss on valuation of trading securities | | 50 | | 223 |
| Loss on disposal of trading securities | | 6,776 | | 13,417 |
| Loss on valuation of trading bonds | | 52 | | 1 |
| Loss on disposal of trading bonds | | 4,288 | | 1,918 |
| Loss on valuation of derivatives held-for-trading (*1) | | 976,709 | | 1,229,024 |
| Loss on disposal of derivatives held-for-trading (*1) | | 2,231,977 | | 2,186,750 |
| | | 3,219,852 | | 3,431,333 |
| Net income (expense) from financial instruments at FVTPL | ₩ | 77,580 | ₩ | (4,442) |
| Derivatives used for hedging purposes: | | | | |
| Gain on derivatives used for hedging purposes | | | | |
| Gain on valuation of derivatives used for hedging purposes | ₩ | 33,757 | ₩ | 7,060 |
| Gain on disposal of derivatives used for hedging purposes | | - | | 756 |
| | | 33,757 | | 7,816 |
| Loss on derivatives used for hedging purposes | | | | |
| Loss on valuation of derivatives used for hedging purposes | | 30,141 | | 12,577 |
| Net income (expense) on derivatives used for hedging purposes | ₩ | 3,616 | ₩ | (4,761) |
| Available-for-sale financial assets: | | | | |
| Gain on available-for-sale financial assets | | | | |
| Gain on disposal of equity securities | ₩ | 39,397 | ₩ | 188,478 |
| Gain on disposal of debt securities | | 43,436 | | 50,082 |
| | | 82,833 | | 238,560 |
| Loss on available-for-sale financial assets | | | | |
| Loss on disposal of equity securities | | 5,187 | | 22 |
| Net income on available-for-sale financial assets | ₩ | 77,646 | ₩ | 238,538 |

(*1) As the total amount of income and expenses on the synthetic option and swap were reclassified to net amounts, the Bank accordingly reduced the income and expense on valuation of derivatives held-for-trading and the income and expense on disposal of derivatives held-for-trading in the amount of ₩2,391 million and ₩136,640 million, respectively, in the separate statements of profit or loss and other comprehensive income for the year ended December 31, 2012, presented for the comparative purpose.

## 40. Impairment loss on financial instruments

Details of impairment loss on financial instruments for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Provision for possible loan losses (*1) | ₩ | 455,252 | ₩ | 597,402 |
| Impairment loss on available-for-sale financial assets | | 28,463 | | 15,305 |
| | ₩ | 483,715 | ₩ | 612,707 |

(*1) Provision for possible loan losses is set for loans receivable and other assets.

## 41. General and administrative expenses

Details of general and administrative expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Employee benefits: | | | | |
| Salaries | ₩ | 772,190 | ₩ | 780,347 |
| Provision for severance and retirement benefits | | 52,571 | | 81,778 |
| Expenses for fringe benefits | | 34,271 | | 36,547 |
| Termination benefits | | 33,624 | | 30,837 |
| | | 892,656 | | 929,509 |
| Depreciation and amortization: | | | | |
| Depreciation on property and equipment | | 76,013 | | 71,540 |
| Depreciation on investment property | | 2,549 | | 2,494 |
| Amortization | | 22,123 | | 22,455 |
| | | 100,685 | | 96,489 |
| Other general and administrative expenses: | | | | |
| Rental expense | | 120,008 | | 116,238 |
| Entertainment expense | | 12,638 | | 10,890 |
| Taxes and dues | | 37,915 | | 42,486 |
| Advertising expenses | | 48,228 | | 41,604 |
| Others | | 222,688 | | 225,373 |
| | | 441,477 | | 436,591 |
| | ₩ | 1,434,818 | ₩ | 1,462,589 |

## 42. Other operating income and expenses

Details of other operating income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Dividend income: | | |
| Financial assets at FVTPL | ₩ 194 | ₩ 323 |
| Available-for-sale financial assets | 9,662 | 8,209 |
| Investments in subsidiaries | 447 | 528 |
| | 10,303 | 9,060 |
| Reversal of possible losses on acceptances and guarantees | - | 3,867 |
| Other income on financial instruments | 866 | 387 |
| Gain on foreign exchange transaction | 1,161,328 | 996,019 |
| Gain on foreign exchange difference | 139,818 | 148,665 |
| Gain on operating trust account | 44,999 | 42,405 |
| Point income | 34,440 | 27,191 |
| Gain on sales of loans | 55,169 | 614 |
| Gain on merchant banking accounts (*1) | 74,977 | 68,838 |
| Others | 193 | 156 |
| | ₩ 1,522,093 | ₩ 1,297,202 |

(*1) Details of gain on merchant banking accounts for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Interest income | ₩ 51,105 | ₩ 28,622 |
| Fee and commission income | 824 | 750 |
| Gain on disposal of trading bonds | 722 | 1,408 |
| Gain on valuation of trading bonds | 19 | 23 |
| Gain on valuation of CMA securities | 3 | 1 |
| Gain on disposal of bills | 22,235 | 33,288 |
| Reversal of possible loan losses | - | 4,664 |
| Reversal of unused commitments | 69 | 82 |
| | ₩ 74,977 | ₩ 68,838 |

## 42. Other operating income and expenses

Details of other operating expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Provision for acceptances and guarantees | ₩ | 3,466 | ₩ | - |
| Provision for unused commitments | | 138 | | 6,642 |
| Provision for others | | 51,013 | | 8,178 |
| Other expense on financial instruments | | 240 | | 669 |
| Loss on foreign exchange transaction | | 963,686 | | 676,234 |
| Loss on foreign exchange difference | | 89,135 | | 39,577 |
| Point expense | | 41,804 | | 31,869 |
| Contribution to guarantee fund | | 101,792 | | 99,233 |
| Insurance fee on deposits | | 103,762 | | 99,167 |
| Loss on sales of loans | | 7,152 | | 23,301 |
| Loss on merchant banking accounts (*1) | | 48,063 | | 42,500 |
| | ₩ | 1,410,251 | ₩ | 1,027,370 |

(*1) Details of loss on merchant banking accounts for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Interest expense | ₩ | 47,536 | ₩ | 42,437 |
| Provision for possible loan losses | | 320 | | - |
| Others | | 207 | | 63 |
| | ₩ | 48,063 | ₩ | 42,500 |

## 43. Non-operating income and expenses

Details of non-operating income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Gain on disposal of property and equipment | ₩ | 179 | ₩ | 36 |
| Gain on disposal of investment property | | - | | 38 |
| Gain on disposal of intangible assets | | 301 | | - |
| Rental income | | 3,043 | | 3,206 |
| Gain on exemption of debts | | 7,020 | | 11,382 |
| Others | | 11,147 | | 42,137 |
| | ₩ | 21,690 | ₩ | 56,799 |

## 43. Non-operating income and expenses (cont'd)

Details of non-operating expenses for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Loss on disposal of property and equipment | ₩ 229 | ₩ 107 |
| Loss on disposal of intangible assets | 5 | - |
| Loss on disposal of investment property | - | 111 |
| Impairment loss on investment in subsidiary | 87,907 | 748 |
| Donation | 17,550 | 19,859 |
| Expenses on collection of management of charge-offs | 541 | 955 |
| Commission expense on collection of management of charge-offs | 808 | 691 |
| Others | 22,171 | 21,845 |
| | ₩ 129,211 | ₩ 44,316 |

## 44. Income tax expense

The major components of income tax expense for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Income tax currently payable | ₩ 35,773 | ₩ 222,029 |
| Changes of deferred income taxes due to the tax effect of temporary differences | 27,384 | (19,995) |
| Total income tax effect | 63,157 | 202,034 |
| Current and deferred income taxes recognized directly to equity | 14,781 | 29,355 |
| Income tax expense of foreign branches and subsidiaries | 7,498 | 10,330 |
| Income tax expense | ₩ 85,436 | ₩ 241,719 |

Reconciliations of income tax expense applicable to income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Bank for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Income before income tax | ₩ 445,879 | ₩ 876,100 |
| Tax at domestic statutory income tax rate | 107,902 | 211,625 |
| Reconciliation: | | |
| Income not subject to tax | (12,023) | (7,027) |
| Expenses not deductible for tax purposes | 9,715 | 4,563 |
| Tax deduction | (7,687) | (7,936) |
| Addition (refund) of prior year's income tax | (15,887) | 25,026 |
| Income tax expense of foreign branches and subsidiaries | 7,498 | 10,330 |
| Others | (4,082) | 5,138 |
| | (22,466) | 30,094 |
| Income tax expense | ₩ 85,436 | ₩ 241,719 |
| Effective income tax rate (%) | 19.16 | 27.58 |

## 44. Income tax expense (cont'd)

Changes in temporary differences and deferred income tax assets (liabilities) for the year ended December 31, 2013 are as follows (Korean won in millions):

| | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 |
| Temporary differences: | | | | | | | | |
| Gain or loss on valuation of securities | ₩ (60,852) | ₩ 219,245 | ₩ 270,697 | ₩ (9,400) | ₩ (12,499) | ₩ 53,057 | ₩ 63,281 | ₩ (2,275) |
| Accrued income | (66,362) | (66,362) | (79,254) | (79,254) | (16,060) | (16,060) | (19,179) | (19,179) |
| Other provisions and others | 207,633 | 207,633 | 249,646 | 249,646 | 51,023 | 51,023 | 60,414 | 60,414 |
| Gain or loss on valuation of derivatives | (90,240) | (90,240) | (115,778) | (115,778) | (21,838) | (21,838) | (28,018) | (28,018) |
| Debt-for-equity swap securities | 91,847 | 93 | 50,800 | 142,554 | 22,227 | 23 | 12,294 | 34,498 |
| Advanced depreciation provisions | (62,466) | - | - | (62,466) | (15,117) | - | - | (15,117) |
| Investment in kind at KEB China | 137,879 | - | - | 137,879 | 33,367 | - | - | 33,367 |
| Financial guarantee contract | 40,149 | 40,149 | 28,581 | 28,581 | 6,056 | 9,716 | 10,577 | 6,917 |
| Deferred reward points income | 52,836 | 52,836 | 66,515 | 66,515 | 12,786 | 12,786 | 16,097 | 16,097 |
| Accrued expenses | 79,145 | 79,145 | 78,344 | 78,344 | 19,153 | 19,153 | 18,959 | 18,959 |
| Gain on revaluation of tangible assets | (553,765) | - | - | (553,765) | (134,011) | - | - | (134,011) |
| Others | 278,578 | 63,199 | (10,994) | 204,385 | 97,202 | 37,516 | (1,422) | 58,264 |
| | 54,382 | 505,698 | 538,557 | 87,241 | 42,289 | 145,376 | 133,003 | 29,916 |

## 44. Income tax expense (cont'd)

| Classification | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| | January 1, 2013 (*1) | Decrease | Increase | December 31, 2013 | January 1, 2013 | Decrease | Increase | December 31, 2013 |
| Accumulated other comprehensive income: | | | | | | | | |
| Unrealized gain or loss of available-for-sale financial assets | (283,283) | (283,283) | (380,489) | (380,489) | (68,554) | (68,554) | (92,078) | (92,078) |
| Gain or loss on foreign currency translation of available-for-sale financial assets | 114 | 114 | 145 | 145 | 28 | 28 | 35 | 35 |
| Remeasurement of the net defined benefit liability (*3) | (22,442) | (22,442) | 12,709 | 12,709 | (5,431) | (5,431) | 3,075 | 3,075 |
| | (305,611) | (305,611) | (367,635) | (367,635) | (73,957) | (73,957) | (88,968) | (88,968) |
| | ₩ (251,229) | ₩ 200,087 | ₩ 170,922 | ₩ (280,394) | ₩ (31,668) | ₩ 71,419 | ₩ 44,035 | ₩ (59,052) |

(*1) Beginning balance reflects adjustments for the difference in the reserved amount of ₩46,499 million at the time of the final tax return and the claim for rectification in the amount of ₩73,867 million as at December 31, 2012. Such adjustments decrease deferred tax assets by ₩29,129 million compared to that of December 31, 2012.
(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2%).
(*3) Included due to the retrospective reclassification of actuarial gain (loss) on obligation from current income to the accumulated other comprehensive income.

## 45. Earning per share

Weighted-average numbers of ordinary shares for the years ended December 31, 2013 and 2012 are as follows (shares in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Beginning | 644,906,823 | 644,906,823 |
| Exercise of appraisal rights by shareholders | (52,016,715) | - |
| Number of treasury stock after disposal | 49,878,791 | - |
| Ending | 642,768,899 | 644,906,823 |

The Bank's basic earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Net income for the period | ₩ 360,443 | ₩ 634,381 |
| Dividends on hybrid equity securities | (20,064) | (18,250) |
| Net income attributable to ordinary stock | 340,379 | 616,131 |
| Weighted-average number of shares of ordinary stocks outstanding | 642,768,899 | 644,906,823 |
| Basic earnings per share (Korean won) | ₩ 530 | ₩ 955 |

Weighted-average numbers of ordinary shares adjusted for the effect of dilution for the years ended December 31, 2013 and2012 are as follows (shares in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Weighted-average number share of ordinary stacks outstanding | 642,768,899 | 644,906,823 |
| Stock options | - | 80,613 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 642,768,899 | 644,987,436 |

The Bank's diluted earnings per share for the years ended December 31, 2013 and 2012 are calculated as follows (Korean won in millions and per share amounts in units):

| Classification | 2013 | 2012 |
|---|---|---|
| Net income attributable to ordinary stock | ₩ 340,379 | ₩ 616,131 |
| Recognized revenue related to employee stock options (after-tax effect of 24.2%) | - | (257) |
| Net income for the diluted net income per share | 340,379 | 615,874 |
| Weighted-average number of shares of ordinary stocks outstanding (diluted) | 642,768,899 | 644,987,436 |
| Diluted earnings per share (Korean won) | ₩ 530 | ₩ 955 |

## 46. Share-based payment

When the stock options are exercised, the Bank has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with management performance and the calculation criteria for the number of exercisable shares. Also, the Bank granted the equity-linked special incentive ("Rose Bonus" and/or "Rose Share") to employees for the purpose of motivation to improve long-term performance. The equity-linked special incentive is settled in cash. It can be exercised from 1 to 3 years after the grant date for the following 3 to 4 years.

Details of the share-based payment as at December 31, 2013 are as follows:

Assumptions for evalution of stock options as at December 31, 2013 are as follows (Korean won and share):

| Grant date | Exercise period | Risk-free rate | Expected service period | Volatility of the underlying stock price | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 2011-03-13 ~ 2016-03-12 | 2.68% | 5.87 | 27.56% | 882 | 5,700 | 1,986 |
| 2009-08-04 | 2011-08-05 ~ 2016-08-04 | 2.71% | 5.87 | 29.06% | 882 | 11,700 | 215 |
| 2010-03-10 | 2012-03-11 ~ 2017-03-10 | 2.77% | 5.87 | 31.38% | 882 | 13,450 | 161 |
| 2010-03-30 | 2012-03-31 ~ 2017-03-30 | 2.78% | 5.87 | 31.77% | 882 | 13,600 | 158 |
| 2010-08-04 | 2013-08-05 ~ 2017-08-04 | 2.81% | 5.87 | 38.18% | 882 | 12,300 | 446 |
| 2010-09-29 | 2013-09-30 ~ 2017-09-29 | 2.83% | 5.87 | 37.60% | 882 | 13,550 | 354 |
| 2011-08-10 | 2014-08-11 ~ 2018-08-10 | 2.95% | 5.87 | 37.82% | 882 | 8,060 | 964 |
| 2011-08-26 | 2014-08-27 ~ 2018-08-26 | 2.96% | 5.87 | 37.82% | 882 | 7,720 | 1,081 |
| 2011-09-02 | 2014-09-03 ~ 2018-09-02 | 2.96% | 5.87 | 37.72% | 882 | 7,930 | 1,098 |

Changes in shares of stock options for the year ended December 31, 2013 are as follows (Korean won and share):

| Grant date | Shares at beginning | Exercise | Divesture | Extinction at maturity | Shares at ending | Stock option outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| 2009-03-12 | 284,325 | (17,120) | - | - | 267,205 | 267,205 | 5,800 |
| 2009-08-04 | 415,610 | - | - | - | 415,610 | 415,610 | 10,900 |
| 2010-03-10 | 312,350 | - | - | - | 312,350 | 312,350 | 13,200 |
| 2010-03-30 | 237,140 | - | - | - | 237,140 | 237,140 | 13,500 |
| 2010-08-04 | 251,890 | - | - | - | 251,890 | 251,890 | 12,400 |
| 2010-09-29 | 17,810 | - | - | - | 17,810 | 17,810 | 13,500 |
| 2011-08-10 | 333,000 | - | - | - | 333,000 | 333,000 | 9,100 |
| 2011-08-26 | 42,290 | - | - | - | 42,290 | 42,290 | 8,500 |
| 2011-09-02 | 11,250 | - | - | - | 11,250 | 11,250 | 8,400 |
| | 1,905,665 | (17,120) | - | - | 1,888,545 | 1,888,545 | |

## 46. Share-based payment (cont'd)

Weighted average stock price as of the stock option date exercised is in the amount of ₩7,085 for the year ended December 31, 2013.

Weighted average residual expiration of exercisable stock options is 3.14 years as at December 31, 2013.

Details of the share-based payment as at December 31, 2013 are as follows:

Equity-linked special incentives are measured at fair value based on the binomial model and become exercisable from 1 to 3 years after the grant date for the following 3 to 4 years. Details of the equity-linked special incentives as at December 31, 2013 are as follows (share):

| Classification | Grant date | Exercise period | Payment date | Stock option outstanding |
|---|---|---|---|---|
| Rose 4 | 2009-12-11 | 2011-12-11 ~ 2014-12-10 | 2011-12-11 | 11,070 |
| Rose 5 | 2010-08-04 | 2012-08-04 ~ 2015-08-03 | 2012-08-04 | 22,650 |
| Rose 6 | 2011-09-21 | 2013-09-21 ~ 2016-09-20 | 2013-09-21 | 316,180 |
| Rose share 1-1 | 2010-02-19 | 2011-02-19 ~ 2015-02-18 | 2011-02-19 | - |
| Rose share 1-2 | 2010-02-19 | 2012-02-19 ~ 2015-02-18 | 2012-02-19 | 10,630 |
| Rose share 2-1 | 2010-03-19 | 2011-03-19 ~ 2015-03-18 | 2011-03-19 | - |
| Rose share 2-2 | 2010-03-19 | 2012-03-19 ~ 2015-03-18 | 2012-03-19 | 1,405 |
| Rose share 3-1 | 2010-08-11 | 2011-08-11 ~ 2015-08-10 | 2011-08-11 | 3,205 |
| Rose share 3-2 | 2010-08-11 | 2012-08-11 ~ 2015-08-10 | 2012-08-11 | 3,555 |
| Rose share 4-1 | 2011-02-21 | 2012-02-21 ~ 2015-02-20 | 2012-02-21 | 10,190 |
| Rose share 4-2 | 2011-02-21 | 2013-02-21 ~ 2016-02-20 | 2013-02-21 | 4,140 |
| Rose share 5-1 | 2011-02-21 | 2012-02-21 ~ 2015-02-20 | 2012-02-21 | 9,835 |
| Rose share 5-2 | 2011-02-21 | 2013-02-21 ~ 2016-02-20 | 2013-02-21 | 4,760 |
| Rose share 6-1 | 2011-03-21 | 2012-03-20 ~ 2015-03-19 | 2012-03-20 | 50 |
| Rose share 6-2 | 2011-03-21 | 2013-03-20 ~ 2016-03-19 | 2013-03-20 | 316 |
| Rose share 6-3 | 2011-03-21 | 2014-03-20 ~ 2017-03-19 | 2014-03-20 | 1,470 |
| Rose share 7-1 | 2011-09-08 | 2012-09-08 ~ 2015-09-08 | 2012-09-08 | 1,770 |
| Rose share 7-2 | 2011-09-08 | 2013-09-08 ~ 2016-09-07 | 2013-09-08 | 1,770 |
| Rose share 8-1 | 2012-02-21 | 2013-02-22 ~ 2017-02-21 | 2013-02-22 | 7,105 |
| Rose share 8-2 | 2012-02-21 | 2014-02-22 ~ 2017-02-21 | 2014-02-22 | 21,635 |
| Rose share 9-1 | 2012-02-21 | 2013-02-22 ~ 2017-02-21 | 2013-02-22 | 19,560 |
| Rose share 9-2 | 2012-02-21 | 2014-02-22 ~ 2017-02-21 | 2014-02-22 | 42,225 |
| | | | | 493,521 |

Changes in shares of equity linked special incentives for the years ended December 31, 2013 and 2012 are as follows (share):

| Classification | Outstanding number of share | |
|---|---|---|
| | 2013 | 2012 |
| Beginning | 5,026,733 | 7,054,210 |
| Number of shares given | - | 127,720 |
| Number of shares forfeited | (34,136) | (109,896) |
| Number of shares exercised | (4,499,076) | (2,045,301) |
| Ending | 493,521 | 5,026,733 |

## 46. Share-based payment (cont'd)

Weighted average stock price of equity linked special incentives at the exercise date is in the amount of ₩7,697 for the year ended December 31, 2013.

Weighted average residual maturity of equity linked is 3.08 years as at December 31, 2013.

Hana Financial Group ("HFG") provided the Bank's employees with stock rights and stock grants linked to performance and computed the compensation costs by applying the fair value approach for such rights. Details of share-based payment arrangement and share-based payment linked to performance as at December 31, 2013 are as follows:

| Classification | 1st | 2nd | 3rd |
|---|---|---|---|
| Grant date | 2011-01-01 | 2012-01-01 | 2013-01-01 |
| Grant method | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG | Either share or cash settlement selected by HFG |
| Grant period | 2011-01-01~2013-12-31 | 2012-01-01~2014-12-31 | 2013-01-01~2015-12-31 |
| Payment date | 2013-12-31 | 2014-12-31 | 2015-12-31 |
| Shares at settlement date (*1) | 6,680 | 27,200 | 19,210 |

(*1) The maximum number of shares to be compensated is pre-determined before the grant date, and vested shares are determined by performance measures. The performance assessment consists of the group performance assessment (relative shareholder return) constituting 40% and the business unit performance assessment (unit ROE, ROIC) constituting 60% of the total performance scorecard.

Details of liabilities related to share-based payment and total intrinsic value of rights accounted for as accounts payable in case that option holders achieve rights to receive cash or other assets as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Book value of liabilities related to share-based payment: | | |
| Stock options | ₩ 1,206 | ₩ 772 |
| Equity-linked special incentives (granted by the Bank) | 6,289 | 41,707 |
| Equity-linked special incentives (granted by HFG) | 2,535 | 452 |
| | ₩ 10,030 | ₩ 42,931 |

The compensation costs for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Costs recognized due to share-based payment: | | |
| Stock options | ₩ 462 | ₩ (2,453) |
| Equity-linked special incentives (granted by the Bank) | 18,912 | 33,350 |
| Equity-linked special incentives (granted by HFG) | 1,817 | 492 |
| Diluted earnings per share (Korean won) | ₩ 21,191 | ₩ 31,389 |

## 47. Cash flow information

Cash and cash equivalents in the separate statement of cash flows consists of cash and due from bank (excluding restricted due from bank) in the separate statement of financial position. Cash and cash equivalents as at December 31, 2013 and 2012 are adjusted as follows (Korean won in millions):

| Classification | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Cash and due from banks | ₩ | 6,646,083 | ₩ | 6,929,182 |
| Less: restricted due from bank | | (2,819,202) | | (3,376,868) |
| Due from banks with original maturities exceeding three months from the date of acquisition | | (297,976) | | - |
| Cash and cash equivalents | ₩ | 3,528,905 | ₩ | 3,552,314 |

Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | | 2012 | |
|---|---|---|---|---|
| Unrealized loss on available-for-sale financial assets | ₩ | 73,682 | ₩ | (85,670) |
| Gain on foreign currency translation of available-for-sale financial assets | | (24) | | (68) |
| Transfer from property and equipment to investment property | | 7,499 | | 4,708 |
| Transfer from loans receivable to available-for-sale financial assets resulting from debt-to-equity swap | | 4,667 | | 23,929 |

## 48. Related party transactions

The Bank’s major related parties as at December 31, 2013 are as follows:

| Subsidiaries | Relationship |
|---|---|
| Hana Financial Group (“HFG”) | Controlling company |
| KEBC | Subsidiary |
| KEBF | Subsidiary |
| KEBIS | Subsidiary |
| KEBOC | Subsidiary |
| KEBA | Subsidiary |
| KEBDAG | Subsidiary |
| KEBI | Subsidiary |
| KEBB | Subsidiary |
| KEBNYFINCO | Subsidiary |
| KEBLAFINCO | Subsidiary |
| USAI | Subsidiary |
| KAF | Subsidiary |
| KEB China | Subsidiary |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | Subsidiary |
| Trust accounts guaranteeing the repayment of principal | Subsidiary |
| Athenae 1st | Subsidiary |
| Athenae 2nd | Subsidiary |

## 48. Related party transactions (cont'd)

| Subsidiaries | Relationship |
|---|---|
| Hana Daetoo Securities Co., Ltd. | Entity under common control |
| Hana Bank | Entity under common control |
| Hana Capital, Co, Ltd | Entity under common control |
| Hana Institute of Finance | Entity under common control |
| Hana SK Card | Entity under common control |
| Hana I&S | Entity under common control |
| Hana Daol Trust | Entity under common control |
| Hana HSBC Life Insurance Co.,Ltd | Entity under common control |
| Flossom Co., Ltd. | Associate |
| MIDAN City Development Co.,Ltd | Associate |
| Masam Marine New Town Co.,Ltd | Associate |

Outstanding balances with related parties arising from the below transactions as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| Classification | Controlling company | Subsidiaries | Under common control | Associates | Total |
| Assets: | | | | | |
| Due from banks | ₩ - | ₩ 356,494 | ₩ - | ₩ - | ₩ 356,494 |
| Financial assets at FVTPL | - | 22 | 55,547 | - | 55,569 |
| Held-to-maturity investments | - | - | - | - | - |
| Loans receivable | - | 1,246,729 | 19,603 | 25,665 | 1,291,997 |
| Allowance for possible loan losses | - | (44) | - | (64) | (108) |
| Others | - | 15,082 | 49,875 | - | 64,957 |
| | ₩ - | ₩ 1,618,283 | ₩ 125,025 | ₩ 25,601 | ₩ 1,768,909 |
| Liabilities: | | | | | |
| Deposits | ₩ - | ₩ 239,968 | ₩ 19,844 | ₩ - | ₩ 259,812 |
| Financial liabilities at FVTPL | - | 22 | 13,703 | - | 13,725 |
| Borrowings | - | 101,498 | - | - | 101,498 |
| Provisions | - | 71 | - | 25 | 96 |
| Others | 2,298 | 66,148 | 49,912 | - | 118,358 |
| | ₩ 2,298 | ₩ 407,707 | ₩ 83,459 | ₩ 25 | ₩ 493,489 |

## 48. Related party transactions (cont'd)

| Classification | December 31, 2012 Controlling company | Subsidiaries | Under common control | Associates | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Due from banks | ₩ - | ₩ 89,377 | ₩ - | ₩ - | ₩ 89,377 |
| Financial assets at FVTPL | - | - | 33,703 | - | 33,703 |
| Loans receivable | - | 1,021,369 | - | - | 1,021,369 |
| Allowance for possible loan losses | - | (38) | - | - | (38) |
| Others | 514 | 91,253 | 45,526 | - | 137,293 |
| | ₩ 514 | ₩ 1,201,961 | ₩ 79,229 | ₩ - | ₩ 1,281,704 |
| Liabilities: | | | | | |
| Deposits | - | 447,158 | 52,953 | - | 500,111 |
| Financial liabilities at FVTPL | - | - | 11,727 | - | 11,727 |
| Borrowings | - | 95,046 | - | - | 95,046 |
| Provisions | - | 102 | - | - | 102 |
| Others | 941 | 7,507 | 48,441 | - | 56,889 |
| | ₩ 941 | ₩ 549,813 | ₩ 113,121 | ₩ - | ₩ 663,875 |

Outstanding balances with subsidiaries arising from the above transactions as at December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Company | December 31, 2013 Account related to receivables | Counterparty | Account related to payables | Amount |
|---|---|---|---|---|
| KEBChina | Due from banks | KEBDAG | Deposits | ₩ 878 |
| KEBI | Due from banks | KEBDAG | Deposits | 887 |
| KEBDAG | Due from banks | KEBOC | Deposits | 215 |

| Company | December 31, 2012 Account related to receivables | Counterparty | Account related to payables | Amount |
|---|---|---|---|---|
| KEBI | Due from banks | KEBDAG | Deposits | ₩ 5,380 |
| KEBChina | Due from banks | KEBDAG | Deposits | 1,129 |
| KEBDAG | Due from banks | KEBOC | Deposits | 173 |
| NYFinCo | Due from banks | KEBOC | Deposits | 158 |

## 48. Related party transactions (cont'd)

Details of transactions with related parties for the years ended December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | 2013 | | | | |
|---|---|---|---|---|---|
| Classification | Controlling company | Subsidiaries | Under common control | Associates | Total |
| Income: | | | | | |
| Interest income | ₩ 632 | ₩ 14,210 | ₩ 4 | ₩ 1,763 | ₩ 16,609 |
| Gain on financial instruments at FVTPL | - | 68 | 91,291 | - | 91,359 |
| Fee and commission income | - | 4,327 | 19,805 | - | 24,132 |
| Others | - | 6,171 | - | 57 | 6,228 |
| | ₩ 632 | ₩ 24,776 | ₩ 111,100 | ₩ 1,820 | ₩ 138,328 |
| Expense: | | | | | |
| Interest expense | ₩ - | ₩ 4,568 | ₩ 1,505 | ₩ - | ₩ 6,073 |
| Loss on financial instruments at FVTPL | - | 22 | 61,589 | - | 61,611 |
| Fee and commission expense | - | 40 | 3,814 | - | 3,854 |
| Others | - | 6 | - | (4) | 2 |
| | ₩ - | ₩ 4,636 | ₩ 66,908 | ₩ (4) | ₩ 71,540 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| Classification | Controlling company | Subsidiaries | Under common control | Associates | Total |
| Income: | | | | | |
| Interest income | ₩ 1,567 | ₩ 17,918 | ₩ 1,302 | ₩ - | ₩ 20,787 |
| Gain on financial instruments at FVTPL | - | 57 | 101,117 | - | 101,174 |
| Fee and commission income | - | 4,811 | 319 | - | 5,130 |
| Others | - | 1,635 | 32 | - | 1,667 |
| | ₩ 1,567 | ₩ 24,421 | ₩ 102,770 | ₩ - | ₩ 128,758 |
| Expense: | | | | | |
| Interest expense | ₩ - | ₩ 3,618 | ₩ 2,672 | ₩ - | ₩ 6,290 |
| Loss on financial instruments at FVTPL | - | 9 | 64,784 | - | 64,793 |
| Fee and commission expense | - | 109 | - | - | 109 |
| Others | - | (20) | - | - | (20) |
| | ₩ - | ₩ 3,716 | ₩ 67,456 | ₩ - | ₩ 71,172 |

**48. Related party transactions (cont'd)**

Outstanding balances with subsidiaries arising from the above transactions for the years ended December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| | 2013 | | | | |
|---|---|---|---|---|---|
| Company | Account related to income | Counterparty | Account related to expense | | Amount |
| KEBOC | Interest income | NYFinCo | Interest expense | ₩ | 10 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| Company | Account related to receivables | Counterparty | Account related to payables | | Amount |
| KEBDAG | Interest income | KEBI | Interest expense | ₩ | 40 |
| KEBA | Interest income | KEBI | Interest expense | | 15 |

Guarantees and acceptances with subsidiaries as at December 31, 2013 and 2012 are as follows: (Korean won in millions):

| | 2013 | | | |
|---|---|---|---|---|
| Company | Classification | | Limit | Counterparty |
| The Bank | Guarantees and acceptances denominated in foreign currencies | ₩ | 52,865 | Subsidiaries |
| Subsidiaries | Guarantees and acceptances denominated in foreign currencies | | 16,534 | The Bank |

| | 2012 | | | |
|---|---|---|---|---|
| Company | Classification | | Limit | Counterparty |
| The Bank | Guarantees and acceptances denominated in foreign currencies | ₩ | 58,264 | Subsidiaries |
| Subsidiaries | Guarantees and acceptances denominated in foreign currencies | | 21,782 | The Bank |

Details of compensation paid to key management personnel for the years ended December 31, 2013 and 2012 are summarized as follows (Korean won in millions):

| Classification | | 2013 | | 2012 |
|---|---|---|---|---|
| Short-term employee benefits | ₩ | 2,838 | ₩ | 4,819 |
| Post-retirement employee benefits | | 203 | | 1,298 |
| Stock options | | (5) | | (98) |

## 49. Contingencies and commitments

The Bank holds loans written-off, on which the relevant statute of limitations has not expired or the Bank has not lost its claim rights to borrowers and guarantors, in the amount of ₩1,680,351 million and ₩1,784,725 million as at December 31, 2013 and 2012, respectively.

Endorsed notes with collateral amount to ₩46,785 million and ₩25,733 million as at December 31, 2013 and 2012, respectively. Endorsed notes without collateral held at the merchant banking amount to ₩7,834,800 million and ₩7,530,500 million as at December 31, 2013 and 2012, respectively.

The Bank has pending litigations as a plaintiff or a defendant in various lawsuits arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Bank are approximately ₩290,950 million (566 cases) and ₩559,335 million (204 cases) as at December 31, 2013, respectively. The Bank recognized provisions in the amount of ₩122,059 million as at December 31, 2013 for such lawsuits.

The Bank believes that the outcome of these matters will not have a material impact on the Bank's separate financial statements.

Regular bonus and other benefits paid periodically, uniformly, and steadily shall be included in ordinary wages according to the Supreme Court's decision made in the current year. The Bank did not recognize provisions in the decision based on the judgement that it is not probable that the Bank is required to pay additional wages due to the Supreme Court's decision, and the amount of the obligation cannot be measured with sufficient reliability as at December 31, 2013

Asset-backed commercial paper ("ABCP") purchase agreements and unused commitments relating to Project financing ("PF") as at December 31, 2013 and December 31, 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| ABCP purchase agreement | ₩ 325,000 | ₩ 300,000 |
| Unused commitments on PF loan | 321,213 | 311,277 |
| | ₩ 646,213 | ₩ 611,277 |

## 50. Operation performance of trust accounts

Details of total assets of trust accounts as at December 31, 2013 and December 31, 2012 and operating income for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| | Total assets | | Operating income | |
|---|---|---|---|---|
| Classification | December 31, 2013 | December 31, 2012 | 2013 | 2012 |
| Trust accounts | ₩ 30,316,196 | ₩ 23,967,287 | ₩ 478,097 | ₩ 306,478 |

## 50. Operation performance of trust accounts (cont'd)

The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as at December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Trust accounts guaranteeing the repayment of principal: | | |
| Installment trust | ₩ 64 | ₩ 86 |
| Household trust | 534 | 550 |
| Old-age pension trust | 1,756 | 2,110 |
| Corporate trust | 5 | 38 |
| Personal pension trust | 192,685 | 194,976 |
| Retirement trust | 56,773 | 82,421 |
| New personal pension trust | 84,887 | 76,245 |
| New old-age pension trust | 956 | 1,226 |
| Pension trust | 307,449 | 263,792 |
| | 645,109 | 621,444 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal: | | |
| Unspecified monetary trust | 59 | 59 |
| Development money trust | 5 | 5 |
| | 64 | 64 |
| | ₩ 645,173 | ₩ 621,508 |

## 51. Dividends

Details of the Bank's dividend distribution for the years ended December 31, 2013 and 2012 are as follows.

| Classification | 2013 | 2012 |
|---|---|---|
| Number of shares | 644,906,826 | 644,906,823 |
| Dividends per share | ₩ 120.07 | ₩ 50 |
| Dividends | 77,433 million won | 32,245 million won |

Details of dividend payout ratio for the years ended December 31, 2013 and 2012 are as follows (Korean won in millions):

| Classification | 2013 | 2012 |
|---|---|---|
| Dividends | 77,433 | 32,245 |
| Net Income | 360,443 | 634,381 |
| Dividends payout ratio | 21.48% | 5.08% |
| Adjusted income after deducting regulatory reserve for bad debt | 309,730 | 616,566 |
| Dividends payout ratio (per adjusted income after deducting regulatory reserve for bad debt) | 25.00% | 5.22% |

## 52. Business combination

In accordance with the regulations of the Bank Indonesia, 2 or more local banks with the same ultimate parent company are prohibited to operate as an independent entity in Indonesia. Accordingly, PT. Bank KEB Indonesia ("KEBI"), a subsidiary of the Bank, and PT Bank Hana, a subsidiary of Hana Bank, are undergoing a merger process as at December 31, 2013.

## 53. Loss on prior year error correction

With respect to the long term deposits without activities after 5 years from the final transaction, the Bank classifies these accounts as completed extinctive prescription dormant deposits and recognized the relative amount as gain from liabilities exempted and also a portion has appeared in the Smile Microcredit Bank. However, in accordance with the Supreme Court judgment made on August 23, 2012 stating that the extinctive prescription is not completed in case the Bank has made deposit interest after the final transaction, which is regarded as an act of acknowledgement of debt, the Bank has the obligation to return the deposits as at December 31, 2013. The Bank restated the accompanying separate financial statements for the prior period presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earning for the years ended December 31, 2013 and 2012 to be decreased in the amount of ₩5,930 million and ₩9,648 million, respectively, operating income, other operating income and other operating expenses for the year ended December 31, 2012 to be decreased in the amount of ₩10,071 million, ₩6,858 million and ₩2,942 million, respectively, and income tax expense and net income for the year ended December 31, 2012 to be increased in the amount of ₩2,437 million and ₩3,718 million, respectively.

On March 5, 2013, the Bank received an organization warning from the Financial Supervisory Service in accordance to the Pricing Guideline as a result of directing a raise in other interest rate and accordingly, 7 prior and current executives were under indictment as of July 25, 2013 upon investigation from the Public Prosecutors Office. The Public Prosecutors Office has requested the Financial Supervisory Service to order the Bank to return the received interest to the relevant customers. The Bank restated the accompanying separate financial statements for the prior period presented for comparative purpose. Accordingly, the restatements resulted in the beginning balances of retained earning for the years ended December 31, 2013 and 2012 to be decreased in the amount of ₩30,031 million and ₩28,694 million, respectively, and interest income and net income for the year ended December 31, 2012 to be increased in the amount of ₩1,337 million, respectively.

## 53. Loss on prior year error correction (cont'd)

Details of the restated net income and earning per share over the prior periods are as follows (Korean won in millions):

| Classification | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Net income (before) (*) | ₩ 625,790 | ₩ 1,622,111 | ₩ 1,057,203 | ₩ 891,737 | ₩ 782,618 | ₩ 960,945 |
| Amount of errors correction | 2,381 | (4,738) | (13,533) | (14,192) | (5,328) | (551) |
| Net income (restated) | ₩ 628,171 | ₩ 1,617,373 | ₩ 1,043,670 | ₩ 877,545 | ₩ 777,290 | ₩ 960,394 |
| Earning per share (before) (*) | | | | | | |
| Basic earning per share | ₩ 942 | ₩ 2,487 | ₩ 1,611 | ₩ 1,383 | ₩ 1,214 | ₩ 1,490 |
| Diluted earning per share | 942 | 2,483 | 1,610 | 1,383 | 1,214 | 1,490 |
| Earning per share (restated) | | | | | | |
| Basic earning per share | 946 | 2,480 | 1,590 | 1,361 | 1,206 | 1,489 |
| Diluted earning per share | 946 | 2,476 | 1,589 | 1,361 | 1,206 | 1,489 |

(*) Net income and earnings per share over the prior periods are in accordance with accounting standards applied prior to adopting Korea International Financial Reporting Standards

## 54. Spinoff plan for credit card division

On December 24, 2013, the Bank's Board of Directors approved an equity spinoff of a credt card division aiming to strengthen the competitiveness of credit card business and applied to the Financial Services Commission for the permission of equity spinoff and credit card business for the newly established company after the spinoff.

Based on the spinoff plan, the Bank plans to obtain the Financial Services Commission's permission and approve the eqiuty spinoff at genaral meeting of shareholders.

## Internal control over financial reporting review report

The Chief Executive Officer
Korea Exchange Bank

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of Korea Exchange Bank (the "Bank") as of December 31, 2013. The Bank's management is responsible for design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review the management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Bank states that "Based on the assessment of the operations of the ICFR, the Bank's ICFR has been effectively designed and has operated as of December 31, 2013, in all material respects, in accordance with the ICFR standards"

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with accounting principles generally accepted in the Republic of Korea. However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of the management's report on the operations of the ICFR, nothing has come to our attention that causes us to believe that the management's report referred to above is not presented fairly, in all material respects, in accordance with the ICFR standards.

We conducted our review of the ICFR in place as of December 31, 2013, and we did not review the ICFR subsequent to December 31, 2013. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit for Stock Companies, and may not be appropriate for other purposes or for other users.

Ernst & Young Han Young

March 4, 2014

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2013 and the review of internal control over financial reporting pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

**Report on the operations of the internal control over financial reporting**

To the Board of Directors and Audit Committee of Korea Exchange Bank

I, as the internal control over financial reporting officer ("ICFR Officer") of Korea Excange Bank (the "Bank"), assessed the status of the design and operations of the Bank's internal control over financial reporting ("ICFR") for the year ended December 31, 2013.

The Bank's management including the ICFR Officer is responsible for the design and operations of ths ICFR. I, as the ICFR Officer, assessed whether the ICFR has been designed and has operated to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes. I, as the ICFR Officer, applied the ICFR standards for the assessment of design and operations of the ICFR.

Based on the assessment of the operations of the ICFR, the Bank's ICFR has been effectively designed and has operated as of December 31, 2013, in all material respects, in accordance with the ICFR standards..

February 25 , 2014

Internal Control over Financial Reporting Officer Woo Kong Lee (Sign)

President & CEO Yong Ro Yun (Sign)

Deloitte.

**Deloitte Anjin LLC**
9Fl., One IFC,
23, Yoido-dong,
Youngdeungpo-gu, Seoul
150-876, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

# Independent Auditor's Report

To the Shareholders and the Board of Directors of
Korea Exchange Bank

We have audited the accompanying consolidated financial statements of Korea Exchange Bank (the "Company") and its subsidiaries (collectively, the "Consolidated Group"). The financial statements consist of the consolidated statements of financial position as of December 31, 2012 and December 31, 2011, respectively, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows, all expressed in Korean won, for the years ended December 31, 2012 and 2011, respectively. The Consolidated Group's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Group as of December 31, 2012 and December 31, 2011, respectively, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, respectively, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

**Emphasis of Matters**

As discussed in Note 3 to the accompanying consolidated financial statements, the accompanying consolidated statements of financial position as of December 31, 2012 and 2011, the related consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended Decemeber 31, 2012 and 2011 have been restated to reflect the revision of K-IFRS 1019 " Employee Benefits" and K-IFRS 1110 "Consolidated Financial Statements" for the purpose of the Company's Offering Circular in connection with its updateof Global Medium Term Note Program. The consolidated financial statements issued with our audit opinion dated on March 8, 2013 did not reflect these restatements.

Deloitte Anjin LLC

September 17, 2013

Deloitte.

Notice to Readers

This report is effective as of September 17, 2013, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditor's report.

Our report is solely for the purpose of the Company's Offering Circular in connection with its update of Global Medium Term Note Program and for your information and it is not to be used for any other purposes or to be distributed to any other parties.

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012 AND 2011, AND JANUARY 1, 2011

| | Korean Won | | | | | |
|---|---|---|---|---|---|---|
| | Dec. 31, 2012 | | Dec. 31, 2011 | | Jan. 1, 2011 | |
| | | | (In millions) | | | |
| ASSETS | | | | | | |
| Cash and due from banks (Notes 6, 7,10 and 47) | ₩ | 8,253,842 | ₩ | 8,467,527 | ₩ | 8,101,290 |
| Financial assets at fair value through profit or loss (Notes 5, 6, 7, 11, 18 and 48) | | 1,920,689 | | 2,006,850 | | 1,965,958 |
| Hedging derivative assets (Notes 5, 6, 7 and 18) | | 37,867 | | 32,537 | | 4,966 |
| Available-for-sale financial assets (Notes 5, 6, 7, 12, 14, 15 and 17) | | 7,026,521 | | 6,120,693 | | 6,084,393 |
| Held-to-maturity investments (Notes 4, 6, 7, 13, 14 and 15) | | 5,126,353 | | 5,462,329 | | 6,023,412 |
| Loans (Notes 6, 7, 16, and 17) | | 70,392,937 | | 67,989,761 | | 66,290,035 |
| Investments in associates (Note 19) | | - | | 669 | | 2,147 |
| Tangible assets (Note 20) | | 1,222,961 | | 1,207,380 | | 1,206,070 |
| Investment property (Note 21) | | 178,312 | | 176,442 | | 175,358 |
| Intangible assets (Note 22) | | 83,036 | | 86,576 | | 74,992 |
| Prepaid income taxes | | 4,266 | | 5,098 | | 2,629 |
| Deferred income tax assets (Note 44) | | 27,811 | | 28,589 | | 27,695 |
| Other assets (Notes 6, 7, 23 and 48) | | 7,884,209 | | 7,207,264 | | 8,963,183 |
| Merchant banking account assets (Notes 6, 7 and 23) | | 2,488,216 | | 2,352,503 | | 1,440,828 |
| Non-current assets held for sale (Note 24) | | 1,439 | | - | | - |
| Total assets | ₩ | 104,648,459 | ₩ | 101,144,218 | ₩ | 100,362,956 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| LIABILITIES: | | | | | | |
| Deposits (Notes 6, 7, 8, 26 and 48) | ₩ | 67,404,662 | ₩ | 65,108,042 | ₩ | 63,985,971 |
| Financial liabilities at fair value through profit or loss (Notes 5, 6, 7, 8, 18, 25 and 48) | | 1,308,753 | | 968,120 | | 972,109 |
| Hedging derivative liabilities (Notes 5, 6, 7, 8 and 18) | | - | | 897 | | 2,511 |
| Borrowings (Notes 6, 7, 8 and 27) | | 6,925,705 | | 9,330,215 | | 8,533,309 |
| Debentures (Notes 6, 7, 8 and 28) | | 6,173,426 | | 5,460,024 | | 4,941,488 |
| Provisions (Notes 29 and 49) | | 241,482 | | 241,055 | | 277,633 |
| Income taxes payable | | 40,107 | | 387,378 | | 172,208 |
| Deferred income tax liabilities (Note 44) | | 39,806 | | 60,712 | | 248,375 |
| Other liabilities (Notes 4, 6, 7, 8, 30, 31, 46 and 48) | | 12,890,973 | | 10,184,678 | | 11,291,884 |
| Merchant banking account liabilities (Notes 6, 7, 8 and 30) | | 528,725 | | 753,244 | | 951,632 |
| Total liabilities | | 95,553,639 | | 92,494,365 | | 91,377,120 |
| EQUITY: | | | | | | |
| Equity attributable to the owners: | | | | | | |
| Capital stock (Note 32) | | 3,224,534 | | 3,224,534 | | 3,224,534 |
| Capital surplus (Note 32) | | 940 | | 940 | | 940 |
| Hybrid securities (Note 32) | | 249,772 | | 249,772 | | 249,772 |
| Stock options | | 40 | | - | | - |

(Continued)

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (CONTINUED)

| | Korean Won | | | | | |
|---|---|---|---|---|---|---|
| | Dec. 31, 2012 | | Dec. 31, 2011 | | Jan. 1, 2011 | |
| | | | (In millions) | | | |
| Retained earnings (Note 33)<br>(Reserve for credit losses reserved previously:<br>₩680,621 million as of December 31, 2012<br>₩0 million as of December 31, 2011<br>₩0 million as of January 1, 2011<br>Additional expected reserve for credit losses:<br>₩ 56,701 million as of December 31, 2012<br>₩680,621 million as of December 31, 2011<br>₩0 million as of January 1, 2011) (Note 34) | ₩ | 5,440,516 | ₩ | 4,793,983 | ₩ | 4,679,515 |
| Accumulated other comprehensive income (Note 35) | | 176,931 | | 378,290 | | 828,698 |
| | | 9,092,733 | | 8,647,519 | | 8,983,459 |
| Non-controlling interests | | 2,087 | | 2,334 | | 2,377 |
| Total shareholders' equity | | 9,094,820 | | 8,649,853 | | 8,985,836 |
| Total liabilities and shareholders' equity | ₩ | 104,648,459 | ₩ | 101,144,218 | ₩ | 100,362,956 |

(Concluded)

See accompanying notes to consolidated financial statements.

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean won | |
|---|---|---|
| | 2012 | 2011 |
| | (In millions, except per share amounts) | |
| Net interest income (Notes 37 and 48): | | |
| Interest revenues | ₩ 4,413,681 | ₩ 4,411,634 |
| Interest expenses | (1,943,251) | (1,845,767) |
| | 2,470,430 | 2,565,867 |
| Net commission income (Notes 38 and 48): | | |
| Commission revenues | 521,295 | 513,326 |
| Commission expenses | (342,871) | (266,257) |
| | 178,424 | 247,069 |
| Net income (loss) of financial instruments at fair value through profit or loss (Notes 39 and 48): | | |
| Gains on financial instruments at fair value through profit or loss | 3,436,819 | 3,830,441 |
| Losses on financial instruments at fair value through profit or loss | (3,444,137) | (3,779,375) |
| | (7,318) | 51,066 |
| Net income (loss) of hedging derivatives (Note 39): | | |
| Gains on hedging derivatives | 7,881 | 28,423 |
| Losses on hedging derivatives | (12,787) | (27,601) |
| | (4,906) | 822 |
| Net income of available-for-sale financial assets (Note 39): | | |
| Gains on available-for-sale financial assets | 247,046 | 1,191,264 |
| Losses on available-for-sale financial assets | (40) | (927) |
| | 247,006 | 1,190,337 |
| Net impairment losses (Note 40, 48): | | |
| Impairment losses on financial assets | (683,918) | (571,824) |
| General and administrative expenses (Notes 41, 46 and 48) | (1,564,870) | (1,488,310) |
| Other operating income (Notes 42 and 48): | | |
| Other operating revenues | 1,386,420 | 1,476,343 |
| Other operating expenses | (1,110,363) | (1,329,909) |
| | 276,057 | 146,434 |
| Operating income | 910,905 | 2,141,461 |
| Non-operating income (Note 43): | | |
| Non-operating revenues | 66,533 | 68,451 |
| Non-operating expenses | (49,667) | (50,187) |
| | 16,866 | 18,264 |
| Income before income tax expense | 927,771 | 2,159,725 |
| Income tax expense (Note 44) | (263,007) | (505,107) |

(Continued)

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME(CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean won | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | (In millions, except per share amounts) | | | |
| Net income: | | | | |
| Owners | ₩ | 664,783 | ₩ | 1,654,698 |
| (Net income after reserve for credit losses: ₩ 608,082 million for year ended December 31, 2012 ₩1,489,889 million for year ended December 31, 2011) (Note 34) | | | | |
| Non-controlling interests | | (19) | | (80) |
| | ₩ | 664,764 | ₩ | 1,654,618 |
| Remeasurement of net defined benefit liability | ₩ | (6,305) | ₩ | (2,111) |
| Items not subsequently reclassified to profit or loss | | (6,305) | | (2,111) |
| Gain or loss on change in fair value of available-for-sale financial assets | | (86,362) | | (475,387) |
| Gain or loss on foreign exchange in non-monetary available-for-sale financial assets | | (68) | | (19) |
| Share of other comprehensive loss of associates | | (10) | | - |
| Gain or loss on overseas business translation | | (108,862) | | 27,146 |
| Items subsequently reclassified to profit or loss | | (195,282) | | (448,260) |
| Other comprehensive income (loss), net of tax | ₩ | (201,587) | ₩ | (450,371) |
| Total comprehensive income: | | | | |
| Owners | ₩ | 463,424 | ₩ | 1,204,290 |
| Non-controlling interests | | (247) | | (43) |
| | ₩ | 463,177 | ₩ | 1,204,247 |
| Earnings per share (In Korean won) (Note 45): | | | | |
| Basic earnings per share | ₩ | 1,003 | ₩ | 2,537 |
| Diluted earnings per share | ₩ | 1,002 | ₩ | 2,533 |

See accompanying notes to consolidated financial statements.

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(In millions of Korean won)

| | Capital stock | Capital surplus | Hybrid securities | Stock options | Retained earnings | Accumulated other comprehensive income | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| January 1, 2011 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,689,156 | ₩ 803,581 | ₩ 2,377 | ₩ 8,970,360 |
| Effect of change in accounting policy | - | - | - | - | (9,641) | 25,117 | - | 15,476 |
| January 1, 2011(Restated) | 3,224,534 | 940 | 249,772 | - | 4,679,515 | 828,698 | 2,377 | 8,985,836 |
| Dividends | - | - | - | - | (548,171) | - | - | (548,171) |
| Balance after appropriations | - | - | - | - | 4,131,344 | - | - | 8,437,665 |
| Net income | - | - | - | - | 1,654,698 | - | (80) | 1,654,618 |
| Quarterly dividend | - | - | - | - | (973,809) | - | - | (973,809) |
| Gain or loss on change in fair value of available-for-sale financial assets, after tax effect | - | - | - | - | - | (475,417) | 30 | (475,387) |
| Gain or loss on overseas business translation | - | - | - | - | - | 27,139 | 7 | 27,146 |
| Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after tax effect | - | - | - | - | - | (19) | - | (19) |
| Dividends on hybrid securities | - | - | - | - | (18,250) | - | - | (18,250) |
| Acturial gains (losses) | - | - | - | - | - | (2,111) | - | (2,111) |
| December 31, 2011 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,793,983 | ₩ 378,290 | ₩ 2,334 | ₩ 8,649,853 |
| January 1, 2012 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,793,983 | ₩ 378,290 | ₩ 2,334 | ₩ 8,649,853 |
| Net income | - | - | - | - | 664,783 | - | (19) | 664,764 |
| Gain or loss on change in fair value of available-for-sale financial assets, after tax effect | - | - | - | - | - | (86,350) | (12) | (86,362) |
| Gain or loss on overseas business translation | - | - | - | - | - | (108,646) | (216) | (108,862) |
| Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after tax effect | - | - | - | - | - | (68) | - | (68) |
| Change of share of other comprehensive loss of associates | - | - | - | - | - | 10 | - | 10 |
| Dividends on hybrid securities | - | - | - | - | (18,250) | - | - | (18,250) |
| Acturial gains (losses) | - | - | - | - | - | (6,305) | | (6,305) |
| Stock options | - | - | - | 40 | - | - | - | 40 |
| December 31, 2012 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,440,516 | ₩ 176,931 | ₩ 2,087 | ₩ 9,094,820 |

See accompanying notes to consolidated financial statements.

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean won 2012 | Korean won 2011 |
|---|---|---|
| | (In millions) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | ₩ 664,764 | ₩ 1,654,618 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities: | | |
| Income tax expense | 263,007 | 505,107 |
| Interest income, net | (2,470,430) | (2,565,867) |
| Dividend income | (12,738) | (55,317) |
| Rental revenues | (3,206) | (3,522) |
| Gain on valuation of trading securities, net | (490) | 675 |
| Gain on valuation of trading bonds, net | (629) | (601) |
| Gain on valuation of trading derivatives, net | (33,488) | (68,162) |
| Loss (gain) on valuation of hedging derivatives, net | 5,517 | (110) |
| Gain on disposal of available-for-sale equity securities, net | (196,820) | (1,181,468) |
| Gain on disposal of available-for-sale debt securities, net | (50,186) | (8,869) |
| Impairment loss on available-for-sale financial assets, net | 16,136 | 10,333 |
| Transfer to allowance for possible losses | 667,782 | 561,491 |
| Salaries | - | 20,400 |
| Expenses for fringe benefits | - | 2,100 |
| Depreciation and amortization | 105,713 | 99,830 |
| Loss (gain) on disposal of tangible assets, net | 261 | (215) |
| Loss on disposal of investment property | 73 | - |
| Share of loss of associates, net | 679 | 129 |
| Gain on disposal of investment in associates | - | (142) |
| Impairment losses on intangible assets | 2,984 | 1,806 |
| Retirement allowances | 83,607 | 43,884 |
| Long-term compensation expense for performance bonus | 33,842 | 22,086 |
| Reversal of stock-option compensation costs, net | (2,453) | (4,533) |
| Reversal of provision for acceptances and guarantees | (2,540) | (9,787) |
| Transfer to (reversal of) provision for unused credit limit | 6,291 | (43,404) |
| Transfer to other provisions | 18,385 | 10,480 |
| Gain on foreign exchange trading, net | (34,433) | (50,030) |
| Others, net | (4,610) | 4,104 |
| | (1,607,746) | (2,709,602) |
| Changes in operating assets and liabilities: | | |
| Net decrease in trading securities | 447 | 47,951 |
| Net decrease (increase) in trading bonds | 369,515 | (282,610) |
| Net (increase) decrease in trading derivatives assets | (249,301) | 82,857 |
| Net decrease in hedging derivatives assets | 711 | 140 |
| Net (increase) in loans | (3,468,441) | (2,134,489) |
| Net decrease (increase) in other assets | 1,019,182 | (297,014) |
| Net increase in merchant banking account assets | (131,135) | (916,121) |
| Net increase in deposits | 2,612,836 | 1,413,747 |
| Net increase (decrease) in trading derivative liabilities | 340,668 | (3,952) |
| Net (decrease) in hedging derivative liabilities | (897) | (1,614) |
| Payment of severance benefits | (33,674) | (71,855) |
| (Increase) in plan assets | (75,136) | (14,185) |

(Continued)

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (CONTINUED)

| | Korean won 2012 | Korean won 2011 |
|---|---|---|
| | (In millions) | |
| Net (decrease) in other provisions | ₩ (20,434) | ₩ (16,642) |
| Net increase in other liabilities | 1,699,358 | 781,199 |
| Net (decrease) in merchant banking account liabilities | (224,487) | (198,046) |
| | 1,839,212 | (1,610,634) |
| Cash generated from operating activities: | | |
| Net cash received for interest income | 1,755,482 | 2,724,847 |
| Net cash received for dividend income | 12,739 | 55,320 |
| Payment of income tax | (599,996) | (356,517) |
| | 1,168,225 | 2,423,650 |
| Net cash flows provided by (used in) operating activities | 2,064,455 | (241,968) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash flows provided by investing activities | | |
| Net decrease in restricted due from banks | 1,040,736 | 782,592 |
| Net decrease in available-for-sale financial assets | - | 539,185 |
| Net decrease in held-to-maturity financial assets | 326,355 | 541,764 |
| Disposal of tangible assets | 135 | 1,380 |
| Disposal of investment property | 271 | - |
| Disposal of intangible assets | 213 | - |
| Cash inflow related to lease | 1,995 | - |
| | 1,369,705 | 1,864,921 |
| Cash flows used in investing activities | | |
| Net increase in available-for-sale financial assets | (800,454) | - |
| Purchase of tangible assets | (97,749) | (75,584) |
| Purchase of intangible assets | (16,549) | (26,493) |
| Cash outflow related to lease | - | (2,219) |
| Net increase in guarantee deposits paid | (8,388) | (20,087) |
| | (923,140) | (124,383) |
| Net cash flows provided by investing activities | 446,565 | 1,740,538 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net cash flows provided by financing activities | | |
| Net increase in bills sold | - | 13,238 |
| Net increase in bills sold | - | 44,281 |
| Net increase in borrowings | - | 802,668 |
| Increase in debentures | 3,423,882 | 1,893,143 |
| | 3,423,882 | 2,753,330 |
| Net cash flows used in financing activities | | |
| Net decrease in call money | (902,844) | - |
| Net decrease in bills sold | (33,606) | - |
| Net decrease in bonds sold under repurchase agreements | (22,055) | (98,800) |
| Net decrease in borrowings | (1,291,248) | - |
| Decrease in debentures | (2,745,605) | (1,418,114) |
| Dividends paid | - | (1,521,980) |
| Dividends on hybrid securities | (18,250) | (18,250) |
| | (5,013,608) | (3,057,144) |
| Net cash flows (used in) financing activities | (1,589,726) | (303,814) |

(Continued)

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (CONTINUED)

| | Korean won | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | (In millions) | | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | ₩ | 921,294 | ₩ | 1,194,756 |
| CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD | | 3,657,853 | | 2,390,527 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | (94,243) | | 72,570 |
| CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (Note 47) | ₩ | 4,484,904 | ₩ | 3,657,853 |

See accompanying notes to consolidated financial statements.

KOREA EXCHANGE BANK AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011 AND
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

## 1. GENERAL:

(1) General Description of Parent

Korea Exchange Bank (the "Company") was established on January 30, 1967, as a government-invested bank to engage in foreign exchange and trade finance business under Korea Exchange Bank Act. On December 30, 1989, Korea Exchange Bank Act was repealed and the Company was converted into a corporation under the Commercial Code of the Republic of Korea. On April 4, 1994, the Company was listed on Korean Stock Exchange. The merger between the Company and Korea Exchange Bank Credit Service Co., Ltd. was finalized on February 28, 2004.

The Company primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank, a domestic subsidiary of the Company, and other related operations as permitted under Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As of December 31, 2012, the Company operates through 357 branches (including 26 depositary offices) and three subsidiaries in the Republic of Korea and 20 branches (including two depositary offices and five offices) and 10 overseas subsidiaries.

As of December 31, 2012, the Company's shareholders and the respective percentage of ownership are as follows:

| Name of shareholders | Number of shares owned (*1) | Percentage of ownership (%) |
|---|---|---|
| Hana Financial Group Inc. | 386,952,719 | 60.00 |
| The Bank of Korea ("B.O.K.") | 39,500,000 | 6.12 |
| Ilsung Pharmaceuticals Co., Ltd. | 12,022,380 | 1.86 |
| The Government of Singapore | 8,249,660 | 1.28 |
| National Pension Service | 8,040,677 | 1.25 |
| Others | 190,141,390 | 29.49 |
| Total | 644,906,826 | 100.00 |

(*1) The list of the Company's shareholders is dated as of December 31, 2012, which is the closing date of the list.

As of December 31, 2012, the total number of authorized shares of the Company are 1,000 million at par value of ₩5,000, while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding, with a par value of ₩5,000).

Meanwhile, due to the acquisition of equity of the Company by Hana Financial Group Inc. and four other co-investors, the largest shareholder has been changed from LSF-KEB Holding, SCA to Hana Financial Group Inc. as of February 9, 2012.

(2) Description of subsidiaries in the consoldiation

1) Subsidiaries included in the consolidation as of December 31, 2012 and 2011, are as follows (Unit: thousands):

| Subsidiaries | Business | Location | Dec. 31, 2012 No. of shares | Dec. 31, 2012 Percentage of ownership (%) | Dec. 31, 2011 No. of shares | Dec. 31, 2011 Percentage of ownership (%) |
|---|---|---|---|---|---|---|
| KEB Capital Inc. (“KEBC”) (*1) | Finance and banking service | Korea | 14,976 | 99.31 | 14,976 | 99.31 |
| KEB Futures Co., Ltd. (“KEBF”) | Finance and banking service | Korea | 3,000 | 100.00 | 3,000 | 100.00 |
| KEB Fund Services Co., Ltd. (“KEBIS”) | Finance and banking service | Korea | 510 | 100.00 | 510 | 100.00 |
| Korea Exchange Bank of Canada (“KEBOC”) | Finance and banking service | Canada | 334 | 100.00 | 334 | 100.00 |
| KEB Australia Ltd. (“KEBA”) | Finance and banking service | Australia | 55,000 | 100.00 | 55,000 | 100.00 |
| Korea Exchange Bank (Deutschland) A.G. (“KEBDAG”) | Finance and banking service | Germany | 20 | 100.00 | 20 | 100.00 |
| PT. Bank KEB Indonesia(“KEBI”) | Finance and banking service | Indonesia | 1 | 99.00 | 1 | 99.00 |
| Banco KEB do Brasil S. A. (“KEBB”) | Finance and banking service | Brazil | 36,000 | 100.00 | 33,726 | 100.00 |
| KEB NY Financial Corp.(“NYFinCo”) | Finance and banking service | USA | 0.1 | 100.00 | 0.1 | 100.00 |
| KEB LA Financial Corp.(“LAFinCo”) | Finance and banking service | USA | 0.2 | 100.00 | 0.2 | 100.00 |
| KEB USA Int’l Corp. (“USAI”) | Finance and banking service | USA | 0.1 | 100.00 | 0.1 | 100.00 |
| KEB Asia Finance Limited (“KAF”) | Finance and banking service | Hong Kong | 50,000 | 100.00 | 50,000 | 100.00 |
| KEB Bank (China) Co., Ltd. (“KEB China”) | Finance and banking service | China | - | 100.00 | - | 100.00 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal (*2) | Trust service | Korea | - | 0.00 | - | 0.00 |
| Trust accounts guaranteeing the repayment of principal (*2) | Trust service | Korea | - | 0.00 | - | 0.00 |

(*1) The KEB which is a subsidiary of the Hana Financial Group is prohibited to own subsidiaries which operates in the specialized credit financial business after January 31, 2014 according to the Financial Holding Company Act, The KEB is currently reviewing a plan to comply with the regulation, however, no decisions has been made on this issue.

(*2) Classified as a special purposed entity (“SPE”) included in the consolidation based on consideration of activities of the SPE being conducted on behalf of the Consolidated Group, the Consolidated Group’s decision making power to obtain the majority of the benefits of the activities and the Groups’ right to obtain the majority of the benefit from the activities and exposure to risk incident to the activities.

2) Financial status of subsidiaries included in the consolidation as of December 31, 2012 and 2011, is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Subsidiaries | Assets | Liabilities | Shareholder's equity | Net income |
| KEBC | ₩ 704,580 | ₩ 628,743 | ₩ 75,837 | ₩ (23,409) |
| KEBF | 696,372 | 629,764 | 66,608 | 2,501 |
| KEBIS | 13,869 | 1,718 | 12,151 | 1,291 |
| KEBOC | 1,179,779 | 1,033,271 | 146,508 | 12,815 |
| KEBA | 506,005 | 421,826 | 84,179 | 9,402 |
| KEBDAG | 440,243 | 366,865 | 73,378 | 3,034 |
| KEBI | 539,919 | 383,427 | 156,492 | 14,101 |
| KEBB | 247,044 | 203,268 | 43,776 | 3,440 |
| NYFinCo | 430,860 | 394,482 | 36,378 | 860 |
| LAFinCo | 288,822 | 246,876 | 41,946 | 3,432 |
| USAI | 7,106 | 12 | 7,094 | 150 |
| KAF | 85,346 | 31,408 | 53,938 | 1,076 |
| KEB China | 1,854,218 | 1,444,379 | 409,839 | 4,693 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | 86 | 83 | 3 | - |
| Trust accounts guaranteeing the repayment of principal | 689,812 | 676,887 | 12,925 | (393) |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Subsidiaries | Assets | Liabilities | Shareholder's equity | Net income |
| KEBC | ₩ 788,809 | ₩ 688,167 | ₩ 100,642 | ₩ (35,132) |
| KEBF | 123,662 | 60,262 | 63,400 | 4,332 |
| KEBIS | 10,968 | 108 | 10,860 | 423 |
| KEBOC | 1,227,203 | 1,086,228 | 140,975 | 10,518 |
| KEBA | 403,043 | 323,907 | 79,136 | 6,929 |
| KEBDAG | 513,288 | 438,491 | 74,797 | 9,394 |
| KEBI | 500,377 | 336,237 | 164,140 | 16,205 |
| KEBB | 124,070 | 98,368 | 25,702 | 2,765 |
| NYFinCo | 414,065 | 375,774 | 38,291 | 3,367 |
| LAFinCo | 311,787 | 270,135 | 41,652 | 4,589 |
| USAI | 7,488 | 3 | 7,485 | 459 |
| KAF | 74,993 | 18,017 | 56,976 | 317 |
| KEB China | 1,655,841 | 1,225,452 | 430,389 | 20,758 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal | 87 | 84 | 3 | - |
| Trust accounts guaranteeing the repayment of principal | 736,332 | 718,761 | 17,571 | (2,257) |

## 2. BASIS OF PREPARATION:

The Company and its subsidiaries (the "Consolidated Group") have adopted Korean International Financial Reporting Standards ("K-IFRS") for the annual period beginning on January 1, 2011.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies under K-IFRS followed by the Consolidated Group in the preparation of its consolidated financial statements are summarized as follows. These accounting policies applied for the accompanying consolidated financial statements are the same as the policies applied for the preparation of the consolidated financial statements for the year ended December 31, 2011, except for the effects from the introduction of new and revised accounting standards or interpretations as described below.

The consolidated financial statements for the year ended December 31, 2012 were approved by the Board of Directors' on March 5, 2013 subsequent to the approval by the board of directors on March 5, 2013, for the purpose of the Company's Offering Circular in connection with its update of Global Medium Term Note Program, consolidated financial statements for the years ended December 31, 2011 and 2012 have been restated to reflect the revision of K-IFRS 1019 " Employee Benefits" and K-IFRS 1110 "Consolidated Financial Statements"

1) Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

- Amendments to K-IFRS 1001 –Presentation of Financial Statements

The amendments of K-IFRS 1001 relate to the separate presentation of other comprehensive income items that would not be reclassified as net income subsequently or would be reclassified as net income under specific circumstances. The amendments have effect on the presentation of separate financial statements and no effects on the financial position and financial performance. The Consolidated Group applied the amendments retrospectively and restated the comparative financial statements.

- Amendments to K-IFRS 1019 –Employee Benefits

The amendments to K-IFRS 1019 relate to the elimination of the 'corridor approach' permitted under the previous version of K-IFRS 1019. Accordingly, the actuarial gains and losses are recognized in other comprehensive income immediately. The amendment replaces the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability. The expected return on plan assets included in net interest on the net defined benefit liability (asset). The past service costs incurred under changes of plans are recognized at the earlier of the dates when the plan amendment or curtailment occurs and when the entity recognizes related restructuring costs or termination benefits. The Consolidated Group applied the amendments retrospectively and restated the comparative financial statement.

- Amendments to K-IFRS 1107 – Financial Instruments: Disclosures

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. Irrespective of whether they meet the offset requirement of between financial assets and financial liabilities in accordance with K-IFRS 1032, the amendments to K-IFRS 1107 establishes legally enforceable master netting agreements or in accordance with similar agreement right to offset financial instruments and the information about offset agreement like collateral agreement. The amendments of the enactment have no significant effect on the Consolidated Group's financial statements.

- Enactment of K-IFRS 1110 – consolidated financial statements

K-IFRS 1110 replaces the requirements and guidance in K-IFRS 1027 and K-IFRS 2012 relating to the consolidated financial statements. It defines that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Consolidated Group applied the amendments retrospectively and restated the comparative statement of the The Consolidated Group's financial statement.

- Enactment of K-IFRS 1111 – Joint Arrangements

K-IFRS 1111 classifies joint arrangements of which two or more parties have joint control into two types, joint operations and joint ventures depending on the rights and obligations of the parties to the arrangements. A joint operation is a joint arrangement whereby the parties have rights to the joint assets, and obligations for the joint liabilities. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. In case of joint operation, joint operator accounts for its share of the joint assets, liabilities, revenues, and expenses. In case of joint venture, joint venture account for its investment using equity method. The amendment has no effect on the Consolidated Group’s financial statements.

- Enactment of K-IFRS 1112 – Disclosure of Interests in Other Entities

The enactment of K-IFRS 1112 establishes disclosures requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. And the K-IFRS 1112 requires that the nature of, and risks associated with, its interests in other entities, the effects of those interests on its financial position, financial performance and cash flows. The adoption of the enactment has no significant effect on the Consolidated Group’s financial statements.

The effect from the implementation of new accounting standards (K-IFRS 1019 and 1110) on the consolidated financial statements are as follow (Unit: thousands):

< Consolidated  Statements of Financial Position>

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Reported | Adjustment | Restated | Reported | Adjustment | Restated |
| Cash and due from banks | ₩ 8,093,842 | ₩ 160,000 | ₩ 8,253,842 | ₩ 8,397,528 | ₩ 69,999 | ₩ 8,467,527 |
| Financial assets at fair value through profit or loss | 1,478,079 | 442,610 | 1,920,689 | 1,483,993 | 522,857 | 2,006,850 |
| Hedging derivative assets | 37,867 | - | 37,867 | 32,537 | - | 32,537 |
| Available-for-sale financial assets | 7,026,521 | - | 7,026,521 | 6,120,693 | - | 6,120,693 |
| Held-to-maturity financial assets | 5,126,353 | - | 5,126,353 | 5,462,329 | - | 5,462,329 |
| Loans | 70,353,991 | 38,946 | 70,392,937 | 67,944,287 | 45,474 | 67,989,761 |
| Investments in subsidiaries and associates | - | - | - | 669 | - | 669 |
| Tangible assets | 1,222,961 | - | 1,222,961 | 1,207,380 | - | 1,207,380 |
| Investment property | 178,312 | - | 178,312 | 176,442 | - | 176,442 |
| Intangible assets | 83,036 | - | 83,036 | 86,576 | - | 86,576 |
| Prepaid income taxes | 4,266 | - | 4,266 | 5,098 | - | 5,098 |
| Deferred income tax assets | 27,811 | - | 27,811 | 28,589 | - | 28,589 |
| Other assets | 7,878,522 | 5,687 | 7,884,209 | 7,198,362 | 8,902 | 7,207,264 |
| Merchant banking account assets | 2,488,216 | - | 2,488,216 | 2,352,503 | - | 2,352,503 |
| Non-current assets held for sale | 1,439 | - | 1,439 | - | - | - |
| Total assets | ₩ 104,001,216 | ₩ 647,243 | ₩ 104,648,459 | ₩ 100,496,986 | ₩ 647,232 | ₩ 101,144,218 |
| Deposits | ₩ 66,781,589 | ₩ 623,073 | ₩ 67,404,662 | ₩ 64,429,609 | ₩ 678,433 | ₩ 65,108,042 |
| Financial liabilities at fair value through profit or loss | 1,308,753 | - | 1,308,753 | 968,120 | - | 968,120 |
| Hedging derivative liabilities | - | - | - | 897 | - | 897 |
| Borrowings | 6,925,705 | - | 6,925,705 | 9,330,215 | - | 9,330,215 |
| Debentures | 6,173,426 | - | 6,173,426 | 5,460,024 | - | 5,460,024 |
| Provisions | 241,482 | - | 241,482 | 241,055 | - | 241,055 |
| Income taxes payable | 40,107 | - | 40,107 | 387,378 | - | 387,378 |
| Deferred income tax liabilities | 35,679 | 4,127 | 39,806 | 56,459 | 4,253 | 60,712 |
| Other liabilities | 12,883,855 | 7,118 | 12,890,973 | 10,233,450 | (48,772) | 10,184,678 |
| Merchant banking account liabilities | 528,725 | - | 528,725 | 753,244 | - | 753,244 |
| Total liabilities | ₩ 94,919,321 | ₩ 634,318 | ₩ 95,553,639 | ₩ 91,860,451 | ₩ 633,914 | ₩ 92,494,365 |
| Capital stock | 3,224,534 | - | 3,224,534 | 3,224,534 | - | 3,224,534 |
| Capital surplus | 940 | - | 940 | 940 | - | 940 |
| Hybrid securities | 249,772 | - | 249,772 | 249,772 | - | 249,772 |
| Stock option | 40 | - | 40 | - | - | - |
| Retained earnings | 5,444,292 | (3,776) | 5,440,516 | 4,803,671 | (9,688) | 4,793,983 |
| Accumulated other comprehensive income | 160,230 | 16,701 | 176,931 | 355,284 | 23,006 | 378,290 |
| Non-controlling interests | 2,087 | - | 2,087 | 2,334 | - | 2,334 |
| Total shareholders’ equity | ₩ 9,081,895 | ₩ 12,925 | ₩ 9,094,820 | ₩ 8,636,535 | ₩ 13,318 | ₩ 8,649,853 |

<Consolidated Statements of Comprehensive Income>

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Reported | Adjustment | Restated | Reported | Adjustment | Restated |
| Net interest income | ₩ 2,465,977 | ₩ 4,453 | ₩ 2,470,430 | ₩ 2,549,889 | ₩ 15,978 | ₩ 2,565,867 |
| Net commission income | 178,630 | (206) | 178,424 | 247,498 | (429) | 247,069 |
| Net income of financial instruments at fair value through profit or loss | (8,981) | 1,663 | (7,318) | 57,431 | (6,365) | 51,066 |
| Net income of hedging derivatives | (4,906) | - | (4,906) | 822 | - | 822 |
| Net income of available-for-sale financial assets | 247,006 | - | 247,006 | 1,190,337 | - | 1,190,337 |
| Net impairment losses | (683,859) | (59) | (683,918) | (571,836) | 12 | (571,824) |
| General and administrative expenses | (1,572,964) | 8,094 | (1,564,870) | (1,490,559) | 2,249 | (1,488,310) |
| Other operating income | 282,206 | (6,149) | 276,057 | 157,263 | (10,829) | 146,434 |
| Operating income | 903,109 | 7,796 | 910,905 | 2,140,845 | 616 | 2,141,461 |
| Non-operating income | 16,862 | 4 | 16,866 | 18,253 | 11 | 18,264 |
| Income before income tax expense | 919,971 | 7,800 | 927,771 | 2,159,098 | 627 | 2,159,725 |
| Income tax expense | (261,119) | (1,888) | (263,007) | (504,433) | (674) | (505,107) |
| Net Income | 658,852 | 5,912 | 664,764 | 1,654,665 | (47) | 1,654,618 |
| Other comprehensive income | (195,282) | (6,305) | (201,587) | (448,260) | (2,111) | (450,371) |
| Total comprehensive income | ₩ 463,570 | ₩ (393) | ₩ 463,177 | ₩ 1,206,405 | ₩ (2,158) | ₩ 1,204,247 |

2) New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective.

- Amendments to K-IFRS 1032 – *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 are clarifying the meaning of related standards about the offset presentation of financial assets and financial liabilities. That is, the right to offset must not be conditional to future events and can be exercised always during the contract periods. The right to offset has to be executable even in the case of default or insolvency, not just in the case of normal business progress with counterparties. The amendments to K-IFRS 1032 are effective for the annual period beginning on January 1, 2014.

The Consolidated Group does not anticipate that these amendments referred above will have a significant effect on the Company's consolidated financial statements.

(1) Basis of Consolidation

The consolidated financial statements incorporated the financial statements of the Company and entities (including SPEs) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of entities so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's ownership interests in subsidiaries, without loss of control, are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to net income or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(2) Revenue Recognition

1) Interest revenues (expenses)

Interest revenues (expenses) are recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest revenues or interest expense over the relevant period.

2) Commission revenues (expenses)

According to the imposition purpose of the commission and related accounting standards for financial assets, commission revenues are classified as and accounted for as follows:

| Classification | Details |
|---|---|
| Commission composing effective revenues of the financial instruments | Accounted for as an adjustment to the effective interest rate |
| Commission by rendering services | Revenue recognized when the services are provided |
| Commission by performing significant activities | Revenue recognized when significant activities have been completed |

3) Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

(3) Financial assets

Financial assets and financial liabilities are recognized when the Consolidated Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in net income.

All regular way purchases or sales of financial assets are recognized or derecognized on the trade date. A regular way purchase or sale is a purchases or sale of a financial asset under a contract whose term requires delivery of assets within the time frame established by regulation or convention in the marketplace concerned.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss(FVTPL), held-to-maturity investments("HTM"), available-for-sale financial assets("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for selling it in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term
- on initial recognition, it is part of a portfolio of identified financial instruments that the Consolidated Group manages together and has a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- in accordance with the Consolidated Group's documented risk management or investment strategy, the financial asset forms part of a group of financial assets or financial liabilities, or both, which is recorded at fair value, performance is evaluated based on its fair value, and information of the grouping is provided internally on that basis, or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL

2) AFS financial assets

Non-derivatives financial assets that are not classified as at held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at financial assets AFS.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized net income. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of gain or loss on change in fair value of AFS financial assets. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to net income.

Dividends on AFS equity instruments are recognized in net income when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in net income are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

3) HTM investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Consolidated Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. HTM investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

4) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Loans, due from banks and leasehold deposit paid are classified as loans and receivables.

5) Deferred loan origination fees ("LOFs") and loan origination costs ("LOCs")

The Consolidated group defers LOF/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOF/LOCs. The deferred LOF/LOCs are amortized using the effective interest method with the amortization recognized as adjustments to interest revenue.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

*AFS Financial Assets*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through net income if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

*HTM Investments*

For HTM investments measured at amortized cost, impairment loss is measured by the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate and directly deducted from the carrying amount.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

*Loans and Receivables*

For loans and receivables measured at amortized cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The Consolidated Group first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (individual assessment of impairment).

For financial assets that are not individually significant, the Consolidated Group assesses whether the objective evidence of impairment exists individually or collectively. If the Consolidated Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

① Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits by individual assessment is recognized by the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering borrower's management performance, financial position, overdue period, and mortgage amount.

② Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits by collective assessment is measured using probability of default ("PD") and loss given default ("LGD"), which are calculated by adjusting PD and LGD on Basel II model for accounting purpose. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period, and collection period and applies consistent assumptions so as to model the measurement of inherent loss and determine variables based on historical loss experience and current conditions.

7) Derecognition of financial assets

The Consolidated Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Consolidated Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Consolidated Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Consolidated Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Consolidated Group continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the part of financial asset is qualified for the derecognition, the entire carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between (1) the carrying amount allocated to the part derecognized and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and is derecognized, based on the relative fair values of those parts.

8) Offsetting of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Consolidated Group has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4) Financial Liabilities and Equity Instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Consolidated Group after deducting all of its liabilities.

3) Financial liabilities

Financial liabilities are recognized when the Consolidated Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL is recognized immediately in net income.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when either the financial liability is held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term,
- on initial recognition, it is part of a portfolio of identified financial instruments that the Consolidated Group manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- in accordance with the Consolidated Group’s documented risk management or investment strategy, the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis or

- it forms part of a contract containing one or more embedded derivatives and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income.

*Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*

The Consolidated group derecognize financial liabilities when the Consolidated Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4) Hybrid securities

Hybrid securities are classified as an equity when all requirements for equity classification are satisfied in conformity with contract terms.

5) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets* and
- The amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

(5) Fair Values

1) Methods and assumptions applied in measurement of fair values

Fair values of financial assets or liabilities are determined as follows:

- fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where they are available under standard requirements for transactions.
- for other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques, where inputs in the model are observable market data.
- the quoted market prices are used for derivatives if traded in an active market. All other derivatives, for which quoted market price is not available, are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis using option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using yield curve derived from corresponding interest rate to published future exchange rate and maturity.

2) Three-level fair value hierarchy

The Consolidated Group classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

| Classification | Details |
|---|---|
| (Level 1) | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| (Level 2) | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| (Level 3) | Inputs for the asset or liability that are not based on the observable market data (unobservable inputs) |

(6) Derivative Financial Instruments

The Consolidated Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting profit or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in net income depends on the nature of the hedge relationship. The Consolidated Group designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

1) Embedded derivatives

An embedded derivative shall be separated from the host contract and accounted for as a derivative if and only if :

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contracts,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- and the hybrid instrument is not measured at fair value with changes in fair value recognized in net income.

2) Hedge accounting

At the inception of the hedge relationship, the Consolidated Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Consolidated Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Consolidated Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, exercised or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

4) Deferred Day 1 profit

The Consolidated Group assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) agree with a theoretical methodology used to determine prices of financial instruments.

However, the Consolidated Group defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology is not satisfied with the above requirements.

Deferred Day 1 profit is recognized in net income when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

(7) Investments in Subsidiaries and Associates

Associates are the entities that the Consolidated Group has significant effect on, but neither their subsidiaries nor investments in joint ventures. Significant effect is the ability to participate in the determination of investees' financial and operating policies, but neither controlling nor joint control.

The financial results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Consolidated Group's share of net income and other comprehensive income of the associate. When the Consolidated Group's share of losses of an associate exceeds the Consolidated Group's interest in that associate (which includes any long-term interests that, in substance, form a part of the Consolidated Group's net investment in the associate), the Consolidated Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Consolidated Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Consolidated Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, *Impairment of Assets*, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

When the consolidated entity transacts with its associate, net income resulting from the transactions with the associate is recognized in the Consolidated Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Consolidated Group.

(8) Foreign Currencies

1) Functional currency and presentation currency

The individual financial statements of each entity in the Consolidated Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the financial results and position of each entity in the Consolidated Group are expressed in Korean won, which is the functional currency of the Consolidated Group and the presentation currency for the consolidated financial statements.

2) Transactions with foreign currencies

In preparing the financial statements of each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in net income in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (7) above for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment.

3) Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Consolidated Group's foreign operations are expressed in currency units using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

On the disposal of a foreign operation (i.e., a disposal of the Consolidated Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Consolidated Group are reclassified to net income. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to net income.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in net income. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to net income.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(9) Retirement Benefit Costs

For defined benefit plans, the cost of retirement benefits is measured by an actuary services company, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in other comprehensive income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

The company enters into agreements such as retirement insurance, retirement trust, and retirement annuity in order to meet severance pay. The retirement benefit obligation recognized in the interim separate statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(10) Share-based Payment

For equity-settled, share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled, share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Consolidated Group with the choice of whether to settle in cash or by issuing equity instruments, the Consolidated Group shall determine whether it has a present obligation to settle in cash. If no obligation exists, it shall account for the transaction in accordance with the requirements applying to equity-settled, share-based transactions. However, if it has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled, share-based transactions.

(11) Property, Plant and Equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Consolidated Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Consolidated Group does not depreciate land. Depreciation expense is computed using the depreciation method and the estimated useful lives of the assets are as follows:

| Tangible assets | Estimated useful life | Depreciation method |
|---|---|---|
| Construction | 40 years | Straight-line |
| Leasehold improvements | 3–10 years | Straight-line |
| Equipment | 3–20 years | Declining-balance |

A tangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of a tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(12) Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in net income in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income on the period of the occurrence.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(13) Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(14) Non-current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(15) Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Consolidated Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. A reversal of an impairment loss is recognized immediately in net income.

(16) Provisions

Provisions are recognized when the Consolidated Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Consolidated Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The Consolidated Group does not recognize provisions for future operating losses.

The Consolidated Group recognizes provisions related to unused credit card points amount, guarantee, and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets which is recognized as tangible assets. Decommissioning or restoration costs are present value of expected costs of restoration using future cash outflows.

(17) Accounting for Trust Accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the Company's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Company and are recorded as due to trust accounts of the Company's accounts. Also, the borrowings from the Company's account are recorded as due from trust accounts of the Company's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.
With respect to certain trust account products, the Company guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, the deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Company's accounts and receiving compensation contributions from the Company's accounts. If the Company pays compensating contributions to the guaranteed-return trusts to cover such deficiencies, these contributions are reflected as operating expense of the Company's accounts and as other income of the trust accounts.

(18) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.
Amounts due from lessees under finance leases are recognized as receivables at the amount of the Consolidated Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Consolidated Group's net investment outstanding in respect of the leases.

(19) Merchant Banking Accounts

As permitted by the Restructuring of Financial Institutions Act, the Company may continue its merchant banking operations, including leasing business, until the existing contracts acquired from Korea International Merchant Bank upon merger are terminated. Significant accounting policies applied to the Company's merchant banking operations are summarized as follows:

1) Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

2) Cash Management Accounts ("CMA")

The Company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

(20) Income Taxes

Income tax consists of current tax and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the separate statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Consolidated Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Consolidated Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities in the same tax jurisdiction and the Consolidated Group's legal right to offset tax liabilities and assets only if the Consolidated Group intends to pay current tax liabilities and assets are presented on a net basis.

3) Current and deferred tax for the year

Current and deferred tax are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 4. ESTIMATION AND ACCOUNTING JUDGMENT:

In the application of the Consolidated Group's accounting policies described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

1) Critical judgments in applying accounting policies

*HTM investments*

Management has reviewed the Consolidated Group's HTM investments in light of its capital maintenance and liquidity requirements and has confirmed the Consolidated Group's positive intention and ability to hold those assets to maturity. The carrying amount of the HTM investments is ₩5,126,353 million. Details of these assets are set out in Note 13.

*Significant hedge relationships*

As described in Note 3 (7), the Consolidated Group designates certain derivatives as hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges). Also, fair value hedge accounting is applied for the purpose of avoiding risk of fair value changes of recognized asset, liabilities or unrecognized confirmed contract as a whole or partly. And cash flow hedge accounting is applied for the purpose of avoiding risk of cash flow changes of recognized asset, liabilities and expected transactions which are highly about to happen.

2) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

*Determination of fair values*

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors and assumptions related to price determination, and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

*Allowance for possible losses on credits*

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by assumptions and variables, used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees/unused credit limit liabilities by collective method.

*Measurement of defined benefit obligation*

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, expected return on plan assets, etc. A retirement benefit plan includes significant uncertainty on such estimation since it is operated long term. As the defined benefit obligation and fair value of plan asset as of December 31, 2012, is ₩282,459 million and ₩259,586 million, respectively, the net obligation of defined benefit amounts to ₩22,873 million, the details of which are described in Note 31.

## 5. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES:

The standards the Consolidated Group applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.

B. If a market for a financial instrument is not active, the Consolidated Group establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's-length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option-pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

C. Valuation techniques use significant inputs which are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.

D. For an investment in equity instruments for which quoted market price is not available in an active market or derivative linked to such instruments for which fair values are not measured reliably, fair values are measured at cost.

(1) Hierarchy of fair values

Fair value hierarchy of financial instruments as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Quoted market price (Level 1) | Observable inputs (Level 2) | Unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | ₩ 310,923 | ₩ 1,594,386 | ₩ 15,380 | ₩ 1,920,689 |
| Hedging derivative assets | - | 37,867 | - | 37,867 |
| AFS financial assets | 2,767,970 | 3,668,386 | 590,165 | 7,026,521 |
| Total | ₩ 3,078,893 | ₩ 5,300,639 | ₩ 605,545 | ₩ 8,985,077 |
| Liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 1,308,582 | ₩ 171 | ₩ 1,308,753 |

| Classification | Dec. 31, 2011 Quoted market price (Level 1) | Observable inputs (Level 2) | Unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at FVTPL | ₩ 931,013 | ₩ 1,065,215 | ₩ 10,622 | ₩ 2,006,850 |
| Hedging derivative assets | - | 32,537 | - | 32,537 |
| AFS financial assets | 3,128,983 | 2,255,855 | 735,855 | 6,120,693 |
| Total | ₩ 4,059,996 | ₩ 3,353,607 | ₩ 746,477 | ₩ 8,160,080 |
| Liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 964,634 | ₩ 3,486 | ₩ 968,120 |
| Hedging derivative liabilities | - | 897 | - | 897 |
| Total | ₩ - | ₩ 965,531 | ₩ 3,486 | ₩ 969,017 |

(2) The changes in Level 3 financial instruments for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Valuation | | | |
| Classification | Beginning balance | Acquisition/ Issuance | Disposal/ Payment | Income | Other comprehensive income | Others | Ending balance |
| Financial assets | | | | | | | |
| Financial assets at FVTPL | ₩ 10,622 | ₩ 6,949 | ₩ (3,824) | ₩ 1,633 | ₩ - | ₩ - | ₩ 15,380 |
| AFS financial assets | 735,855 | 69,696 | (241,251) | (18,289) | 45,455 | (1,301) | 590,165 |
| | ₩ 746,477 | ₩ 76,645 | ₩ (245,075) | ₩ (16,656) | ₩ 45,455 | ₩ (1,301) | ₩ 605,545 |
| Financial liabilities: | | | | | | | |
| Financial liabilities at FVTPL | ₩ 3,486 | ₩ 202 | ₩ (1,285) | ₩ (2,184) | ₩ - | ₩ (48) | ₩ 171 |

| Classification | Dec. 31, 2011 Beginning balance | Acquisition/ Issuance | Disposal/ Payment | Valuation Income | Valuation Other comprehensive income | Others | Ending balance |
|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | |
| Financial assets at FVTPL | ₩ 14,508 | ₩ 3,673 | ₩ (1,790) | ₩ (6,032) | ₩ - | ₩ 263 | ₩ 10,622 |
| AFS financial assets | 1,376,864 | 29,361 | (658,043) | (6,624) | (5,967) | 264 | 735,855 |
| | ₩1,391,372 | ₩ 33,034 | ₩ (659,833) | ₩(12,656) | ₩ (5,967) | ₩ 527 | ₩ 746,477 |
| Financial liabilities: | | | | | | | |
| Financial liabilities at FVTPL | ₩ 2,483 | ₩ 15,007 | ₩ (14,051) | ₩ 86 | ₩ - | ₩ (39) | ₩ 3,486 |

## 6. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair values of financial instruments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Book value | Dec. 31, 2012 Fair value | Dec. 31, 2011 Book value | Dec. 31, 2011 Fair value |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and due from banks | ₩ 8,253,842 | ₩ 8,253,842 | ₩ 8,467,527 | ₩ 8,467,527 |
| Financial assets at FVTPL | 1,920,689 | 1,920,689 | 2,006,850 | 2,006,850 |
| Hedging derivative assets | 37,867 | 37,867 | 32,537 | 32,537 |
| AFS financial assets | 7,026,521 | 7,026,521 | 6,120,693 | 6,120,693 |
| HTM investments | 5,126,353 | 5,162,830 | 5,462,329 | 5,488,206 |
| Loans (*1) | 70,392,937 | 70,516,385 | 67,989,761 | 68,206,264 |
| Other financial assets (*2) | 7,780,795 | 7,780,835 | 7,124,039 | 7,129,373 |
| Merchant banking account assets (*3) | 2,488,216 | 2,488,216 | 2,352,503 | 2,357,522 |
| Total | ₩103,027,220 | ₩103,187,185 | ₩ 99,556,239 | ₩ 99,808,972 |
| Financial liabilities | | | | |
| Deposits | ₩ 67,404,662 | ₩ 67,424,527 | ₩ 65,108,042 | ₩ 65,109,800 |
| Financial liabilities at FVTPL | 1,308,753 | 1,308,753 | 968,120 | 968,120 |
| Hedging derivative liabilities | - | - | 897 | 897 |
| Borrowings | 6,925,705 | 6,928,063 | 9,330,215 | 9,328,764 |
| Debentures | 6,173,426 | 6,259,622 | 5,460,024 | 5,586,570 |
| Other financial liabilities (*4) | 12,543,029 | 12,543,061 | 9,837,324 | 9,837,350 |
| Merchant banking account liabilities (*5) | 525,839 | 525,839 | 747,785 | 747,785 |
| Total | ₩ 94,881,414 | ₩ 94,989,865 | ₩ 91,452,407 | ₩ 91,579,286 |

(*1) Net carrying amount after deduction of allowance for possible loan losses and deferred LOF/LOC
(*2) Include receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowances for possible loan losses, including merchant banking loans, merchant banking account trading securities, and CMA assets
(*4) Include payables spot exchange, domestic exchange settlement credit, trust account payables, etc.
(*5) Include merchant banking account deposits, accrued expenses

## 7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY:

Financial assets and liabilities by category as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Trading financial instruments | AFS financial instrument | HTM investments | Financial instruments measured at amortized cost | Hedge accounting derivatives | Total |
| Financial assets | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 8,253,842 | ₩ - | ₩ 8,253,842 |
| Financial assets at FVTPL | 1,920,689 | - | - | - | - | 1,920,689 |
| Hedging derivative assets | - | - | - | - | 37,867 | 37,867 |
| AFS financial assets | - | 7,026,521 | - | - | - | 7,026,521 |
| HTM investments | - | - | 5,126,353 | - | - | 5,126,353 |
| Loans | - | - | - | 70,392,937 | - | 70,392,937 |
| Other financial assets | - | - | - | 7,780,795 | - | 7,780,795 |
| Merchant banking account assets | 1,805,965 | - | - | 682,251 | | 2,488,216 |
| Total | ₩ 3,726,654 | ₩ 7,026,521 | ₩ 5,126,353 | ₩ 87,109,825 | ₩ 37,867 | ₩ 103,027,220 |
| Financial liabilities | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 67,404,662 | ₩ - | ₩ 67,404,662 |
| Financial liabilities at FVTPL | 1,308,753 | - | - | - | - | 1,308,753 |
| Borrowings | - | - | - | 6,925,705 | - | 6,925,705 |
| Debentures | - | - | - | 6,173,426 | - | 6,173,426 |
| Other financial liabilities | - | - | - | 12,543,029 | - | 12,543,029 |
| Merchant banking account liabilities | - | - | - | 525,839 | - | 525,839 |
| Total | ₩ 1,308,753 | ₩ - | ₩ - | ₩ 93,572,661 | ₩ - | ₩ 94,881,414 |

| Classification | Dec. 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Trading financial instruments | AFS financial instrument | HTM investments | Financial instruments measured at amortized cost | Hedge accounting derivatives | Total |
| Financial assets | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 8,467,527 | ₩ - | ₩ 8,467,527 |
| Financial assets at FVTPL | 2,006,850 | - | - | - | - | 2,006,850 |
| Hedging derivative assets | - | - | - | - | 32,537 | 32,537 |
| AFS financial assets | - | 6,120,693 | - | - | - | 6,120,693 |
| HTM investments | - | - | 5,462,329 | - | - | 5,462,329 |
| Loans | - | - | - | 67,989,761 | - | 67,989,761 |
| Other financial assets | - | - | - | 7,124,039 | - | 7,124,039 |
| Merchant banking account assets | 1,565,867 | - | - | 786,636 | - | 2,352,503 |
| Total | ₩ 3,572,717 | ₩ 6,120,693 | ₩ 5,462,329 | ₩ 84,367,963 | ₩ 32,537 | ₩ 99,556,239 |

| Classification | Dec. 31, 2011 Trading financial instruments | AFS financial instrument | HTM investments | Financial instruments measured at amortized cost | Hedge accounting derivatives | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩ 65,108,042 | ₩ - | ₩ 65,108,042 |
| Financial liabilities at FVTPL | 968,120 | - | - | - | - | 968,120 |
| Hedging derivative liabilities | - | - | - | - | 897 | 897 |
| Borrowings | - | - | - | 9,330,215 | - | 9,330,215 |
| Debentures | - | - | - | 5,460,024 | - | 5,460,024 |
| Other financial liabilities | - | - | - | 9,837,324 | - | 9,837,324 |
| Merchant banking account liabilities | - | - | - | 747,785 | - | 747,785 |
| Total | ₩ 968,120 | ₩ - | ₩ - | ₩ 90,483,390 | ₩ 897 | ₩ 91,452,407 |

## 8. RISK MANAGEMENT:

The risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management task force team. Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors.

The committee deliberates and determines major issues, such as risk management policies and strategies and risk tolerance limit. The risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Consolidated Group distributes internal capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Consolidated Group retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of internal capital.

The Consolidated Group classifies risks to significant risks and residual risks:

- Significant risks: credit risk, market risk, operation risk, interest rate risk, liquidity risk, credit preference risk, strategy risk and reputation risk
- Residual risks: credit mitigation residual risk and asset-backed residual risk

Of the significant risks, credit risk, market risk, operation risk, interest rate risk, credit preference risk and strategy risk are able to be quantified with a confidence level of 99.9 percent and one-year retaining period and reflected in combined internal capital. The Consolidated Group consistently compares and monitors such risks with internal capital limit, computes results, and regularly reports to the management.

The Consolidated Group defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level to reserved capital. It regularly assesses and manages the reasonableness of internal capital by comparing available capital and combined internal capital. Reserved capital as capital buffer is determined by the risk management committee so as to prepare additional possibility of losses, emergency situations, incompleteness of information systems and fluctuation of available capital and strictly managed as a risk propensity index.

In addition, the Consolidated Group assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances such as credit rating transition rate by regulation of Financial Supervisory Service.

The Consolidated Group efficiently manages risks by preparing principles for assessment and management in order to maximize shareholders' profits, and constructs combined risk management system, considering risks, profits and growth.

(1) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Group. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that could damage the financial soundness of the Consolidated Group by improving the soundness of assets through setup of credit ratings and credit screening and quantifying and regularly managing credit risks.
The Consolidated Group implements a system that divides and operates marketing and screening for the management purpose. It also employs a total exposure limit system to solve weighted credits and disperse risks and an early alert system to discover an insolvent company and establish countermeasures.

The Consolidated Group separately measures expected losses and unexpected losses. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses. It is computed through advanced internal ratings-based method under Bank for International Settlements ("BIS") Basel II.

The Consolidated Group's level of exposure to credit risk as of December 31, 2012 and 2011 is summarized as follows (Unit: In millions):

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Loans and credit commitments | ₩ 59,485,926 | ₩ 53,059,207 |
| Guarantees and endorsed notes | 15,617,751 | 14,561,146 |
| Total | ₩ 75,103,677 | ₩ 67,620,353 |

(2) Market risk

Market risk is the uncertainty and possibility of losses from overall management activities and divided into general market risk and specific risk. General market risk is the risk to The Consolidated Group's earnings arising from changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of trading position arising from changes in credit risks.

1) Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The managing targets are interest rate, stock price, foreign currencies, and derivatives, including:

- assets classified as trading securities in accordance with K-IFRS,
- derivatives for trading and hedged derivatives for which hedge accounting is not applied,
- trust account securities with agreements to guarantee principal or interest and
- foreign currency exchange position regulated by Korean Banking Laws.

The Consolidated Group uses an internal model for measurement of market risk. The purpose of internal model is to compute required capital by VaR using historical simulation with a confidence level of 99.0 percent and 10-day (one day) retaining period. VaR using historical simulation sets up 10 business days' (one business day) profit ratio of risk elements for the past one year into profit ratio of current portfolio, computes portfolio values for past days and lines up in order of values and computes the difference between the value of low second-ranked portfolio and current portfolio. In addition, the Consolidated Group always reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Consolidated Group performs back-testing on a daily basis so as to procure the suitability of internal model and stress testing to prepare emergency situation not reflected in the recent market elements.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group/department is reported to management on a daily basis and to risk management operating committee on a monthly basis.

Market risk VaR for the years ended December 31, 2012 and 2011, is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | Dec. 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩21,197 | ₩ 4,316 | ₩11,549 | ₩ 6,266 | ₩ 9,530 | ₩ 2,298 | ₩ 4,809 | ₩ 3,324 |
| Stock price risk | 44,199 | 7,701 | 15,717 | 7,701 | 27,605 | 3,619 | 12,735 | 5,296 |
| Foreign currency risk | 84,126 | 4,404 | 32,073 | 52,205 | 24,877 | 1,734 | 11,819 | 4,509 |
| Option risk | 4,288 | 363 | 1,842 | 2,698 | 6,974 | 106 | 2,063 | 193 |
| Total risks (*) | ₩95,383 | ₩15,651 | ₩47,183 | ₩55,669 | ₩45,193 | ₩ 8,243 | ₩26,099 | ₩ 9,619 |

(*) The total portfolio risk is not equal to the sum of the individual component risks because it is computed by considering the correlations of the risks.

2) Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in interest rate, using the VaR methodology, a key measure of market risk, to interest rate risk assessment.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk (EaR). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index. Internal capital limit management is classified as Korean won, foreign currencies, overseas and trust fund.
The result of interest rate measurement is reported to risk management operating committee on a monthly basis.

Details of interest rate VaR, except for trading portfolio for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | Dec. 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩288,076 | ₩ 60,146 | ₩150,203 | ₩288,076 | ₩162,696 | ₩122,581 | ₩140,163 | ₩122,581 |

(3) Liquidity risk

1) General

Liquidity risk is the risk that the consolidated Group is unable to meet its payment obligations arising from financial liabilities as they fall due.

2) Liquidity risk management

The Consolidated Group proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index, and monitoring index. Additionally, it regularly performs liquidity stress test, comprehend deficit, and reflect in the emergency funding plan.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio which will be introduced as Basel III liquidity risk regulation ratio.
Liquidity risk management is targeting for on- and off- balance assets, liabilities and derivatives and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

Maturity structures of liabilities as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Immediate payment | 1 month or less | 1–3 months | 3 months –1 year | 1 year –5 years | More than 5 years | Total |
| Deposits | ₩ 27,811,301 | ₩ 7,659,116 | ₩ 9,578,548 | ₩ 20,889,777 | ₩ 2,295,105 | ₩ 504,180 | ₩ 68,738,027 |
| Financial liabilities at FVTPL | 1,308,753 | - | - | - | - | - | 1,308,753 |
| Borrowings | 1,412,909 | 1,534,459 | 1,334,492 | 1,399,291 | 1,237,135 | 132,910 | 7,051,196 |
| Debentures | 132 | 168,240 | 457,289 | 1,440,266 | 4,017,427 | 767,276 | 6,850,630 |
| Other financial liabilities | 2,051 | 12,518,571 | 2,089 | 16,349 | 3,853 | 116 | 12,543,029 |
| Merchant banking account liabilities | 525,654 | 185 | - | - | - | - | 525,839 |
| Loan commitment | 59,485,926 | - | - | - | - | - | 59,485,926 |
| Finance guarantee | 731,557 | - | - | - | - | - | 731,557 |
| Total | ₩ 91,278,283 | ₩21,880,571 | ₩ 11,372,418 | ₩ 23,745,683 | ₩ 7,553,520 | ₩ 1,404,482 | ₩ 157,234,957 |

| | Dec. 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Immediate payment | 1 month or less | 1–3 months | 3 months –1 year | 1 year –5 years | More than 5 years | Total |
| Deposits | ₩ 27,415,400 | ₩ 6,583,167 | ₩ 8,864,461 | ₩20,538,392 | ₩2,432,315 | ₩ 721,923 | ₩ 66,555,658 |
| Financial liabilities at FVTPL | 968,120 | - | - | - | - | - | 968,120 |
| Hedging derivative liabilities | - | - | 172 | 593 | 161 | - | 926 |
| Borrowings | 2,374,387 | 2,376,986 | 1,870,030 | 1,447,087 | 1,269,386 | 146,291 | 9,484,167 |
| Debentures | 222 | 179,849 | 517,931 | 2,266,476 | 2,709,856 | 322,906 | 5,997,240 |
| Other financial liabilities | 825,899 | 8,955,202 | 3,871 | 25,383 | 26,969 | - | 9,837,324 |
| Merchant banking account liabilities | 747,585 | 200 | - | - | - | - | 747,785 |
| Loan commitment | 53,059,207 | - | - | - | - | - | 53,059,207 |
| Finance guarantee | 618,643 | - | - | - | - | - | 618,643 |
| Total | ₩ 86,009,463 | ₩18,095,404 | ₩ 11,256,465 | ₩24,277,931 | ₩6,438,687 | ₩1,191,120 | ₩ 147,269,070 |

## 9. SEGMENT INFORMATION:

(1) Segment units

The business sectors of the Consolidated Group are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

| Classification | | Business |
|---|---|---|
| Individual Finance | Retail banking | Receiving and giving credit to household |
| | Credit card | Issue, use and payment of credit card and others |
| | Trust | Retirement pension and so on |
| Corporate Finance | Corporate banking | Receiving and giving credit to enterprise, securities investment, derivative transactions and others |
| Fund Market | Fund market management | Investing and managing securities |
| Others | International banking | Support for enterprises to expand their business abroad and others |
| | Others | Management and others |

(2) Information of segment profit or loss and segment assets

1) Net income by business segment for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | 2012 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Segment operating income: | | | | | | | |
| Net interest income | ₩ 855,856 | ₩1,035,536 | ₩ 70,918 | ₩ 109 | ₩1,962,419 | ₩ 508,011 | ₩2,470,430 |
| Net commission income | 352,271 | 261,216 | (21,108) | 2,620 | 594,999 | (416,575) | 178,424 |
| Net other operating income | 360,944 | (58,915) | 106,837 | 19,522 | 428,388 | 86,932 | 515,320 |
| Subtotal | 1,569,071 | 1,237,837 | 156,647 | 22,251 | 2,985,806 | 178,368 | 3,164,174 |
| Segment operating expenses: | | | | | | | |
| General and administrative expenses | 558,390 | 372,624 | 25,523 | 609,981 | 1,566,518 | (1,648) | 1,564,870 |
| Segment operating profit | 1,010,681 | 865,213 | 131,124 | (587,730) | 1,419,288 | 180,016 | 1,599,304 |
| Transfer to (reversal of) allowances for possible losses on credits (*1) | 239,270 | 313,858 | - | - | 553,128 | 118,405 | 671,533 |
| Income tax expense | 186,681 | 143,404 | 31,732 | (142,231) | 219,586 | 43,421 | 263,007 |
| Segment net income | ₩ 584,730 | ₩ 407,951 | ₩ 99,392 | ₩ (445,499) | ₩ 646,574 | ₩ 18,190 | ₩ 664,764 |

(*1) Transfer to (reversal of) allowances for possible losses on credit include allowance for possible loan losses, reversal of provision for acceptances and guarantees, and transfer to provision for unused credit limit.

| Classification | 2011 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Segment operating income: | | | | | | | |
| Net interest income | ₩ 781,047 | ₩1,172,037 | ₩ 34,054 | ₩ 43,111 | ₩2,030,249 | ₩ 535,618 | ₩2,565,867 |
| Net commission income | 516,757 | 292,830 | (9,153) | (26,167) | 774,267 | (527,198) | 247,069 |
| Net other operating income | 94,778 | 1,203,964 | 116,095 | (83,157) | 1,331,680 | 11,719 | 1,343,399 |
| Subtotal | 1,392,582 | 2,668,831 | 140,996 | (66,213) | 4,136,196 | 20,139 | 4,156,335 |
| Segment operating expenses: | | | | | | | |
| General and administrative expenses | 517,592 | 430,287 | 17,147 | 479,262 | 1,444,288 | 44,022 | 1,488,310 |
| Segment operating profit | 874,990 | 2,238,544 | 123,849 | (545,475) | 2,691,908 | (23,883) | 2,668,025 |
| Transfer to (reversal of) allowances for possible losses on credits (*1) | 40,749 | 58,953 | - | 409,549 | 509,251 | (951) | 508,300 |
| Income tax expense | - | 66,505 | 17,555 | 431,564 | 515,624 | (10,517) | 505,107 |
| Segment net income | ₩ 834,241 | ₩2,113,086 | ₩ 106,294 | ₩ (1,386,588) | ₩1,667,033 | ₩ (12,415) | ₩1,654,618 |

(*1) Transfer to (reversal of) allowances for possible losses on credit include allowance for possible loan losses, reversal of provision for acceptances and guarantees, and reversal of provision for unused credit limit.

2) Income from customers and transaction between segments, by business segment, for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| Income from customers | ₩1,568,120 | ₩ 1,148,126 | ₩ 191,168 | ₩ 23,926 | ₩2,931,340 | ₩ 178,368 | ₩3,109,708 |
| Income between segments | 951 | 89,711 | (34,521) | (1,675) | 54,466 | - | 54,466 |
| Total | ₩1,569,071 | ₩1,237,837 | ₩ 156,647 | ₩ 22,251 | ₩2,985,806 | ₩ 178,368 | ₩3,164,174 |

| Classification | Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| Income from customers | ₩1,347,874 | ₩2,214,000 | ₩ 151,412 | ₩ 422,910 | ₩4,136,196 | ₩ 20,139 | ₩4,156,335 |
| Income between segments | 44,708 | 454,831 | (10,416) | (489,123) | - | - | - |
| Total | ₩1,392,582 | ₩2,668,831 | ₩ 140,996 | ₩ (66,213) | ₩4,136,196 | ₩ 20,139 | ₩4,156,335 |

3) Significant non-cash items included in operating income by business segment for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| Share of loss of associates, net | ₩ - | ₩ - | ₩ - | ₩ 679 | ₩ 679 | ₩ - | ₩ 679 |
| Depreciation and amortization | 9,374 | 3,696 | - | 83,021 | 96,091 | 9,622 | 105,713 |
| Total | ₩ 9,374 | ₩ 3,696 | ₩ - | ₩ 83,700 | ₩ 96,770 | ₩ 9,622 | ₩ 106,392 |

| Classification | Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| Share of loss of associates, net | ₩ - | ₩ - | ₩ - | ₩ 129 | ₩ 129 | ₩ - | ₩ 129 |
| Depreciation and amortization | 9,889 | 18,285 | - | 74,446 | 102,620 | (2,790) | 99,830 |
| Total | ₩ 9,889 | ₩ 18,285 | ₩ - | ₩ 74,575 | ₩ 102,749 | ₩ (2,790) | ₩ 99,959 |

(3) Regional information

Financial information by region as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011, is as follows (Unit: In millions):

| Classification | Income from customers (*1) | | Non-current assets (*2) | |
|---|---|---|---|---|
| | 2012 | 2011 | Dec. 31, 2012 | Dec. 31, 2011 |
| Domestic | ₩ 2,848,004 | ₩ 3,844,934 | ₩ 1,448,138 | ₩ 1,436,659 |
| Overseas | | | | |
| Hong Kong | 43,134 | 34,887 | 4,705 | 5,056 |
| Singapore | 13,887 | 12,883 | 221 | 338 |
| USA | 23,504 | 21,929 | 711 | 695 |
| Japan | 25,369 | 50,235 | 5,834 | 4,458 |
| China | 63,733 | 66,957 | 18,705 | 18,054 |
| Indonesia | 25,992 | 26,854 | 226 | 262 |
| UK | 16,896 | 16,232 | 115 | 259 |
| Canada | 33,874 | 30,646 | 3,329 | 3,200 |
| Others | 70,799 | 66,451 | 2,325 | 1,417 |
| Subtotal | 317,188 | 327,074 | 36,171 | 33,739 |
| Consolidation adjustment | (1,018) | (15,673) | - | - |
| Total | ₩ 3,164,174 | ₩ 4,156,335 | ₩ 1,484,309 | ₩ 1,470,398 |

(*1) Income from customers is divided into domestic and overseas based on location of branches and subsidiaries.
(*2) Non-current assets consist of property, plant and equipment, investment property, and intangible assets. They are divided into domestic and overseas based on location of assets.

## 10. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Account | Financial institution | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| Cash | | ₩ 1,708,793 | ₩ 1,330,266 |
| Due from banks in Korean won: | | | |
| Reserve deposit | B.O.K. | 1,599,521 | 2,792,377 |
| Monetary stabilization deposits | B.O.K. | - | 400,000 |
| Other due from banks | Other financial institutions | 289,951 | 172,112 |
| | Subtotal | 1,889,472 | 3,364,489 |
| Due from banks in foreign currencies: | | | |
| Reserve deposit | B.O.K. and others | 2,673,431 | 2,417,879 |
| Due from banks on time deposits | BAYERN LB and others | 1,234,209 | 953,449 |
| Other due from banks | Other financial institutions | 747,937 | 401,444 |
| | Subtotal | 4,655,577 | 3,772,772 |
| Total | | ₩ 8,253,842 | ₩ 8,467,527 |

(2) Restricted due from banks in Korean won and foreign currencies as of December 31, 2012 and 2011 consists of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 | Reason for restriction |
|---|---|---|---|
| Due from banks in Korean won: | | | |
| Reserve deposit | ₩ 1,599,521 | ₩ 2,792,377 | Required under the B.O.K. Act |
| Monetary stabilization deposits | - | 400,000 | Deposits in the B.O.K. for the purpose of liquidity management of the B.O.K. |
| Reserve for future trading | 3 | 361 | Subscription related to derivatives |
| Investors' deposit | 50,179 | 42,694 | Required under Financial Investment Services and Capital Markets Act |
| Subtotal | 1,649,703 | 3,235,432 | |
| Due from banks in foreign currencies: | | | |
| Reserve deposit | 1,552,881 | 1,479,600 | Required under the B.O.K. Act and other |
| Other due from banks | 566,354 | 94,642 | Subscription related to derivatives and others |
| Subtotal | 2,119,235 | 1,574,242 | |
| Total | ₩ 3,768,938 | ₩ 4,809,674 | |

## 11. FINANCIAL ASSETS AT FVTPL:

(1) Financial assets at FVTPL as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | | Interest rate (%) | Fair value (Book value) Dec. 31, 2012 | Fair value (Book value) Dec. 31, 2011 |
|---|---|---|---|---|
| Stocks | Samsung Electronics Co., Ltd., etc. | - | ₩ 26,779 | ₩ 41,533 |
| Government and public bonds | Treasury bonds | - | 113,089 | 57,711 |
| | Other local bonds | 3.26–3.77 | 12,235 | 19,092 |
| | Subtotal | | 125,324 | 76,803 |
| Financial bonds | Monetary stabilization securities | 3.47–3.90 | 171,054 | 431,128 |
| | Industrial finance bonds | 2.85–7.02 | 121,302 | 160,450 |
| | Deposit bank bonds | 2.84–4.17 | 89,556 | 189,616 |
| | Subtotal | | 381,912 | 781,194 |
| Corporate bonds and others | General bonds | 3.09–5.07 | 30,376 | 30,268 |
| | Subtotal | | 30,376 | 30,268 |
| Securities in foreign currencies | Stocks | - | - | 1,215 |
| | Bonds | - | - | 2,306 |
| | Subtotal | | - | 3,521 |
| Trading derivative assets (Note 18) | | | 1,356,298 | 1,073,531 |
| Total | | | ₩ 1,920,689 | ₩ 2,006,850 |

(2) The valuation of trading securities and bonds, by industry, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Face value | Acquisition cost | Adjustment by EIR method | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 122,200 | ₩ 123,653 | ₩ 123,677 | ₩ 125,324 |
| Financial bonds | 380,000 | 381,996 | 381,650 | 381,912 |
| Corporate bonds and others | 30,000 | 30,103 | 30,183 | 30,376 |
| Total | ₩ 532,200 | ₩ 535,752 | ₩ 535,510 | ₩ 537,612 |

| Classification | Dec. 31, 2011 Face value | Acquisition cost | Adjustment by EIR method | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 75,200 | ₩ 75,470 | ₩ 75,501 | ₩ 76,803 |
| Financial bonds | 779,610 | 780,543 | 780,493 | 781,194 |
| Corporate bonds and others | 30,000 | 30,052 | 30,101 | 30,268 |
| Foreign bonds | 2,307 | 2,303 | 2,275 | 2,306 |
| Total | ₩ 887,117 | ₩ 888,368 | ₩ 888,370 | ₩ 890,571 |

(3) The portfolio of trading securities and bonds, by industry, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Industry | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Financial | ₩ 392,177 | ₩ - | ₩ 392,177 | 72.95 |
| Manufacturing | 125,324 | - | 125,324 | 23.31 |
| Public | 20,111 | - | 20,111 | 3.74 |
| Total | ₩ 537,612 | ₩ - | ₩ 537,612 | 100.00 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Industry | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Financial | ₩ 791,284 | ₩ 2,306 | ₩ 793,590 | 89.11 |
| Public | 76,804 | - | 76,804 | 8.62 |
| Other | 20,177 | - | 20,177 | 2.27 |
| Total | ₩ 888,265 | ₩ 2,306 | ₩ 890,571 | 100.00 |

(4) The portfolio of trading securities and bonds, by country, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Country | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Korea | ₩ 537,612 | ₩ - | ₩ 537,612 | 100.00 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Country | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Korea | ₩ 888,265 | ₩ 2,306 | ₩ 890,571 | 100.00 |

## 12. AFS FINANCIAL ASSETS:

(1) AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | | | Fair value (Book value) | |
|---|---|---|---|---|
| Classification | Type | Interest rate (%) | Dec. 31, 2012 | Dec. 31, 2011 |
| Securities | SK Hynix Inc. and others | - | ₩ 479,184 | ₩ 635,901 |
| Equity investment | Vogo Fund and others | - | 86,862 | 78,175 |
| Government and public bonds | Treasury bonds | 3.00~5.75 | 786,863 | 90,129 |
| | Housing bonds | 3 | 48,641 | 19,989 |
| | Other local bonds | 2.96~4.25 | 463,431 | 170,128 |
| | Subtotal | | 1,298,935 | 280,246 |
| Financial bonds | Monetary stabilization securities | 2.78~3.99 | 1,973,320 | 3,035,357 |
| | Deposit bank bonds | 3.04~8.87 | 330,098 | 362,121 |
| | Small and medium-sized business banking bonds | 2.82~4.04 | 169,510 | 178,163 |
| | Industrial finance bonds | 2.87~8.06 | 404,277 | 210,380 |
| | Export-import credit bonds | 3.07~3.98 | 80,455 | 19,746 |
| | Subtotal | | 2,957,660 | 3,805,767 |
| Corporate and other bonds | General bonds | 3.03~6.36 | 969,454 | 669,418 |
| | Industrial bonds invested by government | 2.96~5.39 | 827,051 | 431,468 |
| | Subtotal | | 1,796,505 | 1,100,886 |

| Classification | Type | Interest rate (%) | Fair value (Book value) Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Beneficiary certificates | | - | ₩ 6,429 | ₩ - |
| Securities in foreign currencies | Foreign stocks | - | 3,184 | 2,305 |
| | Foreign bonds | 1.25~8.00 | 358,449 | 151,443 |
| | Foreign investment | - | 802 | 548 |
| | Subtotal | | 362,435 | 154,296 |
| Other securities | Beneficiary rights certificates | - | 38,511 | 65,422 |
| | Total | | ₩ 7,026,521 | ₩ 6,120,693 |

(2) Details of securities (including foreign securities) among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Book value before valuation | Gain (loss) on valuation | Fair value (Book value) Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Marketable securities | ₩ 276,163 | ₩ 29,244 | ₩ 305,407 | ₩ 464,500 |
| Non-marketable securities | 177,232 | (271) | 176,961 | 173,706 |
| Total | ₩ 453,395 | ₩ 28,973 | ₩ 482,368 | ₩ 638,206 |

1) Details of marketable securities (including foreign securities) as of December 31, 2012 and 2011 are as follows (Unit: In shares; In millions):

| Name of Investments | Dec. 31, 2012 Number of shares | Ownership ratio (%) | Book value before valuation | Gain (loss) on valuation | Fair value (book value) | Dec. 31, 2011 Fair value (book value) |
|---|---|---|---|---|---|---|
| SK Hynix Inc. | 10,092,500 | 1.45 | ₩ 215,212 | ₩ 37,201 | ₩ 252,413 | ₩ 430,425 |
| Kumho Tire Co., Inc. | 2,160,000 | 1.71 | 18,919 | 4,945 | 23,864 | 18,919 |
| Oriental Precision & Engineering Co., Ltd. | 8,102,666 | 9.56 | 9,926 | (154) | 9,772 | - |
| Daiyang Metal Co., Ltd. | 7,563,000 | 16.48 | 6,618 | - | 6,618 | - |
| Hanmi Bank | 146,179 | 2.49 | 1,248 | 880 | 2,128 | 1,248 |
| KCP Co., Ltd. | 102,740 | 0.97 | 629 | 604 | 1,233 | 629 |
| Chinhung International Inc. | 3,002,000 | 0.67 | 1,447 | (222) | 1,225 | - |
| SAMT Co., Ltd. | 677,264 | 0.85 | 740 | 447 | 1,187 | 740 |
| MB Shiroyama Co., Ltd. | 1,819,342 | 1.80 | 1,299 | (186) | 1,113 | 1,299 |
| Kumho Industrial Co., Ltd. | 707,180 | 0.41 | 4,262 | (3,194) | 1,068 | 3,012 |
| Taesan LCD Co., Ltd. | 648,046 | 3.03 | 3,584 | (2,608) | 976 | 3,584 |
| K-Top Reits Co., Ltd. | 200,000 | 3.69 | 1,100 | (288) | 812 | - |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 2.78 | 1,596 | (929) | 667 | 1,596 |
| Ssangyong Engineering & Construction | 191,934 | 0.64 | 1,214 | (591) | 623 | 1,214 |
| Pharmicell | 109,500 | 0.33 | 1,221 | (663) | 558 | 1,221 |
| Pumyang Construction Co., Ltd | 28,157 | 2.81 | 452 | 21 | 473 | - |
| Namkwang Engineering & Construction Co., Ltd. | 122,349 | 3.26 | 6,316 | (6,027) | 289 | - |
| DongBu-TS Black Pearl Special Purpose Acquisition Company | 100,000 | 3.33 | 187 | 13 | 200 | 187 |
| IBKS Smart SME Special Purpose Acquisition Company No.1 | 87,800 | 9.98 | 82 | 5 | 87 | - |
| Others | | | 111 | (10) | 101 | 426 |
| Total | | | ₩ 276,163 | ₩ 29,244 | ₩ 305,407 | ₩ 464,500 |

2) Details of non-marketable securities (including foreign securities) as of December 31, 2012 and 2011 are as follows (Unit: In shares; In millions):

| Name of Investments | Dec. 31, 2012 Number of shares | Ownership ratio (%) | Book value before valuation | Gain (loss) on valuation | Fair value (book value) | Dec. 31, 2011 Fair value (book value) |
|---|---|---|---|---|---|---|
| Consumer Credit Assistant Fund Co., Ltd. | 20,822 | 4.16 | ₩ 62,466 | ₩ (3,114) | ₩ 59,352 | ₩ 62,466 |
| The Korea Securities Finance Corporation | 2,238,842 | 3.29 | 24,871 | 529 | 25,400 | 24,871 |
| Pantech Co., Ltd. | 40,937,557 | 2.49 | 17,808 | 164 | 17,972 | 17,808 |
| Alpha Dome City Co., Ltd. | 2,950,200 | 3.00 | 14,751 | - | 14,751 | 14,751 |
| KRX | 80,498 | 0.40 | 12,025 | 907 | 12,932 | 12,025 |
| Korea Asset Management Corporation | 1,266,000 | 2.43 | 6,330 | - | 6,330 | 6,330 |
| Daewoo Electronics Corp. | 36,142 | 6.79 | 5,362 | (3) | 5,359 | 5,362 |
| Korea Enterprise Data Co., Ltd. | 620,250 | 4.48 | 3,910 | 858 | 4,768 | 1,484 |
| Dongbu Asset Management Co., Ltd. | 540,000 | 9.00 | 3,443 | (50) | 3,393 | 3,443 |
| The Kerr New Frontier Private Overseas Resources Development Special Assets Fund 4 (Oil Field) | 3,069,254,410 | 1.24 | ₩ 3,000 | ₩ - | ₩ 3,000 | ₩ 1,955 |
| DanHan Cornerstone Project Financing Investment | 550,000 | 5.00 | 2,750 | - | 2,750 | - |
| Korea Finance Security Co., Ltd. | 117,580 | 9.80 | 2,427 | 252 | 2,679 | 2,427 |
| Korea Money Brokerage Corporation | 69,220 | 3.46 | 2,690 | (129) | 2,561 | 2,690 |
| Ilsan Project Co., Ltd. | 288,000 | 4.80 | 2,508 | - | 2,508 | 2,508 |
| Korea Credit Bureau | 72,000 | 3.60 | 2,176 | 122 | 2,298 | 3,627 |
| Midan City Development Co., Ltd. | 387,800 | 2.70 | 1,492 | - | 1,492 | 1,492 |
| M cieta Development Co.,Ltd. | 255,000 | 2.50 | 1,275 | - | 1,275 | 1,275 |
| Korea Smart Card | 150,004 | 1.74 | 885 | 341 | 1,226 | 885 |
| Hallyu Wood Company, Ltd. | 120,000 | 3.00 | 1,200 | - | 1,200 | 1,200 |
| Korea Credit-card Electronic-settlement Service Co., Ltd. | 119,625 | 13.91 | 944 | 74 | 1,018 | 944 |
| A Jin Paper Co., Ltd. | 53,850 | 1.90 | 700 | 94 | 794 | 932 |
| Booyoung Finance | 100,000 | 5.00 | 576 | (34) | 542 | 576 |
| Realty Advisors Korea, Ltd. | 112,000 | 8.00 | 539 | - | 539 | 539 |
| BLADEX | 147,173 | 0.40 | 475 | - | 475 | 475 |
| CLS Bank International | 1,972 | 1.29 | 437 | - | 437 | 437 |
| Golden Bridge Asset Management Co., Ltd. | 80,000 | 4.00 | 463 | (43) | 420 | 463 |
| Kores Co., Ltd. | 492,000 | 4.64 | 322 | 1 | 323 | 322 |
| Cosmotech Co., Ltd. | 984,000 | 2.14 | 296 | 12 | 308 | 296 |
| Mobile Appliance | 1,104,814 | 14.10 | 461 | (263) | 198 | 461 |
| K-TOP Reits Co., Ltd. | - | - | - | - | - | 1,100 |
| Others | | | 650 | 11 | 661 | 562 |
| Total | | | ₩ 177,232 | ₩ (271) | ₩ 176,961 | ₩ 173,706 |

From the amount above, ₩35,240 million (₩94,580 million as of December 31, 2011), including securities of Alpha Dome City Co., Ltd., was measured at acquisition cost because its fair value was not able to be measured reliably.

The Consolidated Group measured fair values of non-maketable securities, using reasonable valuation method and estimations based on professional judgment of an independent external valuation agency. The independent agency measures the fair value by considering features of valuation target among Discounted Cash Flow Model, Imputed Market Value Model, and Risk-Adjusted Discount Rate Model.

3) Details of AFS financial assets for which disposal is restricted as of December 31, 2012 and 2011, are as follows (Unit: Shares, In millions):

| Name of Investments | Dec. 31, 2012 Number of shares | Book value | Restricted period |
|---|---|---|---|
| SK Hynix Inc. | 10,092,500 | ₩ 252,413 | 2013-06-30 |
| Kumho Tire Co., Inc. | 2,160,000 | 23,864 | 2014-12-31 |
| Oriental Precision & Engineering Co., Ltd. | 8,102,666 | 9,772 | 2016-12-31 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 6,618 | 2016-06-04 |
| Daewoo Electronics Corp. | 36,142 | 5,359 | 2013-03-31 |
| Chinhung International Inc. | 3,002,000 | 1,225 | 2013-03-31 |
| SAMT Co., Ltd. | 677,264 | 1,187 | 2013-06-30 |
| Kumho Industrial Co., Ltd. | 707,180 | 1,068 | 2014-12-31 |
| Taesan LCD Co., Ltd. | 648,046 | 976 | 2013-12-31 |
| A Jin Paper Co., Ltd. | 53,850 | 794 | 2015-12-31 |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 667 | 2014-12-31 |
| Ssangyong Engineering & Construction (*1) | 191,934 | 623 | - |
| Pumyang Construction Co., Ltd | 28,157 | 473 | 2013-06-04 |
| Kores Co., Ltd. | 492,000 | 323 | 2015-12-31 |
| Namkwang Engineering & Construction Co., Ltd. | 122,349 | 289 | 2013-03-31 |
| Jaeyoung Solutec Co., Ltd. | 61,333 | 48 | 2014-12-31 |
| Others | | 16 | |
| Total | | ₩ 305,715 | |

(*1) The disposal of the investments will be determined through creditors' meeting.

| Name of Investments | Dec. 31, 2011 Number of shares | Book value | Restricted period |
|---|---|---|---|
| SK Hynix Inc. (*1) | 20,185,000 | ₩ 430,425 | - |
| Kumho Tire Co., Inc. | 2,160,000 | 18,919 | 2014-12-31 |
| Pantech Co., Ltd. | 40,937,557 | 17,808 | 2011-12-31 |
| Daewoo Electronics Corp. | 36,142 | 5,362 | 2012-03-31 |
| Taesan LCD Co., Ltd. | 3,240,232 | 3,584 | 2013-12-31 |
| Kumho Industrial Co., Ltd. | 497,800 | 3,012 | 2014-12-31 |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 1,596 | 2014-12-31 |
| MB Shiroyama Co., Ltd. | 1,819,342 | 1,299 | 2012-01-27 |
| Ssangyong Engineering & Construction (*1) | 191,934 | 1,214 | - |
| A Jin Paper Co., Ltd. | 71,800 | 932 | 2011-12-31 |
| SAMT Co., Ltd. | 677,264 | 740 | 2013-06-30 |
| Kores Co., Ltd. | 492,000 | 322 | 2015-12-31 |
| EpiValley Co., Ltd. | 198,770 | 174 | 2012-09-22 |
| Jaeyoung Solutec Co., Ltd. | 61,333 | 40 | 2012-12-31 |
| Young Gwang Stainless Co., Ltd. | 10,000 | 16 | 2012-12-31 |
| Kem Oh Marine Co., Ltd. | 34,500 | - | 2012-12-31 |
| 21st Century Shipbuilding Co., Ltd. | 3,500 | - | 2012-12-31 |
| Total | | ₩ 485,443 | |

(*1) The disposal of the investment will be determined through creditors' meeting.

(3) Details of equity investment (including foreign investment) among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Name of Investments | Dec. 31, 2012 Book value before valuation | Dec. 31, 2012 Gain (loss) on valuation | Dec. 31, 2012 Book value | Dec. 31, 2011 Book value |
|---|---|---|---|---|
| United PF 1st corporate financial stability private investment company | ₩ 33,768 | ₩ (1,283) | ₩ 32,485 | ₩ - |
| Vogo Fund | 17,346 | 2,278 | 19,624 | 27,116 |
| ORIX-LTI Private Equity Fund | 5,252 | 348 | 5,600 | 5,234 |
| KT-LIG ACE Private Equity Fund Co., Ltd. | 6,327 | (1,081) | 5,246 | 7,287 |
| QCP 1 Private Equity Fund | 4,253 | 686 | 4,939 | 4,253 |
| STIC Private Equity Fund II (New Growth Engine) | 3,454 | 143 | 3,597 | 3,271 |
| Daishin-Heungkuk No.1 Private Equity Fund | 3,100 | 131 | 3,231 | 1,300 |
| Connex New Growth Private Equity Fund No.1 | 3,256 | (44) | 3,212 | 5,000 |
| Corestone Private Equity Fund No.1 | 3,000 | - | 3,000 | 3,000 |
| Value up Private Equity Fund | 2,276 | - | 2,276 | 2,276 |
| 2010 KIF-Tube IT Fund | 1,736 | (73) | 1,663 | 1,141 |
| QCP 3 Private Equity Fund | 930 | - | 930 | 930 |
| 2010 KIF-IMM IT Fund | 848 | - | 848 | 328 |
| Swift | 802 | - | 802 | 548 |
| Future Growth & Buy-out Private Equity Fund | 210 | - | 210 | 180 |
| SHCF Private Equity Fund | - | - | - | 6,755 |
| GoldenBriedge Green Private Equity Fund No.1 | - | - | - | 4,000 |
| Hi Asian Contemporary Art Fund | - | - | - | 3,083 |
| Consus Investment Fund No.1 | - | - | - | 3,011 |
| The Kerr-Nice NPL Fund No.1 | - | - | - | 9 |
| Others | 1 | - | 1 | 1 |
| Total | ₩ 86,559 | ₩ 1,105 | ₩ 87,664 | ₩ 78,723 |

For investment over ₩1,000 million, the Consolidated Group uses valued price measured by an external valuation agency every half year. Additionally, ₩5,790 million as of December 31, 2012 (₩14,365 million as of December 31, 2011), among the investment mentioned above is measured at acquisition cost since it is difficult to measure its fair value reliably.

(4) Details of debt securities among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Face value | Acquisition cost | Adjustment by effective interest rate method | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,293,587 | ₩ 1,294,099 | ₩ 1,294,725 | ₩ 1,298,935 |
| Financial bonds | 2,938,739 | 2,957,220 | 2,955,266 | 2,957,660 |
| Corporate and other bonds | 1,780,000 | 1,836,950 | 1,791,970 | 1,796,505 |
| Foreign bonds | 336,480 | 359,432 | 357,537 | 358,449 |
| Total | ₩ 6,348,806 | ₩ 6,447,701 | ₩ 6,399,498 | ₩ 6,411,549 |

| Classification | Dec. 31, 2011 Face value | Acquisition cost | Adjustment by effective interest rate method | Fair value (Book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 280,087 | ₩ 282,828 | ₩ 279,833 | ₩ 280,246 |
| Financial bonds | 3,810,000 | 3,797,665 | 3,803,675 | 3,805,767 |
| Corporate and other bonds | 1,095,000 | 1,144,238 | 1,097,621 | 1,100,886 |
| Foreign bonds | 155,702 | 155,542 | 156,245 | 151,443 |
| Total | ₩ 5,340,789 | ₩ 5,380,273 | ₩ 5,337,374 | ₩ 5,338,342 |

(5) Changes of gain (loss) on valuation of AFS financial assets recorded as accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 Beginning | Increase | Realized through disposal | Income tax effect | Ending |
|---|---|---|---|---|---|
| Securities | ₩ 277,670 | ₩ 41,841 | ₩ (155,272) | ₩ 27,448 | ₩ 191,687 |
| Other equity securities | 32,975 | 10,724 | (22,270) | 2,777 | 24,206 |
| Government and public bonds | 313 | 4,164 | (367) | (919) | 3,191 |
| Financial bonds | 1,586 | 1,761 | (1,459) | (73) | 1,815 |
| Corporate and other bonds | 2,474 | 3,635 | (2,365) | (307) | 3,437 |
| Foreign bonds | (3,640) | 2,058 | 3,657 | (1,383) | 692 |
| | ₩ 311,378 | ₩ 64,183 | ₩ (178,076) | ₩ 27,543 | ₩ 225,028 |

| Classification | 2011 Beginning | Increase (decrease) | Realized through disposal | Income tax effect | Ending |
|---|---|---|---|---|---|
| Securities | ₩ 737,166 | ₩ (19,219) | ₩ (560,022) | ₩ 119,745 | ₩ 277,670 |
| Other equity securities | 37,506 | 12,700 | (17,688) | 457 | 32,975 |
| Government and public bonds | 1,786 | (367) | (1,533) | 427 | 313 |
| Financial bonds | 12,673 | (3,189) | (10,989) | 3,091 | 1,586 |
| Corporate and other bonds | 1,955 | 2,376 | (1,636) | (221) | 2,474 |
| Foreign bonds | (4,291) | 384 | 332 | (65) | (3,640) |
| | ₩ 786,795 | ₩ (7,315) | ₩ (591,536) | ₩ 123,434 | ₩ 311,378 |

(6) Details of gain or loss realized through disposal of AFS financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 Realized gain | 2012 Realized loss | 2011 Realized gain | 2011 Realized loss |
|---|---|---|---|---|
| Securities | ₩ 196,860 | ₩ 40 | ₩ 1,182,283 | ₩ 815 |
| Other equity securities | 104 | - | 101 | 112 |
| Government and public bonds | 3,925 | - | 161 | - |
| Financial bonds | 4,901 | - | 6,517 | - |
| Corporate and other bonds | 9,554 | - | 1,994 | - |
| Foreign bonds | 31,702 | - | 208 | - |
| Total | ₩ 247,046 | ₩ 40 | ₩ 1,191,264 | ₩ 927 |

(7) Details of dividend income from AFS financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Securities | ₩ 8,464 | ₩ 20,036 |
| Other equity securities | 3,447 | 27,634 |
| Total | ₩ 11,911 | ₩ 47,670 |

(8) Details of the transferred assets that do not qualify for derecognition and the associated liabilities as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Book value | Dec. 31, 2012 Fair value | Dec. 31, 2011 Book value | Dec. 31, 2011 Fair value |
|---|---|---|---|---|
| Transferred assets | | | | |
| AFS financial assets (*1) | ₩ - | ₩ - | ₩ 29,985 | ₩ 29,985 |
| HTM investments | - | - | 30,141 | 30,141 |
| Total | ₩ - | ₩ - | ₩ 60,126 | ₩ 60,126 |
| Related liabilities | | | | |
| Bonds sold under RPs | ₩ 190 | ₩ 190 | ₩ 22,245 | ₩ 22,245 |

(*1) The AFS financial assets are the securities loaned under an agreement and will be returned to the Company. They have no associated liabilities.

(9) Details of debt securities of AFS financial assets by industry as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Financial | ₩ 3,059,611 | ₩ 318,931 | ₩ 3,378,542 | 52.70 |
| Public | 2,206,441 | 39,518 | 2,245,959 | 35.03 |
| Manufacturing | 160,488 | - | 160,488 | 2.50 |
| Others | 626,560 | - | 626,560 | 9.77 |
| Total | ₩ 6,053,100 | ₩ 358,449 | ₩ 6,411,549 | 100.00 |

| Classification | Dec. 31, 2011 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Financial | ₩ 3,981,628 | ₩ 105,810 | ₩ 4,087,438 | 76.56 |
| Public | 711,714 | - | 711,714 | 13.33 |
| Manufacturing | 70,741 | 37,390 | 108,131 | 2.03 |
| Wholesale and retail | 10,025 | - | 10,025 | 0.19 |
| Others | 412,791 | 8,243 | 421,034 | 7.89 |
| Total | ₩ 5,186,899 | ₩ 151,443 | ₩ 5,338,342 | 100.00 |

(10) Details of debt securities of AFS financial assets by country as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Classification | In Korean won | In foreign currencies | Total amount | Percentage (%) |
| Korea | ₩ 6,053,100 | ₩ 331,848 | ₩ 6,384,948 | 99.58 |
| Hong Kong | - | 5,110 | 5,110 | 0.08 |
| Others | - | 21,491 | 21,491 | 0.34 |
| Total | ₩ 6,053,100 | ₩ 358,449 | ₩ 6,411,549 | 100.00 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Classification | In Korean won | In foreign currencies | Total amount | Percentage (%) |
| Korea | ₩ 5,186,899 | ₩ 61,319 | ₩ 5,248,218 | 98.31 |
| Singapore | - | 41,858 | 41,858 | 0.78 |
| Hong Kong | - | 13,086 | 13,086 | 0.25 |
| Japan | - | 5,750 | 5,750 | 0.11 |
| Others | - | 29,430 | 29,430 | 0.55 |
| Total | ₩ 5,186,899 | ₩ 151,443 | ₩ 5,338,342 | 100.00 |

## 13. HTM INVESTMENTS:

(1) Details of HTM investments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | | | Book value | |
|---|---|---|---|---|
| Classification | Type | Interest rate (%) | Dec. 31, 2012 | Dec. 31, 2011 |
| Government and public bonds | Treasury bonds | 3.00~4.75 | ₩ 344,281 | ₩ 495,183 |
| | Housing bonds | 2.82~4.90 | 327,492 | 246,785 |
| | Local development bonds | 3.40~4.23 | 23,847 | 39,890 |
| | Subtotal | | 695,620 | 781,858 |
| Financial bonds | Monetary stabilization securities | 2.78~3.99 | 3,221,941 | 3,601,145 |
| | Deposit bank bonds | 4.37~8.35 | 70,798 | 80,012 |
| | Industrial finance bonds | 6.12 | 10,020 | 20,059 |
| | Subtotal | | 3,302,759 | 3,701,216 |
| Corporate and other bonds | General bonds | 3.71~8.11 | 170,879 | 222,689 |
| | Industrial bonds invested by government | 3.80~6.32 | 849,964 | 580,648 |
| | Subtotal | | 1,020,843 | 803,337 |
| Foreign securities | Foreign debt securities | 0.20~7.63 | 107,131 | 175,918 |
| | Total | | ₩ 5,126,353 | ₩ 5,462,329 |

(2) Details of valuation of HTM investments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Face value | Acquisition costs | Adjustment by effective interest rate method | Book value |
|---|---|---|---|---|
| Government and public bonds | ₩ 693,843 | ₩ 696,174 | ₩ 695,620 | ₩ 695,620 |
| Financial bonds | 3,300,000 | 3,303,882 | 3,302,759 | 3,302,759 |
| Corporate and other bonds | 1,010,000 | 1,033,844 | 1,020,843 | 1,020,843 |
| Foreign bonds | 108,324 | 106,428 | 107,131 | 107,131 |
| Total | ₩ 5,112,167 | ₩ 5,140,328 | ₩ 5,126,353 | ₩ 5,126,353 |

| Classification | Dec. 31, 2011 Face value | Acquisition costs | Adjustment by effective interest rate method | Book value |
|---|---|---|---|---|
| Government and public bonds | ₩ 779,943 | ₩ 778,325 | ₩ 781,858 | ₩ 781,858 |
| Financial bonds | 3,700,000 | 3,702,617 | 3,701,216 | 3,701,216 |
| Corporate and other bonds | 790,000 | 809,595 | 803,337 | 803,337 |
| Foreign bonds | 177,518 | 174,857 | 175,918 | 175,918 |
| Total | ₩ 5,447,461 | ₩ 5,465,394 | ₩ 5,462,329 | ₩ 5,462,329 |

(3) Details of HTM investments by industry as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Financial | ₩ 3,302,759 | ₩ 71,159 | ₩ 3,373,918 | 65.82 |
| Public | 1,545,584 | 25,261 | 1,570,845 | 30.64 |
| Manufacturing | - | 10,711 | 10,711 | 0.21 |
| Others | 170,879 | - | 170,879 | 3.33 |
| Total | ₩ 5,019,222 | ₩ 107,131 | ₩ 5,126,353 | 100.00 |

| Classification | Dec. 31, 2011 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Financial | ₩ 3,701,216 | ₩ 110,541 | ₩ 3,811,757 | 69.78 |
| Public | 1,362,506 | 46,847 | 1,409,353 | 25.80 |
| Manufacturing | 20,742 | 12,323 | 33,065 | 0.61 |
| Others | 201,947 | 6,207 | 208,154 | 3.81 |
| Total | ₩ 5,286,411 | ₩ 175,918 | ₩ 5,462,329 | 100.00 |

(4) Details of HTM investments by country as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 5,019,222 | ₩ 27,867 | ₩ 5,047,089 | 98.45 |
| Brazil | - | 26,455 | 26,455 | 0.52 |
| USA | - | 10,711 | 10,711 | 0.21 |
| Others | - | 42,098 | 42,098 | 0.82 |
| Total | ₩ 5,019,222 | ₩ 107,131 | ₩ 5,126,353 | 100.00 |

| Classification | Dec. 31, 2011 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 5,286,411 | ₩ 47,162 | ₩ 5,333,573 | 97.64 |
| Singapore | - | 42,547 | 42,547 | 0.78 |
| Brazil | - | 13,636 | 13,636 | 0.25 |
| USA | - | 11,533 | 11,533 | 0.21 |
| Others | - | 61,040 | 61,040 | 1.12 |
| Total | ₩ 5,286,411 | ₩ 175,918 | ₩ 5,462,329 | 100.00 |

## 14. MATURITY STRUCTURE OF AFS FINANCIAL ASSETS AND HTM INVESTMENTS:

Maturity structure of AFS financial assets and HTM investments as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Government and public bonds | Financial bonds | Corporate and other bonds | Foreign bonds | Total |
|---|---|---|---|---|---|
| AFS Financial assets: | | | | | |
| Less than 1 month | ₩ - | ₩ 419,757 | ₩ 29,964 | ₩ - | ₩ 449,721 |
| 1–3 months | 10,056 | 430,215 | 10,027 | - | 450,298 |
| 3–6 months | 141,693 | 360,960 | 90,375 | - | 593,028 |
| 6 months–1 year | 113,217 | 470,687 | 50,415 | - | 634,319 |
| 1-3 years | 710,878 | 1,116,612 | 1,304,122 | 358,449 | 3,490,061 |
| 3-5 years | 323,091 | 120,065 | 311,602 | - | 754,758 |
| 5-10 years | - | 39,364 | - | - | 39,364 |
| Total | ₩1,298,935 | ₩2,957,660 | ₩1,796,505 | ₩ 358,449 | ₩6,411,549 |
| HTM financial assets: | | | | | |
| 1–3 months | ₩ 12,966 | ₩ 100,020 | ₩ 130,204 | ₩ 32,610 | ₩ 275,800 |
| 3–6 months | 34,931 | 1,429,939 | 261,205 | 11,549 | 1,737,624 |
| 6 months–1 year | 123,239 | 840,831 | 60,529 | 897 | 1,025,496 |
| 1-3 years | 522,285 | 911,171 | 568,905 | 60,046 | 2,062,407 |
| 3-5 years | 2,199 | 10,798 | - | 1,630 | 14,627 |
| 5-10 years | - | 10,000 | - | 399 | 10,399 |
| Total | ₩ 695,620 | ₩3,302,759 | ₩1,020,843 | ₩ 107,131 | ₩5,126,353 |

| Classification | Dec. 31, 2011 Government and public bonds | Financial bonds | Corporate and other bonds | Foreign bonds | Total |
|---|---|---|---|---|---|
| AFS financial assets: | | | | | |
| Less than 1 month | ₩ 50,108 | ₩ 699,410 | ₩ - | ₩ - | ₩ 749,518 |
| 1–3 months | - | 975,094 | 10,011 | - | 985,105 |
| 3–6 months | - | 979,462 | 165,414 | - | 1,144,876 |
| 6 months–1 year | 9,960 | 639,307 | 300,599 | 45,633 | 995,499 |
| 1-3 years | 140,122 | 512,494 | 533,820 | - | 1,186,436 |
| 3-5 years | 80,056 | - | 91,042 | 32,290 | 203,388 |
| 5-10 years | - | - | - | 52,150 | 52,150 |
| More than 10 years | - | - | - | 21,370 | 21,370 |
| Total | ₩ 280,246 | ₩ 3,805,767 | ₩ 1,100,886 | ₩ 151,443 | ₩ 5,338,342 |
| HTM financial assets: | | | | | |
| Less than 1 month | ₩ - | ₩ - | ₩ - | ₩ 42,561 | ₩ 42,561 |
| 1–3 months | 97,309 | 60,028 | - | 6,566 | 163,903 |
| 3–6 months | 113,310 | 640,153 | - | 804 | 754,267 |
| 6 months–1 year | 189,292 | 739,810 | 141,695 | 63,052 | 1,133,849 |
| 1-3 years | 381,947 | 2,261,225 | 651,547 | 13,060 | 3,307,779 |
| 3-5 years | - | - | 10,095 | 31,412 | 41,507 |
| 5-10 years | - | - | - | 18,463 | 18,463 |
| Total | ₩ 781,858 | ₩ 3,701,216 | ₩ 803,337 | ₩ 175,918 | ₩ 5,462,329 |

## 15. PLEDGED ASSETS:

Details of pledged assets among AFS financial assets and HTM investments for the purpose of deposit of securities related to repurchase agreement with other banks and maintenance of membership of future/option trade and stock exchange as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Reason for pledge | Book value Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| AFS Financial assets | Borrowing foreign currencies | ₩ - | ₩ 60,114 |
| | Security lending agreement | - | 29,985 |
| | B.O.K. Settlement | 350,420 | 450,092 |
| | Daylight credit | - | 200,050 |
| | Borrowing in foreign currencies (Credit Support Annex(“CSA”)) | 29,997 | 44,014 |
| | Borrowing from B.O.K. | 50,006 | 49,984 |
| | Margin for future trading | 26,465 | - |
| | Others | 60,361 | - |
| | Subtotal | 517,249 | 834,239 |
| HTM investments | Borrowing foreign currencies | 961,821 | 903,008 |
| | Margin for future trading | 259,921 | 290,637 |
| | B.O.K.Settlement | 1,000,612 | 1,020,733 |
| | Daylight credit | 550,077 | 150,070 |
| | Customer RP | 921 | 3,982 |
| | Borrowing in foreign currencies (CSA) | 43,041 | 40,001 |
| | Borrowing from B.O.K. | 510,654 | 361,002 |
| | Others | 718 | 13,836 |
| | Subtotal | 3,327,765 | 2,783,269 |
| | Total | ₩ 3,845,014 | ₩ 3,617,508 |

## 16. LOANS:

(1) Loans as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Loans to banks: | | |
| Loans in Korean won | ₩ 47,637,044 | ₩ 43,787,085 |
| Loans in foreign currencies | 9,532,941 | 10,059,471 |
| Domestic import usance | 2,670,833 | 3,430,076 |
| Call loans | 1,460,939 | 1,900,350 |
| Bills bought in Korean won | 86,052 | 401,165 |
| Bills bought in foreign currencies | 4,518,468 | 4,438,273 |
| Advance payments on acceptance and guarantee | 15,220 | 5,292 |
| Credit card receivables | 2,661,277 | 2,563,234 |
| Bonds purchased under RPs | 490,000 | 490,000 |
| Installment receivables purchased | 1,340,271 | 825,102 |
| Privately placed bonds | 547,695 | 546,559 |
| Lease receivables | 153,149 | 264,123 |
| Others | 18,435 | 19,525 |
| Subtotal | 71,132,324 | 68,730,255 |
| Additions (deductions) | | |
| Deferred LOF/LOCs | 32,271 | (1,308) |
| Allowance for possible loan losses | (771,658) | (739,186) |
| Total net book value | ₩ 70,392,937 | ₩ 67,989,761 |

(2) The changes in deferred LOF/LOCs for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| 2012 | | | |
|---|---|---|---|
| Beginning | Increase | Decrease | Ending |
| ₩ (1,308) | ₩ 43,477 | ₩ 9,898 | ₩ 32,271 |

| 2011 | | | |
|---|---|---|---|
| Beginning | Increase | Decrease | Ending |
| ₩ (22,421) | ₩ 5,886 | ₩ (15,227) | ₩ (1,308) |

(3) The changes in allowance for possible loan losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans in foreign currencies | Advance payments on acceptance and guarantee | Bills bought in foreign currencies | Credit card receivables | Privately placed bonds | Others | Total |
| Beginning | ₩ 477,572 | ₩ 149,866 | ₩ 2,938 | ₩ 5,409 | ₩ 67,507 | ₩ 5,057 | ₩ 30,837 | ₩ 739,186 |
| Disposal of non performing loans | (59,882) | - | - | - | - | - | - | (59,882) |
| Bad debt | (289,295) | (63,602) | (52,648) | - | (109,904) | - | (45,096) | (560,545) |
| Recovery of bad debt | 69,413 | 7,171 | 1,074 | - | 37,300 | - | - | 114,958 |
| Debt-for-equity swap | (6,253) | - | - | - | - | - | - | (6,253) |
| Changes in exchange rate, etc. | (724) | (39,149) | - | (415) | (11) | (4) | (12) | (40,315) |
| Transfer to (reversal of ) allowance for possible loan losses | 413,485 | 70,606 | 53,237 | (694) | 92,054 | (929) | 39,231 | 666,990 |
| Interest income of impaired receivables | (72,500) | (6,400) | (453) | (81) | (2,404) | (646) | - | (82,484) |
| Ending | ₩ 531,816 | ₩ 118,492 | ₩ 4,148 | ₩ 4,219 | ₩ 84,542 | ₩ 3,478 | ₩ 24,963 | ₩771,658 |

| Classification | Dec. 31, 2011 Loans in Korean won | Loans in foreign currencies | Advance payments on acceptance and guarantee | Bills bought in foreign currencies | Credit card receivables | Privately placed bonds | Others | Total |
|---|---|---|---|---|---|---|---|---|
| Beginning | ₩ 575,986 | ₩ 137,575 | ₩ 2,194 | ₩ 7,449 | ₩ 53,697 | ₩ 6,079 | ₩ 12,722 | ₩ 795,702 |
| Disposal of non performing loans | (45,619) | - | - | - | - | - | - | (45,619) |
| Bad debt | (489,669) | (64,740) | (37,914) | - | (75,266) | (1,489) | - | (669,078) |
| Recovery of bad debt | 41,033 | 18,010 | 23,290 | - | 43,984 | - | - | 126,317 |
| Debt-for-equity swap | (4,562) | - | - | - | - | - | - | (4,562) |
| Changes in exchange rate, etc. | (2,608) | 36,213 | 785 | (3,239) | - | (837) | 5,994 | 36,308 |
| Transfer to allowance for possible loan losses | 468,621 | 23,458 | 14,884 | 1,202 | 46,681 | 1,716 | 12,123 | 568,685 |
| Interest income of impaired receivables | (65,610) | (650) | (301) | (3) | (1,589) | (412) | (2) | (68,567) |
| Ending | ₩ 477,572 | ₩ 149,866 | ₩ 2,938 | ₩ 5,409 | ₩ 67,507 | ₩ 5,057 | ₩ 30,837 | ₩ 739,186 |

(4) Financial effects related to credit risk relieved by collaterals and other credit enhancement as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Impaired loans Individual assessment | Impaired loans Collective assessment | Non-impaired loans Overdue | Non-impaired loans Non-overdue | Total |
|---|---|---|---|---|---|
| Guarantee | ₩ 11,694 | ₩ 20,618 | ₩ 14,450 | ₩ 4,849,543 | ₩ 4,896,305 |
| Savings | 6,024 | 2,443 | 481 | 1,293,413 | 1,302,361 |
| Property | 73,925 | 231 | - | 26,200 | 100,356 |
| Real estate | 300,518 | 101,310 | 19,378 | 20,398,580 | 20,819,786 |
| Securities | 72,853 | 3,607 | 3,293 | 2,017,112 | 2,096,865 |
| Others | - | - | - | 7,731 | 7,731 |
| Total | ₩ 465,014 | ₩ 128,209 | ₩ 37,602 | ₩ 28,592,579 | ₩ 29,223,404 |

| Classification | Dec. 31, 2011 Impaired loans Individual assessment | Impaired loans Collective assessment | Non-impaired loans Overdue | Non-impaired loans Non-overdue | Total |
|---|---|---|---|---|---|
| Guarantee | ₩ 31,479 | ₩ 10,886 | ₩ 38,612 | ₩ 4,148,162 | ₩ 4,229,139 |
| Savings | 6,006 | 1,550 | 14,923 | 1,492,733 | 1,515,212 |
| Property | 3,472 | - | - | 32,987 | 36,459 |
| Real estate | 156,985 | 73,750 | 36,057 | 19,096,911 | 19,363,703 |
| Securities | 93,748 | 2,228 | 588 | 1,827,933 | 1,924,497 |
| Others | - | - | - | 11,466 | 11,466 |
| Total | ₩ 291,690 | ₩ 88,414 | ₩ 90,180 | ₩ 26,610,192 | ₩ 27,080,476 |

(5) Information related to overdue loans as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
|---|---|---|---|---|---|---|
| Loans that are neither past due nor impaired | ₩21,924,953 | ₩ 21,618,661 | ₩18,455,055 | ₩ 5,173,511 | ₩ 2,474,904 | ₩69,647,084 |
| Loans that are past but not impaired | 25,523 | 16,531 | 33,105 | 565 | 127,058 | 202,782 |
| Loans that are impaired | 93,764 | 551,103 | 535,848 | 42,428 | 59,315 | 1,282,458 |
| Subtotal | 22,044,240 | 22,186,295 | 19,024,008 | 5,216,504 | 2,661,277 | 71,132,324 |
| Deferred LOF/LOCs | 44,457 | (7,891) | (4,418) | 225 | (102) | 32,271 |
| Allowances for possible loan losses | (43,728) | (274,800) | (328,871) | (39,716) | (84,543) | (771,658) |
| Total | ₩22,044,969 | ₩ 21,903,604 | ₩18,690,719 | ₩ 5,177,013 | ₩ 2,576,632 | ₩70,392,937 |

| Classification | Dec. 31, 2011 Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
|---|---|---|---|---|---|---|
| Loans that are neither past due nor impaired | ₩20,300,501 | ₩ 19,806,409 | ₩21,157,233 | ₩ 3,478,379 | ₩ 2,430,883 | ₩67,173,405 |
| Loans that are past but not impaired | 26,595 | 3,000 | 40,586 | 11,965 | 83,765 | 165,911 |
| Loans that are impaired | 59,045 | 410,397 | 771,787 | 101,124 | 48,586 | 1,390,939 |
| Subtotal | 20,386,141 | 20,219,806 | 21,969,606 | 3,591,468 | 2,563,234 | 68,730,255 |
| Deferred LOF/LOCs | 20,739 | (11,025) | (10,901) | (9) | (112) | (1,308) |
| Allowances for possible loan losses | (27,310) | (231,781) | (360,600) | (51,988) | (67,507) | (739,186) |
| Total | ₩20,379,570 | ₩ 19,977,000 | ₩21,598,105 | ₩ 3,539,471 | ₩ 2,495,615 | ₩67,989,761 |

Overdue means when a transaction party is not able to pay principals and interests at the payment date of the contract. An impairment loss incurred if there is objective evidence of impairment as result of one or more events that occurred after the initial recognition asset and that event (or events) has an impact on the estimated future cash flows of the financial asset. Objective evidence the Consolidated Group defined includes overdue more than 90 days, poor credit information according to the regulation of credit information management, adjustment of receivables and payables, payment for bad loan exposure, etc.

1) Loans that are neither past due nor impaired

Internal credit rating of loans that are neither past due nor impaired as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
|---|---|---|---|---|---|---|
| Rating 1 | ₩ 17,451,067 | ₩ 14,615,562 | ₩ 5,011,554 | ₩ 1,631,926 | ₩ 700,639 | ₩ 39,410,748 |
| Rating 2 | 4,332,759 | 5,536,378 | 10,524,678 | 2,523,292 | 1,689,988 | 24,607,095 |
| Rating 3 | 141,127 | 1,215,563 | 2,769,258 | 816,015 | 84,277 | 5,026,240 |
| Others | - | 251,158 | 149,565 | 202,278 | - | 603,001 |
| Total | ₩ 21,924,953 | ₩ 21,618,661 | ₩ 18,455,055 | ₩ 5,173,511 | ₩ 2,474,904 | ₩ 69,647,084 |

| Classification | Dec. 31, 2011 Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
|---|---|---|---|---|---|---|
| Rating 1 | ₩ 17,064,368 | ₩ 15,279,822 | ₩ 4,928,846 | ₩ 302,368 | ₩ 666,238 | ₩ 38,241,642 |
| Rating 2 | 2,615,430 | 3,631,340 | 10,495,353 | 1,684,818 | 1,595,522 | 20,022,463 |
| Rating 3 | 620,703 | 894,701 | 3,987,044 | 1,356,685 | 169,123 | 7,028,256 |
| Others | - | 546 | 1,745,990 | 134,508 | - | 1,881,044 |
| Total | ₩ 20,300,501 | ₩ 19,806,409 | ₩ 21,157,233 | ₩ 3,478,379 | ₩ 2,430,883 | ₩ 67,173,405 |

The Consolidated Group divides loans according to the characteristics of debtors, the details of which are described below:

| Classification | Household/Credit card | Enterprise |
|---|---|---|
| Rating 1 | Bankruptcy rate: below 0.36% | 1 – 4 |
| Rating 2 | Bankruptcy rate: 0.36%–8.79% | 5+ – 6 |
| Rating 3 | Bankruptcy rate: 8.79%–100% | 6- – 7 |

2) Loans that are past due but not impaired

The Consolidated Group considers that loans, of which overdue period is less than 90 days, do not have to be impaired if there is no other credit information related to impairment. Information of overdue period of loans that are past due but not impaired is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
|---|---|---|---|---|---|---|
| Less than 30 days | ₩ 14,062 | ₩ 16,447 | ₩ 18,368 | ₩ 111 | ₩ 109,087 | ₩ 158,075 |
| 30–60 days | 5,260 | - | 3,268 | 16 | 10,735 | 19,279 |
| 60–90 days | 6,201 | 84 | 11,469 | 438 | 7,236 | 25,428 |
| Total | ₩ 25,523 | ₩ 16,531 | ₩ 33,105 | ₩ 565 | ₩ 127,058 | ₩ 202,782 |

| Classification | Dec. 31, 2011 Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
|---|---|---|---|---|---|---|
| Less than 30 days | ₩ 20,499 | ₩ 3,000 | ₩ 19,115 | ₩ 8,846 | ₩ 65,466 | ₩ 116,926 |
| 30–60 days | 4,852 | - | 19,417 | 264 | 10,133 | 34,666 |
| 60–90 days | 1,244 | - | 2,054 | 2,855 | 8,166 | 14,319 |
| Total | ₩ 26,595 | ₩ 3,000 | ₩ 40,586 | ₩ 11,965 | ₩ 83,765 | ₩ 165,911 |

3) Loans that are impaired

Details of loans that are impaired as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
| Individual assessment | | | | | | |
| Book value | ₩ 679 | ₩ 550,727 | ₩ 444,470 | ₩ 37,595 | ₩ - | ₩ 1,033,471 |
| Allowance for possible loan losses | (89) | (162,307) | (140,318) | (12,110) | - | (314,824) |
| Subtotal | 590 | 388,420 | 304,152 | 25,485 | - | 718,647 |
| Collective assessment | | | | | | |
| Book value | 93,085 | 376 | 91,378 | 4,833 | 59,315 | 248,987 |
| Allowance for possible loan losses | (18,521) | (169) | (28,875) | (1,177) | (46,028) | (94,770) |
| Subtotal | 74,564 | 207 | 62,503 | 3,656 | 13,287 | 154,217 |
| Total | ₩ 75,154 | ₩ 388,627 | ₩ 366,655 | ₩ 29,141 | ₩ 13,287 | ₩ 872,864 |

| | Dec. 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit Card | Total |
| Individual assessment | | | | | | |
| Book value | ₩ 4,759 | ₩ 410,194 | ₩ 706,250 | ₩ 95,816 | ₩ - | ₩ 1,217,019 |
| Allowance for possible loan losses | (965) | (146,418) | (174,576) | (48,152) | - | (370,111) |
| Subtotal | 3,794 | 263,776 | 531,674 | 47,664 | - | 846,908 |
| Collective assessment | | | | | | |
| Book value | 54,286 | 203 | 65,537 | 5,308 | 48,586 | 173,920 |
| Allowance for possible loan losses | (13,206) | (136) | (15,459) | (1,157) | (38,629) | (68,587) |
| Subtotal | 41,080 | 67 | 50,078 | 4,151 | 9,957 | 105,333 |
| Total | ₩ 44,874 | ₩ 263,843 | ₩ 581,752 | ₩ 51,815 | ₩ 9,957 | ₩ 952,241 |

(6) The portfolio of loans, before deferred LOF/LOCs and allowance for possible loan losses, classified by industry as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | | Dec. 31, 2012 | | | |
|---|---|---|---|---|---|
| Classification | Industry | In Korean won | In foreign currencies | Total amount | Percentage (%) |
| Household | | ₩ 21,406,168 | ₩ 638,072 | ₩ 22,044,240 | 30.99 |
| Credit card | | 2,659,188 | 2,089 | 2,661,277 | 3.74 |
| Enterprise | Manufacturing | 11,438,166 | 8,443,042 | 19,881,208 | 27.95 |
| | Wholesale and retail | 3,336,690 | 2,735,490 | 6,072,180 | 8.54 |
| | Rental of real estate | 3,906,477 | 705,131 | 4,611,608 | 6.48 |
| | Financial | 1,701,306 | 1,835,675 | 3,536,981 | 4.97 |
| | Construction | 1,968,192 | 394,901 | 2,363,093 | 3.32 |
| | Transportation | 1,027,675 | 1,217,518 | 2,245,193 | 3.16 |
| | Electricity, gas, and water supply | 384,198 | 143,230 | 527,428 | 0.74 |
| | Others | 4,300,659 | 2,888,457 | 7,189,116 | 10.11 |
| | Subtotal | 28,063,363 | 18,363,444 | 46,426,807 | 65.27 |
| Total | | ₩ 52,128,719 | ₩ 19,003,605 | ₩ 71,132,324 | 100.00 |

| Classification | Industry | Dec. 31, 2011<br>In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|---|
| Household | | ₩ 19,771,725 | ₩ 614,416 | ₩ 20,386,141 | 29.66 |
| Credit card | | 2,558,213 | 5,021 | 2,563,234 | 3.73 |
| Enterprise | Manufacturing | 10,199,885 | 8,744,667 | 18,944,552 | 27.56 |
| | Wholesale and retail | 2,456,332 | 2,429,492 | 4,885,824 | 7.11 |
| | Rental of real estate | 4,034,836 | 835,294 | 4,870,130 | 7.09 |
| | Transportation | 954,074 | 1,387,729 | 2,341,803 | 3.41 |
| | Construction | 2,131,035 | 185,288 | 2,316,323 | 3.37 |
| | Others | 5,732,131 | 6,690,117 | 12,422,248 | 18.07 |
| | Subtotal | 25,508,293 | 20,272,587 | 45,780,880 | 66.61 |
| Total | | ₩ 47,838,231 | ₩ 20,892,024 | ₩ 68,730,255 | 100.00 |

(7) The portfolio of loans, before deferred LOF/LOCs and allowance for possible loan losses, classified by country as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Country | Dec. 31, 2012<br>In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 50,575,553 | ₩ 12,795,057 | ₩ 63,370,610 | 89.09 |
| USA | 96,973 | 914,156 | 1,011,129 | 1.42 |
| China | 6,696 | 618,825 | 625,521 | 0.88 |
| Japan | 22,992 | 520,087 | 543,079 | 0.76 |
| Germany | 1,482 | 507,578 | 509,060 | 0.72 |
| Panama | - | 470,375 | 470,375 | 0.66 |
| Hong Kong | 2,015 | 426,393 | 428,408 | 0.60 |
| Singapore | 2,342 | 320,619 | 322,961 | 0.45 |
| Others | 1,420,666 | 2,430,515 | 3,851,181 | 5.42 |
| Total | ₩ 52,128,719 | ₩ 19,003,605 | ₩ 71,132,324 | 100.00 |

| Country | Dec. 31, 2011<br>In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 47,579,504 | ₩ 14,284,675 | ₩ 61,864,179 | 90.00 |
| USA | 93,759 | 930,222 | 1,023,981 | 1.49 |
| Canada | 27,698 | 995,332 | 1,023,030 | 1.49 |
| Japan | 24,592 | 648,059 | 672,651 | 0.98 |
| China | 7,089 | 480,597 | 487,686 | 0.71 |
| Others | 105,589 | 3,553,139 | 3,658,728 | 5.33 |
| Total | ₩ 47,838,231 | ₩ 20,892,024 | ₩ 68,730,255 | 100.00 |

(8) The portfolio of loans, before deferred LOF/LOCs and allowance for possible loan losses, classified by currency as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Currency | | Dec. 31, 2012 |
|---|---|---|
| KRW | ₩ | 52,128,719 |
| USD | | 13,698,818 |
| JPY | | 1,676,990 |
| CAD | | 1,050,586 |
| EUR | | 964,097 |
| AUD | | 341,573 |
| HKD | | 22,461 |
| Others | | 1,249,080 |
| Total | ₩ | 71,132,324 |

| Currency | | Dec. 31, 2011 |
|---|---|---|
| KRW | ₩ | 47,838,231 |
| USD | | 14,340,484 |
| JPY | | 2,456,062 |
| EUR | | 1,328,822 |
| CNY | | 471,898 |
| IDR | | 164,785 |
| BRL | | 100,013 |
| HKD | | 16,114 |
| Others | | 2,013,846 |
| Total | ₩ | 68,730,255 |

**17. STRUCTURED SECURITIES:**

Structured securities as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | | Dec. 31, 2012 | | Dec. 31, 2011 |
|---|---|---|---|---|
| Structured securities related to stock: | | | | |
| Convertible bonds (private placement) | ₩ | 24,705 | ₩ | 28,145 |
| Bonds with stock warrants (private placement) | | 7,612 | | 74,140 |
| Subtotal | | 32,317 | | 102,285 |
| Structured securities related to credit risk: | | | | |
| Collateralized Debt Obligation | | 21,491 | | 22,422 |
| Total | ₩ | 53,808 | ₩ | 124,707 |

## 18. DERIVATIVES:

(1) Details of trading derivatives as of December 31, 2012 and 2011 and for years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | | |
|---|---|---|---|---|---|
| Type | Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets as of December 31 | Liabilities as of December 31 |
| Currency: | | | | | |
| Currency forwards | ₩ 40,148,304 | ₩ 627,882 | ₩ 742,214 | ₩ 634,582 | ₩ 678,862 |
| Currency swaps | 15,502,216 | 487,316 | 316,613 | 438,531 | 268,483 |
| Currency options purchased | 1,862,223 | 8,224 | 9,097 | 22,427 | - |
| Currency options sold | 2,147,990 | 11,567 | 17,486 | - | 32,230 |
| Subtotal | 59,660,733 | 1,134,989 | 1,085,410 | 1,095,540 | 979,575 |
| Interest: | | | | | |
| Interest rate swaps | 44,454,777 | 120,639 | 145,086 | 240,301 | 309,183 |
| Interest rate option purchased | 980,000 | 1,416 | 620 | 5,077 | - |
| Interest rate option sold | 1,695,000 | 1,459 | 311 | - | 2,566 |
| Interest rate futures | 1,174,227 | - | - | - | - |
| Subtotal | 48,304,004 | 123,514 | 146,017 | 245,378 | 311,749 |
| Stock: | | | | | |
| Stock options purchased | 38,538 | 3,350 | 1,717 | 15,380 | - |
| Stock options sold | 2,745 | 15 | 25 | - | 123 |
| Stock futures | 1,197 | - | - | - | - |
| Subtotal | 42,480 | 3,365 | 1,742 | 15,380 | 123 |
| Others: | | | | | |
| Deferred gain on derivatives valuation | - | - | - | - | 48 |
| Credit spread | - | 4,556 | 1 | - | 14,548 |
| Bid-ask spread | - | 234 | - | - | 2,710 |
| Subtotal | - | 4,790 | 1 | - | 17,306 |
| Total | ₩ 108,007,217 | ₩ 1,266,658 | ₩ 1,233,170 | ₩ 1,356,298 | ₩ 1,308,753 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| Type | Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets as of December 31 | Liabilities as of December 31 |
| Currency: | | | | | |
| Currency forwards | ₩ 33,869,938 | ₩ 494,266 | ₩ 361,240 | ₩ 518,869 | ₩ 410,300 |
| Currency swaps | 10,993,561 | 169,117 | 195,242 | 301,665 | 229,649 |
| Currency options purchased | 1,247,542 | 2,692 | 13,382 | 29,491 | - |
| Currency options sold | 1,284,111 | 11,063 | 2,061 | - | 28,686 |
| Currency futures | 525,190 | - | - | - | - |
| Subtotal | 47,920,342 | 677,138 | 571,925 | 850,025 | 668,635 |
| Interest rate: | | | | | |
| Interest rate swaps | 37,662,290 | 137,857 | 173,475 | 210,530 | 273,952 |
| Interest rate futures | 361,676 | - | - | - | - |
| Subtotal | 38,023,966 | 137,857 | 173,475 | 210,530 | 273,952 |
| Stock: | | | | | |
| Stock options purchased | 81,009 | 4,675 | 7,261 | 12,279 | - |
| Stock options sold | 63,837 | 456 | 542 | - | 2,486 |
| Stock futures | 3,438 | - | - | - | - |
| Subtotal | 148,284 | 5,131 | 7,803 | 12,279 | 2,486 |
| Others: | | | | | |
| Deferred gain on derivatives valuation | - | - | - | - | 1,000 |
| Deferred loss on derivatives valuation | - | - | - | 697 | - |
| Credit spread | - | 1,215 | 1 | - | 19,103 |
| Bid-ask spread | - | 25 | - | - | 2,944 |
| Subtotal | - | 1,240 | 1 | 697 | 23,047 |
| Total | ₩ 86,092,592 | ₩ 821,366 | ₩ 753,204 | ₩ 1,073,531 | ₩ 968,120 |

(2) Details of hedging derivatives as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Type | 2012 Outstanding commitment contract amount | | Gain on valuation | | Loss on valuation | | Assets as of December 31 | | Liabilities as of December 31 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest rate: | | | | | | | | | | |
| Interest rate swap | ₩ | 1,606,650 | ₩ | 7,060 | ₩ | 1,019 | ₩ | 37,867 | ₩ | - |

| Type | 2011 Outstanding commitment contract amount | | Gain on valuation | | Loss on valuation | | Assets as of December 31 | | Liabilities as of December 31 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest rate: | | | | | | | | | | |
| Interest rate swap | ₩ | 608,942 | ₩ | 27,711 | ₩ | - | ₩ | 32,537 | ₩ | 897 |

Foreign exchange forward transaction, currency futures and currency swap, such derivative transactions related to currencies that purchase and sales occurs simultaneously contract price for purchase and sales is not differentiated. For won-to-foreign currency transactions, contract price based on foreign currency is translated at the exchange rate at the end of the reporting period. In addition, purchase price based on foreign currency is translated at exchange rate of the end of the reporting period for foreign currency-to-foreign currency transactions.

(3) Gain or loss on valuation of hedged items for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | Gain on valuation | | Loss on valuation | | Gain on valuation | | Loss on valuation | |
| AFS financial assets (debt securities) | ₩ | - | ₩ | - | ₩ | - | ₩ | 1,119 |
| Finance debentures | | - | | 11,558 | | - | | 26,482 |
| Total | ₩ | - | ₩ | 11,558 | ₩ | - | ₩ | 27,601 |

Hedged items applying fair value hedge accounting as of December 31, 2012, include AFS financial assets (debt securities) and issuing financing bonds, and the Consolidated Group recognized changes in fair values of hedged items due to fluctuation of interest rates in net income. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

## 19. INVESTMENTS IN ASSOCIATES:

(1) Investments in associates as of December 31, 2012 and 2011 are as follows (Unit: In shares; In millions):

| Company | Location | No. of shares | Owner-ship (%) | Reporting date | Book value Dec. 31, 2012 | Book value Dec. 31. 2011 |
|---|---|---|---|---|---|---|
| Flossom Co., Ltd.(*1) | Korea | 165,000 | 1.92 | Dec. 31, 2012 | ₩ - | ₩ 669 |

(*1) Included in investment in associates because the Company has significant influence by participating in the Board of Directors' meeting, decision-making organization.

(2) The changes in investments in associates for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Company | Acquisition Cost | Jan. 1, 2012 | Acquisition, disposal and others | Share of loss of associates | Dec. 31, 2012 |
|---|---|---|---|---|---|
| | Dec. 31, 2012 | | | | |
| Flossom Co., Ltd. | ₩ 825 | ₩ 669 | ₩ - | ₩ (669) | ₩ - |

| Company | Acquisition Cost | Jan. 1, 2011 | Acquisition, disposal and others | Share of loss of associates | Dec. 31, 2011 |
|---|---|---|---|---|---|
| | Dec. 31, 2011 | | | | |
| Flossom Co., Ltd. | ₩ 825 | ₩ 628 | ₩ 142 | ₩ (101) | ₩ 669 |

(3) The summary of financial information in associates as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Company | Assets | Liabilities | Shareholders' equity | Revenue | Net loss |
|---|---|---|---|---|---|
| | Dec. 31, 2012 | | | | |
| Flossom Co., Ltd. | ₩ 103,836 | ₩ 113,179 | ₩ (9,343) | ₩ 3,529 | ₩ (30,417) |

| Company | Assets | Liabilities | Shareholders' equity | Revenue | Net loss |
|---|---|---|---|---|---|
| | Dec. 31, 2011 | | | | |
| Flossom Co., Ltd. | ₩ 125,065 | ₩ 90,277 | ₩ 34,788 | ₩ 41,776 | ₩ (10,167) |

(4) The Consolidated Group does not hold investments in associates with the active market price as of December 31, 2012 and 2011.

(5) The Consolidated Group discountinued recognizing its' shares of losses in Flossom Co., Ltd. since the losses exceed the Consoliated Group's interest in Flossom Co., Ltd. The excess of losses over the Consolidated Group's interest in Flossom Co., Ltd which are accumulated for the current year and before the current periodare as follows (Unit: In millions):

| Company | Amount for the current year | Accumulated amount before the current year | Total |
|---|---|---|---|
| Flossom Co., Ltd. | ₩ (180) | ₩ - | ₩ (180) |

## 20. TANGIBLE ASSETS:

(1) Tangible assets as of December 31, 2012 and December 31, 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 Acquisition cost | Dec. 31, 2012 Accumulated depreciation | Dec. 31, 2012 Book value |
|---|---|---|---|
| Land | ₩ 816,715 | ₩ - | ₩ 816,715 |
| Buildings | 461,250 | (184,721) | 276,529 |
| Leasehold improvements | 163,467 | (127,851) | 35,616 |
| Equipment and vehicles | 703,934 | (609,836) | 94,098 |
| Construction in progress | 3 | - | 3 |
| Total | ₩ 2,145,369 | ₩ (922,408) | ₩ 1,222,961 |

| Classification | Dec. 31, 2011 Acquisition cost | Dec. 31, 2011 Accumulated depreciation | Dec. 31, 2011 Book value |
|---|---|---|---|
| Land | ₩ 819,393 | ₩ - | ₩ 819,393 |
| Buildings | 451,017 | (175,570) | 275,447 |
| Leasehold improvements | 143,834 | (117,956) | 25,878 |
| Equipment and vehicles | 649,568 | (564,222) | 85,346 |
| Construction in progress | 322 | - | 322 |
| Operating lease | 7,398 | (6,404) | 994 |
| Total | ₩ 2,071,532 | ₩ (864,152) | ₩ 1,207,380 |

(2) The changes in book value of tangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Jan. 1, 2012 | Acquisition | Disposal | Depreciation | Transfer | Others | Dec. 31, 2012 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 819,393 | ₩ 199 | ₩ (23) | ₩ - | ₩ (2,538) | ₩ (316) | ₩ 816,715 |
| Buildings | 275,447 | 15,425 | (28) | (11,438) | (2,170) | (707) | 276,529 |
| Leasehold Improvements (*1) | 25,878 | 18,720 | (36) | (11,118) | - | 2,172 | 35,616 |
| Equipment and vehicles | 85,346 | 64,459 | (168) | (54,911) | - | (628) | 94,098 |
| Construction in progress | 322 | - | - | - | - | (319) | 3 |
| Operating lease | 994 | - | (142) | (852) | - | - | - |
| Total | ₩ 1,207,380 | ₩ 98,803 | ₩ (397) | ₩ (78,319) | ₩ (4,708) | ₩ 202 | ₩ 1,222,961 |

(*1) Increase of ₩1,054 million due to provision for restoration cost was included in the acquisition amount.

| Classification | Jan. 1, 2011 | Acquisition | Disposal | Depreciation | Transfer | Others | Dec. 31, 2011 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 816,953 | ₩ 52 | ₩ (134) | ₩ - | ₩ 47 | ₩ 2,475 | ₩ 819,393 |
| Buildings | 283,184 | 8,715 | (130) | (10,733) | (8,819) | 3,230 | 275,447 |
| Leasehold improvements (*1) | 27,441 | 9,050 | - | (10,751) | - | 138 | 25,878 |
| Equipment and vehicles | 75,690 | 57,587 | (901) | (47,947) | - | 917 | 85,346 |
| Construction in progress | 1,050 | 322 | - | - | - | (1,050) | 322 |
| Operating lease | 1,752 | - | - | (758) | - | - | 994 |
| Total | ₩1,206,070 | ₩ 75,726 | ₩ (1,165) | ₩ (70,189) | ₩ (8,772) | ₩ 5,710 | ₩ 1,207,380 |

(*1) Increase of ₩142 million due to provision for restoration cost was included in the acquisition amount.

## 21. INVESTMENT PROPERTIES:

(1) Investment properties as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
| Land | ₩ 116,622 | ₩ - | ₩ (2,355) | ₩ 114,267 |
| Buildings | 113,201 | (46,768) | (2,388) | 64,045 |
| Total | ₩ 229,823 | ₩ (46,768) | ₩ (4,743) | ₩ 178,312 |

| Classification | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
| Land | ₩ 114,428 | ₩ - | ₩ (2,355) | ₩ 112,073 |
| Buildings | 110,352 | (43,112) | (2,871) | 64,369 |
| Total | ₩ 224,780 | ₩ (43,112) | ₩ (5,226) | ₩ 176,442 |

(2) The changes in book value of investment properties for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Jan. 1, 2012 | Disposal | Depreciation | Transfer (*1) | Dec. 31, 2012 |
|---|---|---|---|---|---|
| Land | ₩ 112,073 | ₩ (344) | ₩ - | ₩ 2,538 | ₩ 114,267 |
| Buildings | 64,369 | - | (2,494) | 2,170 | 64,045 |
| Total | ₩ 176,442 | ₩ (344) | ₩ (2,494) | ₩ 4,708 | ₩ 178,312 |

(*1) Due to changes in the ratio of the leased investment properties

| Classification | Jan. 1, 2011 | Disposal | Depreciation | Transfer (*1) | Others | Dec. 31, 2011 |
|---|---|---|---|---|---|---|
| Land | ₩ 114,476 | ₩ - | ₩ - | ₩ (47) | ₩ (2,356) | ₩ 112,073 |
| Buildings | 60,882 | - | (2,462) | 8,819 | (2,870) | 64,369 |
| Total | ₩ 175,358 | ₩ - | ₩ (2,462) | ₩ 8,772 | ₩ (5,226) | ₩ 176,442 |

(*1) Due to changes in the ratio of the leased investment properties

(3) Fair values of investment properties are ₩155,197 million and ₩155,057 million as of December 31, 2012 and 2011, respectively. Fair values are measured based on valuation performed by independent professionals.

(4) Rental revenues from investment property for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Rental revenues | ₩ 3,206 | ₩ 3,522 |

(5) Investment properties not in use as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Land | ₩ 1,640 | ₩ 1,873 |
| Buildings | 386 | 548 |
| Total | ₩ 2,056 | ₩ 2,421 |

## 22. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Development expenditures | ₩ 294,333 | ₩ (237,311) | ₩ (347) | ₩ 56,675 |
| Membership | 21,977 | - | (4,690) | 17,287 |
| Others | 14,776 | (5,699) | (3) | 9,074 |
| Total | ₩ 331,086 | ₩ (243,010) | ₩ (5,040) | ₩ 83,036 |

| Classification | Dec. 31, 2011 Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book value |
|---|---|---|---|---|
| Development expenditures | ₩ 279,927 | ₩ (214,332) | ₩ (347) | ₩ 65,248 |
| Membership | 13,711 | - | (1,809) | 11,902 |
| Others | 17,602 | (8,176) | - | 9,426 |
| Total | ₩ 311,240 | ₩ (222,508) | ₩ (2,156) | ₩ 86,576 |

(2) The changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Jan. 1, 2012 | Acquisition | Disposal | Amortization | Impairment loss | Net change in foreign currencies | Others | Dec. 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| Development expenditures | ₩ 65,248 | ₩ 14,567 | ₩ - | ₩ (23,140) | ₩ - | ₩ - | ₩ - | ₩ 56,675 |
| Membership | 11,902 | 12 | (213) | - | (2,984) | (16) | 8,586 | 17,287 |
| Others | 9,426 | 1,970 | - | (1,760) | - | (444) | (118) | 9,074 |
| Total | ₩ 86,576 | ₩ 16,549 | ₩ (213) | ₩ (24,900) | ₩ (2,984) | ₩ (460) | ₩ 8,468 | ₩ 83,036 |

| Classification | Jan. 1, 2011 | Acquisition | Disposal | Amortization | Impairment loss | Net change in foreign currencies | Others | Dec. 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| Development expenditures | ₩ 66,037 | ₩ 24,893 | ₩ - | ₩ (25,682) | ₩ - | ₩ - | ₩ - | ₩ 65,248 |
| Membership | - | - | - | - | (1,806) | - | 13,708 | 11,902 |
| Others | 8,955 | 1,600 | - | (1,497) | - | 368 | - | 9,426 |
| Total | ₩ 74,992 | ₩ 26,493 | ₩ - | ₩ (27,179) | ₩ (1,806) | ₩ 368 | ₩ 13,708 | ₩ 86,576 |

## 23. OTHER ASSETS AND MERCHANT BANKING ACCOUNT ASSETS:

(1) Other assets as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Guarantee deposits paid | ₩ 649,219 | ₩ 649,978 |
| Accounts receivable | 6,445,186 | 4,978,106 |
| Accrued income | 269,337 | 281,015 |
| Prepaid expenses | 63,094 | 52,989 |
| Suspense payments | 24,832 | 28,644 |
| Supplies | 6,613 | 7,072 |
| Deposited money | 11,433 | 9,635 |
| Domestic exchange settlement debits | 414,312 | 1,206,886 |
| Other sundry assets | 4,215 | 2,487 |
| Allowance for possible other asset losses | (4,032) | (9,548) |
| Total | ₩ 7,884,209 | ₩ 7,207,264 |

(2) Changes in allowance for possible other asset losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 9,548 | ₩ | 51,350 |
| Bad debts | | (6,152) | | (4,657) |
| Transfer to (reversal of) allowances for possible losses | | 792 | | (7,194) |
| Interest income of impaired receivables | | (156) | | (139) |
| Others | | - | | (29,812) |
| Ending balance | ₩ | 4,032 | ₩ | 9,548 |

(3) Merchant banking account assets as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| Merchant banking account loans | | ₩ 450,000 | ₩ 781,600 |
| Merchant banking account trading securities | | 1,726,293 | 1,313,329 |
| CMA Assets | Loans | 232,600 | 10,000 |
| | Trading securities | 79,672 | 252,538 |
| | Subtotal | 312,272 | 262,538 |
| Allowance for possible loan losses | | (349) | (4,964) |
| Total | | ₩ 2,488,216 | ₩ 2,352,503 |

## 24. NON-CURRENT ASSETS HELD FOR SALE:

As of December 31, 2012, non-current assets held for sale consist of two real estates acquired through execution of security right, which the management of the Consolidated Group committed to plan to sell, but not yet sold by December 31, 2012. As of the reporting date, one asset among non-current assets held for sale is under negotiation for sale and the remaining one is actively marketed.

Non-current assets held for sale as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Acquisition cost | ₩ | 1,439 | ₩ | - |
| Accumulated depreciation | | - | | - |
| Book value | ₩ | 1,439 | ₩ | - |

## 25. FINANCIAL LIABILITIES AT FVTPL:

Financial liabilities at FVTPL as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Trading derivatives (Note 18) | ₩ | 1,308,753 | ₩ | 968,120 |

## 26. DEPOSITS:

(1) Deposits as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits in Korean won | | |
| Checking deposits | ₩ 212,931 | ₩ 300,190 |
| Household checking account | 15,493 | 15,968 |
| Temporary deposits | 738,617 | 746,407 |
| Passbook deposits | 15,459,905 | 14,948,074 |
| Public fund deposits | 41,569 | 22,287 |
| Treasury deposits | 256 | 364 |
| Non-resident deposits in Korean won | 268,586 | 223,065 |
| Non-resident free deposits in Korean won | 29,742 | 43,310 |
| Subtotal | 16,767,099 | 16,299,665 |
| Demand deposits in foreign currencies | | |
| Checking deposits | 2,572,563 | 2,926,461 |
| Passbook deposits | 7,812,506 | 6,817,730 |
| Temporary deposits | 20,528 | 19,984 |
| Subtotal | 10,405,597 | 9,764,175 |
| Time deposits: | | |
| Time deposits in Korean won | | |
| Time deposits | 29,926,516 | 29,582,208 |
| Apartment application deposits | 158,655 | 185,446 |
| Installment savings deposits | 2,400,031 | 1,693,499 |
| Non-resident deposits in Korean won | 351,050 | 350,771 |
| Non-resident free deposits in Korean won | 430,857 | 468,486 |
| Home mortgage deposits | 314,227 | 347,349 |
| Industrial savings | 153 | 189 |
| Import installment | 99 | 126 |
| Home installment | 18,809 | 24,428 |
| Others | 36 | 37 |
| Subtotal | 33,600,433 | 32,652,539 |
| Time deposits in foreign currency | | |
| Time deposits | 6,179,157 | 5,478,034 |
| Others | 173,573 | 887,920 |
| Subtotal | 6,352,730 | 6,365,954 |
| Negotiable certificates of deposits | 278,803 | 25,709 |
| Total | ₩ 67,404,662 | ₩ 65,108,042 |

(2) Details of deposits by customer as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Individuals | ₩ 21,082,804 | ₩ 19,069,597 |
| Enterprises | 24,857,706 | 20,693,018 |
| Other banks | 1,795,756 | 2,117,642 |
| Public institutions | 473,288 | 672,369 |
| Other financial institutions | 7,755,688 | 7,083,783 |
| Government | 230,845 | 352,967 |
| Nonprofit corporations | 3,408,901 | 2,982,938 |
| Foreign companies | 7,736,427 | 7,092,683 |
| Others | 63,247 | 5,043,045 |
| Total | ₩ 67,404,662 | ₩ 65,108,042 |

## 27. BORROWINGS:

Borrowings as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Lender | Interest rate (%) | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Borrowings in Korean won: | | | | |
| Borrowings from B.O.K. | B.O.K. | 1.25 | ₩ 545,340 | ₩ 396,010 |
| Borrowings from Korean government | Korea Energy Management Corporation and others | 0.00~4.00 | 927,715 | 457,412 |
| Other borrowings | Small business corporation and others | 1.39~3.84 | 385,838 | 438,292 |
| Subtotal | | | 1,858,893 | 1,291,714 |
| Borrowings in foreign currencies: | | | | |
| Bank draft | JPMorgan Chase and others | 1.83 ~ 15.75 | 175,916 | 209,609 |
| Other borrowings | SMBC and others | 0.20~5.81 | 4,603,610 | 6,538,449 |
| Subtotal | | | 4,779,526 | 6,748,058 |
| Call money: | | | | |
| Call money in foreign currencies | The Export-Import Bank of Korea and others | 0.29~1.10 | 228,709 | 1,176,205 |
| Bonds sold under RPs: | | | | |
| Bonds sold under repurchase agreements in Korean won | Customers | 3.70~3.95 | 190 | 252 |
| Bonds sold under repurchase agreements in foreign currencies | | - | - | 21,993 |
| Subtotal | | | 190 | 22,245 |
| Bills sold | Customers | 2.00~3.78 | 58,387 | 91,993 |
| Total | | | ₩ 6,925,705 | ₩ 9,330,215 |

## 28. DEBENTURES:

Debentures as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Lender | Interest rate (%) | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Debentures in Korean won: | | | | |
| General debentures | Institutions | 2.94~4.17 | ₩ 2,760,000 | ₩ 2,980,000 |
| Subordinated debentures | Institutions and customers | 3.30~7.80 | 1,500,132 | 1,100,222 |
| (Discount on bond in Korean won) | | | (12,593) | (10,113) |
| Subtotal | | | 4,247,539 | 4,070,109 |
| Debentures in foreign currencies: | | | | |
| General debentures | Morgan Stanley and others | 0.55~4.88 | 1,677,900 | 576,650 |
| Floating rate debentures | HSBS | 0.35~2.41 | 177,965 | 791,745 |
| Gain or loss on fair value hedge (for the years ended Dec. 31, 2012 and 2011, respectively) | | | 11,558 | 26,482 |
| Gain or loss on fair value hedge (before Dec. 31, 2011 and 2010, respectively) | | | 70,637 | 762 |
| (Discount on bond in foreign currencies) | | | (12,173) | (5,724) |
| Subtotal | | | 1,925,887 | 1,389,915 |
| Total | | | ₩ 6,173,426 | ₩ 5,460,024 |

## 29. PROVISIONS:

(1) Provisions, including provision for unused credit limit of merchant banking account, as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Provision for acceptances and guarantees: | | |
| Financing guarantee contract (*1) | ₩ 1,783 | ₩ 20,190 |
| Non-financing guarantee contract | 33,778 | 19,607 |
| Endorsed notes | 763 | 896 |
| Subtotal | 36,324 | 40,693 |
| Provision for unused credit limit (*2) | 63,476 | 57,736 |
| Other provisions: | | |
| Provision for restoration cost | 17,786 | 12,567 |
| Provision for points and mileage | 22,832 | 7,774 |
| Provision for litigation (*3) | 45,392 | 43,554 |
| Others | 56,650 | 79,741 |
| Subtotal | 142,660 | 143,636 |
| Total | ₩ 242,460 | ₩ 242,065 |

(*1) The Consolidated Group recognizes the amount exceeding unamortized amount of initial fair values at subsequent measurement of financing guarantee contract as provisions for guarantees. The Consolidated Group recognizes ₩40,419 million and ₩ 25,024 million of the unamortized amount as financing guarantee contract liabilities as of December 31, 2012 and 2011, respectively.

(*2) Includes provision for unused credit limit of merchant banking account [Note 30(2)].

(*3) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a damage suit against five companies, including the Company and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As of December 31, 2011, the Court ruled that $37.30 million of damages and five percent annual interest expenses of approximately $15.26 million that accrued from November 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. During the current period, LSF-KEB holdings, SCA, paid the compensation ruled by the International Court of Arbitration and sued the Company for reimbursement related to this compensation. Accordingly, the Company has credited provision for litigation with ₩35 billion, which corresponds to approximately 50 percent of the amount that is mentioned above.

(2) The changes in provision for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 Beginning balance | Transfer (reversal) | Used | Others | Ending balance |
|---|---|---|---|---|---|
| Provision for acceptances and guarantees | ₩ 40,693 | ₩ (2,540) | ₩ - | ₩ (1,829) | ₩ 36,324 |
| Provision for unused credit limit (*1) | 57,736 | 6,259 | - | (519) | 63,476 |
| Other provisions: | | | | | |
| Provision for restoration costs | 12,567 | 3,191 | (266) | 2,294 | 17,786 |
| Provision for credit card point and mileage | 7,774 | 13,606 | (16,615) | 18,067 | 22,832 |
| Provision for litigation | 43,554 | 1,846 | - | (8) | 45,392 |
| Others | 79,741 | (258) | (22,500) | (333) | 56,650 |
| Subtotal | 143,636 | 18,385 | (39,381) | 20,020 | 142,660 |
| Total | ₩ 242,065 | ₩ 22,104 | ₩ (39,381) | ₩ 17,672 | ₩ 242,460 |

(*1) Includes provision for unused credit limit of merchant banking account [Note 30(2)].

| Classification | 2011 Beginning balance | Transfer (reversal) | Used | Others | Ending balance |
|---|---|---|---|---|---|
| Provision for acceptances and guarantees | ₩ 50,348 | ₩ (9,787) | ₩ - | ₩ 132 | ₩ 40,693 |
| Provision for unused credit limit (*1) | 101,678 | (43,746) | - | (196) | 57,736 |
| Other provisions: | | | | | |
| Provision for restoration costs | 12,955 | (545) | (88) | 245 | 12,567 |
| Provision for credit card point and mileage | 2,452 | 8,169 | (2,951) | 104 | 7,774 |
| Provision for litigation | 29,889 | 13,674 | - | (9) | 43,554 |
| Others | 81,663 | (10,818) | (14,400) | 23,296 | 79,741 |
| Subtotal | 126,959 | 10,480 | (17,439) | 23,636 | 143,636 |
| Total | ₩ 278,985 | ₩ (43,053) | ₩ (17,439) | ₩ 23,572 | ₩ 242,065 |

(*1) Includes provision for unused credit limit of merchant banking account [Note 30(2)].

(3) Payment guarantees and endorsed notes as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Acceptances and guarantees: | | |
| Financing guarantee contract in Korean won: | | |
| Payment guarantee for issuance of debentures | ₩ 70 | ₩ 4,528 |
| Payment guarantee for loans | 86,539 | 69,643 |
| Others | 25,919 | 3,220 |
| Subtotal | 112,528 | 77,391 |
| Financing guarantee contract in foreign currencies: | | |
| Local finance payment guarantee | 619,029 | 540,702 |
| Definite payment guarantee in Korean won: | | |
| Other payment guarantees in Korean won | 1,553,450 | 1,079,960 |
| Others | - | 10,987 |
| Subtotal | 1,553,450 | 1,090,947 |
| Definite payment guarantee in foreign currencies: | | |
| Acceptance of letters of credit | 814,905 | 479,273 |
| Acceptances on letters of guarantee for importers | 96,408 | 65,774 |
| Others | 8,469,485 | 8,009,913 |
| Subtotal | 9,380,798 | 8,554,960 |
| Unconfirmed acceptances and guarantees: | | |
| Letters of credit | 3,892,703 | 4,112,776 |
| Others | 33,510 | 151,087 |
| Subtotal | 3,926,213 | 4,263,863 |
| Bills endorsed | 25,733 | 33,283 |
| Total | ₩ 15,617,751 | ₩ 14,561,146 |

(4) Acceptances and guarantees (including bills endorsed), by industry, as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Industry | Dec. 31, 2012 Korean won | | Foreign currencies | | Total Amount | | Ratio (%) |
|---|---|---|---|---|---|---|---|
| Manufacturing | ₩ | 690,342 | ₩ | 6,338,953 | ₩ | 7,029,295 | 45.00 |
| Construction | | 198,061 | | 3,003,444 | | 3,201,505 | 20.50 |
| Wholesale and retail | | 379,587 | | 1,934,302 | | 2,313,889 | 14.82 |
| Finance | | 1,038 | | 1,096,489 | | 1,097,527 | 7.03 |
| Electricity, gas and water supply | | 4,640 | | 500,655 | | 505,295 | 3.24 |
| Transportation | | 89,773 | | 173,224 | | 262,997 | 1.68 |
| Rental of real estate | | 35,906 | | 27,578 | | 63,484 | 0.41 |
| Others | | 369,325 | | 774,434 | | 1,143,759 | 7.32 |
| Total | ₩ | 1,768,672 | ₩ | 13,849,079 | ₩ | 15,617,751 | 100.00 |

| Industry | Dec. 31, 2011 Korean won | | Foreign currencies | | Total Amount | | Ratio (%) |
|---|---|---|---|---|---|---|---|
| Manufacturing | ₩ | 639,678 | ₩ | 6,881,826 | ₩ | 7,521,504 | 51.65 |
| Construction | | 170,532 | | 2,645,104 | | 2,815,636 | 19.34 |
| Wholesale and retail | | 231,423 | | 1,399,161 | | 1,630,584 | 11.20 |
| Finance and insurance | | 1,315 | | 968,428 | | 969,743 | 6.66 |
| Electricity, gas and water supply | | 2,906 | | 566,375 | | 569,281 | 3.91 |
| Others | | 208,586 | | 845,812 | | 1,054,398 | 7.24 |
| Total | ₩ | 1,254,440 | ₩ | 13,306,706 | ₩ | 14,561,146 | 100.00 |

(5) Acceptances and guarantees (including bills endorsed), by country, as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Countries | Dec. 31, 2012 Korean won | | Foreign currencies | | Total Amount | | Ratio (%) |
|---|---|---|---|---|---|---|---|
| Korea | ₩ | 1,767,710 | ₩ | 12,141,369 | ₩ | 13,909,079 | 89.05 |
| USA | | - | | 652,133 | | 652,133 | 4.17 |
| China | | - | | 295,468 | | 295,468 | 1.89 |
| Singapore | | 50 | | 156,955 | | 157,005 | 1.01 |
| Hong Kong | | - | | 138,250 | | 138,250 | 0.89 |
| Germany | | 772 | | 59,565 | | 60,337 | 0.39 |
| Japan | | - | | 60,352 | | 60,352 | 0.39 |
| Others | | 140 | | 344,987 | | 345,127 | 2.21 |
| Total | ₩ | 1,768,672 | ₩ | 13,849,079 | ₩ | 15,617,751 | 100.00 |

| Countries | Dec. 31, 2011 Korean won | | Foreign currencies | | Total Amount | | Ratio (%) |
|---|---|---|---|---|---|---|---|
| Korea | ₩ | 1,251,394 | ₩ | 12,178,135 | ₩ | 13,429,529 | 92.23 |
| USA | | - | | 567,862 | | 567,862 | 3.90 |
| China | | - | | 153,037 | | 153,037 | 1.05 |
| Singapore | | 50 | | 130,322 | | 130,372 | 0.90 |
| Japan | | - | | 67,821 | | 67,821 | 0.47 |
| Others | | 2,996 | | 209,529 | | 212,525 | 1.45 |
| Total | ₩ | 1,254,440 | ₩ | 13,306,706 | ₩ | 14,561,146 | 100.00 |

(6) Commitments

Unused credit limit as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Loan agreement in Korean won | ₩ | 50,780,165 | ₩ | 45,931,119 |
| Loan agreement in foreign currency | | 6,646,511 | | 5,966,475 |
| ABCP purchase agreement | | 581,034 | | 485,890 |
| ABS grant of credit agreement | | 1,478,216 | | 278,000 |
| Securities purchase agreement | | - | | 397,723 |
| Total | ₩ | 59,485,926 | ₩ | 53,059,207 |

## 30. OTHER LIABILITIES AND MERCHANT BANKING ACCOUNT LIABILITIES:

(1) Other liabilities as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Defined benefit obligation (see Note 31): | | | | |
| Defined benefit obligation | ₩ | 282,459 | ₩ | 223,746 |
| Less: Plan assets | | (259,586) | | (182,637) |
| Subtotal | | 22,873 | | 41,109 |
| Due to trust accounts | | 965,028 | | 989,691 |
| Accrued payable from foreign exchange: | | | | |
| Bills sold | | 4,061 | | 5,697 |
| Inward remittance payable | | 366,804 | | 275,473 |
| Subtotal | | 370,865 | | 281,170 |
| Accounts payable: | | | | |
| Other accounts payable | | 6,347,460 | | 4,908,288 |
| Accounts payable (card) | | 286,235 | | 120,808 |
| Subtotal | | 6,633,695 | | 5,029,096 |
| Accrued expenses | | 950,505 | | 976,335 |
| Unearned revenue | | 75,991 | | 82,763 |
| Deferred revenue | | 52,836 | | 39,811 |
| Guarantee money received: | | | | |
| Payment guarantee | | 86,768 | | 107,956 |
| Others | | 52,272 | | 68,126 |
| Subtotal | | 139,040 | | 176,082 |
| Suspense receipt | | 69,486 | | 94,002 |
| Suspense receipt (card) | | 11,282 | | 20,738 |
| Withholding taxes | | 28,415 | | 38,133 |
| Agency business accounts | | 92,007 | | 52,122 |
| Due from treasury agencies | | 1,803,352 | | 893,003 |
| Financial guarantee contract: | | | | |
| Financial guarantee contract in Korean won | | 35,903 | | 21,937 |
| Financial guarantee contract in foreign currencies | | 4,246 | | 3,087 |
| Subtotal | | 40,149 | | 25,024 |
| Other sundry liabilities: | | | | |
| Guarantee deposits for securities subscription | | 29,395 | | 9,308 |
| Exchange settlements credits | | 1,592,073 | | 1,428,187 |
| Prepaid card | | 10 | | 10 |
| Debit card | | 9,560 | | 5,508 |
| Cash received from other banks | | 400 | | 105 |
| Other liabilities in foreign currencies | | 4,011 | | 2,481 |
| Subtotal | | 1,635,449 | | 1,445,599 |
| Total | ₩ | 12,890,973 | ₩ | 10,184,678 |

(2) Merchant banking account liabilities as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Deposits | ₩ | 525,654 | ₩ | 747,785 |
| Provision for unused credit limit | | 978 | | 1,010 |
| Other liabilities (*1) | | 2,093 | | 4,449 |
| Total | ₩ | 528,725 | ₩ | 753,244 |

(*1) Other liabilities consist of accrued expenses, unearned income and others.

## 31. SEVERANCE BENEFITS:

(1) Defined retirement benefits plan

The Consolidated Group operates a defined retirement benefit plan ("DB plan") in accordance with Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee's service period and salary at retirement. The Consolidated Group has purchased severance benefits insurance and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Consolidated Group pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by Hewitt, an actuary services company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

(2) Long-term employee benefits

The Consolidated Group provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by Hewitt, an actuary services company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

(3) Key actuarial assumptions

Key assumptions for actuarial valuation as of December 31, 2012 and 2011 are as follows (Unit: %):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 | Notes |
|---|---|---|---|
| Discount rate | 3.55–4.30 | 4.00–5.10 | Rate of return on Bank AAA bonds |
| Expected rate of salary increase | 2.25–4.90 | 2.50–5.60 | Average rate for the past five years |

(4) The details of defined benefit obligation as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Present value of defined benefit obligation from a plan in which funds are accumulated | ₩ | 267,894 | ₩ | 210,029 |
| Fair value of plan assets | | (259,586) | | (182,637) |
| Subtotal | | 8,308 | | 27,392 |
| Present value of defined benefit obligation from a plan in which funds are not accumulated | | 14,565 | | 13,717 |
| Defined benefit obligation | ₩ | 22,873 | ₩ | 41,109 |

(5) The changes in present value of defined benefit obligation for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 223,746 | ₩ | 386,003 |
| Current service cost | | 47,411 | | 48,396 |
| Interest cost | | 9,075 | | 18,068 |
| Remeasurements of the net defined benefit liability | | 9,370 | | (143) |
| Payment of severance benefits | | (40,432) | | (211,066) |
| Past service cost | | 34,574 | | (9,654) |
| Accounts payable | | - | | (419) |
| Changes due to transfer between a parent and its subsidiaries | | 104 | | - |
| Others | | (1,389) | | (7,439) |
| Ending balance | ₩ | 282,459 | ₩ | 223,746 |

(6) The expenses in connection with severance benefits for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Current service cost | ₩ | 47,411 | ₩ | 48,396 |
| Net Interest cost | | 1,622 | | 5,142 |
| Past service cost | | 34,574 | | (9,654) |
| Total | ₩ | 83,607 | ₩ | 43,884 |

(7) The portfolio of plan assets as of December 31, 2012 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | |
|---|---|---|
| Time deposits | ₩ | 86,316 |
| Bonds | | 78,456 |
| Others | | 94,814 |
| Total | ₩ | 259,586 |

(8) The changes in fair value of plan assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 182,637 | ₩ | 301,252 |
| Expected return on plan assets | | 7,453 | | 12,926 |
| Remeasurements of the net defined benefit liability | | 1,052 | | (2,928) |
| Contribution by employer | | 75,136 | | 14,185 |
| Payment | | (6,758) | | (139,211) |
| Others | | 66 | | (3,587) |
| Ending balance | ₩ | 259,586 | ₩ | 182,637 |

## 32. CAPITAL STOCK AND OTHER PAID-IN CAPITAL:

(1) Capital stock as of December 31, 2012 and 2011 is as follows (Unit: In millions, share):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Shares authorized | | 1,000,000,000 | | 1,000,000,000 |
| Par value (In Korean won) | ₩ | 5,000 | ₩ | 5,000 |
| Shares issued | | 644,906,826 | | 644,906,826 |
| Common stock | ₩ | 3,224,534 | ₩ | 3,224,534 |

(2) Other paid-in capital as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Capital surplus (*1) | ₩ | 940 | ₩ | 940 |
| Hybrid securities (*2) | | 249,772 | | 249,772 |
| Stock options | | 40 | | - |
| Total | ₩ | 250,752 | ₩ | 250,712 |

(*1) The amount of capital surplus as of December 31, 2012 and 2011 is transferred from stock option balance (accounted for as capital adjustment) since it is lapsed and not exercised.

(*2) Korea Exchange Bank Hybrid securities issued by the Company are qualified as equity since the maturity bonds can be extended under the same terms after expiration.

## 33. RETAINED EARNINGS:

(1) Retained earnings as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Legal reserve (*1) | ₩ | 725,100 | ₩ | 562,800 |
| Voluntary reserve: | | | | |
| Revaluation reserves on tangible assets (*2) | | 431,936 | | 484,593 |
| Other reserves (*3) | | 91,423 | | 52,585 |
| Reserve for credit losses (*4) | | 680,621 | | - |
| Subtotal | | 1,929,080 | | 1,047,393 |
| Unappropriated retained earnings | | 3,511,436 | | 3,733,665 |
| Total | ₩ | 5,440,516 | ₩ | 4,793,983 |

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

(*2) The Company records gains from revaluation of property, plant, and equipment to the voluntary reserve, as it applies revaluation amount as a deemed cost at the first-time application of K-IFRS. Such reserve is brought in distributable retained earnings when relevant property, plant, and equipment are disposed.

(*3) Relevant Japanese regulations require the Company's overseas branches located in Japan to appropriate a minimum of 10% of annual income after income tax as a legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. Singapore branches' and Hanoi branches' statutory reserves are included in other reserves.

(*4) The Company accumulate allowances for possible loan losses in accordance with K-IFRS and reserve for possible loan losses as much as the amount below the provision of allowances according to minimum accumulation ratio required by Financial Supervisory Service.

(2) The changes in appropriated retained earnings for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Beginning balance | ₩ 4,793,983 | ₩ 4,679,515 |
| Net income of owners | 664,783 | 1,654,698 |
| Dividends | - | (1,521,980) |
| Dividends on hybrid securities | (18,250) | (18,250) |
| Ending balance | ₩ 5,440,516 | ₩ 4,793,983 |

## 34. RESERVE FOR CREDIT LOSSES:

The reserve for credit losses is computed and presented under the articles 29-1 and 29-2 of the regulation on Supervision of Banking business of the Republic of Korea.

(1) Reserve for credit losses as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Previously reserved amount | ₩ 680,621 | ₩ - |
| Expected reserve amount | 56,701 | 680,621 |
| Remaining balance | ₩ 737,322 | ₩ 680,621 |

(2) Transfer to reserve for credit losses and adjusted income after reserve for credit losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions, except per share amounts):

| Classification | 2012 | 2011 |
|---|---|---|
| Net income of owners | ₩ 664,783 | ₩ 1,654,698 |
| Transfer to reserve for possible losses on credits | (56,701) | (164,809) |
| Adjusted net income after reserve for possible losses on credits | 608,082 | 1,489,889 |
| Adjusted basic earnings per share after reserve for possible losses on credits (*1) (in Korean won) | 915 | 2,282 |
| Adjusted diluted earnings per share after reserve for possible losses on credits (*1) (in Korean won) | 914 | 2,278 |

(*1) Adjusted basic and diluted earnings per share after reserve for credit losses for the years ended December 31, 2012 and 2011 are computed by deducting dividends on hybrid securities from the adjusted net income after reserve for credit losses by ₩18,250 million and ₩18,250, respectively (see Note 45).

## 35. ACCUMULATED OTHER COMPREHENSIVE INCOME:

The changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Gain or loss on change in fair value of AFS financial assets | Change of share of other comprehensive loss of associates | Gain or loss on oversea business translation | Gain or loss on foreign exchange in non-monetary AFS financial assets | Remeasurements of the net defined benefit liability | Total |
| Jan. 1, 2012 | ₩ 311,378 | ₩ (10) | ₩ 43,935 | ₩ (19) | ₩ 23,006 | ₩ 378,290 |
| Increase in gain or loss on change in fair value of AFS financial assets | 64,183 | - | - | - | - | 64,183 |
| Classification of gain or loss on change in fair value of AFS financial assets to profit or loss (disposal etc.) | (178,076) | - | - | - | - | (178,076) |
| Change of share of other comprehensive loss of associates | - | 10 | | | | 10 |
| Decrease of gain or loss on oversea business translation | - | - | (108,646) | - | - | (108,646) |
| Decrease of gain or loss on foreign exchange in non-monetary AFS financial assets | - | - | - | (89) | - | (89) |
| Change in remeasurements of the net defined benefit liability | - | - | - | - | (8,318) | (8,318) |
| Income tax effects | 27,543 | - | - | 21 | 2,013 | 29,577 |
| Dec. 31, 2012 | ₩ 225,028 | ₩ - | ₩ (64,711) | ₩ (87) | ₩ 16,701 | ₩ 176,931 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Gain or loss on change in fair value of AFS financial assets | Change of share of other comprehensive loss of associates | Gain or loss on oversea business translation | Gain or loss on foreign exchange in non-monetary AFS financial assets | Remeasurements of the net defined benefit liability | Total |
| Jan. 1, 2011 | ₩ 786,795 | ₩ (10) | ₩ 16,796 | ₩ - | ₩ 25,117 | ₩ 828,698 |
| Increase in gain or loss on change in fair value of AFS financial assets | (7,315) | - | - | - | - | (7,315) |
| Classification of gain or loss on change in fair value of AFS financial assets to profit or loss (disposal etc.) | (591,536) | - | - | - | - | (591,536) |
| Decrease of gain or loss on oversea business translation | - | - | 27,527 | - | - | 27,527 |
| Decrease of gain or loss on foreign exchange in non-monetary AFS financial assets | - | - | - | (25) | - | (25) |
| Change in remeasurements of the net defined benefit liability | - | - | - | - | (2,785) | (2,785) |
| Income tax effects | 123,434 | - | (388) | 6 | 674 | 123,726 |
| Dec. 31, 2011 | ₩ 311,378 | ₩ (10) | ₩ 43,935 | ₩ (19) | ₩ 23,006 | ₩ 378,290 |

## 36. CAPITAL MANAGEMENT:

The Consolidated Group computes capital ratio required by the Bank for International Settlements ("BIS") and manages the ratio to be maintained at least 8% or above. The Consolidated Group meets the externally assigned capital maintenance requirement (the "BIS capital ratio") as of December 31, 2012 .

The BIS capital ratio is computed by dividing shareholders' equity by risk-weighted assets. Shareholders' equity is computed by subtracting deductible items from the sum of basic capital and supplementary capital. Risk-weighted assets are sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Basic capital is composed of capital stock, additional paid-in capital, retained earnings, hybrid securities satisfied with basic capital requirements, and differences in foreign currencies from other accumulated comprehensive income. Supplementary capital is composed of revaluation reserve satisfied with supplementary capital requirements, gains on valuation of AFS financial assets and share of other comprehensive income of associates, high-ranked subordinated debts with more than 10-year maturity or low-ranked subordinated debts with less than five-year maturity, etc.

Items deducted from capital stock include considerable amount of intangible assets and deferred tax assets, discount on capital stock, losses on valuation of AFS financial assets and share of other comprehensive loss of associates, and treasury stock account. Other deductible items are subtracted from basic and supplementary capital by 50% each. Additionally, the Consolidated Group classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

## 37. INTEREST REVENUES AND INTEREST EXPENSES:

(1) The interest revenues and interest expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | 2011 |
|---|---|---|---|
| Interest revenue: | | | |
| Due from banks | Banks | ₩ 58,423 | ₩ 38,819 |
| | Other financial institutions | 53,706 | 49,307 |
| | Subtotal | 112,129 | 88,126 |
| Loans | Banks | 58,011 | 81,072 |
| | Customers | 3,810,678 | 3,822,815 |
| | Subtotal | 3,868,689 | 3,903,887 |
| Financial assets at FVTPL | | 19,715 | 31,686 |
| AFS financial assets | | 205,971 | 171,335 |
| HTM investments | | 207,177 | 216,600 |
| Total | | 4,413,681 | 4,411,634 |
| Interest expenses: | | | |
| Deposits | Financial institutions | 1,702 | 1 |
| | Customers | 1,524,486 | 1,451,799 |
| | Subtotal | 1,526,188 | 1,451,800 |
| Debentures | | 243,145 | 240,096 |
| Borrowings | | 128,498 | 109,160 |
| Others | | 45,420 | 44,711 |
| Total | | 1,943,251 | 1,845,767 |
| Net interest income | | ₩ 2,470,430 | ₩ 2,565,867 |

(2) Interest income of impaired financial assets for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Loans | ₩ | 82,484 | ₩ | 68,567 |
| Other assets | | 156 | | 139 |
| Total | ₩ | 82,640 | ₩ | 68,706 |

## 38. COMMISSION REVENUES AND COMMISSION EXPENSES:

Commission revenues and commission expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Commission revenue: | | | | |
| Receiving credits | ₩ | 12,716 | ₩ | 14,347 |
| Giving credits | | 33,313 | | 22,594 |
| Foreign exchange | | 201,420 | | 208,685 |
| Credit card | | 89,846 | | 76,043 |
| Asset management | | 8,337 | | 11,051 |
| Agency business | | 42,929 | | 24,688 |
| Guarantee service | | 67,275 | | 71,926 |
| Others | | 65,459 | | 83,992 |
| Total | | 521,295 | | 513,326 |
| Commission expenses: | | | | |
| Giving credits | | 2,870 | | 1,685 |
| Foreign exchange | | 40,723 | | 37,694 |
| Agency business | | 514 | | 476 |
| Credit card | | 274,679 | | 201,811 |
| Others | | 24,085 | | 24,591 |
| Total | | 342,871 | | 266,257 |
| Net commission income | ₩ | 178,424 | ₩ | 247,069 |

## 39. NET INCOME FROM FINANCIAL INVESTMENTS:

Net income from financial investments for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | ,2012 | | 2011 | |
|---|---|---|---|---|---|
| Financial instruments at FVTPL: | | | | | |
| Gains | Gain on valuation of trading securities | ₩ | 793 | ₩ | 1,251 |
| | Gain on disposal of trading securities | | 16,213 | | 26,770 |
| | Gain on valuation of trading bonds | | 657 | | 683 |
| | Gain on disposal of trading bonds | | 3,091 | | 3,273 |
| | Gain on valuation of trading derivatives | | 1,264,267 | | 821,366 |
| | Gain on trading of trading derivatives | | 2,151,798 | | 2,977,098 |
| | Subtotal | | 3,436,819 | | 3,830,441 |
| Losses | Loss on valuation of trading securities | | 303 | | 1,926 |
| | Loss on disposal of trading securities | | 16,384 | | 41,949 |
| | Loss on valuation of trading bonds | | 28 | | 82 |
| | Loss on disposal of trading bonds | | 2,029 | | 5,103 |
| | Loss on valuation of trading derivatives | | 1,230,779 | | 753,204 |
| | Loss on trading of trading derivatives | | 2,194,614 | | 2,977,111 |
| | Subtotal | | 3,444,137 | | 3,779,375 |
| Net income (loss) of financial instruments at FVTPL | | ₩ | (7,318) | ₩ | 51,066 |

| Classification | | ,2012 | 2011 |
|---|---|---|---|
| Hedging derivatives: | | | |
| Gains | Gain on valuation of hedging derivatives | ₩ 7,060 | ₩ 27,711 |
| | Gain on trading of hedging derivatives | 821 | 712 |
| | Subtotal | 7,881 | 28,423 |
| Losses | Loss on valuation of hedging derivatives | 12,577 | 27,601 |
| | Loss on trading of hedging derivatives | 210 | - |
| | Subtotal | 12,787 | 27,601 |
| Net income (loss) of hedging derivatives | | ₩ (4,906) | ₩ 822 |
| AFS financial assets : | | | |
| Gains | Gain on disposal of AFS equity securities | ₩ 196,860 | ₩ 1,182,283 |
| | Gain on disposal of AFS debt securities | 50,186 | 8,981 |
| | Subtotal | 247,046 | 1,191,264 |
| Losses | Loss on disposal of AFS equity securities | 40 | 815 |
| | Loss on disposal of AFS debt securities | - | 112 |
| | Subtotal | 40 | 927 |
| Net income of AFS financial assets | | ₩ 247,006 | ₩ 1,190,337 |

## 40. IMPAIRMENT LOSSES:

Impairment losses related to financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | 2011 |
|---|---|---|---|
| Transfer to allowance for possible losses (*1) | | ₩ 667,782 | ₩ 561,491 |
| AFS | Impairment losses | 17,522 | 12,012 |
| Financial assets | Reversal of impairment losses | (1,386) | (1,679) |
| | Subtotal | 16,136 | 10,333 |
| Total | | ₩ 683,918 | ₩ 571,824 |

(*1) Includes allowance for possible losses on loans and other assets.

## 41. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Salaries | ₩ 676,409 | ₩ 614,318 |
| Retirement allowances | 83,607 | 43,884 |
| Expenses for fringe benefits | 226,399 | 295,810 |
| Rental | 131,015 | 121,999 |
| Entertainment expense | 12,300 | 13,879 |
| Depreciation on tangible assets | 78,319 | 70,189 |
| Depreciation on investment property | 2,494 | 2,462 |
| Amortization | 24,900 | 27,179 |
| Taxes | 44,464 | 45,517 |
| Advertising | 42,193 | 31,139 |
| Others | 242,770 | 221,934 |
| | ₩ 1,564,870 | ₩ 1,488,310 |

## 42. OTHER OPERATING REVENUES AND EXPENSES:

(1) Other operating revenues for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | 2011 |
|---|---|---|---|
| Dividend income | Financial assets at FVTPL | ₩ 827 | ₩ 7,647 |
| | AFS financial assets | 11,911 | 47,670 |
| | Subtotal | 12,738 | 55,317 |
| Reversal of provision for acceptances and guarantees | | 2,540 | 9,787 |
| Reversal of provision for unused credit limit | | - | 43,404 |
| Other revenue from financial instruments | | 387 | 197 |
| Gain on foreign exchange transaction | | 1,066,625 | 1,179,494 |
| Gain on foreign exchange difference | | 170,566 | 56,578 |
| Gain on operating trust account | | 36,500 | 26,661 |
| Point revenues | | 27,191 | 20,762 |
| Gain on sales of loans | | 1,515 | 18,134 |
| Revenue on merchant banking accounts (*1) | | 68,201 | 65,871 |
| Others | | 157 | 138 |
| Total | | ₩ 1,386,420 | ₩ 1,476,343 |

(*1) Details of revenues on merchant banking accounts are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Interest revenues | ₩ 28,094 | ₩ 35,494 |
| Commission revenues | 741 | 842 |
| Gain on disposal of trading bonds | 1,408 | 1,867 |
| Gain on valuation of trading bonds | 23 | 66 |
| Gain on valuation of CMA securities | 1 | 9 |
| Gain on disposal of bills | 33,288 | 27,251 |
| Reversal of allowance for possible loan losses | 4,614 | - |
| Reversal of provision for unused credit limit | 32 | 342 |
| Total | ₩ 68,201 | ₩ 65,871 |

(2) Other operating expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Transfer to provisions for unused credit limit | ₩ 6,291 | ₩ - |
| Transfer to other provisions | 18,385 | 7,502 |
| Other expenses from financial instruments | 669 | 814 |
| Loss on foreign exchange transactions | 730,577 | 910,939 |
| Loss on foreign exchange difference | 56,631 | 73,907 |
| Point expenses | 31,870 | 24,741 |
| Contribution for credit guarantee fund | 99,233 | 96,417 |
| Insurance expense for deposits | 99,701 | 92,756 |
| Loss on sales of loans | 23,301 | 68,664 |
| Expenses on merchant banking accounts (*1) | 42,528 | 52,028 |
| Others | 1,177 | 2,141 |
| Total | ₩ 1,110,363 | ₩ 1,329,909 |

(*1) Details of expenses on merchant banking accounts are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Interest expenses | ₩ | 42,437 | ₩ | 47,480 |
| Transfer to allowance for possible loan losses | | - | | 4,521 |
| Loss on valuation of trading bonds | | 55 | | - |
| Loss on valuation of CMA securities | | 5 | | - |
| Others | | 31 | | 27 |
| Total | ₩ | 42,528 | ₩ | 52,028 |

## 43. NON-OPERATING REVENUES AND EXPENSES:

(1) Non-operating revenues for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Gain on disposal of tangible assets | ₩ | 37 | ₩ | 243 |
| Gain on disposal of investment property | | 38 | | - |
| Rental revenues | | 3,206 | | 3,522 |
| Gain on disposal of investment in associates | | - | | 142 |
| Others | | 63,252 | | 64,544 |
| Total | ₩ | 66,533 | ₩ | 68,451 |

(2) Non-operating expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Loss on disposal of tangible assets | ₩ | 298 | ₩ | 28 |
| Loss on disposal of investment property | | 111 | | - |
| Impairment losses on intangible assets | | 2,984 | | 1,806 |
| Donations | | 19,872 | | 18,584 |
| Others | | 26,402 | | 29,769 |
| Total | ₩ | 49,667 | ₩ | 50,187 |

## 44. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2012 and 2011 are summarized as follows (Units: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| The Company: | | | | |
| Income tax currently payable | ₩ | 222,029 | ₩ | 531,057 |
| Change in deferred tax due to temporary differences | | (22,432) | | (188,795) |
| Total income tax effect | | 199,597 | | 342,262 |
| Income tax directly charged to shareholders' equity | | 29,355 | | 125,114 |
| Income tax expense in overseas branch | | 10,330 | | 15,443 |
| Income tax expense | | 239,282 | | 482,819 |
| Subsidiaries: | | | | |
| Income tax currently payable | | 21,197 | | 22,865 |
| Change in deferred tax due to temporary differences | | 2,304 | | 958 |
| Income tax directly charged to shareholders' equity | | 224 | | (1,535) |
| Income tax expense | | 23,725 | | 22,288 |
| Total | ₩ | 263,007 | ₩ | 505,107 |

A reconciliation of income before income tax and income tax expense for the years ended December 31, 2012 and 2011 is as follows (Units: In millions):

| Classification | | 2012 | | 2011 |
|---|---|---|---|---|
| Income before income tax | ₩ | 871,281 | ₩ | 2,107,042 |
| Burden of taxation (by applicable tax rate of 24.2%) | | 210,850 | | 509,878 |
| Reconciliation items: | | | | |
| Non-taxable income | | (7,027) | | (127,769) |
| Non-deductible expenses | | 4,563 | | 171,854 |
| Tax credits | | (7,936) | | (11,871) |
| Addition (refund) of income tax | | 25,026 | | (15,775) |
| Income tax expense in overseas branches | | 10,330 | | 15,443 |
| Difference due to tax rate change | | - | | (2,189) |
| Others (*1) | | 3,476 | | (56,752) |
| Sum of reconciliation items | | 28,432 | | (27,059) |
| Income tax expense | ₩ | 239,282 | ₩ | 482,819 |
| Effective tax rate | | 27.46% | | 22.91% |

(*1) Includes ₩2,227 million of difference caused by the difference between Korean GAAP and K-IFRS related to the reversal of impairment losses on equity security.

(2) Deferred income tax assets in the consolidated financial statements as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | Dec. 31, 2012 | | Dec. 31, 2011 |
|---|---|---|---|---|
| KEBC | ₩ | 16,586 | ₩ | 9,678 |
| KEBIS | | 154 | | 92 |
| NYFinCo | | 4,459 | | 6,346 |
| USAI | | 11 | | 8 |
| LAFinCo | | 3,907 | | 7,389 |
| KEBA | | 2,424 | | 4,620 |
| KEBI | | - | | 456 |
| KEBB | | 551 | | - |
| KEBOC | | (281) | | - |
| Total | ₩ | 27,811 | ₩ | 28,589 |

(3) Deferred income tax liabilities in the consolidated financial statements as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | Dec. 31, 2012 | | Dec. 31, 2011 |
|---|---|---|---|---|
| KEB (*1) | ₩ | 29,231 | ₩ | 51,663 |
| KEBF | | 2,413 | | 2,322 |
| KEBOC | | 1,266 | | 1,329 |
| KEBB | | 2,223 | | - |
| KEBChina | | 64 | | 1,139 |
| KEBIS | | 482 | | 6 |
| Others | | 4,127 | | 4,253 |
| Total | ₩ | 39,806 | ₩ | 60,712 |

(*1) Deferred income tax assets (liabilities) of the Company as of December 31, 2012 and changes to them for the year ended December 31, 2012 are as follows (Unit: In millions):

| Classification | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| | Jan. 1, 2012 (*1) | Decrease | Increase | Dec. 31, 2012 | Jan. 1, 2012 | Decrease | Increase | Dec. 31, 2012 |
| DEDUCTIBLE TEMPORARY DIFFERENCES | | | | | | | | |
| Gains or losses on valuation of financial assets | ₩ (54,770) | ₩ 187,721 | ₩ 190,841 | ₩ (51,650) | ₩ (13,254) | ₩ 45,429 | ₩ 46,184 | ₩ (12,499) |
| Accrued income | (64,192) | (64,192) | (66,362) | (66,362) | (15,534) | (15,534) | (16,059) | (16,059) |
| Other provisions and others | 223,100 | 223,100 | 220,907 | 220,907 | 57,032 | 57,032 | 53,460 | 53,460 |
| Gains or losses related to derivatives | (142,365) | (142,365) | (90,240) | (90,240) | (34,452) | (34,452) | (21,838) | (21,838) |
| Debt-for-equity swap securities | 148,133 | 62,088 | 5,802 | 91,847 | 38,371 | 15,024 | (1,120) | 22,227 |
| Advance depreciation provisions | (62,466) | - | - | (62,466) | (15,117) | - | - | (15,117) |
| Investment in kind at KEBChina | 137,879 | - | - | 137,879 | 33,367 | - | - | 33,367 |
| Financial guarantee contract | 25,024 | - | - | 25,024 | 6,056 | - | - | 6,056 |
| Deferred point revenue | 39,811 | 39,811 | 52,836 | 52,836 | 9,634 | 9,634 | 12,786 | 12,786 |
| Accrued expenses | 126,065 | 126,065 | 79,145 | 79,145 | 17,588 | 17,588 | 19,153 | 19,153 |
| Gain on revaluation of tangible assets | (553,885) | (120) | - | (553,765) | (134,040) | (29) | - | (134,011) |
| Transfer of reversal of impairment loss on equity securities to OCI | 18,659 | 9,203 | - | 9,456 | 4,515 | 2,227 | - | 2,288 |
| Transfer of debt-for-equity swap receivables to OCI | 5,352 | - | - | 5,352 | 1,295 | - | - | 1,295 |
| Others | 378,006 | 117,826 | 104,236 | 364,416 | 88,776 | 28,514 | 27,927 | 88,189 |
| Subtotal | 224,351 | 559,137 | 497,165 | 162,379 | 44,237 | 125,433 | 120,493 | 39,297 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | | | | | | | |
| AFS financial assets reserve | 396,304 | 396,304 | 283,283 | 283,283 | (95,906) | (95,906) | (68,555) | (68,555) |
| Gain or loss on translation of AFS financial assets | (25) | (25) | (114) | (114) | 6 | 6 | 27 | 27 |
| Subtotal | 396,279 | 396,279 | 283,169 | 283,169 | (95,900) | (95,900) | (68,528) | (68,528) |
| Total | ₩ 620,630 | ₩ 955,416 | ₩ 780,334 | ₩ 445,548 | ₩ (51,663) | ₩ 29,533 | ₩ 51,965 | ₩ (29,231) |

(*1) Beginning balance is after adjustment of the difference in reserved amount of ₩41,399 million at the time of final tax return as of December 31, 2011. Such adjustments increase deferred tax assets by ₩10,018 million compared to the amount of December 31, 2011.

(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2 percent).

(4) The effective tax rates, calculated by dividing income tax expense by net income before taxes, for the years ended December 31, 2012 and 2011 are 28.35 percent and 23.39 percent, respectively.

## 45. EARNINGS PER SHARE:

(1) Weighted-average number of common shares

The weighted-average number of common shares for the years ended December 31, 2012 and 2011 are as follows:

| Classification | Fixed date | Number of shares | Negotiable period | Accumulated shares | Weighted-average number of common shares |
|---|---|---|---|---|---|
| 2012 | 2012.12.31 | 644,906,823 | 366 days | 236,035,897,218 | 644,906,823 |
| 2011 | 2011.12.31 | 644,906,823 | 365 days | 235,390,990,395 | 644,906,823 |

(2) Basic earnings per share

The basic net income per share for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions, except per share amounts):

| Classification | 2012 | 2011 |
|---|---|---|
| Net income of owners | ₩ 664,783 | ₩ 1,654,698 |
| Dividends on hybrid securities | (18,250) | (18,250) |
| Net income to calculate basic net income per share | 646,533 | 1,636,448 |
| Weighted-average number of common shares | 644,906,823 | 644,906,823 |
| Basic earnings per share (in Korean won) | ₩ 1,003 | ₩ 2,537 |

(3) Diluted earnings per share

The diluted net income per share for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions, except per share amounts):

| Classification | 2012 | 2011 |
|---|---|---|
| Net income to calculate basic net income per share | ₩ 646,533 | ₩ 1,636,448 |
| Recognized revenue related to employee stock options (after-tax effect of 24.2%) | (257) | (2,244) |
| Net income to calculate diluted net income per share | 646,276 | 1,634,204 |
| Weighted-average number of common shares | 644,987,439 | 645,159,672 |
| Diluted earnings per share (in Korean won) | ₩ 1,002 | ₩ 2,533 |

In calculating diluted earnings per share, the assumed proceeds from the potential ordinary shares shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration. The ordinary shares for no consideration generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share. Dilutive potential ordinary shares the Consolidated Group owns are employee stock options.

## 46. SHARE-BASED PAYMENT:

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive ("Rose Bonus" and/or "Rose Share") to employees for the purpose of motivation to improve long-term performance. The Rose Bonus and/or Rose Share is settled in cash. It can be exercised from one to three years after the grant date for the following three to four years.

(1) Details of the stock options as of December 31, 2012 are as follows (Unit: In Korean won, shares):

1) Assumptions for evaluation of the stock options

The stock options are measured at fair values applying Black-Scholes Model

| Grant date | Exercise period | Risk-free rate (%) | Expected service period | Volatility of the underlying stock price (%) | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| Mar. 11, 2008 (*1) | Mar. 12, 2010–Mar. 11, 2013 | - | - | - | - | 12,400 | - |
| Aug. 1, 2008 (*1) | Aug. 2, 2010–Aug. 1, 2013 | - | - | - | - | 13,050 | - |
| Mar. 12, 2009 | Mar. 13, 2011–Mar. 12, 2016 | 2.75% | 5.87 | 29.55% | 1,035 | 5,700 | 1,287 |
| Aug. 4, 2009 | Aug. 5, 2011–Aug. 4, 2016 | 2.78% | 5.87 | 28.38% | 1,035 | 11,700 | 166 |
| Mar. 10, 2010 | Mar. 11, 2012–Mar. 10, 2017 | 2.82% | 5.87 | 28.55% | 1,035 | 13,450 | 91 |
| Mar. 30, 2010 | Mar. 31, 2012 – Mar. 30, 2017 | 2.83% | 5.87 | 29.24% | 1,035 | 13,600 | 94 |
| Aug. 4, 2010 | Aug. 5, 2013–Aug. 4, 2017 | 2.85% | 5.87 | 29.83% | 1,035 | 12,300 | 154 |
| Sep. 29, 2010 | Sep. 30, 2013–Sep. 29, 2017 | 2.87% | 5.87 | 30.40% | 1,035 | 13,550 | 128 |
| Aug. 10, 2011 | Aug. 11, 2014–Aug. 10, 2018 | 2.93% | 5.87 | 43.45% | 1,035 | 8,060 | 906 |
| Aug. 26, 2011 | Aug. 27, 2014–Aug. 26, 2018 | 2.93% | 5.87 | 43.27% | 1,035 | 7,720 | 980 |
| Sep. 2, 2011 | Sep. 3, 2014–Sep. 2, 2018 | 2.94% | 5.87 | 43.17% | 1,035 | 7,930 | 990 |

(*1) Since it is impossible to estimate its fair value with Black-Scholes Model due to excess of expected maturity, it is measured with intrinsic value.

2) Changes in shares of stock options

| Grant date | Shares at beginning | Exercise | Divestiture | Extinction at maturity | Shares at ending | Stock option outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| Mar. 8, 2007 | 546,100 | - | - | (546,100) | - | - | ₩ 13,900 |
| Mar. 29, 2007 | 289,610 | - | - | (289,610) | - | - | 14,500 |
| Aug. 10, 2007 | 204,010 | - | - | (204,010) | - | - | 13,900 |
| Mar. 11, 2008 | 209,870 | - | - | - | 209,870 | 209,870 | 13,000 |
| Aug. 1, 2008 | 74,510 | - | - | - | 74,510 | 74,510 | 13,500 |
| Mar. 12, 2009 | 298,825 | (14,500) | - | - | 284,325 | 284,325 | 5,800 |
| Mar. 31, 2009 | 825,000 | (742,500) | (82,500) | - | - | - | 7,300 |
| Aug. 4, 2009 | 415,610 | - | - | - | 415,610 | 415,610 | 10,900 |
| Mar. 10, 2010 | 326,330 | - | (13,980) | - | 312,350 | 312,350 | 13,200 |
| Mar. 30, 2010 | 262,250 | - | (25,110) | - | 237,140 | 237,140 | 13,500 |
| Aug. 4, 2010 | 300,200 | - | (48,310) | - | 251,890 | 251,890 | 12,400 |

| Grant date | Shares at beginning | Exercise | Divestiture | Extinction at maturity | Shares at ending | Stock option outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| Sep. 29, 2010 | 17,810 | - | - | - | 17,810 | 17,810 | ₩ 13,500 |
| Aug. 10, 2011 | 550,000 | - | (217,000) | - | 333,000 | 333,000 | 9,100 |
| Aug. 26, 2011 | 100,000 | - | (57,710) | - | 42,290 | 42,290 | 8,500 |
| Sep. 2, 2011 | 30,000 | - | (18,750) | - | 11,250 | 11,250 | 8,400 |
| Total | 4,450,125 | (757,000) | (463,360) | (1,039,720) | 2,190,045 | 2,190,045 | |

3) Weighted-average stock price as of stock option date exercised for the year ended December 31, 2012 amounts to ₩8,076.

4) Weighted-average residual expiration of exercisable stock option as of December 31, 2012, is 3.75 years

(2) Details of the equity-linked special incentive as of December 31, 2012 are as follows (Unit: In Korean won, shares):

1) Details of the equity-linked special incentive

The equity-linked special incentive is measured at fair values applying Binomial Model.
It can be exercised from one to three years after the grant date for the following three to four years.

| Classification | Grant date | Exercise period | Payment date | Stock option outstanding (shares) |
|---|---|---|---|---|
| Rose 3 | Dec. 12, 2007 | Dec. 12, 2009–Dec. 11, 2012 | Dec. 12, 2009 | 9,850 |
| Rose 4 | Dec. 11, 2009 | Dec. 11, 2011–Dec. 10, 2014 | Dec. 11, 2011 | 48,860 |
| Rose 5 | Aug. 4, 2010 | Aug. 4, 2012–Aug. 3, 2015 | Aug. 4, 2012 | 200,010 |
| Rose 6 | Sep. 21, 2011 | Sep. 21, 2013–Sep. 20, 2016 | Sep. 21, 2013 | 4,526,040 |
| Rose Share 1-1 | Feb. 19, 2010 | Feb. 19, 2011–Feb. 18, 2015 | Feb. 19, 2011 | - |
| Rose Share 1-2 | Feb. 19, 2010 | Feb. 19, 2012–Feb. 18, 2015 | Feb. 19, 2012 | 18,365 |
| Rose Share 2-1 | Mar. 19, 2010 | Mar. 19, 2011–Mar. 18, 2015 | Mar. 19, 2011 | - |
| Rose Share 2-2 | Mar. 19, 2010 | Mar. 19, 2012–Mar. 18, 2015 | Mar. 19, 2012 | 1,560 |
| Rose Share 3-1 | Aug. 11, 2010 | Aug. 11, 2011–Aug. 10, 2015 | Aug. 11, 2011 | 6,550 |
| Rose Share 3-2 | Aug. 11, 2010 | Aug. 11, 2012–Aug. 10, 2015 | Aug. 11, 2012 | 6,875 |
| Rose Share 4-1 | Feb. 21, 2011 | Feb. 21, 2012–Feb. 20, 2015 | Feb. 21, 2012 | 11,620 |
| Rose Share 4-2 | Feb. 21, 2011 | Feb. 21, 2013–Feb. 20, 2016 | Feb. 21, 2013 | 23,860 |
| Rose Share 5-1 | Feb. 21, 2011 | Feb. 21, 2012–Feb. 20, 2015 | Feb. 21, 2012 | 15,000 |
| Rose Share 5-2 | Feb. 21, 2011 | Feb. 21, 2013–Feb. 20, 2016 | Feb. 21, 2013 | 23,425 |
| Rose Share 6-1 | Mar. 21, 2011 | Mar. 20, 2012–Mar. 19, 2015 | Mar. 20, 2012 | 523 |
| Rose Share 6-2 | Mar. 21, 2011 | Mar. 20, 2013–Mar. 19, 2016 | Mar. 20, 2013 | 1,465 |
| Rose Share 6-3 | Mar. 21, 2011 | Mar. 20, 2014–Mar. 19, 2017 | Mar. 20, 2014 | 1,470 |
| Rose Share 7-1 | Sep. 8, 2011 | Sep. 8, 2012–Sep. 8, 2015 | Sep. 8, 2012 | 1,770 |
| Rose Share 7-2 | Sep. 8, 2011 | Sep. 8, 2013–Sep. 7, 2016 | Sep. 8, 2013 | 1,770 |
| Rose Share 8-1 | Feb. 21, 2012 | Feb. 22, 2013–Feb. 21, 2017 | Feb. 22, 2013 | 21,635 |
| Rose Share 8-2 | Feb. 21, 2012 | Feb. 22, 2014–Feb. 21, 2017 | Feb. 22, 2014 | 21,635 |
| Rose Share 9-1 | Feb. 21, 2012 | Feb. 22, 2013–Feb. 21, 2017 | Feb. 22, 2013 | 42,225 |
| Rose Share 9-2 | Feb. 21, 2012 | Feb. 22, 2014–Feb. 21, 2017 | Feb. 22, 2014 | 42,225 |

2) Changes in shares of equity-linked special incentive

| Classification | 2012 | 2011 |
|---|---|---|
| Beginning | 7,054,210 | 2,485,340 |
| Number of given shares | 127,720 | 4,850,400 |
| Number of loss of right | (109,896) | (126,388) |
| Number of exercise | (2,045,301) | (155,142) |
| Ending | 5,026,733 | 7,054,210 |

3) Weighted-average stock price of equity-linked special incentive at exercise date for years ended December 31, 2012, amounts to ₩7,834.

4) Weighted-average residual maturity of equity linked special incentive as of December 31, 2012 is 3.64 years.

(3) Hana Financial Group provided the Company's employees with stock rights and stock grant linked to performance and computed compensation costs are computed by applying fair value approach for such rights. Details of share-based payment arrangement and share-based payment linked to performance are as follows:

| Classification | 1st | 2nd |
|---|---|---|
| Grant date | Jan. 1, 2011 | Jan. 1, 2012 |
| Grant method | Hana Financial Group has the option to settle either through treasury stock or through payment of cash equivalents | |
| Grant period | Jan. 1, 2011– Dec. 31, 2013 | Jan. 1, 2012– Dec. 31, 2014 |
| Payment date | Dec. 31, 2013 | Dec. 31, 2014 |
| Shares at settlement date (*1) | 1,340 | 12,430 |

(*1) Payable shares are determined at the initial agreement and payment ratio is decided according to the degree of performance of predecided object. Performance is evaluated by 40% of performance of Group(relative shareholders' rate of return) and 60% of performance of business segments(Return On Equity orReturn On Invested Capital)

(4) Details of book value of liabilities related to share-based payment and total intrinsic value of rights accounted as payables in case that option holders achieve rights to receive cash or other assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Book value of liabilities related to share-based payment: | | |
| Stock options | ₩ 772 | ₩ 3,876 |
| Equity-linked special incentive (granted by the Company) | 41,707 | 36,938 |
| Equity-linked special incentive (granted by Hana Financial Group) | 452 | - |
| Total | ₩ 42,931 | ₩ 40,814 |

(5) Compensation costs recognized due to share-based payment

The compensation costs for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Costs recognized due to share-based payment: | | |
| Stock options | ₩ (2,453) | ₩ (4,533) |
| Equity-linked special incentive (granted by the Company) | 33,350 | 22,086 |
| Equity-linked special incentive (granted by Hana Financial Group) | 492 | - |
| Total | ₩ 31,389 | ₩ 17,553 |

## 47. STATEMENTS OF CASH FLOWS:

(1) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of cash and due from banks (excluding restricted due from banks) in the consolidated statement of financial position. Cash and cash equivalents as of December 31, 2012 and 2011 are adjusted as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Cash and due from banks | ₩ | 8,253,842 | ₩ | 8,467,527 |
| Less: restricted due from banks (Note 10) | | (3,768,938) | | (4,809,674) |
| Cash and cash equivalents | ₩ | 4,484,904 | ₩ | 3,657,853 |

(2) Non-cash transactions for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Gain or loss on change in fair value of AFS financial assets | ₩ | 64,183 | ₩ | 52,903 |
| Replace tangible asset with investment property | | 4,708 | | 8,772 |
| Replace loans with non-current assets held for sale | | 1,439 | | - |
| Replace loans with AFS financial assets by the debt-for-equity swap | | 23,929 | | 3,692 |

## 48. RELATED-PARTY TRANSACTIONS:

(1) Details of related-party transactions of the Company are as follows:

| Subsidiaries | Relationship |
|---|---|
| Hana Financial Group | Controlling company |
| KEBC | Subsidiary |
| KEBF | Subsidiary |
| KEBIS | Subsidiary |
| KEBOC | Subsidiary |
| KEBA | Subsidiary |
| KEBDAG | Subsidiary |
| KEBI | Subsidiary |
| KEBB | Subsidiary |
| NYFinCo | Subsidiary |
| LAFinCo | Subsidiary |
| USAI | Subsidiary |
| KAF | Subsidiary |
| KEBChina | Subsidiary |
| Hana Daetoo Securities Co., Ltd | Entity under common control |
| Hana Bank | Entity under common control |
| Hana Capital Co., Ltd. | Entity under common control |
| Hana Institute of Finance | Entity under common control |
| HanaSK Card Co., Ltd. | Entity under common control |
| Hana I&S | Entity under common control |
| Flossom Co., Ltd. | Investments in associate |

(2) Significant receivables and payables with related parties as of December 31, 2012 are summarized as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Controlling company | Entities under common control | Investments in associate | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 33,703 | ₩ - | ₩ 33,703 |
| Others | 514 | 45,526 | - | 46,040 |
| Total | ₩ 514 | ₩ 79,229 | ₩ - | ₩ 79,743 |
| Liabilities: | | | | |
| Deposits | ₩ - | ₩ 52,953 | ₩ - | ₩ 52,953 |
| Financial liabilities at FVTPL | - | 11,727 | - | 11,727 |
| Others | 960 | 48,441 | - | 49,401 |
| Total | ₩ 960 | ₩ 113,121 | ₩ - | ₩ 114,081 |

(3) Significant transactions with related parties for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 Controlling company | Entities under common control | Investments in associate | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Interest revenues | ₩ 1,567 | ₩ 1,302 | ₩ - | ₩ 2,869 |
| Commission revenues | - | 319 | - | 319 |
| Gain on financial instruments at FVTPL | - | 101,117 | - | 101,117 |
| Others | - | 32 | - | 32 |
| Total | ₩ 1,567 | ₩ 102,770 | ₩ - | ₩ 104,337 |
| Expenses: | | | | |
| Interest expenses | ₩ - | ₩ 2,672 | ₩ - | ₩ 2,672 |
| Commission expenses | - | 123 | - | 123 |
| Loss on financial instruments at FVTPL | - | 64,784 | - | 64,784 |
| Total | ₩ - | ₩ 67,579 | ₩ - | ₩ 67,579 |

| Classification | 2011 Controlling company | Entities under common control | Investments in associate | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Interest revenues | ₩ - | ₩ - | ₩ 705 | ₩ 705 |
| Commission revenues | - | - | 50 | 50 |
| Total | ₩ - | ₩ - | ₩ 755 | ₩ 755 |
| Expenses: | | | | |
| Interest expenses | ₩ - | ₩ - | ₩ 73 | ₩ 73 |
| Reversal of allowance for possible losses | | | (138) | (138) |
| Total | ₩ - | ₩ - | ₩ (65) | ₩ (65) |

(4) The key management compensations for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Short-term employee benefits | ₩ 4,819 | ₩ 5,516 |
| Post retirement employee benefits | 1,298 | 1,981 |
| Stock option | (98) | (4,520) |

The key management includes directors, executives and officers who have authorities and responsibilities for decision making of the business plan, operations and control over the Company.

## 49. CONTINGENCIES AND COMMITMENTS:

(1) The Company holds written-off loans, on which the relevant statute of limitations has not expired or the Company has not lost its claim rights to borrowers and guarantors, amounting to ₩1,784,725 million and ₩1,645,070 million as of December 31, 2012 and 2011, respectively.

(2) Endorsed notes with collateral amounted to ₩25,733 million and ₩33,283 million as of December 31, 2012 and 2011, respectively. Endorsed notes without collateral held at the merchant banking amounted to ₩7,530,500 million and ₩7,843,800 million as of December 31, 2012 and 2011, respectively.

(3) The Company is obliged to repurchase some loans previously sold to Korea Asset Management Corporation ("KAMCO") under certain conditions, including the following:

- When it is considered impossible to collect the loans, interest due to delay in repayment of loans, and interest over months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-ordered receivership process and the cancellation of mediation.

As of December 31, 2012, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩475 million. An additional loss or profit may occur, depending on the loan classification, valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their RP.

(4) The Consolidated Group has pending litigations as a plaintiff or a defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Consolidated Group are approximately ₩ 323,949 million (690 cases) and ₩ 418,765 million (214 cases), respectively, as of December 31, 2012. The Consolidated Group recognized ₩ 45,392 million of provisions related to these lawsuits.

Major ongoing litigations related to the Consolidated Group's contingencies are as follows (Unit: In millions):

| Defendant | Plaintiff | Content | Note |
|---|---|---|---|
| The Company | Hyundai Merchant and Marine Company Limited | Return of performance bond etc. | (*1) |

(*1) As of December 31, 2012, the lawsuit has been filed and named the Company as a defendant. The action, purportedly brought on behalf of a Hyundai Merchant and Marine Company Limited, the plaintiff, that the Company held performance bond of ₩275.5 billion which the plaintiff paid as a priority bidder for M&A of Hyundai Engineering & Construction Co., Ltd. The plaintiff claimed the return of the performance bonds and the damages of ₩50 billion for the related expenses. If a financial judgment of the law suit agrees the claim, ₩50 billion of damage will be paid proportionately based on the 25 percent ownership, which the Company has on the post-management council.

The Consolidated Group believes that the outcome of these matters will not have a material impact on the financial statements.

(5) Contingencies related to project financing (PF)

Asset-backed commercial paper (ABCP) purchase agreements and unused credit limits related to PF as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Type | Dec. 31, 2012 | Dec. 31, 2011 |
| --- | --- | --- |
| ABCP purchase agreement | ₩ 300,000 | ₩ 252,100 |
| Unused credit limit on PF loan | 311,277 | 323,893 |
| Total | ₩ 611,277 | ₩ 575,993 |

## 50. OPERATION PERFORMANCE OF TRUST ACCOUNTS:

(1) Trust accounts as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Total assets | | Operating revenue | |
| --- | --- | --- | --- | --- |
| Classification | Dec. 31, 2012 | Dec. 31, 2011 | Dec. 31, 2012 | Dec. 31, 2011 |
| Trust accounts | ₩ 23,967,287 | ₩ 24,559,902 | ₩ 306,478 | ₩ 316,654 |

(2) The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
| --- | --- | --- |
| Trust accounts guaranteeing the repayment of principal: | | |
| Installment trust | ₩ 86 | ₩ 85 |
| Household trust | 550 | 609 |
| Old-age pension trust | 2,110 | 2,552 |
| Corporate trust | 38 | 37 |
| Personal pension trust | 194,976 | 200,098 |
| Retirement Trust | 82,421 | 179,431 |
| New personal pension trust | 76,245 | 67,766 |
| New old-age pension trust | 1,226 | 1,398 |
| Pension trust | 263,792 | 224,191 |
| Subtotal | 621,444 | 676,167 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal: | | |
| Unspecified monetary trust | 59 | 59 |
| Development money trust | 5 | 5 |
| Subtotal | 64 | 64 |
| Total | ₩ 621,508 | ₩ 676,231 |

## 51. DIVIDENDS:

(1) Details of the dividends for the years ended December 31, 2012 and 2011 are as follows:

| Type | 2012 | | 2011 | |
|---|---|---|---|---|
| Dividend per share(dividend rate) (Unit: In Korean won, %): | | | | |
| The quarterly dividend per share | ₩ | - | ₩ | 1,510(30.2%) |
| The yearly dividend per share | | 50(1.0%) | | - |
| Total | ₩ | 50(1.0%) | ₩ | 1,510(30.2%) |
| Number of shares issued (Unit: shares): | | 644,906,823 | | 644,906,823 |
| Total amount of the dividends (Unit: Korean won in millions): | | | | |
| The quarterly dividends | ₩ | - | ₩ | 973,809 |
| The yearly dividends | | 32,245 | | - |
| | ₩ | 32,245 | ₩ | 973,809 |

(2) Details of the estimated propensity to dividend for December 31, 2012 and 2011 are as follows (Unit: In millions, %):

| Type | 2012 | | 2011 | |
|---|---|---|---|---|
| Total amount of the dividend (*1) | ₩ | 32,245 | ₩ | 973,809 |
| Net income of owners | | 632,000 | | 1,624,222 |
| Propensity to dividend | | 5.10% | | 59.96% |
| Adjusted net income after reserve for credit losses | | 614,185 | | 1,457,340 |
| Propensity to dividend based on adjusted net income after reserve for credit losses | | 5.25% | | 66.82% |

(*1) Quarterly dividend could be contained between total amounts of the dividend.

(3) Details of the dividend yield ratio for the years ended December 31, 2012 and 2011 are as follows (Unit: In Korean won, %):

| Type | 2012 | | 2011 | |
|---|---|---|---|---|
| Dividend per share | ₩ | 50 | ₩ | 1,510 |
| Closing price of settling day | | 7,620 | | 7,350 |
| Dividend yield ratio | | 0.66% | | 20.54% |

(*1) Quarterly dividend could be contained between total amounts of the dividend.

## 52. EVENTS AFTER THE REPORTING PERIOD:

On January 28, 2013, the Company's board of directors reached a resolution to execute share-for-share exchange with Hana Financial Group on January 28, 2013 and the agreement was entered on March 15, 2013. According to the agreement, the Company's one share of common stock was exchanged for 0.1894302 common stock of Hana Financial Group. On April 3, 2013, the Company made a payment to shareholders who exercised their appraisal rights instead of entering share-for-share exchange with Hana Financial Group. One April 5, 2013, the Company's share-for-share exchange was executed, whereby the Company became incorporated into a wholly owned subsidiary of Hana Financial Group.

In accordance with the *regulations of the Bank Indonesia*, two or more local banks with the same ultimate parent company are forbidden to operate as an independent entity in Indonesia. As of June 30, 2013, PT. Bank KEB Indonesia ("KEBI"), a subsidiary of the Company, and PT Bank Hana, a subsidiary of Hana Bank, are undergoing a merger process.

**Deloitte Anjin LLC**
9Fl., One IFC,
23, Yoido-dong,
Youngdeungpo-gu, Seoul
150-876, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

# Independent Auditor's Report

To the Shareholders and the Board of Directors of
Korea Exchange Bank:

We have audited the accompanying separate financial statements of Korea Exchange Bank (the "Company"). The separate financial statements consist of the separate statements of financial position as of December 31, 2012 and 2011, respectively, and the related separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended Decemeber 31, 2012 and 2011, respectively. The Company's management is responsible for the preparation and fair presentation of the separate financial statements and our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and 2011, respectively, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, respectively, in conformity with Korean International Financial Reporting Standards("K-IFRS").

**Emphasis of Matters**

As discussed in Note 2 to the accompanying separate financial statements, the accompanying separate statements of financial position as of December 31, 2012 and 2011, the related separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended Decemeber 31, 2012 and 2011 have been restated to reflect the revision of K-IFRS 1019 " Employee Benefits" for the purpose of the Company's Offering Circular in connection its updateof Global Medium Term Note Program. The separate financial statements for the years ended December 31, 2011 and 2012 issued with our audit opinion dated on March 8, 2013 did not reflect these restatements

Deloitte Anjin LLC

September 17, 2013

Deloitte.

Notice to Readers

This report is effective as of September 17, 2013, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying separate financial statements and may result in modifications to the auditor's report.

Our report is solely for the purpose of the Company's Offering Circular in connection with its update of Global Medium Term Note Program and for your information and it is not to be used for any other purposes or to be distributed to any other parties.

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012 AND 2011

| | Korean won | | | |
|---|---|---|---|---|
| | Dec. 31, 2012 | | Dec. 31, 2011 | |
| | (In millions) | | | |
| ASSETS: | | | | |
| Cash and due from banks (Notes 6, 7,10, 47 and 48) | ₩ | 6,929,182 | ₩ | 7,409,044 |
| Financial assets at fair value through profit or loss (Notes 5, 6, 7, 11, 18 and 48) | | 1,472,758 | | 1,481,282 |
| Hedging derivative assets (Notes 5, 6, 7 and 18) | | 37,867 | | 32,537 |
| Available-for-sale financial assets (Notes 5, 6, 7, 12, 14, 15,17 and 48) | | 6,969,864 | | 6,054,791 |
| Held-to-maturity financial assets (Notes 4, 6, 7, 13, 14 and 15) | | 5,017,636 | | 5,332,794 |
| Loans (Notes 6, 7, 16, 17 and 48) | | 66,457,419 | | 64,691,036 |
| Investments in subsidiaries and associates (Note 19) | | 1,071,522 | | 1,052,873 |
| Tangible assets (Note 20) | | 1,204,775 | | 1,188,863 |
| Investment property (Note 21) | | 178,312 | | 176,442 |
| Intangible assets (Note 22) | | 68,643 | | 73,688 |
| Prepaid income taxes | | 1,217 | | 963 |
| Other assets (Notes 6, 7, 23 and 48) | | 7,805,003 | | 7,080,878 |
| Merchant banking account assets (Notes 6, 7 and 23) | | 2,578,216 | | 2,392,454 |
| Non-current assets held for sale (Note 24) | | 192 | | - |
| Total assets | ₩ | 99,792,606 | ₩ | 96,967,645 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| LIABILITIES: | | | | |
| Deposits (Notes 6, 7, 8, 26 and 48) | ₩ | 63,548,804 | ₩ | 61,919,043 |
| Financial liabilities at fair value through profit or loss (Notes 5, 6, 7, 8, 25 and 48) | | 1,308,602 | | 967,748 |
| Hedging derivative liabilities (Notes 5, 6, 7, 8 and 18) | | - | | 897 |
| Borrowings (Notes 6, 7, 8, 27 and 48) | | 6,562,502 | | 9,175,095 |
| Debentures (Notes 6, 7, 8 and 28) | | 5,810,107 | | 4,975,857 |
| Provisions (Notes 29, 48 and 49) | | 234,503 | | 234,595 |
| Income taxes payable | | 34,810 | | 380,327 |
| Deferred income tax liabilities (Note 44) | | 29,231 | | 51,663 |
| Other liabilities (Notes 6, 7, 8, 30, 31, 46 and 48) | | 12,790,021 | | 10,054,736 |
| Merchant banking account liabilities (Notes 6, 7 and 30) | | 528,735 | | 753,304 |
| Total liabilities | | 90,847,315 | | 88,513,265 |

(Continued)

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2012 AND 2011

| | Korean won | | | |
|---|---|---|---|---|
| | Dec. 31, 2012 | | Dec. 31, 2011 | |
| | (In millions) | | | |
| SHAREHOLDERS' EQUITY: | | | | |
| Capital stock (Note 32) | ₩ | 3,224,534 | ₩ | 3,224,534 |
| Capital surplus (Note 32) | | 940 | | 940 |
| Hybrid securities (Note 32) | | 249,772 | | 249,772 |
| Stock option (Note 32) | | 40 | | - |
| Retained earnings (Note 33) (reserve for credit losses: ₩680,066 million as of December 31, 2012, and ₩0 million as of December 31, 2011 Additional expected reserve for credit losses: ₩17,815 million as of December 31, 2012, and ₩680,066 million as of December 31, 2011) (Note 34) | | 5,265,653 | | 4,651,903 |
| Accumulated other comprehensive income (Note 35) | | 204,352 | | 327,231 |
| Total shareholders' equity | | 8,945,291 | | 8,454,380 |
| Total liabilities and shareholders' equity | ₩ | 99,792,606 | ₩ | 96,967,645 |

(Concluded)

See accompanying notes to separate financial statements.

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean Won | |
|---|---|---|
| | 2012 | 2011 |
| | (In millions except per share amounts) | |
| Net interest income (Notes 37 and 48): | | |
| Interest revenues | ₩ 4,144,036 | ₩ 4,148,492 |
| Interest expenses | (1,836,134) | (1,752,112) |
| | 2,307,902 | 2,396,380 |
| Net commission income (Notes 38 and 48): | | |
| Commission revenues | 468,029 | 458,518 |
| Commission expense | (334,848) | (258,202) |
| | 133,181 | 200,316 |
| Net income (loss) of financial instruments at fair value through profit or loss (Notes 39 and 48): | | |
| Gains on financial instruments at fair value through profit or loss | 3,426,891 | 3,813,429 |
| Losses on financial instruments at fair value through profit or loss | (3,431,333) | (3,754,733) |
| | (4,442) | 58,696 |
| Net income (loss) of hedging derivatives (Note 39): | | |
| Gains on hedging derivatives | 7,816 | 28,379 |
| Losses on hedging derivatives | (12,577) | (27,601) |
| | (4,761) | 778 |
| Net income of available-for-sale financial assets (Note 39): | | |
| Gains on available-for-sale financial assets | 238,560 | 1,187,304 |
| Lossess on available-for-sale financial assets | (22) | (16) |
| | 238,538 | 1,187,288 |
| Net impairment loss (Notes 40 and 48): | | |
| Impairment losses on financial assets | (612,707) | (493,594) |
| General and administrative expenses (Notes 41 and 46) | (1,462,590) | (1,392,731) |
| Net other operating income (Notes 42 and 48): | | |
| Other operating revenues | 1,297,202 | 1,405,398 |
| Other operating expenses | (1,037,441) | (1,272,626) |
| | 259,761 | 132,772 |
| Operating income | 854,882 | 2,089,905 |
| Net non-operating income (Note 43): | | |
| Non-operating revenues | 63,657 | 62,436 |
| Non-operating expenses | (47,258) | (45,299) |
| | 16,399 | 17,137 |
| Income before income tax expense | 871,281 | 2,107,042 |
| Income tax expense (Note 44) | (239,281) | (482,820) |
| Net Income:<br>(net income after reserve for credit losses:<br>₩614,185 million for the year ended December 31, 2012, and<br>₩1,457,340 million for the year ended December 31, 2011) (Note 34) | ₩ 632,000 | ₩ 1,624,222 |

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean Won | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | (In millions except per share amounts) | | | |
| Remeasurement of net defined benefit liability | ₩ | (6,210) | ₩ | (2,111) |
| Items not subsequently reclassified to profit or loss | | (6,210) | | (2,111) |
| Gain or loss on change in fair value of available-for-sale financial assets | | (85,670) | | (482,014) |
| Gain or loss on foreign exchange in non-monetary available-for-sale financial assets | | (89) | | (19) |
| Gain or loss on overseas business translation | | (30,931) | | 4,847 |
| Items subsequently reclassified to profit or loss | | (116,669) | | (477,186) |
| Other comprehensive income(loss), net of tax | | (122,879) | | (479,297) |
| Total comprehensive income | ₩ | 509,121 | ₩ | 1,144,925 |
| Earnings per share (in Korean won) (Note 45): | | | | |
| Basic earnings per share | ₩ | 952 | ₩ | 2,490 |
| Diluted earnings per share | ₩ | 951 | ₩ | 2,486 |

(Concluded)

See accompanying notes to separate financial statements.

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Capital stock | Capital surplus | Hybrid securities | Stock option | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|---|
| | (In millions of Korean won) | | | | | | |
| January 1, 2011(Reported) | ₩3,224,534 | ₩ 940 | ₩ 249,772 | - | ₩4,593,243 | ₩ 781,196 | ₩ 8,849,685 |
| Effect of change in accounting policy | - | - | - | - | (25,332) | (25,332) | - |
| January 1, 2011(Restated) | 3,224,534 | 940 | 249,772 | - | 4,567,911 | 806,528 | 8,849,685 |
| Dividend | - | - | - | - | (548,171) | - | (548,171) |
| Balance after appropriations | 3,224,534 | 940 | 249,772 | - | 4,019,740 | 806,528 | 8,301,514 |
| Net income | - | - | - | - | 1,624,222 | - | 1,624,222 |
| Quarterly dividend | - | - | - | - | (973,809) | - | (973,809) |
| Gain or loss on change in fair value of available-for-sale financial assets, after-tax effect | - | - | - | - | - | (482,014) | (482,014) |
| Gain or loss on overseas business translation, after-tax effect | - | - | - | - | - | 4,847 | 4,847 |
| Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after-tax effect | - | - | - | - | - | (19) | (19) |
| Dividends on hybrid securities | - | - | - | - | (18,250) | - | (18,250) |
| Remeasurements of the net defined benefit liability | - | - | - | - | - | (2,111) | (2,111) |
| December 31, 2011 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,651,903 | ₩ 327,231 | ₩ 8,454,380 |
| January 1, 2012 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ - | ₩ 4,651,903 | ₩ 327,231 | ₩ 8,454,380 |
| Net income | - | - | - | - | 632,000 | - | 632,000 |
| Gain or loss on change in fair value of available-for-sale financial assets, after-tax effect | - | - | - | - | - | (85,670) | (85,670) |
| Gain or loss on overseas business translation | - | - | - | - | - | (30,931) | (30,931) |
| Gain or loss on foreign exchange in non-monetary available-for-sale financial assets, after-tax effect | - | - | - | - | - | (68) | (68) |
| Dividends on hybrid securities | - | - | - | - | (18,250) | - | (18,250) |
| Stock option | - | - | - | 40 | - | - | 40 |
| Remeasurements of the net defined benefit liability | - | - | - | - | - | (6,210) | (6,210) |
| December 31, 2012 | ₩3,224,534 | ₩ 940 | ₩ 249,772 | ₩ 40 | ₩ 5,265,653 | ₩ 204,352 | ₩ 8,945,291 |

See accompanying notes to separate financial statements.

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean won | |
|---|---|---|
| | 2012 | 2011 |
| | (In millions) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | ₩ 632,000 | ₩ 1,624,222 |
| Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities: | | |
| Income tax expense | 238,905 | 482,967 |
| Interest income, net | (2,307,902) | (2,396,380) |
| Dividend income | (9,059) | (48,620) |
| Rental revenues | (3,206) | (3,208) |
| Gain on valuation of trading securities, net | (380) | (418) |
| Gain on valuation of trading bonds, net | (2) | (234) |
| Gain on valuation of trading derivatives, net | (34,262) | (64,730) |
| Loss (gain) on valuation of hedging derivatives, net | 5,517 | (111) |
| Gain on disposal of available-for-sale equity securities, net | (188,456) | (1,178,248) |
| Gain on disposal of available-for-sale debt securities, net | (50,082) | (9,040) |
| (Reversal of ) Impairment loss on available-for-sale financial assets, net | 15,305 | (5,806) |
| Transfer to allowance for possible losses | 597,402 | 499,400 |
| Salaries | - | 20,400 |
| Expenses for fringe benefits | - | 2,100 |
| Depreciation and amortization | 96,489 | 91,244 |
| Loss (gain) on disposal of tangible assets, net | 70 | (133) |
| Loss on disposal of investment property | 73 | - |
| Impairment loss on investment in associates | 748 | - |
| Loss on disposal of investment in associates | - | 205 |
| Impairment losses on intangible assets | 2,074 | 1,806 |
| Retirement allowances | 81,778 | 42,365 |
| Long-term compensation expense for performance bonus | 33,842 | 22,086 |
| Reversal of stock-option compensation costs, net | (2,453) | (4,533) |
| Reversal of provision for acceptances and guarantees | (3,867) | (8,999) |
| Transfer to (reversal of) provision for unused credit limit | 6,642 | (40,690) |
| Transfer to other provisions | 18,249 | 11,278 |
| Gain on foreign exchange trading, net | (34,989) | (3,132) |
| Others, net | (4,710) | 3,900 |
| | (1,542,274) | (2,586,531) |
| Changes in operating assets and liabilities: | | |
| Net decrease in trading securities | 337 | 49,044 |
| Net decrease (increase) in trading bonds | 288,641 | (345,942) |
| Net (increase) decrease in trading derivatives assets | (245,906) | 82,147 |
| Net decrease in hedging derivatives assets | 711 | 141 |
| Net increase in loans | (2,684,997) | (2,356,915) |
| Net decrease (increase) in other assets | 984,731 | (248,622) |
| Net increase in merchant banking account assets | (181,134) | (960,071) |
| Net increase in deposits | 1,901,683 | 1,240,274 |
| Net increase (decrease) in trading derivative liabilities | 340,878 | (4,335) |
| Net decrease in hedging derivative liabilities | (897) | (1,614) |
| Payment of severance benefits | (33,486) | (71,660) |
| Increase in plan assets | (74,300) | (12,500) |

(Continued)

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean won | |
|---|---|---|
| | 2012 | 2011 |
| | (In millions) | |
| Net decrease in other provisions | ₩ (20,167) | ₩ (17,386) |
| Net increase in other liabilities | 1,716,466 | 691,207 |
| Net decrease in merchant banking account liabilities | (224,487) | (195,197) |
| | 1,768,073 | (2,151,429) |
| Cash generated from operating activities: | | |
| Net cash received for interest income | 1,592,954 | 2,555,360 |
| Net cash received for dividend income | 9,061 | 48,623 |
| Payment of income tax | (578,130) | (333,844) |
| | 1,023,885 | 2,270,139 |
| Net cash provided by (used in) operating activities | 1,881,684 | (843,599) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash flows provided by investing activities | | |
| Net decrease in restricted due from banks | 1,343,932 | 721,786 |
| Net decrease in available-for-sale financial assets | - | 530,850 |
| Net decrease in held-to-maturity financial assets | 309,628 | 533,164 |
| Disposal of tangible assets | 184 | 1,424 |
| Disposal of investment property | 271 | - |
| Disposal of intangible assets | 213 | - |
| Cash inflow related to lease | 2,199 | 3,375 |
| | 1,656,427 | 1,790,599 |
| Cash flows used in investing activities | | |
| Net increase in available-for-sale financial assets | (816,452) | - |
| Investments in subsidiaries | (19,397) | - |
| Purchase of tangible assets | (90,410) | (73,739) |
| Purchase of intangible assets | (13,298) | (23,835) |
| Net increase in guarantee deposits paid | (8,844) | (19,567) |
| | (948,401) | (117,141) |
| Net cash provided by investing activities | 708,026 | 1,673,458 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net cash flows provided by financing activities | | |
| Net increase in bills sold | - | 44,282 |
| Increase in borrowings | 1,855,301 | 2,331,937 |
| Increase in debentures | 3,286,743 | 1,893,143 |
| | 5,142,044 | 4,269,362 |
| Net cash flows used in financing activities | | |
| Net decrease in call money | (962,275) | (36,719) |
| Net decrease in bills sold | (33,607) | - |
| Net decrease in bonds sold under repurchase agreements | (22,055) | (98,800) |
| Decrease in borrowings | (3,328,499) | (1,446,894) |
| Decrease in debentures | (2,482,774) | (1,338,559) |
| Dividends paid | - | (1,521,980) |
| Dividends on hybrid securities | (18,250) | (18,250) |
| | (6,847,460) | (4,461,202) |
| Net cash used in financing activities | (1,705,416) | (191,840) |

(Continued)

KOREA EXCHANGE BANK

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Korean won | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | (In millions) | | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | ₩ | 884,294 | ₩ | 638,019 |
| CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF PERIOD | | 2,688,244 | | 2,012,935 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | (20,224) | | 37,290 |
| CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (Note 47) | ₩ | 3,552,314 | ₩ | 2,688,244 |

(Concluded)

See accompanying notes to separate financial statements.

KOREA EXCHANGE BANK

NOTES TO SEPARATE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

## 1. GENERAL:

Korea Exchange Bank (the "Company") was established on January 30, 1967, as a government-invested bank to engage in foreign exchange and trade finance business under "Korea Exchange Bank Act". On December 30, 1989, Korea Exchange Bank Act was repealed and the Company was converted into a corporation under the "Commercial Code of the Republic of Korea". On April 4, 1994, the Company was listed on Korean Stock Exchange. The Company merged with Korea Exchange Bank Credit Service Co., Ltd., on February 28, 2004.

The Company primarily provides commercial banking services, trust banking services, foreign exchange, merchant banking business through the merger with Korea International Merchant Bank, a domestic subsidiary of the Company and other related operations as permitted under Korea Exchange Bank Act and other relevant laws and regulations in the Republic of Korea. As of December 31, 2012, the Company operates through 357 branches (including 26 depositary offices) and three subsidiaries in the Republic of Korea and 20 branches (including two depositary offices and five offices) and 10 overseas subsidiaries.

The list of the Company's shareholders is as follows:

| Name of shareholders | Number of shares owned (*1) | Percentage of ownership (%) |
|---|---|---|
| Hana Financial Group Inc. | 386,952,719 | 60.00 |
| The Bank of Korea ("B.O.K.") | 39,500,000 | 6.12 |
| Ilsung Pharmaceuticals Co., Ltd. | 12,022,380 | 1.86 |
| The Government of Singapore | 8,249,660 | 1.28 |
| National Pension Service | 8,040,677 | 1.25 |
| Others | 190,141,390 | 29.49 |
| Total | 644,906,826 | 100.00 |

(*1) The list of the Company's shareholders is as of December 31, 2012, which is the closing date of the list.

As of December 31, 2012, the total number of authorized shares of the Company are 1,000 million at par value of ₩5,000, while the paid-in capital amounts to ₩3,224,534 million (with 644,906,826 shares of common stock outstanding, with a par value of ₩5,000).

Due to the acquisition of equity of the Company by Hana Financial Group Inc. and four other co-investors, the largest shareholder has been changed from LSF-KEB Holding, SCA to Hana Financial Group Inc. as of February 9, 2012.

## 2. BASIS OF PREPARATION:

The Company adopted the Korean International Financial Reporting Standards ("K-IFRS") for the annual period beginning on January 1, 2011.

The financial statements are separate financial statements under K-IFRS 1027, *Consolidated and Separate Financial Statements*, presenting investments in subsidiaries with the cost method, not based on reported financial results and net assets, but based on direct interests.

The accompanying separate financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

The separate financial statements for the year ended December 31, 2012 were approved by the Board of Directors' on March 5, 2013 subsequent to the approval by the board of directors on March 5, 2013, for the purpose of the Company's Offering Circular in connection with its update of Global Medium Term Note Program, separate financial statements for the years ended December 31, 2012 and 2011 have been restated to reflect the revision of K-IFRS 1019 " Employee Benefits"

## 3. SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies under K-IFRS followed by the Company in the preparation of its separate financial statements are summarized as follows. These accounting policies applied for the accompanying the separate financial statements are the same as the policies applied for the preparation of the separate financial statements for the year ended December 31, 2011, except for the effects from the introduction of new and revised accounting standards or interpretations as described below.

1) Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

- Amendments to K-IFRS 1001 –Presentation of Financial Statements

The amendments of K-IFRS 1001 relate to the separate presentation of other comprehensive income items that would not be reclassified as net income subsequently or would be reclassified as net income under specific circumstances. The amendments have effect on the presentation of separate financial statements and no effects on the financial position and financial performance. The Company applied the amendments retrospectively and restated the comparative separate financial statements.

- Amendments to K-IFRS 1019 –Employee Benefits

The amendments to K-IFRS 1019 relate to the elimination of the 'corridor approach' permitted under the previous version of K-IFRS 1019. Accordingly, the actuarial gains and losses are recognized in other comprehensive income immediately. The amendment replaces the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability. The expected return on plan assets included in net interest on the net defined benefit liability (asset). The past service costs incurred under changes of plans are recognized at the earlier of the dates when the plan amendment or curtailment occurs and when the entity recognizes related restructuring costs or termination benefits. The Company applied the amendments retrospectively and restated the comparative separate of financial statement.

- Amendments to K-IFRS 1107 – Financial Instruments: Disclosures

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. Irrespective of whether they meet the offset requirement of between financial assets and financial liabilities in accordance with K-IFRS 1032, the amendments to K-IFRS 1107 establishes legally enforceable master netting agreements or in accordance with similar agreement right to offset financial instruments and the information about offset agreement like collateral agreement. The amendments of the enactment have no significant effect on the Company's separate financial statements.

- Enactments to K-IFRS 1111 – Joint Arrangements

K-IFRS 1111 classifies joint arrangements of which two or more parties have joint control into two types, joint operations and joint ventures depending on the rights and obligations of the parties to the arrangements. A joint operation is a joint arrangement whereby the parties have rights to the joint assets, and obligations for the joint liabilities. A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. In case of joint operation, joint operator accounts for its share of the joint assets, liabilities, revenues, and expenses. In case of joint venture, joint venture account for its investment using equity method. The amendment has no effect on the Company's separate financial statements.

- Enactment to K-IFRS 1112 – Disclosure of Interests in Other Entities

The enactment of K-IFRS 1112 establishes disclosures requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. And the K-IFRS 1112 requires that the nature of, and risks associated with, its interests in other entities, the effects of those interests on its financial position, financial performance and cash flows. The adoption of the enactment has no significant effect on the Company's separate financial statements.

The effect from the implementation of new accounting standard(K-IFRS 1019) on the separate financial statements are as follow (Unit: thousands):

< Separate Statements of Financial Position>

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Reported | Adjustment | Restated | Reported | Adjustment | Restated |
| Retained earnings | ₩ 5,282,664 | ₩ (17,011) | ₩ 5,265,653 | ₩ 4,675,124 | ₩ (23,221) | ₩ 4,651,903 |
| Accumulated other comprehensive income | 187,341 | 17,011 | 204,352 | 304,010 | 23,221 | 327,231 |

<Separate Statements of Comprehensive Income>

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Reported | Adjustment | Restated | Reported | Adjustment | Restated |
| Net interest income | ₩ 2,307,902 | ₩ - | ₩ 2,307,902 | ₩ 2,396,380 | ₩ - | ₩ 2,396,380 |
| Net commission income | 133,181 | - | 133,181 | 200,316 | - | 200,316 |
| Net income of financial instruments at fair value through profit or loss | (4,442) | - | (4,442) | 58,696 | - | 58,696 |
| Net income of hedging derivatives | (4,761) | - | (4,761) | 778 | - | 778 |
| Net income of available-for-sale financial assets | 238,538 | - | 238,538 | 1,187,288 | - | 1,187,288 |
| Net impairment losses | (612,707) | - | (612,707) | (493,594) | - | (493,594) |
| General and administrative expenses | (1,470,782) | 8,192 | (1,462,590) | (1,395,517) | 2,786 | (1,392,731) |
| Other operating income | 259,761 | - | 259,761 | 132,772 | - | 132,772 |
| Operating income | 846,690 | 8,192 | 854,882 | 2,087,119 | 2,786 | 2,089,905 |
| Non-operating income | 16,399 | - | 16,399 | 17,137 | - | 17,137 |
| Income before income tax expense | 863,089 | 8,192 | 871,281 | 2,104,256 | 2,786 | 2,107,042 |
| Income tax expense | (237,299) | (1,982) | (239,281) | (482,145) | (675) | (482,820) |
| Net Income | 625,790 | 6,210 | 632,000 | 1,622,111 | 2,111 | 1,624,222 |
| Other comprehensive income | (116,669) | (6,210) | (122,879) | (477,186) | (2,111) | (479,297) |
| Total comprehensive income | ₩ 509,121 | ₩ - | ₩ 509,121 | ₩ 1,144,925 | ₩ - | ₩ 1,144,925 |

2) New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective.

- Amendments to K-IFRS 1032 – *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 are clarifying the meaning of related standards about the offset presentation of financial assets and financial liabilities. That is, the right to offset must not be conditional to future events and can be exercised always during the contract periods. The right to offset has to be executable even in the case of default or insolvency, not just in the case of normal business progress with counterparties. The amendments to K-IFRS 1032 are effective for the annual period beginning on January 1, 2014.

(1) Revenue Recognition

1) Interest revenues (expenses)

Interest revenues (expenses) is recognized on an effective interest basis. The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest revenues or interest expenses over the relevant period.

2) Commission revenues (expenses)

According to the imposition purpose of the commission and related accounting standards for financial assets, commission revenues are classified as, and accounted for as, follows:

| Classification | Details |
|---|---|
| Commission composing effective revenues of the financial instruments | Accounted for as an adjustment to the effective interest rate |
| Commission from rendering of services | Revenue recognized when the services are provided |
| Commission by performing significant activities | Revenue recognized when significant activities have been completed |

3) Dividend income

Dividend income from investments is recognized when the shareholders' right to receive payment has been established.

(2) Financial assets

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in net income.

All regular way purchases or sales of financial assets are recognized or derecognized on the trade date basis. Regular way purchases or sales are purchases or sales of financial assets under a contract whose term require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss(FVTPL), held-to-maturity investments("HTM"), available-for-sale financial assets("AFS") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for selling in the near term. A financial instrument, containing one or more embedded derivatives, treated separately from the host contract, is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income. Transaction costs attributable to acquisition upon initial recognition are immediately recognized in net income in the period incurred.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking
- it is a derivative that is not designated and effective as a hedging instrument

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- in accordance with the Company's documented risk management or investment strategy, the financial asset forms a part of a group of financial assets or financial liabilities, or both, which is recorded at fair value; performance is evaluated based on its fair value; and this information is provided internally on that basis
- it forms a part of a contract containing one or more embedded derivatives, and K-IFRS 1039*, Financial Instruments: Recognition and Measurement,* permits the entire combined contract (asset or liability) to be designated as at FVTPL

2) AFS financial assets

Non-derivatives financial assets that are not classified as at held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at financial assets AFS.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in net income. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of Gain or loss on change in fair value of AFS financial assets. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to net income.

Dividends on AFS equity instruments are recognized in net income when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in net income are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

3) HTM investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

4) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Loans, due from banks and leasehold deposit paid are classified as loans and receivables.

5) Deferred loan origination fees ("LOFs") and loan origination costs ("LOCs")

The Company defers LOFs/LOCs associated with originating loans and LOCs that have future economic benefits. Loan balances are reported net of these LOFs/LOCs. The deferred LOFs/LOCs are amortized using the effective interest method with the amortization recognized as adjustments to interest revenues.

6) Impairment of financial assets

Financial assets, other than financial assets at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. However, the impairment losses, expected as a result of future events, are not recognized.

Objective evidence that a financial asset is impaired includes the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- the lender, for economic or legal reasons relating to borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- the disappearance of an active market for the financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

If there is an objective evidence of impairment, impairment loss should be recognized by each category of financial assets as described below:

*AFS financial assets*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to net income in the period.

In respect of AFS equity securities, impairment losses previously recognized in net income are not reversed through net income. Any increase in fair value subsequent to the impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through net income if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent period.

*HTM investments*

For HTM investments measured at amortized cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

*Loans and receivables*

For loans and receivables measured at amortized cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The Company first assesses whether objective evidence of impairment exists individually for the financial assets that are individually significant (individual assessment of impairment).

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

Impairment loss is deducted from allowance for possible losses on credits when it is considered unrecoverable. If it is subsequently recovered, allowance for possible losses on credits increases and the changes are recognized in net income.

① Allowance for possible losses on credits by individual assessment

Allowance for possible losses on credits by individual assessment is recognized by the difference between the asset's carrying amount and the present value of future cash flows expected to be collected by considering borrower's management performance, financial position, overdue period and mortgage amount.

② Allowance for possible losses on credits by collective assessment

Allowance for possible losses on credits by collective assessment is measured using probability of default ("PD") and loss given default ("LGD"), which are calculated by adjusting PD and LGD on Basel II model for accounting purpose. Such approach considers various elements, including borrower type, credit rating, size of portfolio, loss emergence period and collection period and applies consistent assumptions so as to model the measurement of inherent loss and determine variables based on historical loss experience and current conditions.

7) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received shall be recognized in net income of the current period.

If the part of financial asset is qualified for the derecognition, the entire carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between (1) the carrying amount allocated to the part derecognized and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and is derecognized, based on the relative fair values of those parts.

8) Offset of financial assets and liabilities

Financial assets and liabilities shall be offset only when the Company has the legal right to set off assets and liabilities and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(3) Financial Liabilities and Equity Instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

3) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL is recognized immediately in net income.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when either the financial liability is held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term,
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- in accordance with the Company's documented risk management or investment strategy, the financial liability forms a part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis or
- it forms a part of a contract containing one or more embedded derivatives and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in net income.

*Other financial liabilities*

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*

The Company derecognize financial liabilities when the Company's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4) Hybrid securities

Hybrid securities are classified as an equity when all requirements for equity classification are satisfied in conformity with contract terms.

5) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets* and
- The amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

(4) Fair Values

1) Methods and assumptions applied in measurement of fair values

Fair values of financial assets or liabilities are determined as following:

- fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where there are available under standard requirements for transactions.
- for other financial assets and liabilities, except for derivatives, fair values are determined using valuation techniques where inputs in the model are observable market data .
- the quoted market prices are used for a derivatives if it is traded in active market. All other derivatives whose quoted market price is not available are valued using internal valuation techniques. Fair values of options are determined by reference to discounted cash flow analysis with option-pricing models. A yield curve applicable to weighted-average maturity is used for derivatives other than options. Fair values of future contracts are measured by using yield curve derived from corresponding interest rate to published future exchange rate and maturity.

2) Three-level fair value hierarchy

The Company classifies fair value measurements of financial assets or liabilities by reference to the source of inputs used to derive the fair values. The classification is as follows:

| Classification | Details |
|---|---|
| (Level 1) | Quoted prices (unadjusted) in active markets for identical assets or liabilities |
| (Level 2) | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) |
| (Level 3) | Inputs for the asset or liability that are not based on the observable market data (unobservable inputs) |

(5) Derivative Financial Instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately, unless the derivative is designated and effective as a hedging instrument; in such case, the timing of the recognition in net income depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

1) Embedded derivatives

An embedded derivative shall be separated from the host contract and accounted for as a derivative if and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contracts, a separate instrument with the same terms as embedded derivative would meet the definition of a derivative, and the hybrid instrument is not measured at fair value with changes in fair value recognized in net income.

2) Hedge accounting

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in net income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Company revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to net income from that date.

4) Deferred Day 1 profit

The Company assesses fair values of over-the-counter derivatives by using its own assessment methodology. The assessment methodology generally (i) includes elements that market participants consider in determination of prices and (ii) agree coincides with a theoretical methodology used to determine prices of financial instruments.

However, the Company defers Day 1 profit, the difference between the fair value autonomously determined at the acquisition date and transaction price, in case the assessment methodology is not satisfied with the above requirements.

Deferred Day 1 profit is recognized in net income when a derivative instrument is liquidated or matured, or a deferring factor of Day 1 profit is removed.

(6) Investments in Subsidiaries and Associates

The accompanying separate financial statements are prepared under K-IFRS 1027*, Separate Financial Statements* and 1028, *Investments* in Associates and Joint Ventures, accounting and present investments in subsidiaries and associates with cost method not based on investees' reported financial results and net assets, but based on direct interests. The Company accounts for investments in subsidiaries and associates with cost method in accordance with K-IFRS 1027. Dividends received from subsidiaries and associates are recognized in net income when the right to receive dividends is determined.

(7) Foreign Currencies

1) Functional currency and presentation currency

The individual separate financial statements of each branch are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the separate financial statements, the financial results and position of each branch are expressed in Korean won, which is the functional currency of the Company and the presentation currency for the separate financial statements.

2) Transactions with foreign currencies

In preparing the separate financial statements of the each entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences are recognized in net income in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 3 (5) above for hedging accounting policies)
- exchange differences on monetary items receivable from, or payable to, a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to net income on disposal or partial disposal of the net investment

3) Foreign operations

The Company identifies the most appropriate functional currency for each foreign operations based on the thieir activities. If Korean won is not functional currency of the foreign operations, their assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated into Korean won at foreign exchange rates at the end of each reporting date, while the revenues and expenses are translated into Korean won at average exchange rates for the period, unless it does not approximate to the foreign exchange rates at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognized directly in other comprehensive income and included in net income on its liquidation.

(8) Retirement Benefit Costs

For defined benefit plans, the cost of retirement benefits is measured by an actuary services company, using the projected unit credit method. The present value of defined benefit obligation is computed by discounting expected future cash outflows with market rate of return measured against the yield of high-graded corporate bond whose date of payment and maturity is similar to that of a defined benefit obligation. Actuarial gains and losses, incurred from the change in actuarial assumptions and the difference between the assumptions and the actual results, are recognized in other comprehensive income for the period. Past service cost is recognized immediately to the extent that the benefits are already vested and otherwise is amortized on a straight-line basis over the period until the benefits become vested.

The company enters into agreements such as retirement insurance, retirement trust, and retirement annuity in order to meet severance pay. The retirement benefit obligation recognized in the interim separate statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(9) Share-Based Payment

For equity-settled share-based payment transactions, the value of the goods and services received and the corresponding increase in equity are measured at the fair value of the equity instruments at the grant date. For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in net income for the year.

For a share-based payment transaction in which the terms of the arrangement provide the Company with the choice of whether to settle in cash or by issuing equity instruments, the Company shall determine whether it has a present obligation to settle in cash. If no obligation exits, it shall account for the transaction in accordance with the requirements applying to equity-settled share-based transactions. However, if it has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled share-based transactions.

(10) Property, Plant, and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the depreciation method and the estimated useful lives of the assets as follows:

| Classification | Estimated useful life(in Years) | Depreciation method |
|---|---|---|
| Buildings | 40 | Straight-line |
| Leasehold improvements | 5 | Straight-line |
| Equipment and vehicles | 4 | Declining-balance |

A tangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(11) Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in net income in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net income in the period in which the property is derecognized. Meanwhile, the routine cost of repair and maintenance is recognized as net income on the period of the occurrence.

While land is not depreciated, all other investment properties are depreciated based on the respective assets' estimated useful lives of 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of tangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(12) Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset

- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in net income in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in net income when the asset is derecognized.

(13) Non-Current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

(14) Impairment of Tangible and Intangible Assets other than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, and value in use. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or the CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the CGU is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or the CGU previously. A reversal of an impairment loss is recognized immediately in net income.

(15) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Company does not recognize provisions for future operating losses.

The Company recognizes provisions related to unused credit card points amount, guarantee and litigations. In addition, provisions for decommissioning or restoration are recognized in relation to restoration of rented assets, which are recognized as tangible assets. Decommissioning or restoration costs are present value of expected costs of restoration using future cash outflows.

(16) Accounting for Trust Accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the "trust accounts") from those of the Company's accounts in accordance with the Financial Investment Services and Capital Markets Act ("FSCMA"). When surplus funds are generated through the management of trust assets, such funds are deposited with the Company and are recorded as due to trust accounts of the Company's accounts. Also, the borrowings from the Company's accounts are recorded as due from trust accounts of the Company's accounts. The Company receives fees for operation and management of the trust business and accounts for them as fees and commissions from trust accounts.

With respect to certain trust account products, the Company guarantees the repayment of principal of these trust accounts, in certain cases, with a fixed rate of return. If income from such trust accounts is insufficient to pay the guaranteed amount, such a deficiency is satisfied by using special reserves maintained in these trust accounts, offsetting trust fee payable to the Company's accounts and receiving compensation contributions from the Company's accounts. If the Company pays compensating contributions to the guaranteed return trusts to cover such deficiencies, these contributions are reflected as operating expense of the Company's accounts and as other income of the trust accounts.

(17) Merchant Banking Accounts

As permitted by the Restructuring of Financial Institutions Act, the Company may continue its merchant banking operations, including leasing business, until the existing contracts acquired from Korea International Merchant Bank upon merger are terminated.

Significant accounting policies applied to the Company's merchant banking operations are summarized as follows:

1) Revenue recognition on discounted notes

Interest income on discounted notes is accrued over the term of the notes. Income from the sale of discounted notes is recognized at the date of sale based on the difference between the purchase and sales prices of the notes, adjusted for interest earned during the holding period.

2) Cash Management Accounts ("CMA")

The Company recognizes interest income from CMA investments and interest expense from CMA deposits as other income and other expenses, respectively.

(18) Income Tax

Income tax consists of current tax and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the separate statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 4. ESTIMATION AND ACCOUNTING JUDGMENT:

In the application of the Company’s accounting policies described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in the future periods if the revision affects both current and future periods.

1) Critical judgments in applying accounting policies

*HTM investments*

Management has reviewed the Company’s HTM investments in light of its capital maintenance and liquidity requirements and has confirmed the Company’s positive intention and ability to hold those assets to maturity. The carrying amount of the HTM investments is ₩5,017,636 million. Details of these assets are set out in Note 13.

*Significant hedge relationships*

As described in Note 3 (5), the Company designates certain derivatives as hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges). Also, fair value hedge accounting is applied for the purpose of avoiding risk of fair value changes of recognized asset, liabilities or unrecognized confirmed contract as a whole or partly. Also, cash flow hedge accounting is applied for the purpose of avoiding risk of cash flow changes of recognized asset, liabilities and expected transactions that are highly about to be happen.

2) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

*Determination of fair values*

In order to determine fair values of financial assets and liabilities without predictable market values, valuation methods are necessary. Financial instruments for which transactions do not occur frequently and prices are less objective, extensive judgment is required with regard to liquidity, concentration, uncertainty of market factors, assumptions related to price determination and other risks. Management believes that methodologies and assumptions used in the determination of fair values for financial instruments are reasonable.

*Allowance for possible losses on credits*

For loans and receivables, it is necessary to reserve liabilities for guarantees and unused credit limit by performing impairment test. The accuracy of reserves is determined by assumptions and variables used to estimate expected cash flows by individual borrowers and allowance for bad debts and guarantees/unused credit limit liabilities by collective method.

*Measurement of defined benefit obligation*

Defined benefit obligation is calculated by performing actuarial valuation at the end of each reporting period. In order to apply actuarial valuation method, it is necessary to estimate discount rate, future wage growth rate, expected return on plan assets, etc. A retirement benefit plan includes significant uncertainty on such estimation as it is operated long term. The net obligation of defined benefit as of December 31, 2012, amounts to ₩21,829 million and details are described in Note 31.

## 5. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES:

The standards the Company applies when measuring fair values of financial assets and liabilities are described below:

A. Quoted market prices as of the settlement date in an active market are the best evidence of fair value and should be used when available.

B. If a market for a financial instrument is not active, the Company establishes fair value by using a valuation technique that makes maximum use of market inputs and includes (i) recent arm's-length market transactions, (ii) reference to the current fair value of another instrument that is substantially the same, (iii) discounted cash flow analysis, and (iv) option-pricing models. An acceptable valuation technique incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

C. Valuation techniques use significant inputs that are readily observable from objective sources. If significant inputs are not observable, reasonable assumptions and estimates are used to determine fair value.

D. For an investment in equity instruments whose quoted market price is not available in an active market or derivative linked to such instruments which fair values are not measured reliably, fair values are measured at cost.

(1) Hierarchy of fair values

Fair value hierarchy of financial instruments as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | ₩ 121,781 | ₩ 1,340,821 | ₩ 10,156 | ₩ 1,472,758 |
| Hedging derivative assets | - | 37,867 | - | 37,867 |
| AFS Financial assets | 2,764,710 | 3,668,386 | 536,768 | 6,969,864 |
| Total | ₩ 2,886,491 | ₩ 5,047,074 | ₩ 546,924 | ₩ 8,480,489 |
| Liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 1,308,431 | ₩ 171 | ₩ 1,308,602 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Classification | Quoted market price (Level 1) | Observable input (Level 2) | Unobservable input (Level 3) | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | ₩ 408,156 | ₩ 1,062,503 | ₩ 10,623 | ₩ 1,481,282 |
| Hedging derivative assets | - | 32,537 | - | 32,537 |
| AFS Financial assets | 3,127,434 | 2,255,855 | 671,502 | 6,054,791 |
| Total | ₩ 3,535,590 | ₩ 3,350,895 | ₩ 682,125 | ₩ 7,568,610 |
| Liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 964,262 | ₩ 3,486 | ₩ 967,748 |
| Hedging derivative liabilities | - | 897 | - | 897 |
| Total | ₩ - | ₩ 965,159 | ₩ 3,486 | ₩ 968,645 |

(2) The changes of Level 3 financial instruments for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Beginning balance | Acquisition/ issuance | Disposal/ payment | Valuation Income | Valuation OCI | Others | Ending balance |
|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | |
| Financial assets: | | | | | | | |
| Financial assets at FVTPL | ₩ 10,623 | ₩ - | ₩ (2,820) | ₩ 2,353 | ₩ - | ₩ - | ₩ 10,156 |
| AFS Financial assets | 671,502 | 65,724 | (226,667) | (18,289) | 45,798 | (1,300) | 536,768 |
| | ₩ 682,125 | ₩ 65,724 | ₩ (229,487) | ₩ (15,936) | ₩ 45,798 | ₩ (1,300) | ₩ 546,924 |
| Financial liabilities: | | | | | | | |
| Financial liabilities at FVTPL | ₩ 3,486 | ₩ 202 | ₩ (1,285) | ₩ (2,184) | ₩ - | ₩ (48) | ₩ 171 |

| Classification | Beginning balance | Acquisition/ issuance | Disposal/ payment | Valuation Income | Valuation OCI | Others | Ending balance |
|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | |
| Financial assets | | | | | | | |
| Financial assets at FVTPL | ₩ 14,508 | ₩ 3,673 | ₩ (1,790) | ₩ (6,032) | ₩ - | ₩ 264 | ₩ 10,623 |
| AFS Financial assets | 1,313,518 | 9,392 | (636,386) | (3,554) | (11,732) | 264 | 671,502 |
| | ₩1,328,026 | ₩ 13,065 | ₩ (638,176) | ₩ (9,586) | ₩ (11,732) | ₩ 528 | ₩ 682,125 |
| Financial liabilities: | | | | | | | |
| Financial liabilities at FVTPL | ₩ 2,483 | ₩ 15,007 | ₩ (14,051) | ₩ 86 | ₩ - | ₩ (39) | ₩ 3,486 |

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Fair values of financial instruments as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Book value | Dec. 31, 2012 Fair value | Dec. 31, 2011 Book value | Dec. 31, 2011 Fair value |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and due from banks | ₩ 6,929,182 | ₩ 6,929,182 | ₩ 7,409,044 | ₩ 7,409,044 |
| Financial assets at FVTPL | 1,472,758 | 1,472,758 | 1,481,282 | 1,481,282 |
| Hedging derivatives assets | 37,867 | 37,867 | 32,537 | 32,537 |
| AFS Financial assets | 6,969,864 | 6,969,864 | 6,054,791 | 6,054,791 |
| HTM financial assets | 5,017,636 | 5,050,423 | 5,332,794 | 5,355,213 |
| Loans (*1) | 66,457,419 | 66,600,683 | 64,691,036 | 64,864,271 |
| Other financial assets (*2) | 7,711,143 | 7,715,465 | 7,021,285 | 7,026,620 |
| Merchant banking account assets (*3) | 2,578,216 | 2,578,571 | 2,392,454 | 2,397,473 |
| Total | ₩ 97,174,085 | ₩ 97,354,813 | ₩ 94,415,223 | ₩ 94,621,231 |
| Financial liabilities: | | | | |
| Deposits | ₩ 63,548,804 | ₩ 63,601,412 | ₩ 61,919,043 | ₩ 61,942,748 |
| Financial liabilities at FVTPL | 1,308,602 | 1,308,602 | 967,748 | 967,748 |
| Hedging derivatives liabilities | - | - | 897 | 897 |
| Borrowings | 6,562,502 | 6,564,403 | 9,175,095 | 9,173,892 |
| Debentures | 5,810,107 | 6,011,901 | 4,975,857 | 5,103,722 |
| Other financial liabilities (*4) | 12,453,468 | 12,453,500 | 9,722,193 | 9,722,219 |
| Merchant banking account liabilities (*5) | 525,839 | 525,839 | 747,785 | 747,785 |
| Total | ₩ 90,209,322 | ₩ 90,465,657 | ₩ 87,508,618 | ₩ 87,659,011 |

(*1) Net carrying amount after deduction of allowance for possible loan losses and LOFs/LOCs.
(*2) Include receivables spot exchange, domestic exchange settlement debit, guarantee deposits paid, etc.
(*3) Net carrying amount after deducting related allowance for possible loan losses, including merchant banking loans, merchant banking account trading securities and CMA assets
(*4) Include payables spot exchange, domestic exchange settlement credit, trust account payables, etc.
(*5) Include merchant banking account deposits

## 7. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY:

Financial assets and liabilities by category as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Trading financial instruments | AFS Financial assets | HTM investments | Financial instruments measured at amortized cost | Hedge accounting derivatives | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 6,929,182 | ₩ - | ₩ 6,929,182 |
| Financial assets at FVTPL | 1,472,758 | - | - | - | - | 1,472,758 |
| Hedging derivatives assets | - | - | - | - | 37,867 | 37,867 |
| AFS Financial assets | - | 6,969,864 | - | - | - | 6,969,864 |
| HTM financial assets | - | - | 5,017,636 | - | - | 5,017,636 |
| Loans | - | - | - | 66,457,419 | - | 66,457,419 |
| Other financial assets | - | - | - | 7,711,143 | - | 7,711,143 |
| Merchant banking account assets | 1,895,965 | - | - | 682,251 | - | 2,578,216 |
| Total | ₩ 3,368,723 | ₩ 6,969,864 | ₩ 5,017,636 | ₩81,779,995 | ₩ 37,867 | ₩ 97,174,085 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩63,548,804 | ₩ - | ₩ 63,548,804 |
| Financial liabilities at FVTPL | 1,308,602 | - | - | - | - | 1,308,602 |
| Borrowings | - | - | - | 6,562,502 | - | 6,562,502 |
| Debentures | - | - | - | 5,810,107 | - | 5,810,107 |
| Other financial liabilities | - | - | - | 12,453,468 | - | 12,453,468 |
| Merchant banking account liabilities | - | - | - | 525,839 | - | 525,839 |
| Total | ₩ 1,308,602 | ₩ - | ₩ - | ₩88,900,720 | ₩ - | ₩ 90,209,322 |

| Classification | Dec. 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Trading financial instruments | AFS Financial assets | HTM investments | Financial instruments measured at amortized cost | Hedge accounting derivatives | Total |
| Financial assets: | | | | | | |
| Cash and due from banks | ₩ - | ₩ - | ₩ - | ₩ 7,409,044 | ₩ - | ₩ 7,409,044 |
| Financial assets at FVTPL | 1,481,282 | - | - | - | - | 1,481,282 |
| Hedging derivatives assets | - | - | - | - | 32,537 | 32,537 |
| AFS Financial assets | - | 6,054,791 | - | - | - | 6,054,791 |
| HTM financial assets | - | - | 5,332,794 | - | - | 5,332,794 |
| Loans | - | - | - | 64,691,036 | - | 64,691,036 |
| Other financial assets | - | - | - | 7,021,285 | - | 7,021,285 |
| Merchant banking account assets | 1,575,867 | - | - | 816,587 | - | 2,392,454 |
| Total | ₩ 3,057,149 | ₩ 6,054,791 | ₩ 5,332,794 | ₩79,937,952 | ₩ 32,537 | ₩ 94,415,223 |
| Financial liabilities: | | | | | | |
| Deposits | ₩ - | ₩ - | ₩ - | ₩61,919,043 | ₩ - | ₩ 61,919,043 |
| Financial liabilities at FVTPL | 967,748 | - | - | - | - | 967,748 |
| Hedging derivatives liabilities | - | - | - | - | 897 | 897 |
| Borrowings | - | - | - | 9,175,095 | - | 9,175,095 |
| Debentures | - | - | - | 4,975,857 | - | 4,975,857 |
| Other financial liabilities | - | - | - | 9,722,193 | - | 9,722,193 |
| Merchant banking account liabilities | - | - | - | 747,785 | - | 747,785 |
| Total | ₩ 967,748 | ₩ - | ₩ - | ₩86,539,973 | ₩ 897 | ₩ 87,508,618 |

## 8. RISK MANAGEMENT:

The risk management group is composed of board of directors, risk management committee, risk management operating committee, risk management working committee and risk management task force team. Risk management committee reports directly to the board of directors and is composed of outside directors and executive directors.

The committee deliberates and determines major issues, such as risk management policies and strategies and risk tolerance limit. Risk management operating committee is responsible for the management and execution of all sorts of risks to a reasonable level.

The Company distributes internal capital limits by risk and business sector for the purpose of assessment for reasonableness of internal capital. In addition, the Company retains and manages reasonable equity capital so as to manage its operating activities in preparation for unavoidable risks (uncertainties and possible losses). It also retains the management system and related procedures in order to assess the reasonableness of internal capital.

The Company classifies risks to significant risks and residual risks:

- Significant risks: credit, market, operation, interest rate, liquidity, credit preference, strategy and reputation
- Residual risks: credit mitigation residual and asset-backed residual

Of the significant risks, credit, market, operation, interest rate, credit preference and strategy are able to be quantified with a confidence level of 99.9% and one-year retaining period and reflected in combined internal capital. The Company consistently compares and monitors such risks with internal capital limit, computes results and regularly reports to the management.

The Company defines available capital as Tier 1 capital and restricts the use of capital by setting up a certain level to reserved capital. It regularly assesses and manages the reasonableness of internal capital by comparing available capital and combined internal capital. Reserved capital as capital buffer is determined by the risk management committee so as to prepare additional possibility of losses, emergency situations, incompleteness of information systems and fluctuation of available capital and strictly managed as a risk propensity index.

In addition, the Company assesses the reasonableness of internal capital by analyzing the combined crisis, considering risk variances, such as credit rating transition rate by regulation of Financial Supervisory Service.

The Company efficiently manages risks by preparing principles for assessment and management in order to maximize shareholders' profits, and constructs combined risk management system considering risks, profits and growth.

### (1) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from deposits, securities, loans, off-balance accounts and trust accounts. The purpose of credit risk management is to avoid excessive risks that could damage the financial soundness of the Company by improving the soundness of assets through setup of credit ratings and credit screening and quantifying and regularly managing credit risks.

The Company implements a system that divides and operates marketing and screening for the management purpose. It also employs a total exposure limit system to solve weighted credits and disperse risks and an early alert system to discover an insolvent company and establish countermeasures.

The Company separately measures expected losses and unexpected losses. Expected losses are expected credit risks based on past experience and computed by multiplying exposure at default by PD and LGD. Unexpected losses mean maximum credit losses from the confidence section as a possibility of difference between actual incurred losses and expected losses. It is computed through advanced internal ratings-based method under Bank for International Settlements ("BIS") Basel II.

The Company's level of exposure to credit risk as of December 31, 2012 and 2011 is summarized as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Loans and credit commitments | ₩ 58,632,251 | ₩ 52,101,083 |
| Guarantees and endorsed notes | 14,911,656 | 14,310,404 |
| Total | ₩ 73,543,907 | ₩ 66,411,487 |

(2) Market risk

Market risk is the uncertainty and possibility of losses from overall management activities and divided into general market risk and specific risk. General market risk is the risk to the Company's earnings arising from changes in interest rates, stock price, currency exchange rates or commodity prices. Specific risk is the risk of trading position arising from changes in credit risks.

1) Market risk value at risk ("VaR")

The principle of market risk management is to identify sources of market risks, measure the risk size and assess and control the reasonableness of the risk size.

The managing targets are interest rate, stock price, foreign currencies, and derivatives, including:

- assets classified as trading securities in accordance with K-IFRS,
- derivatives for trading and hedged derivatives for which hedge accounting is not applied,
- trust account securities with agreements to guarantee principal or interest and
- foreign currency exchange position regulated by Korean Banking Laws.

The Company uses an internal model for measurement of market risk. The purpose of internal model is to compute required capital by VaR using historical simulation with a confidence level of 99.0% and 10-day (one day) retaining period. VaR using historical simulation sets up 10 business days' (one business day) profit ratio of risk elements for past one year into profit ratio of current portfolio, computes portfolio values for past days and lines up in order of values and computes the difference between the value of low second-ranked portfolio and current portfolio. In addition, the Company always reflects the worst scenario regardless of the measuring point of risks, by applying stressed VaR required by Basel Committee on Banking Supervision since 2012 for the purpose of reinforcement of regulations.

The Company performs back testing on a daily basis so as to procure the suitability of internal model and stress testing to prepare emergency situation not reflected in the recent market elements.

Required capital of market risk is the sum of computed value by internal model and value of specific risk by standard model. Ten-day basis VaR by group/department is reported to management on a daily basis and to risk management operating committee on a monthly basis.

Market risk VaR for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩ 21,197 | ₩ 4,316 | ₩ 11,549 | ₩ 6,266 | ₩ 9,530 | ₩ 2,298 | ₩ 4,809 | ₩ 3,324 |
| Stock price risk | 44,199 | 7,701 | 15,717 | 7,701 | 27,605 | 3,619 | 12,735 | 5,296 |
| Foreign currency risk | 84,126 | 4,404 | 32,073 | 52,205 | 24,877 | 1,734 | 11,819 | 4,509 |
| Option risk | 4,288 | 363 | 1,842 | 2,698 | 6,974 | 106 | 2,063 | 193 |
| Total risks (*) | ₩ 95,383 | ₩ 15,651 | ₩ 47,183 | ₩ 55,669 | ₩ 45,193 | ₩ 8,243 | ₩ 26,099 | ₩ 9,619 |

(*) The total portfolio risk is not equal to the sum of the individual component risks because it is computed by considering the correlations of the risks.

2) Interest rate risk VaR (excluding trading portfolio)

Interest rate VaR (excluding trading portfolio) is a statistical estimate of the maximum potential decline in the value of net assets due to the unfavorable changes in interest rate, using the VaR methodology, a key measure of market risk, to interest rate risk assessment.

The management of interest rate risk is supported by a comprehensive analysis of interest rate gap (between assets generating interest income and liabilities generating interest expense) and measurement of interest rate VaR and earnings at risk ("EaR"). Interest rate VaR is an object of internal capital limit management and EaR is used as supplementary limit management index. Internal capital limit management is classified as Korean won, foreign currencies, overseas and trust fund.

The result of interest rate measurement is reported to risk management operating committee on a monthly basis.

Details of interest rate VaR, except for trading portfolio, for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Type | High | Low | Average | Ending | High | Low | Average | Ending |
| Interest rate risk | ₩288,076 | ₩ 60,146 | ₩150,203 | ₩288,076 | ₩162,696 | ₩ 122,581 | ₩140,163 | ₩ 122,581 |

(3) Liquidity risk

1) General

Liquidity risk is the risk that the Company is unable to meet its payment obligations arising from financial liabilities as they fall due.

2) Liquidity risk management

The Company proactively responds to liquidity emergencies by selecting an early alert indicator and improves its ability to preserve by selecting risk propensity index, credit limit management index and monitoring index. Additionally, it regularly performs liquidity stress test, comprehend deficit and reflect in the emergency funding plan.

Credit limit management index includes liquidity coverage ratio and net stable funding ratio that will be introduced as Basel III liquidity risk regulation ratio.

Liquidity risk management is targeting for on- and off-balance assets, liabilities and derivatives and is managed based on liquidity gap, representing the difference between maturities of assets and liabilities.

Maturity structures of liabilities as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | Immediate payment | 1 month or less | 1 month–3 months | 3 months –1 year | 1 year –5 years | More than 5 years | Total |
| Deposits | ₩26,416,815 | ₩ 7,244,957 | ₩ 9,097,404 | ₩20,035,122 | ₩1,815,347 | ₩ 177,776 | ₩ 64,787,421 |
| Financial liabilities at FVTPL | 1,308,602 | - | - | - | - | - | 1,308,602 |
| Borrowings | 1,564,218 | 1,136,239 | 1,202,530 | 1,280,183 | 1,342,798 | 159,601 | 6,685,569 |
| Debentures | 132 | 166,295 | 332,247 | 1,356,923 | 3,863,872 | 767,276 | 6,486,745 |
| Other financial liabilities | 2,051 | 12,429,451 | 2,067 | 16,047 | 3,852 | - | 12,453,468 |
| Merchant banking account liabilities | 525,654 | 185 | - | - | - | - | 525,839 |
| Loan commitment | 58,632,251 | - | - | - | - | - | 58,632,251 |
| Finance guarantee | 731,557 | - | - | - | - | - | 731,557 |
| Total | ₩89,181,280 | ₩20,977,127 | ₩10,634,248 | ₩22,688,275 | ₩ 7,025,869 | ₩ 1,104,653 | ₩ 151,611,452 |

| Classification | Dec. 31, 2011 Immediate payment | 1 month or less | 1 month–3 months | 3 months –1 year | 1 year –5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Deposits | ₩26,320,123 | ₩ 6,308,334 | ₩ 8,552,544 | ₩19,801,252 | ₩ 2,083,888 | ₩ 210,239 | ₩ 63,276,380 |
| Financial liabilities at FVTPL | 967,748 | - | - | - | - | - | 967,748 |
| Hedging derivatives liabilities | - | - | 172 | 593 | 160 | - | 925 |
| Borrowings | 2,480,285 | 2,198,859 | 1,674,402 | 1,700,752 | 1,479,907 | 169,197 | 9,703,402 |
| Debentures | 222 | 124,734 | 341,383 | 2,055,080 | 2,311,094 | 300,000 | 5,132,513 |
| Other financial liabilities | 869,399 | 8,829,226 | 2,044 | 20,276 | 1,248 | - | 9,722,193 |
| Merchant banking account liabilities | 747,585 | 200 | - | - | - | - | 747,785 |
| Loan commitment | 52,101,083 | - | - | - | - | - | 52,101,083 |
| Finance guarantee | 618,643 | - | - | - | - | - | 618,643 |
| Total | ₩84,105,088 | ₩ 17,461,353 | ₩10,570,545 | ₩23,577,953 | ₩ 5,876,297 | ₩ 679,436 | ₩ 142,270,672 |

## 9. SEGMENT INFORMATION:

(1) Segment units

The business sectors of the Company are divided by its operations as follows. The result of operating segments is measured based on operating income before tax.

| Classification | | Business |
|---|---|---|
| Individual finance | Retail banking | Receiving and giving credit to household |
| | Credit card | Issue, use and payment of credit card and others |
| | Trust pension | Retirement pension and so on |
| Corporate finance | Corporate banking | Receiving and giving credit to enterprise, securities investment, derivatives transaction and others |
| Fund market | Fund market management | Investing and managing securities |
| Others | International banking | Support for enterprises to expand their business abroad and others |
| | Others | Management and others |

(2) Information of segment profit or loss and segment assets

1) Net income by business segment for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | 2012 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Segment operating income: | | | | | | | |
| Net interest income | ₩ 855,856 | ₩ 877,417 | ₩ 70,918 | ₩ (113,107) | ₩ 1,691,084 | ₩ 616,818 | ₩ 2,307,902 |
| Net commission income | 352,271 | 211,530 | (21,108) | 116,425 | 659,118 | (525,937) | 133,181 |
| Net other operating income | 84,076 | 194,615 | 106,837 | 84,657 | 470,185 | 22,780 | 492,965 |
| Subtotal | 1,292,203 | 1,283,562 | 156,647 | 87,975 | 2,820,387 | 113,661 | 2,934,048 |
| Segment operating expenses: | | | | | | | |
| General and administrative expenses | 558,391 | 269,595 | 25,524 | 647,711 | 1,501,221 | (38,631) | 1,462,590 |
| Segment operating profit | 733,812 | 1,013,967 | 131,123 | (559,736) | 1,319,166 | 152,292 | 1,471,458 |
| Transfer to (reversal of) allowances for possible losses on credits (*1) | 239,270 | 260,662 | - | (381,908) | 118,024 | 482,153 | 600,177 |
| Income tax expense | (423) | 8,409 | 60,927 | 115,244 | 184,157 | 55,124 | 239,281 |
| Segment net income | ₩ 494,965 | ₩ 744,896 | ₩ 70,196 | ₩ (293,072) | ₩ 1,016,985 | ₩ (384,985) | ₩ 632,000 |

(*1) Transfer to (reversal of) allowances for possible losses on credit include transfer to allowance for possible losses, reversal of provision for acceptances and guarantees and transfer to provision for unused credit limit.

| Classification | 2011 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Segment operating income: | | | | | | | |
| Net interest income | ₩ 781,047 | ₩ 1,014,555 | ₩ 34,054 | ₩ 43,112 | ₩ 1,872,768 | ₩ 523,612 | ₩ 2,396,380 |
| Net commission income | 516,757 | 241,279 | (9,153) | (26,168) | 722,715 | (522,399) | 200,316 |
| Net other operating income | 94,778 | 1,188,841 | 116,095 | (83,156) | 1,316,558 | 36,230 | 1,352,788 |
| Subtotal | 1,392,582 | 2,444,675 | 140,996 | (66,212) | 3,912,041 | 37,443 | 3,949,484 |
| Segment operating expenses: | | | | | | | |
| General and administrative expenses | 517,592 | 331,722 | 17,147 | 479,264 | 1,345,725 | 47,006 | 1,392,731 |
| Segment operating profit | 874,990 | 2,112,953 | 123,849 | (545,476) | 2,566,316 | (9,563) | 2,556,753 |
| Transfer to (reversal of) allowances for possible losses on credits (*1) | 40,749 | (725) | - | 409,548 | 449,572 | 139 | 449,711 |
| Income tax expense | - | 45,514 | 17,555 | 431,564 | 494,633 | (11,813) | 482,820 |
| Segment net income | ₩ 834,241 | ₩ 2,068,164 | ₩ 106,294 | ₩ (1,386,588) | ₩ 1,622,111 | ₩ 2,111 | ₩ 1,624,222 |

(*1) Transfer to (reversal of) allowances for possible losses on credit include transfer to allowance for possible losses, reversal of provision for acceptances and guarantees and reversal of provision for unused credit limit.

2) Income from customers and transaction between segments, by business segment, for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | 2012 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Income from customers | ₩ 1,227,154 | ₩ 1,257,949 | ₩ 191,168 | ₩ 144,116 | ₩ 2,820,387 | ₩ 113,661 | ₩ 2,934,048 |
| Income between segments | 65,049 | 25,613 | (34,521) | (56,141) | - | - | - |
| Total | ₩ 1,292,203 | ₩ 1,283,562 | ₩ 156,647 | ₩ 87,975 | ₩ 2,820,387 | ₩ 113,661 | ₩ 2,934,048 |

| Classification | 2011 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Income from customers | ₩ 1,347,874 | ₩ 1,989,844 | ₩ 151,412 | ₩ 422,911 | ₩ 3,912,041 | ₩ 37,443 | ₩ 3,949,484 |
| Income between segments | 44,708 | 454,831 | (10,416) | (489,123) | - | - | - |
| Total | ₩ 1,392,582 | ₩ 2,444,675 | ₩ 140,996 | ₩ (66,212) | ₩ 3,912,041 | ₩ 37,443 | ₩ 3,949,484 |

3) Significant non-cash items included in operating income by business segment for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Depreciation and amortization | ₩ 9,374 | ₩ 3,696 | ₩ - | ₩ 83,021 | ₩ 96,091 | ₩ 398 | ₩ 96,489 |

| Classification | 2011 Individual Finance | Corporate Finance | Fund Market | Others | Subtotal | Adjustment | Total |
|---|---|---|---|---|---|---|---|
| Depreciation and amortization | ₩ 9,889 | ₩ 8,715 | ₩ - | ₩ 74,447 | ₩ 93,051 | ₩ (1,807) | ₩ 91,244 |

(3) Regional information

Financial information by region as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011 is as follows (Unit: in millions):

| Classification | Income from customers (*1) 2012 | Income from customers (*1) 2011 | Non-current assets (*2) Dec. 31, 2012 | Non-current assets (*2) Dec. 31, 2011 |
|---|---|---|---|---|
| Domestic | ₩ 2,793,765 | ₩ 3,790,214 | ₩ 1,439,274 | ₩ 1,428,296 |
| Overseas: | | | | |
| Hong Kong | 37,232 | 30,808 | 4,322 | 4,854 |
| Singapore | 13,887 | 12,883 | 221 | 338 |
| Japan | 25,369 | 50,235 | 5,834 | 4,458 |
| China | 11,632 | 14,536 | 238 | 170 |
| UK | 16,896 | 16,232 | 115 | 259 |
| Others | 35,267 | 34,576 | 1,726 | 618 |
| Subtotal | 140,283 | 159,270 | 12,456 | 10,697 |
| Total | ₩ 2,934,048 | ₩ 3,949,484 | ₩ 1,451,730 | ₩ 1,438,993 |

(*1) Income from customers is divided into domestic and overseas based on location of branches.
(*2) Non-current assets consist of property, plant and equipment; investment property; and intangible assets. They are divided into domestic and overseas based on location of assets.

## 10. CASH AND DUE FROM BANKS:

(1) Cash and due from banks as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Account | Financial institution | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| Cash | | ₩ 1,696,068 | ₩ 1,320,990 |
| Due from banks in Korean won: | | | |
| Reserve deposits | B.O.K. | 1,599,521 | 2,792,378 |
| Monetary stabilization deposits | B.O.K. | - | 400,000 |
| Other due from banks | Other financial institutions | 44,063 | 24,023 |
| Subtotal | | 1,643,584 | 3,216,401 |
| Due from banks in foreign currencies: | | | |
| Reserve deposits | B.O.K. and others | 2,645,603 | 2,303,783 |
| Due from banks on time deposits | Other banks | 744,907 | 371,505 |
| Other due from banks | Other financial institutions | 199,020 | 196,365 |
| Subtotal | | 3,589,530 | 2,871,653 |
| Total | | ₩ 6,929,182 | ₩ 7,409,044 |

(2) Restricted due from banks in Korean won and foreign currencies as of December 31, 2012 and 2011 consists of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 | Reason for restriction |
|---|---|---|---|
| Due from banks in Korean won: | | | |
| Reserve deposits | ₩ 1,599,521 | ₩ 2,792,378 | Required under the B.O.K. Act |
| Monetary stabilization deposits | - | 400,000 | Deposits in the B.O.K. for the purpose of liquidity management of the B.O.K. |
| Reserve for future trading | 3 | 361 | Subscription related to derivatives |
| Investors' deposits | 25,523 | 13,142 | Required under Financial Investment Services and Capital Markets Act |
| Subtotal | 1,625,047 | 3,205,881 | |
| Due from banks in foreign currencies: | | | |
| Reserve deposits | 1,552,881 | 1,479,600 | Required under the B.O.K. Act and other |
| Other due from banks | 198,940 | 35,319 | Subscription related to derivatives |
| Subtotal | 1,751,821 | 1,514,919 | |
| Total | ₩ 3,376,868 | ₩ 4,720,800 | |

## 11. FINANCIAL ASSETS AT FVTPL:

(1) Financial assets at FVTPL as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | | Interest rate (%) | Fair value (book value) Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Stocks | Samsung Electronics Co., Ltd., etc. | - | ₩ 21,107 | ₩ 19,849 |
| Government and public bonds | Treasury bonds | - | - | 16,196 |
| Financial bonds | Monetary stabilization securities | 3.47-3.90 | 100,674 | 370,896 |
| Securities in foreign currencies | Stocks | - | - | 1,215 |
| | Bonds | - | - | 2,306 |
| | Subtotal | | - | 3,521 |
| Trading derivative assets (Note 18) | | - | 1,350,977 | 1,070,820 |
| Total | | | ₩ 1,472,758 | ₩ 1,481,282 |

(2) The valuation of trading securities and bonds, by industry, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Classification | Face value | Acquisition cost | Adjustment by effective interest method | Fair value (book value) |
| Financial bonds | ₩ 100,000 | ₩ 100,691 | ₩ 100,672 | ₩ 100,674 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Classification | Face value | Acquisition cost | Adjustment by effective interest method | Fair value (book value) |
| Government and public bonds | ₩ 16,000 | ₩ 16,165 | ₩ 16,168 | ₩ 16,196 |
| Financial bonds | 370,000 | 370,741 | 370,721 | 370,896 |
| Foreign bonds | 2,307 | 2,303 | 2,275 | 2,306 |
| Total | ₩ 388,307 | ₩ 389,209 | ₩ 389,164 | ₩ 389,398 |

(3) The portfolio of trading securities and bonds, by industry, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Industry | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Financial | ₩ 100,674 | ₩ - | ₩ 100,674 | 100.00 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Industry | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Financial | ₩ 370,896 | ₩ 2,306 | ₩ 373,202 | 95.84 |
| Public | 16,196 | - | 16,196 | 4.16 |
| Total | ₩ 387,092 | ₩ 2,306 | ₩ 389,398 | 100.00 |

(4) The portfolio of trading securities and bonds, by country, as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Country | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Korea | ₩ 100,674 | ₩ - | ₩ 100,674 | 100.00 |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Country | In Korean won | In foreign currencies | Amount | Percentage (%) |
| Korea | ₩ 387,092 | ₩ 2,306 | ₩ 389,398 | 100.00 |

## 12. AFS FINANCIAL ASSETS:

(1) AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Type | Interest rate (%) | Fair value (book value) Dec. 31, 2012 | Fair value (book value) Dec. 31, 2011 |
|---|---|---|---|---|
| Securities | SK Hynix Inc. and others | - | ₩ 462,833 | ₩ 621,057 |
| Equity investment | Vogo Fund LP and others | - | 52,110 | 27,117 |
| Government and public bonds | Treasury bonds | 3.00–5.75 | 786,863 | 90,129 |
| | Housing bonds | 3.00 | 48,641 | 19,989 |
| | Other local bonds | 2.96–4.25 | 463,431 | 170,128 |
| | Subtotal | | 1,298,935 | 280,246 |
| Financial bonds | Monetary stabilization securities | 2.78–3.99 | 1,973,320 | 3,035,357 |
| | Deposit bank bonds | 3.04–8.87 | 330,098 | 362,121 |
| | Small- and medium-sized business banking bonds | 2.82–4.04 | 169,510 | 178,163 |
| | Industrial finance bonds | 2.87–8.06 | 404,277 | 210,380 |
| | Export-import credit bonds | 3.07–3.98 | 80,455 | 19,746 |
| | Subtotal | | 2,957,660 | 3,805,767 |
| Corporate and other bonds | General bonds | 3.03–6.36 | 969,454 | 669,418 |
| | Industrial bonds invested by government | 2.96–5.39 | 827,051 | 431,468 |
| | Subtotal | | 1,796,505 | 1,100,886 |
| Beneficiary certificates | | - | 875 | - |
| Securities in foreign currencies | Foreign stocks | - | 3,184 | 2,305 |
| | Foreign bonds | 1.25–8.00 | 358,449 | 151,443 |
| | Foreign investment | - | 802 | 548 |
| | Subtotal | | 362,435 | 154,296 |
| Other securities | Beneficiary rights certificates | - | 38,511 | 65,422 |
| | Total | | ₩ 6,969,864 | ₩ 6,054,791 |

(2) Details of securities (including foreign securities) among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Book value before valuation | Gain on valuation | Fair value (Book value) Dec. 31, 2012 | Fair value (Book value) Dec. 31, 2011 |
|---|---|---|---|---|
| Marketable securities | ₩ 271,945 | ₩ 30,202 | ₩ 302,147 | ₩ 462,950 |
| Non-marketable securities | 165,048 | (1,178) | 163,870 | 160,412 |
| Total | ₩ 436,993 | ₩ 29,024 | ₩ 466,017 | ₩ 623,362 |

1) Details of marketable securities (including foreign securities) as of December 31, 2012 and 2011 are as follows (Unit: In shares and in millions):

| | Dec. 31, 2012 | | | | | Dec. 31, 2011 |
|---|---|---|---|---|---|---|
| Name of investments | Number of shares | Ownership ratio (%) | Book value before valuation | Gain (loss) on valuation | Fair value (book value) | Fair value (book value) |
| SK Hynix Inc. | 10,092,500 | 1.45 | ₩ 215,212 | ₩ 37,201 | ₩ 252,413 | ₩ 430,425 |
| Kumho Tire Co., Inc. | 2,160,000 | 1.71 | 18,919 | 4,945 | 23,864 | 18,919 |
| Oriental Precision & Engineering Co., Ltd. | 6,774,000 | 7.99 | 8,298 | (129) | 8,169 | - |
| Daiyang Metal Co., Ltd. | 7,563,000 | 16.48 | 6,618 | - | 6,618 | - |
| Hanmi Bank | 146,179 | 2.49 | 1,248 | 880 | 2,128 | 1,248 |
| KCP Co., Ltd. | 102,740 | 0.97 | 629 | 604 | 1,233 | 629 |
| Chinhung International Inc. | 3,002,000 | 0.67 | 1,447 | (222) | 1,225 | - |
| SAMT Co., Ltd. | 677,264 | 0.85 | 740 | 447 | 1,187 | 740 |
| MB Shiroyama Co., Ltd. | 1,819,342 | 1.80 | 1,299 | (186) | 1,113 | 1,299 |
| Kumho Industrial Co., Ltd. | 707,180 | 0.41 | 4,262 | (3,194) | 1,068 | 3,012 |
| Taesan LCD Co., Ltd. | 648,046 | 3.03 | 3,584 | (2,608) | 976 | 3,584 |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 2.78 | 1,596 | (929) | 667 | 1,596 |
| Ssangyong Engineering & Construction | 191,934 | 0.64 | 1,214 | (591) | 623 | 1,214 |
| Pumyang Construction Co., Ltd. | 28,157 | 2.81 | 452 | 21 | 473 | - |
| Namkwang Engineering & Construction Co., Ltd. | 122,349 | 3.26 | 6,316 | (6,027) | 289 | - |
| Others | | | 111 | (10) | 101 | 284 |
| Total | | | ₩ 271,945 | ₩ 30,202 | ₩ 302,147 | ₩ 462,950 |

2) Details of non-marketable securities (including foreign securities) as of December 31, 2012 and 2011 are as follows (Unit: In shares and in millions):

| | Dec. 31, 2012 | | | | | Dec. 31, 2011 |
|---|---|---|---|---|---|---|
| Name of investments | Number of shares | Ownership ratio (%) | Book value before valuation | Gain (loss) on valuation | Fair value (book value) | Fair value (book value) |
| Consumer Credit Assistant Fund Co., Ltd. | 20,822 | 4.16 | ₩ 62,466 | ₩ (3,114) | ₩ 59,352 | ₩ 62,466 |
| The Korea Securities Finance Corporation | 2,238,842 | 3.29 | 24,871 | 529 | 25,400 | 24,871 |
| Pantech Co., Ltd. | 40,937,557 | 2.49 | 17,808 | 164 | 17,972 | 17,808 |
| Alpha Dome City Co., Ltd. | 2,950,200 | 3.00 | 14,751 | - | 14,751 | 14,751 |
| Korea Asset Management Corporation | 1,266,000 | 2.43 | 6,330 | - | 6,330 | 6,330 |
| Daewoo Electronics Corp. | 36,142 | 6.79 | 5,362 | (3) | 5,359 | 5,362 |
| Korea Enterprise Data Co., Ltd. | 620,250 | 4.48 | 3,910 | 858 | 4,768 | 1,484 |
| Dongbu Asset Management Co., Ltd. | 540,000 | 9.00 | 3,443 | (50) | 3,393 | 3,443 |
| The Kerr New Frontier Private Overseas Resources Development Special Assets Fund 4 (Oil Field) | 3,069,254,410 | 1.24 | 3,000 | - | 3,000 | 1,955 |
| DanHan Cornerstone Project Financing Investment | 550,000 | 5.00 | 2,750 | - | 2,750 | - |
| Korea Finance Security Co., Ltd. | 117,580 | 9.80 | 2,427 | 252 | 2,679 | 2,427 |
| Korea Money Brokerage Corporation | 69,220 | 3.46 | 2,690 | (129) | 2,561 | 2,690 |
| Ilsan Project Co., Ltd. | 288,000 | 4.80 | 2,508 | - | 2,508 | 2,508 |
| Korea Credit Bureau | 72,000 | 3.60 | 2,176 | 122 | 2,298 | 3,627 |
| Midan City Development Co., Ltd. | 387,800 | 2.70 | 1,492 | - | 1,492 | 1,492 |
| M-Cieta Development Co., Ltd. | 255,000 | 2.50 | 1,275 | - | 1,275 | 1,275 |

| Name of investments | Dec. 31, 2012 Number of shares | Ownership ratio (%) | Book value before valuation | Gain (loss) on valuation | Fair value (book value) | Dec. 31, 2011 Fair value (book value) |
|---|---|---|---|---|---|---|
| Korea Smart Card | 150,004 | 1.74 | ₩ 885 | ₩ 341 | ₩ 1,226 | ₩ 885 |
| Hallyu Wood Company, Ltd. | 120,000 | 3.00 | 1,200 | - | 1,200 | 1,200 |
| Korea Credit-card Electronic-settlement Service Co., Ltd. | 119,625 | 13.91 | 944 | 74 | 1,018 | 944 |
| A Jin Paper Co., Ltd. | 53,850 | 1.90 | 700 | 94 | 794 | 932 |
| Booyoung Finance | 100,000 | 5.00 | 576 | (34) | 542 | 576 |
| Realty Advisors Korea, Ltd. | 112,000 | 8.00 | 539 | - | 539 | 539 |
| BLADEX | 147,173 | 0.40 | 475 | - | 475 | 475 |
| CLS Bank International | 1,972 | 1.29 | 437 | - | 437 | 437 |
| Golden Bridge Asset Management Co., Ltd. | 80,000 | 4.00 | 463 | (43) | 420 | 463 |
| Kores Co., Ltd. | 492,000 | 4.64 | 322 | 1 | 323 | 322 |
| Cosmotech Co., Ltd. | 984,000 | 2.14 | 296 | 12 | 308 | 296 |
| Mobile Appliance | 1,104,814 | 14.10 | 461 | (263) | 198 | 461 |
| Others | | | 491 | 11 | 502 | 393 |
| Total | | | ₩ 165,048 | ₩ (1,178) | ₩ 163,870 | ₩ 160,412 |

From the amount above, ₩35,080 million (₩94,410 million as of December 31, 2011), including securities of Alpha Dome City Co., Ltd., was measured at acquisition cost because its fair value was not able to be measured reliably.

The Company measured the fair values of non-maketable securities, using reasonable valuation method and estimations, based on professional judgment of an independent external valuation agency. The independent agency measures the fair value by considering features of valuation target among discounted cash flow model, imputed market value model and risk-adjusted discount rate model.

3) Details of AFS financial assets whose disposal is restricted as of December 31, 2012 and 2011 are as follows (Unit: In shares and in millions):

| Name of investments | Dec. 31, 2012 Number of shares | Book value | Restricted period |
|---|---|---|---|
| SK Hynix Inc. | 10,092,500 | ₩ 252,413 | 2013-06-30 |
| Kumho Tire Co., Inc. | 2,160,000 | 23,864 | 2014-12-31 |
| Oriental Precision & Engineering Co., Ltd. | 6,774,000 | 8,169 | 2016-12-31 |
| Daiyang Metal Co., Ltd. | 7,563,000 | 6,618 | 2016-06-04 |
| Daewoo Electronics Corp. | 36,142 | 5,359 | 2013-03-31 |
| Chinhung International Inc. | 3,002,000 | 1,225 | 2013-03-31 |
| SAMT Co., Ltd. | 677,264 | 1,187 | 2013-06-30 |
| Kumho Industrial Co., Ltd. | 707,180 | 1,068 | 2014-12-31 |
| Taesan LCD Co., Ltd. | 648,046 | 976 | 2013-12-31 |
| A Jin Paper Co., Ltd. | 53,850 | 794 | 2015-12-31 |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 667 | 2014-12-31 |
| Ssangyong Engineering & Construction (*1) | 191,934 | 623 | - |
| Pumyang Construction Co., Ltd. | 28,157 | 473 | 2013-06-04 |
| Kores Co., Ltd. | 492,000 | 323 | 2015-12-31 |
| Namkwang Engineering & Construction Co., Ltd. | 122,349 | 289 | 2013-03-31 |
| Jaeyoung Solutec Co., Ltd. | 61,333 | 48 | 2014-12-31 |
| Others | | 16 | |
| Total | | ₩ 304,112 | |

(*1) The disposal of the investment will be determined through creditors' meeting.

| Name of Investments | Dec. 31, 2011 Number of shares | Book value | Restricted period |
|---|---|---|---|
| SK Hynix Inc. (*1) | 20,185,000 | ₩ 430,425 | - |
| Kumho Tire Co., Inc. | 2,160,000 | 18,919 | 2014-12-31 |
| Pantech Co., Ltd. | 40,937,557 | 17,808 | 2011-12-31 |
| Daewoo Electronics Corp. | 36,142 | 5,362 | 2012-03-31 |
| Taesan LCD Co., Ltd. | 3,240,232 | 3,584 | 2013-12-31 |
| Kumho Industrial Co., Ltd. | 497,800 | 3,012 | 2014-12-31 |
| Hanil Engineering & Constructions Co., Ltd. | 955,800 | 1,596 | 2014-12-31 |
| MB Shiroyama Co., Ltd. | 1,819,342 | 1,299 | 2012-01-27 |
| Ssangyong Engineering & Construction (*1) | 191,934 | 1,214 | - |
| A Jin Paper Co., Ltd. | 71,800 | 932 | 2011-12-31 |
| SAMT Co., Ltd. | 677,264 | 740 | 2013-06-30 |
| Kores Co., Ltd. | 492,000 | 322 | 2015-12-31 |
| EpiValley Co., Ltd. | 198,770 | 174 | 2012-09-22 |
| Jaeyoung Solutec Co., Ltd. | 61,333 | 40 | 2012-12-31 |
| Young Gwang Stainless Co., Ltd. | 10,000 | 16 | 2012-12-31 |
| Kem Oh Marine Co., Ltd. | 34,500 | - | 2012-12-31 |
| 21st Century Shipbuilding Co., Ltd. | 3,500 | - | 2012-12-31 |
| Total | | ₩ 485,443 | |

(*1) The disposal of the investment will be determined through creditors' meeting.

(3) Details of equity investment (including foreign investment) among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Invested target | Dec. 31, 2012 Book value before valuation | Gain (loss) on valuation | Book value | Dec. 31, 2011 Book value |
|---|---|---|---|---|
| Vogo Fund LP | ₩ 17,346 | ₩ 2,278 | ₩ 19,624 | ₩ 27,116 |
| United PF 1st corporate financial stability private investment company | 33,768 | (1,283) | 32,485 | - |
| Swift | 802 | - | 802 | 548 |
| Others | 1 | - | 1 | 1 |
| Total | ₩ 51,917 | ₩ 995 | ₩ 52,912 | ₩ 27,665 |

For investment over ₩1,000 million, the Company uses valued price measured by an external valuation agency every half year. Additionally, Swift is measured at acquisition cost as it is difficult to measure its fair value reliably.

(4) Details of debt securities among AFS financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Face value | Acquisition cost | Adjustment by effective interest rate method | Fair value (book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 1,293,587 | ₩ 1,294,099 | ₩ 1,294,725 | ₩ 1,298,935 |
| Financial bonds | 2,938,739 | 2,957,220 | 2,955,266 | 2,957,660 |
| Corporate and other bonds | 1,780,000 | 1,836,950 | 1,791,970 | 1,796,505 |
| Foreign bonds | 336,480 | 359,432 | 357,537 | 358,449 |
| Total | ₩ 6,348,806 | ₩ 6,447,701 | ₩ 6,399,498 | ₩ 6,411,549 |

| Classification | Dec. 31, 2011 Face value | Acquisition cost | Adjustment by effective interest rate method | Fair value (book value) |
|---|---|---|---|---|
| Government and public bonds | ₩ 280,087 | ₩ 282,828 | ₩ 279,833 | ₩ 280,246 |
| Financial bonds | 3,810,000 | 3,797,665 | 3,803,675 | 3,805,767 |
| Corporate and other bonds | 1,095,000 | 1,144,238 | 1,097,621 | 1,100,886 |
| Foreign bonds | 155,702 | 155,542 | 156,245 | 151,443 |
| Total | ₩ 5,340,789 | ₩ 5,380,273 | ₩ 5,337,374 | ₩ 5,338,342 |

(5) Changes of gain (loss) on valuation of AFS financial assets recorded as accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Beginning | Increase | Realized through disposal | Income tax effect | Ending |
|---|---|---|---|---|---|
| Securities | ₩ 270,557 | ₩ 41,936 | ₩ (155,272) | ₩ 27,427 | ₩ 184,648 |
| Other equity securities | 29,108 | 9,685 | (20,454) | 2,606 | 20,945 |
| Government and public bonds | 313 | 4,164 | (367) | (919) | 3,191 |
| Financial bonds | 1,586 | 1,761 | (1,459) | (73) | 1,815 |
| Corporate and other bonds | 2,474 | 3,635 | (2,365) | (307) | 3,437 |
| Foreign bonds | (3,640) | 2,058 | 3,657 | (1,383) | 692 |
| Total | ₩ 300,398 | ₩ 63,239 | ₩ (176,260) | ₩ 27,351 | ₩ 214,728 |

| Classification | Dec. 31, 2011 Beginning | Increase (decrease) | Realized through disposal | Income tax effect | Ending |
|---|---|---|---|---|---|
| Securities | ₩ 731,531 | ₩ (20,903) | ₩ (560,021) | ₩ 119,950 | ₩ 270,557 |
| Other equity securities | 38,758 | 6,679 | (17,967) | 1,638 | 29,108 |
| Government and public bonds | 1,786 | (367) | (1,533) | 427 | 313 |
| Financial bonds | 12,673 | (3,189) | (10,989) | 3,091 | 1,586 |
| Corporate and other bonds | 1,955 | 2,376 | (1,636) | (221) | 2,474 |
| Foreign bonds | (4,291) | 384 | 331 | (64) | (3,640) |
| Total | ₩ 782,412 | ₩ (15,020) | ₩ (591,815) | ₩ 124,821 | ₩ 300,398 |

(6) Details of gain or loss realized through disposal of AFS financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| | Realized gain | Realized loss | Realized gain | Realized loss |
| Securities | ₩ 188,478 | ₩ 22 | ₩ 1,178,252 | ₩ 4 |
| Government and public bonds | 3,925 | - | 161 | 12 |
| Financial bonds | 4,901 | - | 6,517 | - |
| Corporate and other bonds | 9,554 | - | 1,996 | - |
| Other debt securities | 31,702 | - | 378 | - |
| Total | ₩ 238,560 | ₩ 22 | ₩ 1,187,304 | ₩ 16 |

(7) Details of dividend income from AFS financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Securities | ₩ | 8,197 | ₩ | 19,697 |
| Other equity securities | | 12 | | 27,634 |
| Total | ₩ | 8,209 | ₩ | 47,331 |

(8) Details of the transferred assets that do not qualify for derecognition and the associated liabilities as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | Dec. 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Book value | | Fair value | | Book value | | Fair value | |
| Transferred assets | | | | | | | | |
| AFS financial assets (*1) | ₩ | - | ₩ | - | ₩ | 29,985 | ₩ | 29,985 |
| HTM financial assets | | - | | - | | 30,141 | | 32,284 |
| Total | ₩ | - | ₩ | - | ₩ | 60,126 | ₩ | 62,269 |
| Related liabilities | | | | | | | | |
| Bonds sold under Repurchse Agreements | ₩ | 190 | ₩ | 190 | ₩ | 22,245 | ₩ | 22,245 |

(*1) The AFS financial assets are the securities loaned under an agreement and that will be returned to the Company. They have no associated liabilities.

(9) Details of debt securities of AFS financial assets by industry as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | In Korean won | | In foreign currencies | | Total amount | | Percentage (%) |
| Financial | ₩ | 3,059,611 | ₩ | 318,931 | ₩ | 3,378,542 | 52.70 |
| Public | | 2,206,441 | | 39,518 | | 2,245,959 | 35.03 |
| Manufacturing | | 160,488 | | - | | 160,488 | 2.50 |
| Others | | 626,560 | | - | | 626,560 | 9.77 |
| Total | ₩ | 6,053,100 | ₩ | 358,449 | ₩ | 6,411,549 | 100.00 |

| | Dec. 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | In Korean won | | In foreign currencies | | Total amount | | Percentage (%) |
| Financial | ₩ | 3,981,628 | ₩ | 105,810 | ₩ | 4,087,438 | 76.56 |
| Public | | 711,714 | | - | | 711,714 | 13.33 |
| Manufacturing | | 70,741 | | 37,390 | | 108,131 | 2.03 |
| Wholesale and retail | | 10,025 | | - | | 10,025 | 0.19 |
| Others | | 412,791 | | 8,243 | | 421,034 | 7.89 |
| Total | ₩ | 5,186,899 | ₩ | 151,443 | ₩ | 5,338,342 | 100.00 |

(10) Details of debt securities of AFS financial assets by country as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| Classification | In Korean won | | In foreign currencies | | Total amount | | Percentage (%) |
| Korea | ₩ | 6,053,100 | ₩ | 331,848 | ₩ | 6,384,948 | 99.58 |
| Hong Kong | | - | | 5,110 | | 5,110 | 0.08 |
| Others | | - | | 21,491 | | 21,491 | 0.34 |
| Total | ₩ | 6,053,100 | ₩ | 358,449 | ₩ | 6,411,549 | 100.00 |

| Classification | Dec. 31, 2011 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 5,186,899 | ₩ 61,319 | ₩ 5,248,218 | 98.31 |
| Singapore | - | 41,858 | 41,858 | 0.78 |
| Hong Kong | - | 13,086 | 13,086 | 0.25 |
| Japan | - | 5,750 | 5,750 | 0.11 |
| Others | - | 29,430 | 29,430 | 0.55 |
| Total | ₩ 5,186,899 | ₩ 151,443 | ₩ 5,338,342 | 100.00 |

## 13. HTM FINANCIAL ASSETS:

(1) Details of HTM financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Type | Interest rate (%) | Book value Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Government and public bonds | Treasury bonds | 3.00–4.75 | ₩ 344,281 | ₩ 495,183 |
| | Housing bonds | 3.00 | 298,566 | 226,277 |
| | Local development bonds | 3.40–4.09 | 19,921 | 29,780 |
| | Subtotal | | 662,768 | 751,240 |
| Financial bonds | Monetary stabilization securities | 2.78–3.99 | 3,221,941 | 3,601,145 |
| | Deposit bank bonds | 4.37–8.35 | 70,798 | 80,012 |
| | Industrial finance bonds | 6.12 | 10,020 | 20,059 |
| | Subtotal | | 3,302,759 | 3,701,216 |
| Corporate and other bonds | General bonds | 3.71–8.11 | 170,879 | 222,689 |
| | Industrial bonds invested by government | 3.80–6.32 | 849,964 | 580,648 |
| | Subtotal | | 1,020,843 | 803,337 |
| Foreign securities | Foreign bonds | 0.20–7.63 | 31,266 | 77,001 |
| | Total | | ₩ 5,017,636 | ₩ 5,332,794 |

(2) Details of valuation of HTM financial assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31,2012 Face value | Acquisition costs | Adjustment by effective interest rate method | Book value |
|---|---|---|---|---|
| Government and public bonds | ₩ 660,700 | ₩ 663,877 | ₩ 662,768 | ₩ 662,768 |
| Financial bonds | 3,300,000 | 3,303,882 | 3,302,759 | 3,302,759 |
| Corporate and other bonds | 1,010,000 | 1,033,844 | 1,020,843 | 1,020,843 |
| Foreign bonds | 32,168 | 31,559 | 31,266 | 31,266 |
| Total | ₩ 5,002,868 | ₩ 5,033,162 | ₩ 5,017,636 | ₩ 5,017,636 |

| Classification | Dec. 31, 2011 Face value | Acquisition costs | Adjustment by effective interest rate method | Book value |
|---|---|---|---|---|
| Government and public bonds | ₩ 748,800 | ₩ 748,429 | ₩ 751,240 | ₩ 751,240 |
| Financial bonds | 3,700,000 | 3,702,617 | 3,701,216 | 3,701,216 |
| Corporate and other bonds | 790,000 | 809,595 | 803,337 | 803,337 |
| Foreign bonds | 76,940 | 77,164 | 77,001 | 77,001 |
| Total | ₩ 5,315,740 | ₩ 5,337,805 | ₩ 5,332,794 | ₩ 5,332,794 |

(3) Details of HTM financial assets by industry as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Financial | ₩ 3,302,759 | ₩ 27,867 | ₩ 3,330,626 | 66.38 |
| Public | 1,512,732 | 3,399 | 1,516,131 | 30.22 |
| Others | 170,879 | - | 170,879 | 3.40 |
| Total | ₩ 4,986,370 | ₩ 31,266 | ₩ 5,017,636 | 100.00 |

| Classification | Dec. 31, 2011 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Financial | ₩ 3,701,216 | ₩ 30,141 | ₩ 3,731,357 | 69.97 |
| Public | 1,331,888 | 46,070 | 1,377,958 | 25.84 |
| Manufacturing | 20,742 | 790 | 21,532 | 0.40 |
| Others | 201,947 | - | 201,947 | 3.79 |
| Total | ₩ 5,255,793 | ₩ 77,001 | ₩ 5,332,794 | 100.00 |

(4) Details of HTM financial assets by country as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 4,986,370 | ₩ 27,867 | ₩ 5,014,237 | 99.93 |
| Others | - | 3,399 | 3,399 | 0.07 |
| Total | ₩ 4,986,370 | ₩ 31,266 | ₩ 5,017,636 | 100.00 |

| Classification | Dec. 31, 2011 In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| Korea | ₩ 5,255,793 | ₩ 30,141 | ₩ 5,285,934 | 99.12 |
| Singapore | - | 42,547 | 42,547 | 0.80 |
| Others | - | 4,313 | 4,313 | 0.08 |
| Total | ₩ 5,255,793 | ₩ 77,001 | ₩ 5,332,794 | 100.00 |

## 14. MATURITY STRUCTURE OF AFS FINANCIAL ASSETS AND HTM FINANCIAL ASSETS:

Maturity structure of AFS financial assets and HTM financial assets as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Government and public bonds | Financial bonds | Corporate and other bonds | Foreign bonds | Total |
|---|---|---|---|---|---|
| AFS Financial assets: | | | | | |
| Less than 1 month | ₩ - | ₩ 419,757 | ₩ 29,964 | ₩ - | ₩ 449,721 |
| 1 month–3 months | 10,056 | 430,215 | 10,027 | - | 450,298 |
| 3–6 months | 141,693 | 360,960 | 90,375 | - | 593,028 |
| 6 months–1 year | 113,217 | 470,687 | 50,415 | - | 634,319 |
| 1 year–3 years | 710,878 | 1,116,612 | 1,304,122 | 358,449 | 3,490,061 |
| 3–5 years | 323,091 | 120,065 | 311,602 | - | 754,758 |
| 5–10 years | - | 39,364 | - | - | 39,364 |
| Total | ₩ 1,298,935 | ₩ 2,957,660 | ₩ 1,796,505 | ₩ 358,449 | ₩ 6,411,549 |
| HTM financial assets: | | | | | |
| 1 month–3 months | ₩ 9,981 | ₩ 100,020 | ₩ 130,204 | ₩ 65 | ₩ 240,270 |
| 3–6 months | 29,964 | 1,429,939 | 261,205 | 802 | 1,721,910 |
| 6 months–1 year | 119,331 | 840,831 | 60,529 | 179 | 1,020,870 |
| 1 year–3 years | 503,492 | 911,171 | 568,905 | 28,191 | 2,011,759 |
| 3–5 years | - | 10,798 | - | 1,630 | 12,428 |
| 5–10 years | - | 10,000 | - | 399 | 10,399 |
| Total | ₩ 662,768 | ₩ 3,302,759 | ₩ 1,020,843 | ₩ 31,266 | ₩ 5,017,636 |

| Classification | Dec. 31, 2011 Government and public bonds | Financial bonds | Corporate and other bonds | Foreign bonds | Total |
|---|---|---|---|---|---|
| AFS financial assets: | | | | | |
| Less than 1 month | ₩ 50,108 | ₩ 699,410 | ₩ - | ₩ - | ₩ 749,518 |
| 1 month–3 months | - | 975,094 | 10,011 | - | 985,105 |
| 3–6 months | - | 979,462 | 165,414 | - | 1,144,876 |
| 6 months–1 year | 9,960 | 639,307 | 300,599 | 45,633 | 995,499 |
| 1 year–3 years | 140,122 | 512,494 | 533,820 | - | 1,186,436 |
| 3–5 years | 80,056 | - | 91,042 | 32,290 | 203,388 |
| 5–10 years | - | - | - | 52,150 | 52,150 |
| More than 10 years | - | - | - | 21,370 | 21,370 |
| Total | ₩ 280,246 | ₩ 3,805,767 | ₩ 1,100,886 | ₩ 151,443 | ₩ 5,338,342 |
| HTM financial assets: | | | | | |
| Less than 1 month | ₩ - | ₩ - | ₩ - | ₩ 42,561 | ₩ 42,561 |
| 1 month–3 months | 94,812 | 60,028 | - | 5 | 154,845 |
| 3–6 months | 110,325 | 640,153 | - | 804 | 751,282 |
| 6 months–1 year | 183,674 | 739,810 | 141,695 | 27 | 1,065,206 |
| 1 year–3 years | 362,429 | 2,261,225 | 651,547 | 750 | 3,275,951 |
| 3–5 years | - | - | 10,095 | 31,413 | 41,508 |
| 5–10 years | - | - | - | 1,441 | 1,441 |
| Total | ₩ 751,240 | ₩ 3,701,216 | ₩ 803,337 | ₩ 77,001 | ₩ 5,332,794 |

## 15. PLEDGED ASSETS:

Details of pledged assets among AFS financial assets and HTM investments for the purpose of deposit of securities related to repurchase agreement with other banks and maintenance of membership of future/option trade and stock exchange as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | | Book value | |
|---|---|---|---|
| Classification | Reason for pledge | Dec. 31, 2012 | Dec. 31, 2011 |
| AFS financial assets | Borrowing foreign currencies | ₩ - | ₩ 60,114 |
| | Security lending agreement | - | 29,985 |
| | B.O.K.Settlement | 350,420 | 450,092 |
| | Daylight credit | - | 200,050 |
| | Borrowing in foreign currencies (Canadian Standards Association (“CSA”)) | 29,997 | 44,014 |
| | Borrowing from B.O.K. | 50,006 | 49,984 |
| | Margin for future trading | 26,465 | - |
| | Others | 60,361 | - |
| | Subtotal | 517,249 | 834,239 |
| HTM financial assets | Borrowing foreign currencies | 961,821 | 903,008 |
| | Margin for future trading | 259,921 | 260,020 |
| | B.O.K.Settlement | 1,000,612 | 1,020,733 |
| | Daylight credit | 550,077 | 150,070 |
| | Customer RP | 921 | 3,982 |
| | Borrowing in foreign currencies (CSA) | 43,041 | 40,001 |
| | Borrowing from B.O.K. | 510,654 | 361,002 |
| | Others | - | 200 |
| | Subtotal | 3,327,047 | 2,739,016 |
| Total | | ₩ 3,844,296 | ₩ 3,573,255 |

## 16. LOANS:

(1) Loans as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Loans to banks: | | |
| Loans in Korean won | ₩ 47,168,501 | ₩ 43,349,422 |
| Loans in foreign currencies | 6,148,799 | 7,288,314 |
| Domestic import usance | 2,499,667 | 3,278,307 |
| Call loans | 1,758,030 | 2,221,829 |
| Bills bought in Korean won | 83,945 | 398,707 |
| Bills bought in foreign currencies | 4,508,471 | 4,433,436 |
| Advance payments on acceptance and guarantee | 15,220 | 5,292 |
| Credit card receivables | 2,661,277 | 2,563,234 |
| Bonds purchased under RPs | 490,000 | 490,000 |
| Installment receivables purchased | 1,340,271 | 825,102 |
| Privately placed bonds | 435,800 | 484,712 |
| Others | 18,435 | 19,525 |
| Subtotal | 67,128,416 | 65,357,880 |
| Additions (deductions): | | |
| Deferred LOFs/LOCs | 33,254 | 128 |
| Allowance for possible loan losses | (704,251) | (666,972) |
| Total net book value | ₩ 66,457,419 | ₩ 64,691,036 |

(2) The changes in deferred LOFs/LOCs for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | |
|---|---|---|---|---|
| Classification | Beginning | Increase | Decrease | Ending |
| Deferred LOFs/LOCs | ₩ 128 | ₩ 43,812 | ₩ 10,686 | ₩ 33,254 |

| | 2011 | | | |
|---|---|---|---|---|
| Classification | Beginning | Increase | Decrease | Ending |
| Deferred LOFs/LOCs | ₩ (20,074) | ₩ 6,870 | ₩ (13,332) | ₩ 128 |

(3) The changes in allowance for possible loan losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans in foreign currencies | Advance payments on acceptance and guarantee | Bills bought in foreign currencies | Credit card receivables | Privately placed bonds | Others | Total |
| Beginning | ₩ 456,475 | ₩ 125,709 | ₩ 2,938 | ₩ 5,404 | ₩ 67,510 | ₩ 4,894 | ₩ 4,042 | ₩ 666,972 |
| Disposal of Non Performing Loans("NPLs") | (59,882) | - | - | - | - | - | - | (59,882) |
| Bad debt | (279,513) | (47,431) | (52,648) | - | (109,904) | - | - | (489,496) |
| Recovery of bad debt | 69,367 | 7,171 | 1,074 | - | 37,300 | - | - | 114,912 |
| Debt-for-equity swap | (6,253) | - | - | - | - | - | - | (6,253) |
| Changes in exchange rate, etc. | - | (35,487) | - | (414) | (13) | - | - | (35,914) |
| Transfer to (reversal of ) allowance for possible loan losses | 399,863 | 54,346 | 53,237 | (701) | 92,054 | (864) | (1,948) | 595,987 |
| Interest income of impaired receivables | (72,500) | (5,991) | (453) | (81) | (2,404) | (646) | - | (82,075) |
| Ending | ₩ 507,557 | ₩ 98,317 | ₩ 4,148 | ₩ 4,208 | ₩ 84,543 | ₩ 3,384 | ₩ 2,094 | ₩ 704,251 |

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Loans in Korean won | Loans in foreign currencies | Advance payments on acceptance and guarantee | Bills bought in foreign currencies | Credit card receivables | Privately placed bonds | Others | Total |
| Beginning | ₩ 565,795 | ₩ 100,494 | ₩ 2,194 | ₩ 7,440 | ₩ 53,699 | ₩ 6,020 | ₩ 2,246 | ₩ 737,888 |
| Disposal of NPLs | (45,619) | - | - | - | - | - | - | (45,619) |
| Bad debt | (451,113) | (51,597) | (37,914) | - | (75,266) | (1,490) | - | (617,380) |
| Recovery of bad debt | 40,896 | 17,773 | 23,290 | - | 43,985 | - | - | 125,944 |
| Debt-for-equity swap | (4,562) | - | - | - | - | - | - | (4,562) |
| Changes in exchange rate, etc. | 2,439 | 32,344 | 785 | (3,240) | - | (837) | (21) | 31,470 |
| Transfer to allowance for possible loan losses | 414,247 | 26,769 | 14,884 | 1,207 | 46,681 | 1,613 | 1,819 | 507,220 |
| Interest income of impaired receivables | (65,608) | (74) | (301) | (3) | (1,589) | (412) | (2) | (67,989) |
| Ending | ₩ 456,475 | ₩ 125,709 | ₩ 2,938 | ₩ 5,404 | ₩ 67,510 | ₩ 4,894 | ₩ 4,042 | ₩ 666,972 |

(4) Financial effects related to credit risk relieved by collaterals and other credit enhancement as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Impaired loans | | Non-impaired loans | | |
| Classification | Individual assessment | Collective assessment | Overdue | Non-overdue | Total |
| Guarantee | ₩ 11,519 | ₩ 20,618 | ₩ 9,048 | ₩ 4,356,371 | ₩ 4,397,556 |
| Savings | 6,024 | 2,443 | 481 | 1,225,689 | 1,234,637 |
| Property | - | - | - | 7,915 | 7,915 |
| Real estate | 210,715 | 98,539 | 13,065 | 19,175,616 | 19,497,935 |
| Securities | 72,853 | 3,607 | 3,276 | 2,004,700 | 2,084,436 |
| Others | - | - | - | 6,547 | 6,547 |
| Total | ₩ 301,111 | ₩ 125,207 | ₩ 25,870 | ₩ 26,776,838 | ₩ 27,229,026 |

| | Dec. 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Impaired loans | | Non-impaired loans | | |
| Classification | Individual assessment | Collective assessment | Overdue | Non-overdue | Total |
| Guarantee | ₩ 31,479 | ₩ 10,730 | ₩ 5,769 | ₩ 3,720,587 | ₩ 3,768,565 |
| Savings | 6,006 | 1,550 | 14,242 | 1,394,386 | 1,416,184 |
| Property | - | - | - | 29,921 | 29,921 |
| Real estate | 117,953 | 68,230 | 27,032 | 17,797,683 | 18,010,898 |
| Securities | 93,748 | 2,227 | 89 | 1,818,738 | 1,914,802 |
| Others | - | - | - | 10,063 | 10,063 |
| Total | ₩ 249,186 | ₩ 82,737 | ₩ 47,132 | ₩ 24,771,378 | ₩ 25,150,433 |

(5) Information related to overdue loans as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
| Loans that are neither past due nor impaired | ₩ 21,275,586 | ₩ 20,469,174 | ₩ 16,680,900 | ₩ 4,947,959 | ₩ 2,474,904 | ₩ 65,848,523 |
| Loans that are past due, but not impaired | 24,030 | 464 | 17,047 | 565 | 127,058 | 169,164 |
| Loans that are impaired | 92,777 | 536,143 | 380,066 | 42,428 | 59,315 | 1,110,729 |
| Subtotal | 21,392,393 | 21,005,781 | 17,078,013 | 4,990,952 | 2,661,277 | 67,128,416 |
| Deferred LOFs/LOCs | 44,568 | (7,770) | (3,668) | 226 | (102) | 33,254 |
| Allowances for possible loan losses | (43,550) | (262,680) | (274,617) | (38,861) | (84,543) | (704,251) |
| Total | ₩ 21,393,411 | ₩ 20,735,331 | ₩ 16,799,728 | ₩ 4,952,317 | ₩ 2,576,632 | ₩ 66,457,419 |

| | Dec. 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
| Loans that are neither past due nor impaired | ₩ 19,664,375 | ₩ 19,302,147 | ₩ 19,465,150 | ₩ 3,224,535 | ₩ 2,430,883 | ₩ 64,087,090 |
| Loans that are past due, but not impaired | 24,924 | - | 34,182 | 3,954 | 83,765 | 146,825 |
| Loans that are impaired | 52,842 | 410,397 | 520,157 | 91,983 | 48,586 | 1,123,965 |
| Subtotal | 19,742,141 | 19,712,544 | 20,019,489 | 3,320,472 | 2,563,234 | 65,357,880 |
| Deferred LOFs/LOCs | 20,829 | (10,877) | (9,701) | (11) | (112) | 128 |
| Allowances for possible loan losses | (25,785) | (222,067) | (301,995) | (49,615) | (67,510) | (666,972) |
| Total | ₩ 19,737,185 | ₩ 19,479,600 | ₩ 19,707,793 | ₩ 3,270,846 | ₩ 2,495,612 | ₩ 64,691,036 |

Overdue means when a transaction party is not able to pay principals and interests at the payment date of the contract. An impairment loss incurred if there is objective evidence of impairment as result of one or more events that occurred after the initial recognition asset and that event (or events) has an impact on the estimated future cash flows of the financial asset. Objective evidence the Company defined includes overdue more than 90 days, poor credit information according to the regulation of credit information management, adjustment of receivables and payables, payment for bad loan exposure, etc.

1) Loans that are neither past due nor impaired

Internal credit rating of loans that are neither past due nor impaired as of December 31, 2012 and 2011, is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
| Rating 1 | ₩ 16,946,546 | ₩ 15,031,731 | ₩ 4,922,023 | ₩ 1,590,173 | ₩ 700,638 | ₩ 39,191,111 |
| Rating 2 | 4,189,096 | 4,430,094 | 9,310,452 | 2,340,402 | 1,689,989 | 21,960,033 |
| Rating 3 | 139,944 | 1,007,349 | 2,448,425 | 815,106 | 84,277 | 4,495,101 |
| Others | - | - | - | 202,278 | - | 202,278 |
| Total | ₩ 21,275,586 | ₩ 20,469,174 | ₩ 16,680,900 | ₩ 4,947,959 | ₩ 2,474,904 | ₩ 65,848,523 |

| | Dec. 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
| Rating 1 | ₩ 17,013,710 | ₩ 15,874,926 | ₩ 4,841,190 | ₩ 240,012 | ₩ 666,238 | ₩ 38,636,076 |
| Rating 2 | 2,602,966 | 2,896,469 | 9,518,347 | 1,511,598 | 1,595,521 | 18,124,901 |
| Rating 3 | 47,699 | 530,206 | 3,359,623 | 1,338,416 | 169,124 | 5,445,068 |
| Others | - | 546 | 1,745,990 | 134,509 | - | 1,881,045 |
| Total | ₩ 19,664,375 | ₩ 19,302,147 | ₩ 19,465,150 | ₩ 3,224,535 | ₩ 2,430,883 | ₩ 64,087,090 |

The Company divides loans according to the characteristics of debtors and details are described below:

| Classification | Household/credit card | Enterprise |
|---|---|---|
| Rating 1 | Bankruptcy rate: below 0.36% | 1 – 4 |
| Rating 2 | Bankruptcy rate: 0.36%–8.79% | 5+ – 6 |
| Rating 3 | Bankruptcy rate: 8.79%–100% | 6- – 7 |

2) Loans that are past due, but not impaired

The Company considers that loans whose overdue period is less than 90 days do not have to be impaired if there is no other credit information related to impairment. Information of overdue period of loans that are past due, but not impaired is as follows (Unit: In millions):

| | Dec. 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
| Less than 30 days | ₩ 12,581 | ₩ 380 | ₩ 14,151 | ₩ 111 | ₩ 109,087 | ₩ 136,310 |
| 30–60 days | 5,260 | - | 2,121 | 16 | 10,735 | 18,132 |
| 60–90 days | 6,189 | 84 | 775 | 438 | 7,236 | 14,722 |
| Total | ₩ 24,030 | ₩ 464 | ₩ 17,047 | ₩ 565 | ₩ 127,058 | ₩ 169,164 |

| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
|---|---|---|---|---|---|---|
| | Dec. 31, 2011 | | | | | |
| Less than 30 days | ₩ 19,487 | ₩ - | ₩ 13,803 | ₩ 3,654 | ₩ 65,465 | ₩ 102,409 |
| 30–60 days | 4,598 | - | 19,044 | - | 10,133 | 33,775 |
| 60–90 days | 839 | - | 1,335 | 300 | 8,167 | 10,641 |
| Total | ₩ 24,924 | ₩ - | ₩ 34,182 | ₩ 3,954 | ₩ 83,765 | ₩ 146,825 |

3) Loans that are impaired

Details of loans that are impaired as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
|---|---|---|---|---|---|---|
| | Dec. 31, 2012 | | | | | |
| Individual assessment | | | | | | |
| Book value | ₩ - | ₩ 535,767 | ₩ 294,896 | ₩ 37,595 | ₩ - | ₩ 868,258 |
| Allowance for possible loan losses | - | (158,858) | (96,485) | (12,110) | - | (267,453) |
| Subtotal | - | 376,909 | 198,411 | 25,485 | - | 600,805 |
| Collective assessment | | | | | | |
| Book value | 92,777 | 376 | 85,170 | 4,833 | 59,315 | 242,471 |
| Allowance for possible loan losses | (18,458) | (169) | (27,399) | (1,177) | (46,028) | (93,231) |
| Subtotal | 74,319 | 207 | 57,771 | 3,656 | 13,287 | 149,240 |
| Total | ₩ 74,319 | ₩ 377,116 | ₩ 256,182 | ₩ 29,141 | ₩ 13,287 | ₩ 750,045 |

| Classification | Household | Large companies | Small- and medium-sized companies | Public institution and others | Credit card | Total |
|---|---|---|---|---|---|---|
| | Dec. 31, 2011 | | | | | |
| Individual assessment | | | | | | |
| Book value | ₩ - | ₩ 410,194 | ₩ 461,636 | ₩ 88,641 | ₩ - | ₩ 960,471 |
| Allowance for possible loan losses | - | (146,419) | (123,269) | (46,807) | - | (316,495) |
| Subtotal | - | 263,775 | 338,367 | 41,834 | - | 643,976 |
| Collective assessment | | | | | | |
| Book value | 52,842 | 203 | 58,521 | 3,342 | 48,586 | 163,494 |
| Allowance for possible loan losses | (13,046) | (136) | (14,070) | (947) | (38,629) | (66,828) |
| Subtotal | 39,796 | 67 | 44,451 | 2,395 | 9,957 | 96,666 |
| Total | ₩ 39,796 | ₩ 263,842 | ₩ 382,818 | ₩ 44,229 | ₩ 9,957 | ₩ 740,642 |

(6) The portfolio of loans, before deferred LOFs/LOCs and allowance for possible loan losses, classified by industry as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Industry | In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|---|
| | Dec. 31, 2012 | | | | |
| Household | | ₩ 21,366,801 | ₩ 25,592 | ₩ 21,392,393 | 31.87 |
| Credit card | | 2,659,188 | 2,089 | 2,661,277 | 3.96 |
| Enterprise | Manufacturing | 11,301,538 | 7,310,229 | 18,611,767 | 27.73 |
| | Wholesale and retail | 3,265,342 | 2,291,184 | 5,556,526 | 8.28 |
| | Rental of real estate | 3,906,477 | 382,607 | 4,289,084 | 6.39 |
| | Financial | 1,663,257 | 2,152,905 | 3,816,162 | 5.68 |
| | Construction | 1,903,534 | 358,751 | 2,262,285 | 3.37 |
| | Transportation | 1,027,675 | 1,160,967 | 2,188,642 | 3.26 |

| Classification | Industry | In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|---|
| | | Dec. 31, 2012 | | | |
| | Professonal, scientific and technical activities | ₩ 788,926 | ₩ 53,366 | ₩ 842,292 | 1.25 |
| | Others | 3,729,112 | 1,778,876 | 5,507,988 | 8.21 |
| | Subtotal | 27,585,861 | 15,488,885 | 43,074,746 | 64.17 |
| Total | | ₩ 51,611,850 | ₩ 15,516,566 | ₩ 67,128,416 | 100.00 |

| Classification | Industry | In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|---|
| | | Dec. 31, 2011 | | | |
| Household | | ₩ 19,708,651 | ₩ 33,490 | ₩ 19,742,141 | 30.21 |
| Credit card | | 2,558,213 | 5,021 | 2,563,234 | 3.92 |
| Enterprise | Manufacturing | 10,059,894 | 7,742,189 | 17,802,083 | 27.24 |
| | Rental of real estate | 4,034,836 | 435,321 | 4,470,157 | 6.84 |
| | Wholesale and retail | 2,427,137 | 1,970,663 | 4,397,800 | 6.73 |
| | Transportation | 954,074 | 1,310,048 | 2,264,122 | 3.46 |
| | Construction | 2,058,305 | 136,265 | 2,194,570 | 3.36 |
| | Others | 5,428,718 | 6,495,055 | 11,923,773 | 18.24 |
| | Subtotal | 24,962,964 | 18,089,541 | 43,052,505 | 65.87 |
| Total | | ₩ 47,229,828 | ₩ 18,128,052 | ₩ 65,357,880 | 100.00 |

(7) The portfolio of loans, before deferred LOFs/LOCs and allowance for possible loan losses, classified by country as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Country | In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| | Dec. 31, 2012 | | | |
| Korea | ₩ 50,058,684 | ₩ 12,454,195 | ₩ 62,512,879 | 93.12 |
| Japan | 22,992 | 518,267 | 541,259 | 0.81 |
| Panama | - | 470,375 | 470,375 | 0.70 |
| Germany | 1,482 | 402,696 | 404,178 | 0.60 |
| Hong Kong | 2,015 | 365,898 | 367,913 | 0.55 |
| Singapore | 2,342 | 320,619 | 322,961 | 0.48 |
| USA | 96,973 | 203,350 | 300,323 | 0.45 |
| UK | 4,182 | 214,831 | 219,013 | 0.33 |
| Others | 1,423,180 | 566,335 | 1,989,515 | 2.96 |
| Total | ₩ 51,611,850 | ₩ 15,516,566 | ₩ 67,128,416 | 100.00 |

| Country | In Korean won | In foreign currencies | Total amount | Percentage (%) |
|---|---|---|---|---|
| | Dec. 31, 2011 | | | |
| Korea | ₩ 46,970,995 | ₩ 13,066,646 | ₩ 60,037,641 | 91.86 |
| Japan | 24,592 | 645,655 | 670,247 | 1.03 |
| Panama | - | 371,508 | 371,508 | 0.57 |
| Germany | 2,617 | 322,924 | 325,541 | 0.50 |
| USA | 93,759 | 224,054 | 317,813 | 0.49 |
| Others | 137,865 | 3,497,265 | 3,635,130 | 5.55 |
| Total | ₩ 47,229,828 | ₩ 18,128,052 | ₩ 65,357,880 | 100.00 |

(8) The portfolio of loans, before deferred LOFs/LOCs and allowance for possible loan losses, classified by currency as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Currency | Dec. 31, 2012 |
|---|---|
| KRW | ₩ 51,611,850 |
| USD | 12,764,921 |
| JPY | 1,676,411 |
| EUR | 783,501 |
| HKD | 22,461 |
| CAD | 14,230 |
| AUD | 5,296 |
| Others | 249,746 |
| Total | ₩ 67,128,416 |

| Currency | Dec. 31, 2011 |
|---|---|
| KRW | ₩ 47,229,828 |
| USD | 13,762,494 |
| JPY | 2,448,731 |
| EUR | 1,100,595 |
| HKD | 16,114 |
| Others | 800,118 |
| Total | ₩ 65,357,880 |

## 17. STRUCTURED SECURITIES:

Structured securities as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Structured securities related to stock: | | |
| Convertible bonds (private placement) | ₩ 24,705 | ₩ 28,145 |
| Bonds with stock warrants (private placement) | 7,612 | 74,140 |
| Subtotal | 32,317 | 102,285 |
| Structured securities related to credit risk: | | |
| Collateralized debt obligation | 21,491 | 22,422 |
| Total | ₩ 53,808 | ₩ 124,707 |

## 18. DERIVATIVES:

(1) Details of trading derivatives as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Type | Dec. 31, 2012 Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets | Liabilities |
|---|---|---|---|---|---|
| Currency: | | | | | |
| Currency forwards | ₩ 40,103,392 | ₩ 627,840 | ₩ 742,119 | ₩ 634,485 | ₩ 678,712 |
| Currency swaps | 15,502,216 | 487,316 | 316,613 | 438,531 | 268,483 |
| Currency options purchased | 1,862,223 | 5,833 | 9,097 | 22,427 | - |
| Currency options sold | 2,147,990 | 11,567 | 15,095 | - | 32,230 |
| Subtotal | 59,615,821 | 1,132,556 | 1,082,924 | 1,095,443 | 979,425 |
| Interest: | | | | | |
| Interest rate swaps | 44,454,777 | 120,639 | 145,086 | 240,301 | 309,183 |
| Interest rate option purchased | 980,000 | 1,416 | 620 | 5,077 | - |
| Interest rate option sold | 1,695,000 | 1,459 | 311 | - | 2,566 |
| Interest rate futures | 1,174,227 | - | - | - | - |
| Subtotal | 48,304,004 | 123,514 | 146,017 | 245,378 | 311,749 |
| Stock: | | | | | |
| Stock options purchased | 17,588 | 2,412 | 58 | 10,156 | - |
| Stock options sold | 2,745 | 15 | 25 | - | 123 |
| Stock futures | 1,197 | - | - | - | - |
| Subtotal | 21,530 | 2,427 | 83 | 10,156 | 123 |
| Others: | | | | | |
| Deferred gain on derivatives valuation | - | - | - | - | 48 |
| Credit spread | - | 4,555 | - | - | 14,547 |
| Bid-Ask spread | - | 234 | - | - | 2,710 |
| Subtotal | - | 4,789 | - | - | 17,305 |
| Total | ₩ 107,941,355 | ₩ 1,263,286 | ₩ 1,229,024 | ₩ 1,350,977 | ₩ 1,308,602 |

| Type | Dec. 31, 2011 Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets | Liabilities |
|---|---|---|---|---|---|
| Currency: | | | | | |
| Currency forwards | ₩ 33,839,200 | ₩ 493,892 | ₩ 360,852 | ₩ 518,512 | ₩ 409,928 |
| Currency swaps | 10,993,561 | 169,117 | 195,242 | 301,665 | 229,650 |
| Currency options purchased | 1,247,542 | 2,692 | 13,382 | 29,491 | - |
| Currency options sold | 1,284,111 | 11,063 | 2,061 | - | 28,686 |
| Currency futures | 525,190 | - | - | - | - |
| Subtotal | 47,889,604 | 676,764 | 571,537 | 849,668 | 668,264 |
| Interest: | | | | | |
| Interest rate swaps | 37,662,290 | 137,857 | 173,475 | 210,529 | 273,952 |
| Interest rate futures | 361,676 | - | - | - | - |
| Subtotal | 38,023,966 | 137,857 | 173,475 | 210,529 | 273,952 |
| Stock: | | | | | |
| Stock options purchased | 71,609 | 519 | 6,552 | 9,926 | - |
| Stock options sold | 63,838 | 456 | 541 | - | 2,486 |
| Stock futures | 3,438 | - | - | - | - |
| Subtotal | 138,885 | 975 | 7,093 | 9,926 | 2,486 |
| Others: | | | | | |
| Deferred gain on derivatives valuation | - | - | - | - | 1,000 |
| Deferred loss on derivatives valuation | - | - | - | 697 | - |

| Type | Dec. 31, 2011 Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets | Liabilities |
|---|---|---|---|---|---|
| Credit spread | ₩ - | ₩ 1,215 | ₩ 1 | ₩ - | ₩ 19,102 |
| Bid-Ask spread | - | 25 | - | - | 2,944 |
| Subtotal | - | 1,240 | 1 | 697 | 23,046 |
| Total | ₩ 86,052,455 | ₩ 816,836 | ₩ 752,106 | ₩ 1,070,820 | ₩ 967,748 |

(2) Details of hedging derivatives as of December 31, 2012 and 2011 and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Type | Dec. 31, 2012 Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets | Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest rate swaps | ₩ 1,606,650 | ₩ 7,060 | ₩ 1,019 | ₩ 37,867 | ₩ - |

| Type | Dec. 31, 2011 Outstanding commitment contract amount | Gain on valuation | Loss on valuation | Assets | Liabilities |
|---|---|---|---|---|---|
| Interest rate: | | | | | |
| Interest rate swaps | ₩ 608,942 | ₩ 27,712 | ₩ - | ₩ 32,537 | ₩ 897 |

Foreign exchange forward transaction, currency futures and currency swap, such derivative transactions related to currencies that purchase and sales occurs simultaneously contract price for purchase and sales is not differentiated. For won-to-foreign currency transactions, contract price based on foreign currency is translated at the exchange rate at the end of the reporting period. In addition, purchase price based on foreign currency is translated at exchange rate of the end of the reporting period for foreign currency-to-foreign currency transactions.

(3) Gain or loss on valuation of hedged items for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Type | Dec. 31, 2012 Gain on valuation | Loss on valuation | Dec. 31, 2011 Assets | Liabilities |
|---|---|---|---|---|
| AFS financial assets (debt securities) | ₩ - | ₩ - | ₩ - | ₩ 1,119 |
| Finance debentures | - | 11,558 | - | 26,482 |
| Total | ₩ - | ₩ 11,558 | ₩ - | ₩ 27,601 |

Hedged items applying to fair value hedge accounting as of December 31, 2012, include AFS financial assets (debt securities) and issuing financing bonds, and the Company recognized changes in fair values of hedged items due to fluctuation of interest rates in net income. Interest rate swap is used as a hedge method in order to offset changes in fair values of hedged items due to fluctuation of interest rate.

## 19. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES:

(1) Investments in subsidiaries and associates as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Type | Country | Ownership ratio (%) | Book value Dec. 31, 2012 | Book value Dec. 31, 2011 |
|---|---|---|---|---|---|
| KEB Capital Inc. (“KEBC”) | Subsidiary | Korea | 99.31 | ₩ 115,294 | ₩ 115,294 |
| KEB Futures Co., Ltd. (“KEBF”) | Subsidiary | Korea | 100.00 | 52,808 | 52,808 |
| KEB Fund Services Co., Ltd. (“KEBIS”) | Subsidiary | Korea | 100.00 | 2,550 | 2,550 |
| Korea Exchange Bank of Canada (“KEBOC”) | Subsidiary | Canada | 100.00 | 111,056 | 111,056 |
| KEB Australia Ltd. (“KEBA”) | Subsidiary | Australia | 100.00 | 48,792 | 48,792 |
| Korea Exchange Bank (Deutschland)A.G. (“KEBDAG”) | Subsidiary | Deutschland | 100.00 | 73,698 | 73,698 |
| PT. Bank KEB Indonesia (“KEBI”) | Subsidiary | Indonesia | 99.00 | 131,454 | 131,454 |
| Banco KEB do Brasil S. A. (“KEBB”) | Subsidiary | Brazil | 100.00 | 42,544 | 23,147 |
| KEB NY Financial Corp. (“NYFinCo”) | Subsidiary | USA | 100.00 | 36,169 | 36,169 |
| KEB LA Financial Corp. (“LAFinCo”) | Subsidiary | USA | 100.00 | 32,037 | 32,037 |
| KEB USA Int'l Corp. (“USAI”) | Subsidiary | USA | 100.00 | 6,459 | 6,459 |
| KEB Asia Finance Limited (“KAF”) | Subsidiary | Hong Kong | 100.00 | 54,212 | 54,212 |
| KEB Bank (China) Co., Ltd. ("KEBChina") | Subsidiary | China | 100.00 | 364,449 | 364,449 |
| Trust agreement to preserve income (*1) | Subsidiary | Korea | - | - | - |
| Flossom (*2) | Associate | Korea | 1.92 | - | 748 |
| | Total | | | ₩ 1,071,522 | ₩ 1,052,873 |

(*1) Special-purpose entity that is included in subsidiary in consideration of its activities, decision-making power, benefits and risk.
(*2) Included in investment in associates because the Company has significant influence by participating in the Board of Directors’ meeting, decision-making organization.

## 20. TANGIBLE ASSETS:

(1) Tangible assets as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| | Dec. 31, 2012 | | |
|---|---|---|---|
| Classification | Acquisition cost | Accumulated depreciation | Book value |
| Land | ₩ 816,715 | ₩ - | ₩ 816,715 |
| Buildings | 452,750 | (182,366) | 270,384 |
| Leasehold improvements | 153,776 | (122,620) | 31,156 |
| Equipment and vehicles | 675,251 | (588,734) | 86,517 |
| Construction in progress | 3 | - | 3 |
| Total | ₩ 2,098,495 | ₩ (893,720) | ₩ 1,204,775 |

| | Dec. 31, 2011 | | |
|---|---|---|---|
| Classification | Acquisition cost | Accumulated depreciation | Book value |
| Land | ₩ 819,393 | ₩ - | ₩ 819,393 |
| Buildings | 443,988 | (173,303) | 270,685 |
| Leasehold improvements | 135,970 | (114,140) | 21,830 |
| Equipment and vehicles | 621,295 | (544,662) | 76,633 |
| Construction in progress | 322 | - | 322 |
| Total | ₩ 2,020,968 | ₩ (832,105) | ₩ 1,188,863 |

(2) The changes in book value of tangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Jan. 1, 2012 | Acquisition | Disposal | Depreciation | Transfer | Others | Dec.31, 2012 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 819,393 | ₩ 199 | ₩ (23) | ₩ - | ₩ (2,538) | ₩ (316) | ₩ 816,715 |
| Buildings | 270,685 | 13,540 | (28) | (11,204) | (2,170) | (439) | 270,384 |
| Leasehold improvements (*1) | 21,830 | 16,911 | (36) | (9,501) | - | 1,952 | 31,156 |
| Equipment and vehicles | 76,633 | 60,814 | (167) | (50,835) | - | 72 | 86,517 |
| Construction in progress | 322 | - | - | - | - | (319) | 3 |
| Total | ₩ 1,188,863 | ₩ 91,464 | ₩ (254) | ₩ (71,540) | ₩ (4,708) | ₩ 950 | ₩ 1,204,775 |

(*1) Increase of ₩1,054 million due to provision for restoration cost was included in the acquisition amount.

| Classification | Jan. 1, 2011 | Acquisition | Disposal | Depreciation | Transfer | Others | Dec. 31, 2011 |
|---|---|---|---|---|---|---|---|
| Land | ₩ 816,953 | ₩ 52 | ₩ (134) | ₩ - | ₩ 47 | ₩ 2,475 | ₩ 819,393 |
| Buildings | 278,594 | 8,715 | (130) | (10,639) | (8,819) | 2,964 | 270,685 |
| Leasehold improvements (*1) | 22,185 | 8,734 | - | (9,293) | - | 204 | 21,830 |
| Equipment and vehicles | 64,618 | 56,044 | (1,027) | (43,542) | - | 540 | 76,633 |
| Construction in progress | 1,050 | 336 | - | - | - | (1,064) | 322 |
| Total | ₩1,183,400 | ₩ 73,881 | ₩ (1,291) | ₩ (63,474) | ₩ (8,772) | ₩ 5,119 | ₩ 1,188,863 |

(*1) Increase of ₩142 million due to provision for restoration cost was included in the acquisition amount.

## 21. INVESTMENT PROPERTY:

(1) Investment properties as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 Acquisition cost | | Accumulated depreciation | | Accumulated impairment loss | | Book value | |
|---|---|---|---|---|---|---|---|---|
| Land | ₩ | 116,622 | ₩ | - | ₩ | (2,355) | ₩ | 114,267 |
| Buildings | | 113,201 | | (46,768) | | (2,388) | | 64,045 |
| Total | ₩ | 229,823 | ₩ | (46,768) | ₩ | (4,743) | ₩ | 178,312 |

| Classification | Dec. 31, 2011 Acquisition cost | | Accumulated depreciation | | Accumulated impairment loss | | Book value | |
|---|---|---|---|---|---|---|---|---|
| Land | ₩ | 114,428 | ₩ | - | ₩ | (2,355) | ₩ | 112,073 |
| Buildings | | 110,352 | | (43,112) | | (2,871) | | 64,369 |
| Total | ₩ | 224,780 | ₩ | (43,112) | ₩ | (5,226) | ₩ | 176,442 |

(2) The changes in book value of investment properties for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Jan. 1, 2012 | | Disposal | | Depreciation | | Transfer (*1) | | Others | | Dec. 31, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Land | ₩ | 112,073 | ₩ | (344) | ₩ | - | ₩ | 2,538 | ₩ | - | ₩ | 114,267 |
| Buildings | | 64,369 | | - | | (2,494) | | 2,170 | | - | | 64,045 |
| Total | ₩ | 176,442 | ₩ | (344) | ₩ | (2,494) | ₩ | 4,708 | ₩ | - | ₩ | 178,312 |

(*1) Due to changes in the ratio of the leased investment properties

| Classification | Jan. 1, 2011 | | Disposal | | Depreciation | | Transfer (*1) | | Others | | Dec. 31, 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Land | ₩ | 114,476 | ₩ | - | ₩ | - | ₩ | (47) | ₩ | (2,356) | ₩ | 112,073 |
| Buildings | | 60,882 | | - | | (2,462) | | 8,819 | | (2,870) | | 64,369 |
| Total | ₩ | 175,358 | ₩ | - | ₩ | (2,462) | ₩ | 8,772 | ₩ | (5,226) | ₩ | 176,442 |

(*1) Due to changes in the ratio of the leased investment properties

(3) Fair values of investment properties are ₩155,197 million and ₩155,057 million as of December 31, 2012 and 2011, respectively. Fair values are measured based on valuation performed by independent professionals.

(4) Rental revenues from investment property for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Land | ₩ | 3,206 | ₩ | 3,208 |

(5) Investment properties not in use as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Land | ₩ | 1,640 | ₩ | 1,873 |
| Buildings | | 386 | | 548 |
| Total | ₩ | 2,026 | ₩ | 2,421 |

## 22. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 Acquisition cost | | Accumulated depreciation | | Accumulated impairment loss | | Book value | |
|---|---|---|---|---|---|---|---|---|
| Development expenditures | ₩ | 287,078 | ₩ | (233,382) | ₩ | - | ₩ | 53,696 |
| Membership | | 18,499 | | - | | (3,763) | | 14,736 |
| Others | | 2,384 | | (2,173) | | - | | 211 |
| Total | ₩ | 307,961 | ₩ | (235,555) | ₩ | (3,763) | ₩ | 68,643 |

| Classification | Dec. 31, 2011 Acquisition cost | | Accumulated depreciation | | Accumulated impairment loss | | Book value | |
|---|---|---|---|---|---|---|---|---|
| Development expenditures | ₩ | 273,852 | ₩ | (211,039) | ₩ | - | ₩ | 62,813 |
| Membership | | 12,385 | | - | | (1,806) | | 10,579 |
| Others | | 2,579 | | (2,283) | | - | | 296 |
| Total | ₩ | 288,816 | ₩ | (213,322) | ₩ | (1,806) | ₩ | 73,688 |

(2) The changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Jan. 1, 2012 | | Acquisition | | Disposal | | Amortization | | Impairment loss | | Net change in foreign currencies | | Others | | Dec. 31, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Development expenditures | ₩ | 62,813 | ₩ | 13,225 | ₩ | - | ₩ | (22,342) | ₩ | - | ₩ | - | ₩ | - | ₩ | 53,696 |
| Membership | | 10,579 | | 11 | | (213) | | - | | (2,074) | | (18) | | 6,451 | | 14,736 |
| Others | | 296 | | 62 | | - | | (113) | | - | | (34) | | - | | 211 |
| Total | ₩ | 73,688 | ₩ | 13,298 | ₩ | (213) | ₩ | (22,455) | ₩ | (2,074) | ₩ | (52) | ₩ | 6,451 | ₩ | 68,643 |

| Classification | Jan. 1, 2011 | | Acquisition | | Disposal | | Amortization | | Impairment loss | | Net change in foreign currencies | | Others | | Dec. 31, 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Development expenditures | ₩ | 64,398 | ₩ | 23,578 | ₩ | - | ₩ | (25,163) | ₩ | - | ₩ | - | ₩ | - | ₩ | 62,813 |
| Membership | | - | | - | | - | | - | | (1,806) | | - | | 12,385 | | 10,579 |
| Others | | 183 | | 257 | | - | | (145) | | - | | 1 | | - | | 296 |
| Total | ₩ | 64,581 | ₩ | 23,835 | ₩ | - | ₩ | (25,308) | ₩ | (1,806) | ₩ | 1 | ₩ | 12,385 | ₩ | 73,688 |

## 23. OTHER ASSETS AND MERCHANT BANKING ACCOUNT ASSETS:

(1) Other assets as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Guarantee deposits paid | ₩ | 641,969 | ₩ | 640,185 |
| Accounts receivables | | 6,420,929 | | 4,913,392 |
| Accrued income | | 231,178 | | 237,977 |
| Prepaid expenses | | 56,763 | | 48,324 |
| Suspense payments | | 21,408 | | 24,844 |
| Domestic exchange settlement debits | | 414,312 | | 1,206,886 |
| Other sundry assets | | 22,178 | | 17,897 |
| Allowance for possible other assets losses | | (3,734) | | (8,627) |
| Total | ₩ | 7,805,003 | ₩ | 7,080,878 |

(2) Changes in allowance for possible other assets losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Beginning | ₩ | 8,627 | ₩ | 51,054 |
| Bad debts | | (6,152) | | (4,657) |
| Transfer to (reversal of) allowance for possible losses | | 1,415 | | (7,820) |
| Interest income of impaired receivables | | (156) | | (139) |
| Others | | - | | (29,811) |
| Ending | ₩ | 3,734 | ₩ | 8,627 |

(3) Merchant banking account assets as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|---|
| Merchant banking account loans | | ₩ | 450,000 | ₩ | 796,600 |
| Merchant banking account trading securities | | | 1,816,293 | | 1,313,329 |
| CMA assets: | Loans | | 232,600 | | 25,000 |
| | Trading securities | | 79,672 | | 262,538 |
| | Subtotal | | 312,272 | | 287,538 |
| Allowance for possible loan losses | | | (349) | | (5,013) |
| Total | | ₩ | 2,578,216 | ₩ | 2,392,454 |

## 24. NON-CURRENT ASSETS HELD FOR SALE:

As of December 31, 2012, non-current assets held for sale consist of one real estate acquired through execution of security right, which the management of the Company committed to plan to sell, but not yet sold by December 31, 2012. As of the reporting date, one asset among non-current assets held for sale is under negotiation for sale and the remaining one is actively marketed..

Non-current assets held for sale as of December 31, 2012 and 2011 consist of (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Acquisition cost | ₩ | 192 | ₩ | - |
| Accumulated depreciation | | - | | - |
| Book value | ₩ | 192 | ₩ | - |

## 25. FINANCIAL LIABILITIES AT FVTPL:

Financial liabilities at FVTPL as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Trading derivatives liabilities (Note 18) | ₩ | 1,308,602 | ₩ | 967,748 |

**26. DEPOSITS:**

(1) Deposits as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Demand deposits: | | |
| Demand deposits in Korean won | | |
| Checking deposits | ₩ 213,786 | ₩ 303,338 |
| Household checking account | 15,493 | 15,968 |
| Temporary deposits | 738,617 | 746,407 |
| Passbook deposits | 15,445,055 | 14,919,370 |
| Public fund deposits | 41,569 | 22,287 |
| Treasury deposits | 256 | 364 |
| Non-resident deposits in Korean won | 268,586 | 223,065 |
| Non-resident free deposits in Korean won | 29,742 | 43,310 |
| Subtotal | 16,753,104 | 16,274,109 |
| Demand deposits in foreign currencies | | |
| Checking deposits | 1,992,033 | 2,405,041 |
| Passbook deposits | 7,234,386 | 6,919,250 |
| Temporary deposits | 15,979 | 10,434 |
| Subtotal | 9,242,398 | 9,334,725 |
| Time deposits: | | |
| Time deposits in Korean won | | |
| Time deposits | 29,930,016 | 29,585,208 |
| Apartment application deposits | 158,655 | 185,446 |
| Installment savings deposits | 1,776,894 | 1,015,066 |
| Non-resident deposits in Korean won | 351,073 | 350,771 |
| Non-resident free deposits in Korean won | 432,394 | 468,486 |
| Home mortgage deposits | 314,227 | 347,349 |
| Industrial savings | 153 | 189 |
| Import installment | 99 | 126 |
| Home installment | 18,809 | 24,428 |
| Others | 36 | 38 |
| Subtotal | 32,982,356 | 31,977,107 |
| Time deposits in foreign currency | | |
| Time deposits | 4,256,864 | 4,281,833 |
| Others | 35,279 | 25,560 |
| Subtotal | 4,292,143 | 4,307,393 |
| Negotiable certificates of deposits: | 278,803 | 25,709 |
| Total | ₩ 63,548,804 | ₩ 61,919,043 |

(2) Details of deposits by customer as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Individuals | ₩ 19,582,765 | ₩ 17,987,101 |
| Enterprises | 19,880,901 | 18,921,665 |
| Other banks | 1,287,782 | 1,889,068 |
| Public institutions | 503,532 | 671,874 |
| Other financial institutions | 7,388,694 | 7,041,790 |
| Government | 149,177 | 310,433 |
| Nonprofit corporations | 3,331,927 | 2,973,485 |
| Foreign companies | 7,132,966 | 7,080,600 |
| Others | 4,291,060 | 5,043,027 |
| Total | ₩ 63,548,804 | ₩ 61,919,043 |

## 27. BORROWINGS:

Borrowings as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Lender | Interest rate (%) | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Borrowings in Korean won: | | | | |
| Borrowings from B.O.K. | B.O.K. | 1.25 | ₩ 545,340 | ₩ 396,010 |
| Borrowings from Korean government | Korea Energy Management Corporation and others | 0.00-4.00 | 927,715 | 457,412 |
| Other borrowings | Small business corporation and others | 1.39-3.84 | 221,337 | 279,793 |
| Subtotal | | | 1,694,392 | 1,133,215 |
| Borrowings in foreign currencies: | | | | |
| Bank draft | JPMorgan Chase and others | 1.83-15.75 | 180,643 | 202,020 |
| Other borrowings | SMBC and others | 0.41-5.81 | 4,492,917 | 6,603,147 |
| Subtotal | | | 4,673,560 | 6,805,167 |
| Call money: | | | | |
| Call money in foreign currencies | The Export-Import Bank of Korea and others | 0.34-1.10 | 135,973 | 1,122,474 |
| Bonds sold under RPs: | | | | |
| Bonds sold under repurchase agreements in Korean won | Customers | 3.70-3.95 | 190 | 252 |
| Bonds sold under repurchase agreements in foreign currencies | | - | - | 21,993 |
| Subtotal | | | 190 | 22,245 |
| Bills sold | Customers | 2.00-3.78 | 58,387 | 91,994 |
| Total | | | ₩ 6,562,502 | ₩ 9,175,095 |

## 28. DEBENTURES:

Debentures as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Lender | Interest rate (%) | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|---|
| Debentures in Korean won: | | | | |
| General debentures | Institutions | 2.94–4.17 | ₩ 2,530,000 | ₩ 2,710,000 |
| Subordinated debentures | Institutions and customers | 3.30–7.80 | 1,500,132 | 1,100,222 |
| (Discount on bond in Korean won) | | | (12,176) | (9,689) |
| Subtotal | | | 4,017,956 | 3,800,533 |
| Debentures in foreign currencies: | | | | |
| General debentures | Morgan Stanley and others | 1.75–4.88 | 1,606,650 | 576,650 |
| Floating rate debentures | HSBC | 0.35–2.41 | 160,665 | 576,650 |
| Gain or loss on fair value hedge (for the years ended Dec. 31, 2012 and 2011, respectively) | | | 11,558 | 26,482 |
| Gain or loss on fair value hedge (before Dec. 31, 2011 and 2010, respectively) | | | 25,302 | 762 |
| Discount on bond in foreign currencies | | | (12,024) | (5,220) |
| Subtotal | | | 1,792,151 | 1,175,324 |
| Total | | | ₩ 5,810,107 | ₩ 4,975,857 |

## 29. PROVISIONS:

(1) Provisions, including provision for unused credit limit of merchant banking account, as of December 31, 2012 and 2011 consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Provision for acceptances and guarantees: | | |
| Financing guarantee contract (*1) | ₩ 1,783 | ₩ 20,190 |
| Non-financing guarantee contract | 32,245 | 19,328 |
| Endorsed notes | 763 | 896 |
| Subtotal | 34,791 | 40,414 |
| Provision for unused credit limit (*2) | 60,991 | 54,762 |
| Other provisions: | | |
| Provision for restoration cost | 17,786 | 12,567 |
| Provision for credit card point and mileage | 22,832 | 7,774 |
| Provision for litigation (*3) | 45,352 | 43,506 |
| Others | 53,738 | 76,642 |
| Subtotal | 139,708 | 140,489 |
| Total | ₩ 235,490 | ₩ 235,665 |

(*1) The Company recognizes the amount exceeding unamortized amount of initial fair values at subsequent measurement of financing guarantee contract as provisions for guarantees. The Company recognizes ₩40,149 million and ₩25,024 million of the unamortized amount as financing guarantee contract liabilities as of December 31, 2012 and 2011, respectively.

(*2) Includes provision for unused credit limit of merchant banking account (Notes 30 (2)).

(*3) OLYMPUS CAPITAL KEB CARDS LTD. and other co-plaintiffs filed a damage suit against five companies, including the Company and LSF-KEB Holdings, SCA, with the International Court of Arbitration, claiming invalidity of the share transfer agreement between the parties. As of December 31, 2011, the Court ruled that $37.30 million of damages and five percent annual interest expenses of approximately $15.26 million that accrued from November 20, 2003, to the ruling date, and legal fees of $11.73 million ($64.29 million in total) should be paid. During the current period, LSF-KEB holdings, SCA, paid the compensation ruled by the International Court of Arbitration and sued the Company for reimbursement related to this compensation. Accordingly, the Company has credited provision for litigation with ₩35 billion, which corresponds to approximately 50 percent of the amount that is mentioned above.

(2) The changes in provision for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| | 2012 | | | | |
|---|---|---|---|---|---|
| Classification | Beginning balance | Transfer (reversal) | Used | Others | Ending balance |
| Provision for acceptances and guarantees | ₩ 40,414 | ₩ (3,867) | ₩ - | ₩ (1,756) | ₩ 34,791 |
| Provision for unused credit limit (*1) | 54,762 | 6,560 | - | (331) | 60,991 |
| Other provisions: | | | | | |
| Provision for restoration costs | 12,567 | 3,191 | (266) | 2,294 | 17,786 |
| Provision for credit card point and mileage | 7,774 | 13,606 | (16,615) | 18,067 | 22,832 |
| Provision for litigation | 43,506 | 1,846 | - | - | 45,352 |
| Others | 76,642 | (394) | (22,500) | (10) | 53,738 |
| Subtotal | 140,489 | 18,249 | (39,381) | 20,351 | 139,708 |
| Total | ₩ 235,665 | ₩ 20,942 | ₩ (39,381) | ₩ 18,264 | ₩ 235,490 |

(*1) Includes provision for unused credit limit of merchant banking account (Note 30 (2)).

| Classification | 2011 Beginning balance | Transfer (reversal) | Used | Others | Ending balance |
|---|---|---|---|---|---|
| Provision for acceptances and guarantees | ₩ 49,264 | ₩ (8,999) | ₩ - | ₩ 149 | ₩ 40,414 |
| Provision for unused credit limit (*1) | 96,184 | (41,285) | - | (137) | 54,762 |
| Other provisions: | | | | | |
| Provision for restoration costs | 12,955 | (545) | (88) | 245 | 12,567 |
| Provision for credit card point and mileage | 2,452 | 8,169 | (2,952) | 105 | 7,774 |
| Provision for litigation | 29,832 | 13,674 | - | - | 43,506 |
| Others | 78,524 | (10,020) | (14,400) | 22,538 | 76,642 |
| Subtotal | 123,763 | 11,278 | (17,440) | 22,888 | 140,489 |
| Total | ₩ 269,211 | ₩ (39,006) | ₩ (17,440) | ₩ 22,900 | ₩ 235,665 |

(*1) Includes provision for unused credit limit of merchant banking account (Note 30 (2)).

(3) Payment guarantees and endorsed notes as of December 31, 2012 and 2011 are as follows (Unit: In millions)

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Acceptances and guarantees: | | |
| Financing guarantee contract in Korean won | | |
| Payment guarantee for issuance of debentures | ₩ 70 | ₩ 4,528 |
| Payment guarantee for loans | 86,539 | 69,643 |
| Others | 25,919 | 3,770 |
| Subtotal | 112,528 | 77,941 |
| Financing guarantee contract in foreign currencies | | |
| Local finance payment guarantee | 619,029 | 540,702 |
| Definite payment guarantee in Korean won: | | |
| Other payment guarantees in Korean won | 1,553,450 | 1,079,410 |
| Others | - | 10,988 |
| Subtotal | 1,553,450 | 1,090,398 |
| Definite payment guarantee in foreign currencies: | | |
| Acceptance of letters of credit | 540,812 | 498,834 |
| Acceptances on letters of guarantee for importers | 98,290 | 80,316 |
| Others | 8,092,141 | 7,734,820 |
| Subtotal | 8,731,243 | 8,313,970 |
| Unconfirmed acceptances and guarantees: | | |
| Letters of credit | 3,836,163 | 4,057,899 |
| Others | 33,510 | 196,211 |
| Subtotal | 3,869,673 | 4,254,110 |
| Bills endorsed | 25,733 | 33,283 |
| Total | ₩ 14,911,656 | ₩ 14,310,404 |

(4) Acceptances and guarantees (including bills endorsed), by industry, as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Industry | Dec. 31, 2012 Korean won | Foreign currencies | Total Amount | Total Ratio (%) |
|---|---|---|---|---|
| Manufacturing | ₩ 690,342 | ₩ 6,172,212 | ₩ 6,862,554 | 46.02 |
| Construction | 198,061 | 2,967,819 | 3,165,880 | 21.23 |
| Wholesale and retail | 379,587 | 1,531,532 | 1,911,119 | 12.82 |
| Finance | 1,038 | 1,143,364 | 1,144,402 | 7.67 |
| Electricity, gas and water supply | 4,640 | 499,579 | 504,219 | 3.38 |
| Professonal, scientific and technical activities | 19,035 | 319,383 | 338,418 | 2.27 |
| Public administration and denfence, compulsory socialsecurity | 239,459 | 96,064 | 335,523 | 2.25 |
| Others | 236,509 | 413,032 | 649,541 | 4.36 |
| Total | ₩ 1,768,671 | ₩ 13,142,985 | ₩ 14,911,656 | 100.00 |

| Industry | Dec. 31, 2011 Korean won | Foreign currencies | Total Amount | Total Ratio (%) |
|---|---|---|---|---|
| Manufacturing | ₩ 639,678 | ₩ 6,803,519 | ₩ 7,443,197 | 52.01 |
| Construction | 170,532 | 2,500,065 | 2,670,597 | 18.66 |
| Wholesale and retail | 231,423 | 1,036,145 | 1,267,568 | 8.86 |
| Finance | 1,315 | 889,956 | 891,271 | 6.23 |
| Electricity, gas and water supply | 2,906 | 560,339 | 563,245 | 3.94 |
| Others | 208,586 | 1,265,940 | 1,474,526 | 10.30 |
| Total | ₩ 1,254,440 | ₩ 13,055,964 | ₩ 14,310,404 | 100.00 |

(5) Acceptances and guarantees (including bills endorsed), by country, as of December 31, 2012 and 2011, are as follows (Unit: In millions):

| Countries | Dec. 31, 2012 Korean won | Foreign currencies | Total Amount | Total Ratio (%) |
|---|---|---|---|---|
| Korea | ₩ 1,767,709 | ₩ 12,040,436 | ₩ 13,808,145 | 92.60 |
| USA | - | 597,641 | 597,641 | 4.01 |
| Singapore | 50 | 156,955 | 157,005 | 1.05 |
| Saudi Arabia | - | 68,583 | 68,583 | 0.46 |
| Japan | - | 60,222 | 60,222 | 0.40 |
| Hong Kong | - | 56,454 | 56,454 | 0.38 |
| Germany | 772 | 49,632 | 50,404 | 0.34 |
| Others | 140 | 113,062 | 113,202 | 0.76 |
| Total | ₩ 1,768,671 | ₩ 13,142,985 | ₩ 14,911,656 | 100.00 |

| Countries | Dec. 31, 2011 Korean won | Foreign currencies | Total Amount | Total Ratio (%) |
|---|---|---|---|---|
| Korea | ₩ 1,251,394 | ₩ 12,074,039 | ₩ 13,325,433 | 93.12 |
| USA | - | 515,838 | 515,838 | 3.60 |
| Singapore | 50 | 130,322 | 130,372 | 0.91 |
| Japan | - | 67,581 | 67,581 | 0.47 |
| Saudi Arabia | - | 56,026 | 56,026 | 0.39 |
| Others | 2,996 | 212,158 | 215,154 | 1.51 |
| Total | ₩ 1,254,440 | ₩ 13,055,964 | ₩ 14,310,404 | 100.00 |

(6) Commitments

Unused credit limit as of December 31, 2012 and 2011, is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Loan agreement in Korean won | ₩ | 50,777,204 | ₩ | 45,918,873 |
| Loan agreement in foreign currency | | 5,795,797 | | 5,020,596 |
| Asset-backed commercial paper (ABCP) purchase agreement | | 581,034 | | 485,890 |
| Asset Backed Securities grant of credit agreement | | 1,478,216 | | 278,000 |
| Securities purchase agreement | | - | | 397,724 |
| Total | ₩ | 58,632,251 | ₩ | 52,101,083 |

## 30. OTHER LIABILITIES AND MERCHANT BANKING ACCOUNT LIABILITIES:

(1) Other liabilities as of December 31, 2012 and 2011, consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Defined benefit obligation (Note 31): | | |
| Defined benefit obligation | ₩ 276,815 | ₩ 218,861 |
| Less: Plan assets | (254,986) | (178,756) |
| Subtotal | 21,829 | 40,105 |
| Due to trust accounts | 1,010,055 | 1,081,106 |
| Accrued payable from foreign exchange: | | |
| Bills sold | 4,061 | 5,696 |
| Inward remittance payable | 360,267 | 273,335 |
| Subtotal | 364,328 | 279,031 |
| Accounts payables: | | |
| Other accounts payables | 6,317,087 | 4,834,527 |
| Accounts payables (card) | 286,235 | 120,808 |
| Subtotal | 6,603,322 | 4,955,335 |
| Accrued expenses | 870,573 | 908,197 |
| Unearned revenue | 68,301 | 76,164 |
| Deferred revenue | 52,836 | 39,811 |
| Guarantee money received: | | |
| Payment guarantee | 84,800 | 105,453 |
| Others | 36,495 | 45,793 |
| Subtotal | 121,295 | 151,246 |
| Suspense receipt | 67,767 | 50,935 |
| Suspense receipt (card) | 11,282 | 20,738 |
| Withholding taxes | 27,477 | 36,504 |
| Agency business accounts | 92,007 | 52,122 |
| Due from treasury agencies | 1,803,352 | 893,003 |
| Financial guarantee contract: | | |
| Financial guarantee contract in Korean won | 35,903 | 21,937 |
| Financial guarantee contract in foreign currencies | 4,246 | 3,087 |
| Subtotal | 40,149 | 25,024 |
| Other sundry liabilities: | | |
| Guarantee deposits for securities subscription | 29,395 | 9,308 |
| Exchange settlements credits | 1,592,073 | 1,428,002 |
| Prepaid card | 10 | 10 |
| Debit card | 9,560 | 5,508 |
| Cash received from other banks | 400 | 105 |
| Other liabilities in foreign currencies | 4,010 | 2,482 |
| Subtotal | 1,635,448 | 1,445,415 |
| Total | ₩ 12,790,021 | ₩ 10,054,736 |

(2) Merchant banking account liabilities as of December 31, 2012 and 2011, consist of the following (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Deposits | ₩ | 525,654 | ₩ | 747,785 |
| Provision for unused credit limit | | 987 | | 1,070 |
| Other liabilities (*1) | | 2,094 | | 4,449 |
| | ₩ | 528,735 | ₩ | 753,304 |

(*1) Other liabilities consist of accrued expenses, unearned income and others.

## 31. SEVERANCE BENEFITS:

(1) Defined retirement benefits plan

The Company operates a defined retirement benefit plan (“DB plan”) in accordance with Employee Retirement Benefits Laws under which severance pay is made on a lump-sum basis when an employee retires, based on an employee’s service period and salary at retirement. The Company has purchased severance benefits insurance and made deposits with Samsung Life Insurance Co., Ltd. and others. The deposit for severance benefits is presented as a deduction from accrued defined retirement benefits liability under an account of plan assets.

If a retiree is up for quasi-age limit special retirement, the Company pays quasi-age limit severance payments separately from general severance payment.

Actuarial valuation method for plan assets and defined benefit obligation is performed by Hewitt, an actuary services company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

(2) Long-term employee benefits

The Company provides long-term employee benefits to long-term employed directors and employees. These are granted only to directors and employees whose service period is more than 10 years. Estimated costs are recognized as expenses for service period using the same accounting treatment as one used for the DB plan.

Actuarial valuation method for defined benefit obligation related to long-term employee benefits is performed by Hewitt, an actuary service company. Current and past service costs related to present value of defined benefit obligation are measured using the projected unit credit method.

(3) Key actuarial assumptions

Key assumptions for actuarial valuation as of December 31, 2012 and 2011 are as follows:

| Classification | Dec. 31, 2012 | Dec. 31, 2011 | Notes |
|---|---|---|---|
| Discount rate | 3.55% | 4.25% | Rate of return on Bank AAA bonds |
| Expected rate of salary increase | 2.24% | 2.78% | Average rate for past five years |

(4) The details of defined benefit obligation as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Present value of defined benefit obligation from a plan in which funds are accumulated | ₩ | 262,250 | ₩ | 205,144 |
| Fair value of plan assets | | (254,986) | | (178,756) |
| Subtotal | | 7,264 | | 26,388 |
| Present value of defined benefit obligation from a plan in which funds are not accumulated | | 14,565 | | 13,717 |
| Defined benefit obligation | ₩ | 21,829 | ₩ | 40,105 |

(5) The changes in present value of defined benefit obligation for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 218,861 | ₩ | 380,541 |
| Current service cost | | 45,582 | | 46,920 |
| Interest cost | | 8,916 | | 17,885 |
| Remeasurements of the net defined benefit liability | | 9,198 | | (101) |
| Payment of severance benefits | | (39,855) | | (209,712) |
| Past service cost | | 34,574 | | (9,654) |
| Accounts payable | | - | | (419) |
| Changes due to transfer between a parent and its subsidiaries | | 104 | | - |
| Others | | (565) | | (6,599) |
| Ending balance | ₩ | 276,815 | ₩ | 218,861 |

(6) The expenses in connection with severance benefits for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Current service cost | ₩ | 45,582 | ₩ | 46,920 |
| Interest cost | | 1,622 | | 5,099 |
| Past service cost | | 34,574 | | (9,654) |
| Total | ₩ | 81,778 | ₩ | 42,365 |

(7) The portfolio of plan assets as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| Time deposits | ₩ | 81,716 | ₩ | 78,875 |
| Equity-linked securities | | - | | 5,000 |
| Bonds | | 78,456 | | 57,489 |
| Others | | 94,814 | | 37,392 |
| Total | ₩ | 254,986 | ₩ | 178,756 |

(8) The changes in fair value of plan assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 178,756 | ₩ | 297,991 |
| Interest income | | 7,294 | | 12,786 |
| Remeasurements of the net defined benefit liability | | 1,005 | | (2,887) |
| Contribution by employer | | 74,300 | | 12,500 |
| Payment | | (6,369) | | (138,052) |
| Others | | - | | (3,582) |
| Ending balance | ₩ | 254,986 | ₩ | 178,756 |

## 32. CAPITAL STOCK AND OTHER PAID-IN CAPITAL:

(1) Capital stock as of December 31, 2012 and 2011, is as follows (Unit: In millions, share):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Shares authorized | 1,000,000,000 | 1,000,000,000 |
| Par value (in Korean won) | ₩ 5,000 | ₩ 5,000 |
| Number of shares issued | 644,906,826 | 644,906,826 |
| Common stock | ₩ 3,224,534 | ₩ 3,224,534 |

(2) Other paid-in capital as of December 31, 2012 and 2011, is as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Capital surplus (*1) | ₩ 940 | ₩ 940 |
| Hybrid securities (*2) | 249,772 | 249,772 |
| Stock option | 40 | - |
| Total | ₩ 250,752 | ₩ 250,712 |

(*1) The amount of capital surplus as of December 31, 2012 and 2011 is transferred from stock option balance (accounted for as capital adjustment) since it is lapsed and not exercised.

(*2) Korea Exchange Bank Hybrid securities issued by the Company are qualified as equity since the maturity bonds can be extended under the same terms after expiration.

## 33. RETAINED EARNINGS:

(1) Retained earnings as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Legal reserve (*1) | ₩ 724,600 | ₩ 562,300 |
| Voluntary reserve: | | |
| Revaluation reserves on tangible assets (*2) | 431,936 | 432,008 |
| Other reserves (*3) | 57,152 | 47,959 |
| Reserve for credit losses (*4) | 680,066 | - |
| Subtotal | 1,169,154 | 479,967 |
| Unappropriated retained earnings | 3,371,899 | 3,609,636 |
| Total | ₩ 5,265,653 | ₩ 4,651,903 |

(*1) The Korean Banking Law requires the Company to appropriate at least 10% of net income after income tax to legal reserve, until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends; however, it can be used to reduce deficit or be transferred to capital.

(*2) The Company records gains from revaluation of property, plant, and equipment to the voluntary reserve, as it applies revaluation amount as a deemed cost at the first-time application of K-IFRS. Such reserve is brought in distributable retained earnings when relevant property, plant, and equipment are disposed.

(*3) Relevant Japanese regulations require the Company’s overseas branches located in Japan to appropriate a minimum of 10% of annual income after income tax as a legal reserve, until such reserve equals ¥2,000 million. This reserve is not available for the payment of cash dividends and may be utilized upon liquidation of the Japanese branches. Singapore branches’ and Hanoi branches’ statutory reserves are included in other reserves.

(*4) The Company accumulated allowances for possible loan losses in accordance with K-IFRS and reserves for possible loans losses as much as the amount below the provision of allowances according to minimum accumulation ratio required by Financial Supervisory Services.

(2) The changes in appropriated retained earnings for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | | 2011 |
|---|---|---|---|---|
| Beginning balance | ₩ | 4,652,366 | ₩ | 4,567,911 |
| Net income | | 632,000 | | 1,624,222 |
| Dividends | | - | | (1,521,980) |
| Dividends on hybrid securities | | (18,250) | | (18,250) |
| Ending balance | ₩ | 5,265,653 | ₩ | 4,651,903 |

(3) Profit appropriation statements for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | | 2011 |
|---|---|---|---|---|
| Unappropriated retained: | | | | |
| Unappropriated retained earnings carried over from prior period | ₩ | 2,758,077 | ₩ | 2,877,820 |
| The cumulative effect of accounting changes | | - | | (25,332) |
| The effect of K-IFRS adoption (*1) | | - | | 556,993 |
| Qurterly dividend | | - | | (973,809) |
| Dividends on hybrid securities | | (18,250) | | (18,250) |
| Transfer from revaluation reserves on tangible assets | | 72 | | - |
| Net income | | 632,000 | | 1,624,222 |
| Subtotal | | 3,371,899 | | 4,041,644 |
| Transfer from voluntary reserve: | | 2,414 | | 2,414 |
| Appropriation of retained earnings: | | | | |
| Legal reserve | | 62,600 | | 162,300 |
| Other reserves | | 2,164 | | 11,607 |
| Reserve for credit losses | | 17,815 | | 680,066 |
| Revaluation reserves on tangible assets | | - | | 432,008 |
| Dividends | | 32,245 | | - |
| Subtotal | | 114,824 | | 1,285,981 |
| Unappropriated Retained Earnings | ₩ | 3,259,489 | ₩ | 2,758,077 |

(*1) The change of retained earnings by K-IFRS adoption was reflected.

## 34. RESERVE FOR CREDIT LOSSES:

The reserve for credit losses is computed and presented under the Articles 29-1 and 29-2 of the regulation on Supervision of Banking business of the Republic of Korea.

(1) Reserve for credit losses as of December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | | Dec. 31, 2012 | | Dec. 31, 2011 |
|---|---|---|---|---|
| Previously reserved amount (*1) | ₩ | 680,066 | ₩ | - |
| Expected reserve amount | | 17,815 | | 680,066 |
| Remaining balance | ₩ | 697,881 | ₩ | 680,066 |

(*1) The Company made a decision to appropriate the retained earnings related to the reserve for credit losses at a shareholders' meeting on March 29, 2012.

(2) Transfer to reserve for credit losses and adjusted income after reserve for credit losses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions, except per share amounts):

| Classification | 2012 | 2011 |
|---|---|---|
| Net income | ₩ 632,000 | ₩ 1,624,222 |
| Transfer to reserve for credit losses | (17,815) | (166,882) |
| Adjusted net income after reserve for credit losses | 614,185 | 1,457,340 |
| Adjusted basic earnings per share after reserve for credit losses (*1) (in Korean won) | ₩ 924 | ₩ 2,231 |
| Adjusted diluted earnings per share after reserve for credit losses (*1) (in Korean won) | ₩ 924 | ₩ 2,228 |

(*1) Adjusted basic and diluted earnings per share after reserve for credit losses for the years ended December 31, 2012 and 2011 are computed by deducting dividends on hybrid securities from the adjusted net income after reserve for credit losses by ₩18,250 million and ₩18,250, respectively (see Note 45).

## 35. ACCUMULATED OTHER COMPREHENSIVE INCOME:

The changes in accumulated other comprehensive income for the years ended December 31, 2012 and 2011, are as follows (Unit: In millions):

| | 2012 | | | | |
|---|---|---|---|---|---|
| Classification | Gain or loss on change in fair value of AFS financial assets | Gain or loss on oversea business translation | Gain or loss on foreign exchange in non-monetary AFS financial assets | Remeasurements of the net defined benefit liability | Total |
| Jan. 1, 2012 | ₩ 300,398 | ₩ 3,631 | ₩ (19) | ₩ 23,221 | ₩ 327,231 |
| Increase in gain or loss on change in fair value of AFS financial assets | 63,239 | - | - | - | 63,239 |
| Classification of gain or loss on change in fair value of AFS financial assets to profit or loss (disposal etc.) | (176,260) | - | - | - | (176,260) |
| Decrease of gain or loss on oversea business translation | - | (30,931) | - | - | (30,931) |
| Decrease of gain or loss on foreign exchange in non-monetary AFS financial assets | - | - | (89) | - | (89) |
| Change in remeasurements of the net defined benefit liability | - | - | - | (8,193) | (8,193) |
| Income tax effects | 27,351 | - | 21 | 1,983 | 29,355 |
| Dec. 31, 2012 | ₩ 214,728 | ₩ (27,300) | ₩ (87) | ₩ 17,011 | ₩ 204,352 |

| Classification | 2011 Gain or loss on change in fair value of AFS financial assets | Gain or loss on oversea business translation | Gain or loss on foreign exchange in non-monetary AFS financial assets | Remeasurements of the net defined benefit liability | Total |
|---|---|---|---|---|---|
| Jan. 1, 2011 | ₩ 782,412 | ₩ (1,216) | ₩ - | ₩ 25,332 | ₩ 806,528 |
| Increase in gain or loss on change in fair value of AFS financial assets | (15,020) | - | - | - | (15,020) |
| Classification of gain or loss on change in fair value of AFS financial assets to profit or loss (disposal etc.) | (591,815) | - | - | - | (591,815) |
| Decrease of gain or loss on oversea business translation | - | 5,234 | - | - | 5,234 |
| Decrease of gain or loss on foreign exchange in non-monetary AFS financial assets | - | - | (25) | - | (25) |
| Change in remeasurements of the net defined benefit liability | - | - | - | (2,786) | (2,786) |
| Income tax effects | 124,821 | (387) | 6 | 675 | 125,115 |
| Dec. 31, 2011 | ₩ 300,398 | ₩ 3,631 | ₩ (19) | ₩ 23,221 | ₩ 327,231 |

## 36. CAPITAL MANAGEMENT:

The Company computes capital ratio required by the Bank for International Settlements (“BIS”) and manages the ratio to be maintained at least 8% or above. The Company meets the externally assigned capital maintenance requirement (the “BIS capital ratio”) as of December 31, 2012.

The BIS capital ratio is computed by dividing shareholders’ equity by risk-weighted assets. Shareholders’ equity is computed by subtracting deductible items from the sum of basic capital and supplementary capital. Risk-weighted assets are sum of credit risk-weighted assets, operating risk-weighted assets, and market risk-weighted assets.

Basic capital is composed of capital stock, additional paid-in capital, retained earnings, hybrid securities satisfied with basic capital requirements, and differences in foreign currencies from other accumulated comprehensive income. Supplementary capital is composed of revaluation reserve satisfied with supplementary capital requirements, gains on valuation of AFS financial assets and share of other comprehensive income of associates, high-ranked subordinated debts with more than 10-year maturity or low-ranked subordinated debts with less than five-year maturity, etc.

Items deducted from capital stock include considerable amount of intangible assets and deferred tax assets, discount on capital stock, losses on valuation of AFS financial assets and share of other comprehensive loss of associates, and treasury stock account. Other deductible items are subtracted from basic and supplementary capital by 50% each. Additionally, the Company classifies its assets by credit rating and computes risk-weighted assets by reflecting the level of risks. Risk-weighted value is computed based on transaction parties and credit ratings.

## 37. INTEREST REVENUES AND INTEREST EXPENSES:

(1) The interest revenues and interest expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | 2011 |
|---|---|---|---|
| Interest revenue: | | | |
| Due from banks | Banks | ₩ 25,931 | ₩ 16,490 |
| | Other financial institutions | 52,625 | 47,788 |
| | Subtotal | 78,556 | 64,278 |
| Loans | Banks | 57,749 | 79,358 |
| | Customers | 3,596,333 | 3,615,177 |
| | Subtotal | 3,654,082 | 3,694,535 |
| Financial assets at FVTPL | | 4,011 | 3,364 |
| AFS financial assets | | 205,971 | 176,804 |
| Held-to-maturity investments | | 201,416 | 209,511 |
| Total | | 4,144,036 | 4,148,492 |
| Interest expenses: | | | |
| Deposits | Financial institutions | 1,713 | 4 |
| | Customers | 1,447,233 | 1,391,178 |
| | Subtotal | 1,448,946 | 1,391,182 |
| Debentures | | 222,442 | 213,439 |
| Borrowings | | 117,341 | 100,052 |
| Others | | 47,405 | 47,439 |
| Total | | 1,836,134 | 1,752,112 |
| Net interest income | | ₩ 2,307,902 | ₩ 2,396,380 |

(2) Interest income of impaired financial assets for the years ended December 31, 2012 and 2011 is as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Loans | ₩ 82,075 | ₩ 67,989 |
| Other assets | 156 | 139 |
| Total | ₩ 82,231 | ₩ 68,128 |

## 38. COMMISSION REVENUES AND COMMISSION EXPENSES:

Commission revenues and commission expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Commission revenue: | | |
| Receiving credits | ₩ 2,596 | ₩ 3,306 |
| Giving credits | 29,041 | 20,923 |
| Foreign exchange | 164,868 | 169,577 |
| Credit card | 89,848 | 76,043 |
| Asset management | 8,337 | 11,051 |
| Agency business | 42,929 | 24,688 |
| Guarantee service | 66,125 | 71,109 |
| Others | 64,285 | 81,821 |
| Total | 468,029 | 458,518 |
| Commission expenses: | | |
| Giving credits | 2,870 | 1,685 |
| Foreign exchange | 34,076 | 31,659 |
| Agency business | 514 | 476 |

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Credit card | ₩ | 274,678 | ₩ | 201,811 |
| Others | | 22,710 | | 22,571 |
| Total | | 334,848 | | 258,202 |
| Net commission income | ₩ | 133,181 | ₩ | 200,316 |

## 39. NET INCOME FROM FINANCIAL INVESTMENTS:

Net income from financial investments for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| Financial instruments at FVTPL: | | | | | |
| Gains | Gain on valuation of trading securities | ₩ | 603 | ₩ | 754 |
| | Gain on disposal of trading securities | | 12,891 | | 18,536 |
| | Gain on valuation of trading bonds | | 3 | | 298 |
| | Gain on disposal of trading bonds | | 2,176 | | 2,302 |
| | Gain on valuation of trading derivatives | | 1,263,286 | | 816,836 |
| | Gain on trading of trading derivatives | | 2,147,932 | | 2,974,703 |
| | Subtotal | | 3,426,891 | | 3,813,429 |
| Losses | Loss on valuation of trading securities | | 223 | | 336 |
| | Loss on disposal of trading securities | | 13,417 | | 31,003 |
| | Loss on valuation of trading bonds | | 1 | | 64 |
| | Loss on disposal of trading bonds | | 1,918 | | 1,518 |
| | Loss on valuation of trading derivatives | | 1,229,024 | | 752,106 |
| | Loss on trading of trading derivatives | | 2,186,750 | | 2,969,706 |
| | Subtotal | | 3,431,333 | | 3,754,733 |
| Net income (loss) of financial instruments at FVTPL | | ₩ | (4,442) | ₩ | 58,696 |
| Hedging derivatives: | | | | | |
| Gains | Gain on valuation of hedging derivatives | ₩ | 7,060 | ₩ | 27,712 |
| | Gain on trading of hedging derivatives | | 756 | | 667 |
| | Subtotal | | 7,816 | | 28,379 |
| Losses | Loss on valuation of hedging derivatives | | 12,577 | | 27,601 |
| Net income (loss) of hedging derivatives | | ₩ | (4,761) | ₩ | 778 |
| AFS financial assets : | | | | | |
| Gains | Gain on disposal of AFS equity securities | ₩ | 188,478 | ₩ | 1,178,252 |
| | Gain on disposal of AFS debt securities | | 50,082 | | 9,052 |
| | Subtotal | | 238,560 | | 1,187,304 |
| Losses | Loss on disposal of AFS equity securities | | 22 | | 4 |
| | Loss on disposal of AFS debt securities | | - | | 12 |
| | Subtotal | | 22 | | 16 |
| Net income of AFS financial assets | | ₩ | 238,538 | ₩ | 1,187,288 |

## 40. IMPAIRMENT LOSSES:

Impairment losses related to financial assets for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| Transfer to allowance for possible losses (*1) | | ₩ | 597,402 | ₩ | 499,400 |
| AFS | Impairment losses | | 16,691 | | 3,942 |
| Financial assets | Reversal of impairment losses | | (1,386) | | (9,748) |
| | Subtotal | | 15,305 | | (5,806) |
| Total | | ₩ | 612,707 | ₩ | 493,594 |

(*1) Includes allowance for possible losses on loans and other assets.

## 41. GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Salaries | ₩ 632,591 | ₩ 561,652 |
| Retirement allowances | 81,778 | 42,365 |
| Expenses for fringe benefits | 215,140 | 287,722 |
| Rental | 116,238 | 109,516 |
| Entertainment expense | 10,890 | 12,286 |
| Depreciation on tangible assets | 71,540 | 63,474 |
| Depreciation on investment property | 2,494 | 2,462 |
| Amortization | 22,455 | 25,308 |
| Taxes | 42,486 | 44,065 |
| Advertising | 41,604 | 30,569 |
| Others | 225,374 | 213,312 |
| | ₩ 1,462,590 | ₩ 1,392,731 |

## 42. OTHER OPERATING REVENUES AND EXPENSES:

(1) Other operating revenues for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | | 2012 | 2011 |
|---|---|---|---|
| Dividend income | Financial assets at FVTPL | ₩ 323 | ₩ 651 |
| | AFS financial assets | 8,209 | 47,331 |
| | Investment securities in subsidiaries | 527 | 638 |
| | Subtotal | 9,059 | 48,620 |
| Reversal of provision for acceptances and guarantees | | 3,867 | 8,999 |
| Reversal of provision for unused credit limit | | - | 40,690 |
| Other revenue from financial instruments | | 387 | 197 |
| Gain on foreign exchange transaction | | 996,019 | 1,116,393 |
| Gain on foreign exchange difference | | 148,666 | 53,328 |
| Gain on operating trust account | | 42,405 | 40,173 |
| Point revenues | | 27,191 | 20,762 |
| Gain on sales of loans | | 614 | 8,855 |
| Revenue on merchant banking accounts (*1) | | 68,838 | 67,242 |
| Others | | 156 | 139 |
| Total | | ₩ 1,297,202 | ₩ 1,405,398 |

(*1) Details of revenues on merchant banking accounts are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Interest revenues | ₩ 28,622 | ₩ 36,566 |
| Commission revenues | 750 | 887 |
| Gain on disposal of trading bonds | 1,408 | 1,867 |
| Gain on valuation of trading bonds | 23 | 66 |
| Gain on valuation of CMA securities | 1 | 9 |
| Gain on disposal of bills | 33,288 | 27,252 |
| Reversal of allowance for possible loan losses | 4,664 | - |
| Reversal of provision for unused credit limit | 82 | 595 |
| Total | ₩ 68,838 | ₩ 67,242 |

(2) Other operating expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Transfer to provisions for unused credit limit | ₩ 6,642 | ₩ - |
| Transfer to other provisions | 18,249 | 11,278 |
| Other expenses from financial instruments | 669 | 814 |
| Loss on foreign exchange transactions | 676,233 | 856,989 |
| Loss on foreign exchange difference | 39,577 | 71,391 |
| Point expenses | 31,870 | 24,741 |
| Contribution for credit guarantee fund | 99,233 | 96,417 |
| Insurance expense for deposits | 99,167 | 90,282 |
| Loss on sales of loans | 23,301 | 68,664 |
| Expenses on merchant banking accounts (*1) | 42,500 | 52,050 |
| Total | ₩ 1,037,441 | ₩ 1,272,626 |

(*1) Details of expenses on merchant banking accounts are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Interest expenses | ₩ 42,437 | ₩ 47,480 |
| Transfer to allowance for possible loan losses | - | 4,570 |
| Loss on valuation of trading bonds | 55 | - |
| Loss on valuation of CMA securities | 5 | - |
| Others | 3 | - |
| Total | ₩ 42,500 | ₩ 52,050 |

## 43. NON-OPERATING REVENUES AND EXPENSES:

(1) Non-operating revenues for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Gain on disposal of tangible assets | ₩ 36 | ₩ 150 |
| Gain on disposal of investment property | 38 | - |
| Rental revenues | 3,206 | 3,208 |
| Others | 60,377 | 59,078 |
| Total | ₩ 63,657 | ₩ 62,436 |

(2) Non-operating expenses for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Loss on disposal of tangible assets | ₩ 106 | ₩ 17 |
| Loss on disposal of investment property | 111 | - |
| Impairment losses on intangible assets | 2,074 | 1,806 |
| Donations | 19,859 | 18,573 |
| Others | 25,108 | 24,903 |
| Total | ₩ 47,258 | ₩ 45,299 |

## 44. INCOME TAX EXPENSE:

(1) The components of income tax expense for the years ended December 31, 2012 and 2011 are summarized as follows (Units: In millions):

| Classification | | 2012 | | 2011 |
|---|---|---|---|---|
| Income tax currently payable | ₩ | 222,029 | ₩ | 531,057 |
| Change in deferred tax due to temporary differences (*1) | | (22,432) | | (188,795) |
| Total income tax effect | | 199,597 | | 342,262 |
| Income tax directly charged to shareholders' equity | | 29,354 | | 125,115 |
| Income tax expense in overseas branches | | 10,330 | | 15,443 |
| Income tax expense | ₩ | 239,281 | ₩ | 482,820 |

(*1) Details of change in deferred taxes due to temporary differences are as follows (Unit: In millions):

| Classification | | 2012 | | 2011 |
|---|---|---|---|---|
| Ending balance of deferred taxes due to temporary differences | ₩ | 29,231 | ₩ | 51,663 |
| Beginning balance of deferred taxes due to temporary differences | | 51,663 | | 240,458 |
| Change in deferred taxes due to temporary differences | ₩ | (22,432) | ₩ | (188,795) |

(2) A reconciliation of income before income tax and income tax expense for the years ended December 31, 2012 and 2011 is as follows (Units: In millions):

| Classification | | 2012 | | 2011 |
|---|---|---|---|---|
| Income before income tax | ₩ | 871,281 | ₩ | 2,107,042 |
| Burden of taxation (by applicable tax rate 24.2%) | | 210,850 | | 510,026 |
| Reconciliation items: | | | | |
| Non-taxable income | | (7,027) | | (127,769) |
| Non-deductible expenses | | 4,563 | | 171,854 |
| Tax credits | | (7,936) | | (11,871) |
| Addition (refund) of income tax | | 25,026 | | (15,775) |
| Income tax expense in overseas branches | | 10,330 | | 15,443 |
| Difference due to tax rate change | | - | | (2,189) |
| Others (*1) | | 3,475 | | (56,752) |
| Sum of reconciliation items | | 28,431 | | (27,059) |
| Income tax expense | ₩ | 239,281 | ₩ | 482,820 |
| Effective tax rate | | 27.46% | | 22.91% |

(*1) Includes ₩2,227 millions of difference caused by the difference between Korean GAAP and K-IFRS related to the reversal of impairment losses on equity security.

(3) Deferred income tax assets (liabilities) of the Company as of December 31, 2012, and changes to them for the year ended December 31, 2012, are as follows (Unit: In millions):

| | Deductible (taxable) temporary differences | | | | Deferred income tax assets (liabilities) (*2) | | | |
|---|---|---|---|---|---|---|---|---|
| Classification | Jan. 1, 2012 (*1) | Decrease | Increase | Dec. 31, 2012 | Jan. 1, 2012 | Decrease | Increase | Dec. 31, 2012 |
| DEDUCTIBLE TEMPORARY DIFFERENCES | | | | | | | | |
| Gains or losses on valuation of financial assets | ₩ (54,770) | ₩ 187,721 | ₩ 190,841 | ₩ (51,650) | ₩ (13,254) | ₩ 45,429 | ₩ 46,184 | ₩ (12,499) |
| Accrued income | (64,192) | (64,192) | (66,362) | (66,362) | (15,534) | (15,534) | (16,059) | (16,059) |
| Other provisions and others | 223,100 | 223,100 | 220,907 | 220,907 | 57,032 | 57,032 | 53,460 | 53,460 |
| Gains or losses related to derivatives | (142,365) | (142,365) | (90,240) | (90,240) | (34,452) | (34,452) | (21,838) | (21,838) |
| Debt-for-equity swap securities | 148,133 | 62,088 | 5,802 | 91,847 | 38,371 | 15,024 | (1,120) | 22,227 |
| Advance depreciation provisions | (62,466) | - | - | (62,466) | (15,117) | - | - | (15,117) |
| Investment in kind at KEBChina | 137,879 | - | - | 137,879 | 33,367 | - | - | 33,367 |
| Financial guarantee contract | 25,024 | - | - | 25,024 | 6,056 | - | - | 6,056 |
| Deferred point revenue | 39,811 | 39,811 | 52,836 | 52,836 | 9,634 | 9,634 | 12,786 | 12,786 |
| Accrued expenses | 126,065 | 126,065 | 79,145 | 79,145 | 17,588 | 17,588 | 19,153 | 19,153 |
| Gain on revaluation of tangible assets | (553,885) | (120) | - | (553,765) | (134,040) | (29) | - | (134,011) |
| Transfer of reversal of impairment loss on equity securities to OCI | 18,659 | 9,203 | - | 9,456 | 4,515 | 2,227 | - | 2,288 |
| Transfer of debt-for-equity swap receivables to OCI | 5,352 | - | - | 5,352 | 1,295 | - | - | 1,295 |
| Others | 378,006 | 117,826 | 104,236 | 364,416 | 88,776 | 28,514 | 27,927 | 88,189 |
| Subtotal | 224,351 | 559,137 | 497,165 | 162,379 | 44,237 | 125,433 | 120,493 | 39,297 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | | | | | | | |
| AFS financial assets reserve | 396,304 | 396,304 | 283,283 | 283,283 | (95,906) | (95,906) | (68,555) | (68,555) |
| Gain or loss on translation of AFS financial assets | (25) | (25) | (114) | (114) | 6 | 6 | 27 | 27 |
| Subtotal | 396,279 | 396,279 | 283,169 | 283,169 | (95,900) | (95,900) | (68,528) | (68,528) |
| Total | ₩ 620,630 | ₩ 955,416 | ₩ 780,334 | ₩ 445,548 | ₩ (51,663) | ₩ 29,533 | ₩ 51,965 | ₩ (29,231) |

(*1) Beginning balance is after adjustment of the difference in reserved amount of ₩41,399 million at the time of final tax return as of December 31, 2011. Such adjustments increase deferred tax assets by ₩10,018 million compared to the amount of December 31, 2011.

(*2) The tax rate used for calculating deferred income tax assets and liabilities is the expected average tax rate applicable to the period for which the temporary differences are expected to reverse (24.2 percent).

## 45. EARNINGS PER SHARE:

(1) Weighted-average number of common shares

The weighted-average number of common shares for the years ended December 31, 2012 and 2011, is as follows:

| Classification | Fixed date | Number of shares issued | Negotiable period | Accumulated shares | Weighted-average number of common shares |
|---|---|---|---|---|---|
| 2012 | 2012.12.31 | 644,906,823 | 366 days | 236,035,897,218 | 644,906,823 |
| 2011 | 2011.12.31 | 644,906,823 | 365 days | 235,390,990,395 | 644,906,823 |

(2) Basic earnings per share

The basic net income per share for the years ended December 31, 2012 and 2011, is as follows (Unit: In millions, except per share amounts):

| Classification | 2012 | 2011 |
|---|---|---|
| Net income | ₩ 632,000 | ₩ 1,624,222 |
| Dividends on hybrid securities | (18,250) | (18,250) |
| Net income to calculate basic net income per share | 613,750 | 1,605,972 |
| Weighted-average number of common shares | 644,906,823 | 644,906,823 |
| Basic earnings per share (in Korean won) | ₩ 952 | ₩ 2,490 |

(3) Diluted earnings per share

The diluted net income per share for the years ended December 31, 2012 and 2011, is as follows (Unit: In millions, except per share amounts):

| Classification | 2012 | 2011 |
|---|---|---|
| Net income to calculate basic net income per share | ₩ 613,750 | ₩ 1,605,972 |
| Recognized revenue related to employee stock options (after-tax effect of 24.2%) | (257) | (2,244) |
| Net income to calculate diluted net income per share | 613,493 | 1,603,728 |
| Weighted-average number of common shares | 644,987,436 | 645,159,669 |
| Diluted earnings per share (in Korean won) | ₩ 951 | ₩ 2,486 |

In calculating diluted earnings per share, the assumed proceeds from the potential ordinary shares shall be regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period shall be treated as an issue of ordinary shares for no consideration. The ordinary shares for no consideration generate no proceeds and have no effect on profit or loss attributable to ordinary shares outstanding. Therefore, such shares are dilutive and are added to the number of ordinary shares outstanding in the calculation of diluted earnings per share. Dilutive potential ordinary shares the Company owns are employee stock options.

## 46. SHARE-BASED PAYMENT:

When the stock options are exercised, the Company has the option to settle either through issuance of new shares or treasury stock or through payment of cash equivalents to the difference between the market price and the exercise price. The number of exercisable stock option is determined in accordance with the management performance and the calculation criteria for the number of exercisable shares. Also, the Company granted the equity-linked special incentive (“Rose Bonus” and/or “Rose Share”) to employees for the purpose of motivation to improve long-term performance. The Rose Bonus and/or Rose Share is settled in cash. It can be exercised from one to three years after the grant date for the following three to four years.

(1) Details of the stock options as of December 31, 2012 are as follows (Unit: In Korean won, shares):

1) Assumptions for evaluation of the stock options

The stock options are measured at fair values applying Black-Scholes Model

| Grant date | Exercise period | Risk-free rate (%) | Expected service period | Volatility of the underlying stock price (%) | Expected dividend | Stock price at grant date | Fair value |
|---|---|---|---|---|---|---|---|
| Mar. 11, 2008 (*1) | Mar. 12, 2010– Mar. 11, 2013 | - | - | - | - | 12,400 | - |
| Aug. 1, 2008 (*1) | Aug. 2, 2010– Aug. 1, 2013 | - | - | - | - | 13,050 | - |
| Mar. 12, 2009 | Mar. 13, 2011– Mar. 12, 2016 | 2.75% | 5.87 | 29.55% | 1,035 | 5,700 | 1,287 |
| Aug. 4, 2009 | Aug. 5, 2011– Aug. 4, 2016 | 2.78% | 5.87 | 28.38% | 1,035 | 11,700 | 166 |
| Mar. 10, 2010 | Mar. 11, 2012– Mar. 10, 2017 | 2.82% | 5.87 | 28.55% | 1,035 | 13,450 | 91 |
| Mar. 30, 2010 | Mar. 31, 2012 – Mar. 30, 2017 | 2.83% | 5.87 | 29.24% | 1,035 | 13,600 | 94 |
| Aug. 4, 2010 | Aug. 5, 2013– Aug. 4, 2017 | 2.85% | 5.87 | 29.83% | 1,035 | 12,300 | 154 |
| Sep. 29, 2010 | Sep. 30, 2013– Sep. 29, 2017 | 2.87% | 5.87 | 30.40% | 1,035 | 13,550 | 128 |
| Aug. 10, 2011 | Aug. 11, 2014– Aug. 10, 2018 | 2.93% | 5.87 | 43.45% | 1,035 | 8,060 | 906 |
| Aug. 26, 2011 | Aug. 27, 2014– Aug. 26, 2018 | 2.93% | 5.87 | 43.27% | 1,035 | 7,720 | 980 |
| Sep. 2, 2011 | Sep. 3, 2014– Sep. 2, 2018 | 2.94% | 5.87 | 43.17% | 1,035 | 7,930 | 990 |

(*1) Since it is impossible to estimate its fair value with Black-Scholes Model due to excess of expected maturity, it is measured with intrinsic value

2) Changes in shares of stock options

| Grant date | Shares at beginning | Exercise | Divestiture | Extinction at maturity | Shares at ending | Stock option outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| Mar. 8, 2007 | 546,100 | - | - | (546,100) | - | - | ₩ 13,900 |
| Mar. 29, 2007 | 289,610 | - | - | (289,610) | - | - | 14,500 |
| Aug. 10, 2007 | 204,010 | - | - | (204,010) | - | - | 13,900 |
| Mar. 11, 2008 | 209,870 | - | - | - | 209,870 | 209,870 | 13,000 |
| Aug. 1, 2008 | 74,510 | - | - | - | 74,510 | 74,510 | 13,500 |
| Mar. 12, 2009 | 298,825 | (14,500) | - | - | 284,325 | 284,325 | 5,800 |
| Mar. 31, 2009 | 825,000 | (742,500) | (82,500) | - | - | - | 7,300 |
| Aug. 4, 2009 | 415,610 | - | - | - | 415,610 | 415,610 | 10,900 |
| Mar. 10, 2010 | 326,330 | - | (13,980) | - | 312,350 | 312,350 | 13,200 |
| Mar. 30, 2010 | 262,250 | - | (25,110) | - | 237,140 | 237,140 | 13,500 |
| Aug. 4, 2010 | 300,200 | - | (48,310) | - | 251,890 | 251,890 | 12,400 |

| Grant date | Shares at beginning | Exercise | Divestiture | Extinction at maturity | Shares at ending | Stock option outstanding | Exercise price |
|---|---|---|---|---|---|---|---|
| Sep. 29, 2010 | 17,810 | - | - | - | 17,810 | 17,810 | ₩ 13,500 |
| Aug. 10, 2011 | 550,000 | - | (217,000) | - | 333,000 | 333,000 | 9,100 |
| Aug. 26, 2011 | 100,000 | - | (57,710) | - | 42,290 | 42,290 | 8,500 |
| Sep. 2, 2011 | 30,000 | - | (18,750) | - | 11,250 | 11,250 | 8,400 |
| Total | 4,450,125 | (757,000) | (463,360) | (1,039,720) | 2,190,045 | 2,190,045 | |

3) Weighted-average stock price as of stock option date exercised for the year ended December 31, 2012, amounts to ₩8,076.

4) Weighted-average residual expiration of exercisable stock option as of December 31, 2012, is 3.75 years

(2) Details of the equity-linked special incentive as of December 31, 2012 are as follows (Unit: In Korean won, shares):

1) Details of the equity-linked special incentive

The equity-linked special incentive is measured at fair values applying Binomial Model.
It can be exercised from one to three years after the grant date for the following three to four years.

| Classification | Grant date | Exercise period | Payment date | Stock option outstanding (shares) |
|---|---|---|---|---|
| Rose 3 | Dec. 12, 2007 | Dec. 12, 2009–Dec. 11, 2012 | Dec. 12, 2009 | 9,850 |
| Rose 4 | Dec. 11, 2009 | Dec. 11, 2011–Dec. 10, 2014 | Dec. 11, 2011 | 48,860 |
| Rose 5 | Aug. 4, 2010 | Aug. 4, 2012–Aug. 3, 2015 | Aug. 4, 2012 | 200,010 |
| Rose 6 | Sep. 21, 2011 | Sep. 21, 2013–Sep. 20, 2016 | Sep. 21, 2013 | 4,526,040 |
| Rose Share 1-1 | Feb. 19, 2010 | Feb. 19, 2011–Feb. 18, 2015 | Feb. 19, 2011 | - |
| Rose Share 1-2 | Feb. 19, 2010 | Feb. 19, 2012–Feb. 18, 2015 | Feb. 19, 2012 | 18,365 |
| Rose Share 2-1 | Mar. 19, 2010 | Mar. 19, 2011–Mar. 18, 2015 | Mar. 19, 2011 | - |
| Rose Share 2-2 | Mar. 19, 2010 | Mar. 19, 2012–Mar. 18, 2015 | Mar. 19, 2012 | 1,560 |
| Rose Share 3-1 | Aug. 11, 2010 | Aug. 11, 2011–Aug. 10, 2015 | Aug. 11, 2011 | 6,550 |
| Rose Share 3-2 | Aug. 11, 2010 | Aug. 11, 2012–Aug. 10, 2015 | Aug. 11, 2012 | 6,875 |
| Rose Share 4-1 | Feb. 21, 2011 | Feb. 21, 2012–Feb. 20, 2015 | Feb. 21, 2012 | 11,620 |
| Rose Share 4-2 | Feb. 21, 2011 | Feb. 21, 2013–Feb. 20, 2016 | Feb. 21, 2013 | 23,860 |
| Rose Share 5-1 | Feb. 21, 2011 | Feb. 21, 2012–Feb. 20, 2015 | Feb. 21, 2012 | 15,000 |
| Rose Share 5-2 | Feb. 21, 2011 | Feb. 21, 2013–Feb. 20, 2016 | Feb. 21, 2013 | 23,425 |
| Rose Share 6-1 | Mar. 21, 2011 | Mar. 20, 2012–Mar. 19, 2015 | Mar. 20, 2012 | 523 |
| Rose Share 6-2 | Mar. 21, 2011 | Mar. 20, 2013–Mar. 19, 2016 | Mar. 20, 2013 | 1,465 |
| Rose Share 6-3 | Mar. 21, 2011 | Mar. 20, 2014–Mar. 19, 2017 | Mar. 20, 2014 | 1,470 |
| Rose Share 7-1 | Sep. 8, 2011 | Sep. 8, 2012–Sep. 8, 2015 | Sep. 8, 2012 | 1,770 |
| Rose Share 7-2 | Sep. 8, 2011 | Sep. 8, 2013–Sep. 7, 2016 | Sep. 8, 2013 | 1,770 |
| Rose Share 8-1 | Feb. 21, 2012 | Feb. 22, 2013–Feb. 21, 2017 | Feb. 22, 2013 | 21,635 |
| Rose Share 8-2 | Feb. 21, 2012 | Feb. 22, 2014–Feb. 21, 2017 | Feb. 22, 2014 | 21,635 |
| Rose Share 9-1 | Feb. 21, 2012 | Feb. 22, 2013–Feb. 21, 2017 | Feb. 22, 2013 | 42,225 |
| Rose Share 9-2 | Feb. 21, 2012 | Feb. 22, 2014–Feb. 21, 2017 | Feb. 22, 2014 | 42,225 |

2) Changes in shares of equity-linked special incentive

| Classification | 2012 | 2011 |
|---|---|---|
| Beginning | 7,054,210 | 2,485,340 |
| Number of given shares | 127,720 | 4,850,400 |
| Number of loss of right | (109,896) | (126,388) |
| Number of exercise | (2,045,301) | (155,142) |
| Ending | 5,026,733 | 7,054,210 |

3) Weighted-average stock price of equity-linked special incentive at exercise date for years ended December 31, 2012, amounts to ₩7,834.

4) Weighted-average residual maturity of equity linked special incentive as of December 31, 2012 is 3.64 years.

(3) Hana Financial Group provided the Company's employees with stock rights and stock grant linked to performance and computed compensation costs are computed by applying fair value approach for such rights. Details of share-based payment arrangement and share-based payment linked to performance are as follows:

| Classification | 1st | 2nd |
|---|---|---|
| Grant date | Jan. 1, 2011 | Jan. 1, 2012 |
| Grant method | Hana Financial Group has the option to settle either through treasury stock or through payment of cash equivalents | |
| Grant period | Jan. 1, 2011– Dec. 31, 2013 | Jan. 1, 2012– Dec. 31, 2014 |
| Payment date | Dec. 31, 2013 | Dec. 31, 2014 |
| Shares at settlement date (*1) | 1,340 | 12,430 |

(*1) Payable shares are determined at the initial agreement and payment ratio is decided according to the degree of performance of predecided object. Performance is evaluated by 40% of performance of Group(relative shareholders' rate of return) and 60% of performance of business segments(Return On Equity orReturn On Invested Capital)

(4) Details of book value of liabilities related to share-based payment and total intrinsic value of rights accounted as payables in case that option holders achieve rights to receive cash or other assets as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Book value of liabilities related to share-based payment: | | |
| Stock options | ₩ 772 | ₩ 3,876 |
| Equity-linked special incentive (granted by the Company) | 41,707 | 36,938 |
| Equity-linked special incentive (granted by Hana Financial Group) | 452 | - |
| Total | ₩ 42,931 | ₩ 40,814 |

(5) Compensation costs recognized due to share-based payment

The compensation costs for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Costs recognized due to share-based payment: | | |
| Stock options | ₩ (2,453) | ₩ (4,533) |
| Equity-linked special incentive (granted by the Company) | 33,350 | 22,086 |
| Equity-linked special incentive (granted by Hana Financial Group) | 492 | - |
| Total | ₩ 31,389 | ₩ 17,553 |

## 47. SEPARATE STATEMENTS OF CASH FLOWS:

(1) Cash and cash equivalents

Cash and cash equivalents in separate statement of cash flows consists of cash, and due from banks (excluding restricted due from banks) in the separate statement of financial position. Cash and cash equivalents as of December 31, 2012 and 2011 are adjusted as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Cash and due from banks | ₩ 6,929,182 | ₩ 7,409,044 |
| Less: restricted due from banks (Note 10) | (3,376,868) | (4,720,800) |
| Cash and cash equivalents | ₩ 3,552,314 | ₩ 2,688,244 |

(2) Non-cash transactions for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | 2011 |
|---|---|---|
| Gain or loss on change in fair value of AFS financial assets | ₩ 63,239 | ₩ (15,020) |
| Replace tangible assets with investment property | 4,708 | 8,772 |
| Replace loans with non-current assets held for sale | 192 | - |
| Replace loans with AFS financial assets by the debt-for-equity swap | 23,929 | 3,692 |

## 48. RELATED-PARTY TRANSACTIONS:

(1) Details of related-party transactions of the Company are as follows:

| Subsidiaries | Relationship |
|---|---|
| Hana Financial Group | Controlling company |
| KEBC | Subsidiary |
| KEBF | Subsidiary |
| KEBIS | Subsidiary |
| KEBOC | Subsidiary |
| KEBA | Subsidiary |
| KEBDAG | Subsidiary |
| KEBI | Subsidiary |
| KEBB | Subsidiary |
| NYFinCo | Subsidiary |
| LAFinCo | Subsidiary |
| USAI | Subsidiary |
| KAF | Subsidiary |
| KEBChina | Subsidiary |
| Hana Daetoo Securities Co., Ltd. | Entity under common control |
| Hana Bank | Entity under common control |
| Hana Capital Co., Ltd. | Entity under common control |
| Hana Institute of Finance | Entity under common control |
| HanaSK Card Co., Ltd. | Entity under common control |
| Hana I&S | Entity under common control |
| Flossom Co., Ltd. | Investments in associate |

(2) Significant receivables and payables with related parties as of December 31, 2012 and 2011 are summarized as follows (Unit: In millions):

| Classification | Dec. 31, 2012 Controlling company | Subsidiaries | Entities under common control | Associates | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Due from banks | ₩ - | ₩ 89,377 | ₩ - | ₩ - | ₩ 89,377 |
| Financial assets at FVTPL | - | - | 33,703 | - | 33,703 |
| Loans | - | 1,021,369 | - | - | 1,021,369 |
| Allowance for possible loan losses | - | (38) | - | - | (38) |
| Others | 514 | 91,253 | 45,526 | - | 137,293 |
| Total | ₩ 514 | ₩ 1,201,961 | ₩ 79,229 | ₩ - | ₩ 1,281,704 |
| Liabilities: | | | | | |
| Deposits | ₩ - | ₩ 404,135 | ₩ 52,953 | ₩ - | ₩ 457,088 |
| Financial liabilities at FVTPL | - | - | 11,727 | - | 11,727 |
| Borrowings | - | 95,046 | - | - | 95,046 |
| Provisions | - | 102 | - | - | 102 |
| Others | 941 | 7,507 | 48,441 | - | 56,889 |
| Total | ₩ 941 | ₩ 506,790 | ₩ 113,121 | ₩ - | ₩ 620,852 |

| Classification | Dec. 31, 2011 Controlling company | Subsidiaries | Entities under common control | Associates | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Due from banks | ₩ - | ₩ 36,136 | ₩ - | ₩ - | ₩ 36,136 |
| Loans | - | 1,115,631 | - | - | 1,115,631 |
| Allowance for possible loan losses | - | (109) | - | - | (109) |
| Others | - | 40,873 | - | - | 40,873 |
| Total | ₩ - | ₩ 1,192,531 | ₩ - | ₩ - | ₩ 1,192,531 |
| Liabilities: | | | | | |
| Deposits | ₩ - | ₩ 23,341 | ₩ - | ₩ - | ₩ 23,341 |
| Borrowings | - | 326,418 | - | - | 326,418 |
| Provisions | - | 54 | - | - | 54 |
| Others | - | 7,040 | - | - | 7,040 |
| Total | ₩ - | ₩ 356,853 | ₩ - | ₩ - | ₩ 356,853 |

(3) Details of receivables and payables among subsidiaries as of December 31, 2012 and 2011 as follows (Unit: In millions):

| Company recognizing receivables | Dec. 31, 2012 Account related to receivables | Company recognizing payables | Account related to payables | Amount |
|---|---|---|---|---|
| KEBI | Due from banks | KEBDAG | Deposits | ₩ 5,380 |
| KEBChina | Due from banks | KEBDAG | Deposits | 1,129 |
| KEBDAG | Due from banks | KEBOC | Deposits | 173 |
| NYFinCo | Due from banks | KEBOC | Deposits | 158 |

| Company recognizing receivables | Dec. 31, 2011 Account related to receivables | Company recognizing payables | Account related to payables | Amount |
|---|---|---|---|---|
| KEBDAG | Due from banks | KEBI | Borrowings | ₩ 23,095 |
| KEBDAG | Loans | KEBChina | Borrowings | 1,494 |
| KEBChina | Due from banks | KEBDAG | Deposit | 328 |

(4) Significant related-party transactions for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 Controlling company | Subsidiaries | Entities under common control | Associates | Total |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Interest revenues | ₩ 1,567 | ₩ 17,918 | ₩ 1,302 | ₩ - | ₩ 20,787 |
| Commission revenues | - | 4,811 | 319 | - | 5,130 |
| Gain on financial instruments at FVTPL | - | 57 | 101,117 | - | 101,174 |
| Others | - | 1,635 | 32 | - | 1,667 |
| Total | ₩ 1,567 | ₩ 24,421 | ₩ 102,770 | ₩ - | ₩ 128,758 |
| Expenses: | | | | | |
| Interest expenses | ₩ - | ₩ 3,618 | ₩ 2,672 | ₩ - | ₩ 6,290 |
| Commission expenses | - | 109 | - | - | 109 |
| Loss on financial instruments at FVTPL | - | 9 | 64,784 | - | 64,793 |
| Transfer to (reversal of) allowance for possible losses | - | (20) | - | - | (20) |
| Total | ₩ - | ₩ 3,716 | ₩ 67,456 | ₩ - | ₩ 71,172 |

| Classification | 2011 Controlling company | Subsidiaries | Entities under common control | Associates | Total |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Interest revenues | ₩ - | ₩ 14,474 | ₩ - | ₩ 705 | ₩ 15,179 |
| Commission revenues | - | 4,623 | - | 50 | 4,673 |
| Gain on financial instruments at FVTPL | - | 25 | - | - | 25 |
| Others | - | 5,473 | - | - | 5,473 |
| Total | ₩ - | ₩ 24,595 | ₩ - | ₩ 755 | ₩ 25,350 |
| Expenses: | | | | | |
| Interest expenses | ₩ - | ₩ 4,029 | ₩ - | ₩ 73 | ₩ 4,102 |
| Commission expenses | - | 286 | - | - | 286 |
| Loss on financial instruments at FVTPL | - | 13 | - | - | 13 |
| Transfer to allowance for possible losses | - | (318) | - | (138) | (456) |
| Others | - | 50 | - | - | 50 |
| Total | ₩ - | ₩ 4,060 | ₩ - | ₩ (65) | ₩ 3,995 |

(5) Details of significant transactions among subsidiaries for the years ended December 31, 2012 and 2011 are as follows: (Unit: In millions):

| Company recognizing revenues | Account related to revenue | Company recognizing expenses | Account related to expense | 2012 Amount |
|---|---|---|---|---|
| KEBDAG | Interest revenues | KEBI | Interest expense | ₩ 40 |
| KEBA | Interest revenues | KEBI | Interest expense | 15 |

| Company recognizing revenues | Account related to revenue | Company recognizing expenses | Account related to expense | 2011 Amount |
|---|---|---|---|---|
| KEBOC | Interest revenues | NYFinCo | Interest expense | ₩ 98 |

(6) Guarantees and acceptances with subsidiaries as of December 31, 2012 and 2011 are as follows: (Unit: In millions):

| | Dec. 31, 2012 | | | |
|---|---|---|---|---|
| Company | Classification | Limit | | Counterparty |
| The Company | Guarantees and acceptances in foreign currencies | ₩ | 55,621 | Subsidiaries |
| Subsidiaries | Guarantees and acceptances in foreign currencies | | 21,447 | The Company |

| | Dec. 31, 2011 | | | |
|---|---|---|---|---|
| Company | Classification | Limit | | Counterparty |
| The Company | Guarantees and acceptances in foreign currencies | ₩ | 134,251 | Subsidiaries |
| Subsidiaries | Guarantees and acceptances in foreign currencies | | 8,959 | The Company |

(7) The key management compensations for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | 2012 | | 2011 | |
|---|---|---|---|---|
| Short-term employee benefits | ₩ | 4,819 | ₩ | 5,516 |
| Post retirement employee benefits | | 1,298 | | 1,981 |
| Stock option | | (98) | | (4,520) |

The key management includes directors, executives and officers who have authorities and responsibilities for decision making of the business plan, operations and control over the Company.

## 49. CONTINGENCIES AND COMMITMENTS:

(1) The Company holds written-off loans, on which the relevant statute of limitations has not expired or the Company has not lost its claim rights to borrowers and guarantors, amounting to ₩1,784,725 million and ₩1,645,070 million as of December 31, 2012 and 2011, respectively.

(2) Endorsed notes with collateral amounted to ₩25,733 million and ₩33,283 million as of December 31, 2012 and 2011, respectively. Endorsed notes without collateral held at the merchant banking amounted to ₩7,530,500 million and ₩7,843,800 million as of December 31, 2012 and 2011, respectively.

(3) The Company is obliged to repurchase some loans previously sold to Korea Asset Management Corporation ("KAMCO") under certain conditions, including the following:

- When it is considered impossible to collect the loans, interest due to delay in repayment of loans, and interest over nine months.
- When it is considered impossible to collect the loans and interest due to the abrogation of court-ordered receivership process and the cancellation of mediation.

As of December 31, 2012, KAMCO and other loan purchasers may exercise the resale option for loans amounting to ₩475 million. An additional loss or profit may occur, depending on the loan classification, valuation of loans or final arrangement on loans when KAMCO and other loan purchasers exercise their RP.

(4) The Company has pending litigations as a plaintiff or a defendant in various legal actions arising from the normal course of operation. The aggregate amounts of these claims brought by and against the Company are approximately ₩323,949 million (690 cases) and ₩417,131 million (212 cases), respectively, as of December 31, 2012. The Company recognized ₩45,352 million of provisions related to these lawsuits.

Major ongoing litigations related to the Company's contingencies are as follows (Unit: In millions):

| Defendant | Plaintiff | Content | Note |
|---|---|---|---|
| The Company | Hyundai Merchant and Marine Company Limited (*1) | Return of performance bond, etc. | (*1) |

(*1) As of December 31, 2012, the lawsuit has been filed and named the Company as a defendant. The action, purportedly brought on behalf of a Hyundai Merchant and Marine Company Limited, the plaintiff, that the Company held performance bond of ₩275.5 billion which the plaintiff paid as a priority bidder for M&A of Hyundai Engineering & Construction Co., Ltd. The plaintiff claimed the return of the performance bonds and the damages of ₩50 billion for the related expenses. If a financial judgment of the law suit agrees the claim, ₩50 billion of damage will be paid proportionately based on the 25 percent ownership, which the Company has on the post-management council.

The Company believes that the outcome of these matters will not have a material impact on the separate financial statements.

(5) Contingencies related to project financing (PF)

ABCP purchase agreements and unused credit limits relating to PF as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Type | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| ABCP purchase agreement | ₩ 300,000 | ₩ 252,100 |
| Unused credit limit on PF loan | 311,277 | 318,511 |
| Total | ₩ 611,277 | ₩ 570,611 |

## 50. OPERATION PERFORMANCE OF TRUST ACCOUNTS:

(1) Trust accounts as of December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Total assets | | Operating revenue | |
|---|---|---|---|---|
| | Dec. 31, 2012 | Dec. 31, 2011 | Dec. 31, 2012 | Dec. 31, 2011 |
| Trust accounts | ₩ 23,967,287 | ₩ 24,559,902 | ₩ 306,478 | ₩ 316,654 |

(2) The carrying value of trust accounts with agreement to guarantee the principal amount or the fixed dividend and the amount that should be covered by the inherent account as of December 31, 2012 and 2011 are as follows (Unit: In millions):

| Classification | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Trust accounts guaranteeing the repayment of principal: | | |
| Installment trust | ₩ 86 | ₩ 85 |
| Household trust | 550 | 609 |
| Old-age pension trust | 2,110 | 2,552 |
| Corporate trust | 38 | 37 |
| Personal pension trust | 194,976 | 200,098 |
| Retirement Trust | 82,421 | 179,431 |
| New personal pension trust | 76,245 | 67,766 |
| New old-age pension trust | 1,226 | 1,398 |
| Pension trust | 263,792 | 224,191 |
| Subtotal | 621,444 | 676,167 |
| Trust accounts guaranteeing a fixed rate of return and the repayment of principal: | | |
| Unspecified monetary trust | 59 | 59 |
| Development money trust | 5 | 5 |
| Subtotal | 64 | 64 |
| Total | ₩ 621,508 | ₩ 676,231 |

## 51. DIVIDENDS:

(1) Details of the dividends for the years ended December 31, 2012 and 2011 are as follows:

| Type | 2012 | 2011 |
|---|---|---|
| Dividend per share(dividend rate) (Unit: In Korean won, %): | | |
| The quarterly dividend per share | ₩ - | ₩ 1,510(30.2%) |
| The yearly dividend per share | 50(1.0%) | - |
| Total | ₩ 50(1.0%) | ₩ 1,510(30.2%) |
| Number of shares issued (Unit: shares): | 644,906,823 | 644,906,823 |
| Total amount of the dividends (Unit: Korean won in millions): | | |
| The quarterly dividends | ₩ - | ₩ 973,809 |
| The yearly dividends | 32,245 | - |
| | ₩ 32,245 | ₩ 973,809 |

(2) Details of the estimated propensity to dividend for December 31, 2012 and 2011 are as follows (Unit: In millions, %):

| Type | 2012 | 2011 |
|---|---|---|
| Total amount of the dividend (*1) | ₩ 32,245 | ₩ 973,809 |
| Net income | 632,000 | 1,624,222 |
| Propensity to dividend | 5.10% | 59.96% |
| Adjusted net income after reserve for credit losses | 614,185 | 1,457,340 |
| Propensity to dividend based on adjusted net income after reserve for credit losses | 5.25% | 66.82% |

(*1) Quarterly dividend could be contained between total amounts of the dividend.

(3) Details of the dividend yield ratio for the years ended December 31, 2012 and 2011 are as follows (Unit: In Korean won, %):

| Type | 2012 | 2011 |
|---|---|---|
| Dividend per share | ₩ 50 | ₩ 1,510 |
| Closing price of settling day | 7,620 | 7,350 |
| Dividend yield ratio | 0.66% | 20.54% |

(*1) Quarterly dividend could be contained between total amounts of the dividend.

## 52. EVENTS AFTER THE REPORTING PERIOD:

On January 28, 2013, the Company's board of directors reached a resolution to execute share-for-share exchange with Hana Financial Group on January 28, 2013 and the agreement was entered on March 15, 2013. According to the agreement, the Company's one share of common stock was exchanged for 0.1894302 common stock of Hana Financial Group. On April 3, 2013, the Company made a payment to shareholders who exercised their appraisal rights instead of entering share-for-share exchange with Hana Financial Group. One April 5, 2013, the Company's share-for-share exchange was executed, whereby the Company became incorporated into a wholly owned subsidiary of Hana Financial Group.

In accordance with the *regulations of the Bank Indonesia*, two or more local banks with the same ultimate parent company are forbidden to operate as an independent entity in Indonesia. As of June 30, 2013, PT. Bank KEB Indonesia ("KEBI"), a subsidiary of the Company, and PT Bank Hana, a subsidiary of Hana Bank, are undergoing a merger process.

## REGISTERED OFFICE OF THE ISSUER

**Korea Exchange Bank**
181, 2-ga Ulchiro
Chung-Ku
Seoul 100-793
Korea

## DEALERS

**Barclays Bank PLC**
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

**BNP PARIBAS**
10 Harewood Avenue
London NW1 6AA
United Kingdom

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**Commerzbank Aktiengesellschaft**
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Federal Republic of Germany

**Crédit Agricole**
**Corporate and Investment Bank**
27th Floor
Two Pacific Place
88 Queensway
Hong Kong

**Hana Daetoo Securities**
8/F, Hana Daetoo Securities Building
27-3 Yeouido-Dong, Youngduengpo-Gu
Seoul 150-709, Korea

**The Hongkong and Shanghai Banking**
**Corporation Limited**
Level 17, HSBC Main Building
1 Queen's Road Central
Hong Kong

**ING Bank N.V., Singapore Branch**
9 Raffles Place
19-02 Republic Plaza
Singapore 048619

**KEB Asia Finance Limited**
Suite 1001-04, Level 10
One Pacific Place
88 Queensway
Hong Kong

**Merrill Lynch International**
2 King Edward Street
London EC1A 1HQ
United Kingdom

**Mizuho Securities Asia Limited**
12th Floor, Chater House
8 Connaught Road Central
Hong Kong

**Morgan Stanley & Co. International plc**
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

## INDEPENDENT AUDITORS

**Deloitte Anjin LLC**
17th Floor, Hanwha Securities Building
23-5 Yoido-dong Youngdeung po-gu
Seoul 150-171
Korea

**Ernst & Young Han Young**
Taeyoung Building
10-2, Yeouido-dong, Yeongdeungpo-gu
Seoul 150-777
Korea

## ISSUE AND PAYING AGENT

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

## REGISTRAR

**Deutsche Bank Luxembourg S.A.**
2 Boulevard Konrad Adenauer
L-115 Luxembourg

## DTC REGISTRAR

**Deutsche Bank Trust Company Americas**
60 Wall Street
New York NY 10005
United States of America

## PAYING AGENT

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

## LEGAL ADVISERS

*To the Dealers as to English and United States Law*
**Clifford Chance**
21st Floor, Ferrum Tower
66 Sooha-dong, Jung-gu
Seoul 100-210
Korea

*To the Issuer as to Korean Law*
**Lee & Ko**
18th Floor, Hanjin Main Building
118, 2-Ka, Namdaemun-Ro, Chung-Ku
Seoul
Korea

## SINGAPORE LISTING AGENT

**Shook Lin & Bok LLP**
1 Robinson Road
#18-00 AIA Tower
Singapore 048542