IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS WITH ADDRESSES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the offering circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the following offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES AND THE GUARANTEE DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. 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 SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, 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.

THE FOLLOWING OFFERING CIRCULAR 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 U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the following offering circular or make an investment decision with respect to the securities, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing the following offering circular, you shall be deemed to have represented to us that (1) you are not a U.S. person nor are you acting on behalf of a U.S. person, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and, to the extent you purchase the securities described in the following offering circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to the delivery of such offering circular and any amendments and supplements thereto by electronic transmission.

You are reminded that the following offering circular has been delivered to you on the basis that you are a person into whose possession the following offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the following offering circular to any other person. If this is not the case, you must return this offering circular to us immediately.

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 the underwriter or any affiliate of the underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriter or such affiliate on behalf of the issuer in such jurisdiction.

The following offering circular 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 the issuer, the guarantor nor Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (the "Managers"), nor any person who controls any of them nor 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 offering circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

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 e-mail 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.

OFFERING CIRCULAR **STRICTLY CONFIDENTIAL**

Doosan Power Systems S.A.

(a public limited liability company, organized and existing under the laws of the Grand Duchy of Luxembourg)

US$300,000,000 Guaranteed Senior Capital Securities Unconditionally and Irrevocably Guaranteed by

The Export-Import Bank of Korea

(a statutory juridical entity established under The Export-Import Bank of Korea Act of 1969, as amended, in the Republic of Korea)

Issue Price: 99.745%

The US$300,000,000 Guaranteed Senior Capital Securities (the "Securities") will be issued by Doosan Power Systems S.A. (the "Issuer") and unconditionally and irrevocably guaranteed by The Export-Import Bank of Korea (the "Guarantor" or the "Bank," and such guarantee, the "Guarantee"). The Securities constitute unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, except as may be required by mandatory provisions of law. The Guarantee relating to the Securities constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law).

The Securities confer a right to receive cumulative interest at the following interest rates: (i) from (and including) December 3, 2015 (the "Issue Date") to (but excluding) December 3, 2018 (the "First Call Date"), at 2.50% per annum; and (ii) from (and including) the First Call Date to (but excluding) the immediately following Reset Date and thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the Step Up Margin, in each case on the Principal Amount of each Security. Terms relating to the Securities and not otherwise defined have the meanings given to them in "*Terms and Conditions of the Securities*."

Subject to the provisions of the Securities relating to deferral of interest payments at the sole discretion of the Issuer (see "*Terms and Conditions of the Securities — Interest — Optional deferral of interest*"), interest shall be payable semi-annually in arrear on June 3 and December 3 of each year (each an "Interest Payment Date," with the first Interest Payment Date falling on June 3, 2016 in respect of the period from and including the Issue Date to but excluding such Interest Payment Date).

Unless redeemed or purchased and cancelled earlier in accordance with the terms of the Securities, the Issuer may redeem the Securities on December 3, 2045 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest and, if not redeemed, at the end of each subsequent 30-year period (each of such dates, an "Issuer Redemption Date") provided that, if the Securities are not redeemed at the option of the Issuer on an Issuer Redemption Date, the Securities will automatically be extended for 30 years from such date. The Issuer may redeem the Securities (in whole but not in part), on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest upon giving the Holders of the Securities, the Agents and the Guarantor not less than 30 and not more than 60 calendar days' irrevocable notice of redemption. The Securities may, subject to applicable laws, also be redeemed (in whole but not in part) at any time, on giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders of the Securities and the Agents, at the option of the Issuer at the Principal Amount of the Securities plus any Interest Amount accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest, if (i) a Gross-Up Event occurs or (ii) a Tax Event or an Accounting Event occurs.

Each Holder of Securities will have the right to require the Guarantor to purchase (in whole but not in part) the Securities held by the Holder at their Principal Amount plus any Interest Amount accrued up to (but excluding) the relevant Put Date and any outstanding Deferred Interest, if (i) a Bankruptcy Event occurs at any time from the Issue Date to 30 days prior to the First Call Date or (ii) the Issuer elects not to redeem the Securities on the First Call Date. See "*Terms and Conditions of the Securities — Redemption, Purchase and Put — Put Right.*"

Investing in the Securities involves certain risks. See "*Risk Factors*" beginning on page 7.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Securities on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular. Approval in-principle from, admission to the Official List of, and listing and quotation of the Securities on, the SGX-ST are not to be taken as an indication of merits of the Issuer, the Guarantor or the Securities.

The Securities and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States unless pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Securities and the Guarantee and the distribution of this Offering Circular, see "*Subscription and Sale.*"

The Securities are expected to be rated "AA-" by Fitch Ratings, Inc. ("Fitch Ratings"). Such rating of the Securities does not constitute a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by such rating organization. Such rating should be evaluated independently of any other rating of the Securities, the Issuer's or Guarantor's other securities or the Issuer or Guarantor.

The Securities will initially be represented by beneficial interests in a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about December 3, 2015, with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Securities will not be issued in exchange for interests in the Global Certificate.

Joint Lead Managers and Bookrunners

Citigroup **HSBC** **Standard Chartered Bank**

The date of this Offering Circular is November 30, 2015.

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You should rely only on the information contained in this Offering Circular. Neither the Issuer, the Guarantor nor the Managers (as defined in "*Subscription and Sale*") has authorized anyone to provide you with information that is different or make any representation other than as contained in this Offering Circular in connection with the offering of the Securities. If anyone provides you with different or inconsistent information, you should not rely on it.

You should assume the information in this Offering Circular is accurate only as of the date of this Offering Circular or such other date as specified herein. The business, financial condition, results of operations and prospects of the Issuer or the Guarantor may have changed since that date. Neither the delivery of this Offering Circular nor any sale of the Securities made in connection with this Offering Circular will, under any circumstances, constitute a representation or create any implication that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or that there have been no changes in the affairs of the Issuer or the Guarantor since the date of this Offering Circular. Statements contained in this Offering Circular as to the contents of any contract or other documents referred to in this Offering Circular may not set forth all of the terms and conditions of such contracts or other documents.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Securities and the Guarantee, including the merits and risks involved. Neither the Issuer nor the Guarantor is making any representation to any purchaser of the Securities regarding the legality of an investment in the Securities by such purchaser under any legal investment or similar laws or regulations. This Offering Circular should not be considered as a recommendation or constituting an invitation or offer by the Issuer, the Guarantor or the Managers that any recipient of this Offering Circular should purchase the Securities. You should not construe the contents of this Offering Circular as legal, business, accounting or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Securities.

The Issuer and the Guarantor have furnished the information contained in this Offering Circular. No representation, undertaking or warranty, express or implied, is made by the Managers or any of their affiliates or advisers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Managers or any of their affiliates or advisers. The Managers assume no responsibility for the accuracy, adequacy, reasonableness or completeness of any of the information contained in this Offering Circular or any other information (financial, legal or otherwise) provided by the Issuer or the Guarantor in connection with the issue or distribution of the Securities, the issue of the Guarantee or the future performance of the Securities or the Guarantee. To the fullest extent permitted by law, none of the Managers accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by any Manager or on its behalf in connection with the Issuer, the Guarantor, the Guarantee or the issue and offering of the Securities. The Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers or any of their affiliates or advisers in connection with investigation of the accuracy of such information or such person's investment decisions.

This Offering Circular may only be used where it is legal to sell the Securities. None of the Issuer, the Guarantor and the Managers is making an offer to sell the Securities in any jurisdiction where the offer or sale is not permitted. This Offering Circular may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come must inform themselves about and observe these relevant restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the Securities or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

This Offering Circular is confidential. This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Securities described in this Offering Circular. This Offering Circular is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Securities. Distribution of this Offering Circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized and any disclosure of any of its contents or use of such information for any purpose other than making an investment decision, without the prior written consent of the Issuer and the Guarantor, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

The Securities are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal and state securities laws pursuant to a registration statement or an exemption from registration. Any investor who purchases the Securities will be deemed to have made acknowledgements, representations, warranties and agreements intended to restrict the resale or other transfer of the Securities, as set forth under "*Subscription and Sale — Transfer Restrictions*." As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

In connection with this offering, the Managers (or person(s) acting on their behalf) may, subject to all applicable laws, rules and regulations, over-allot Securities or effect transactions that stabilize or maintain the market price of the Securities at a higher level than the Securities might otherwise achieve in the open market for a limited period of time after the issue date. However, there is no assurance that the Managers (or person(s) acting on their behalf) will undertake stabilization action. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period. For a description of these activities, see "*Subscription and Sale*."

ENFORCEABILITY OF CIVIL LIABILITIES

The Issuer is a public limited liability company, organized and existing under the laws of Luxembourg. A substantial portion of the assets of the Issuer is located outside of the United States and neither its officers nor its directors are resident in the United States.

The Guarantor is a statutory juridical entity established under The Export-Import Bank of Korea Act of 1969, as amended, in Korea. All of the officers and directors of the Guarantor named in this Offering Circular reside in Korea, and all or a substantial portion of the assets of the Guarantor and of such officers and directors are located outside the United States.

As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or the Issuer or the Guarantor in U.S. courts judgments predicated upon civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea and the United Kingdom, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

Although there is no treaty between Luxembourg and the United States with respect to the reciprocal enforcement of judgments, a valid, final and conclusive judgment against the Issuer obtained from a state or federal court of the United States, which judgment remains in full force and effect, would be recognized and enforced by a Luxembourg court in accordance with Luxembourg case law, without reconsideration of the merits, subject to the following conditions: (a) the judgment of the foreign court must be enforceable (*exécutoire*) in the country in which it was rendered; (b) the foreign court must have had jurisdiction according to the Luxembourg conflict of jurisdiction rules; (c) the foreign court must have applied to the matter submitted to it the proper law designated by the Luxembourg conflict of laws rules (although some first instance decisions rendered in Luxembourg (which have not been confirmed by the Court of Appeal) no longer apply this condition); (d) the judgment of the foreign court must not have been obtained by fraud, but in compliance with procedural rules of the country in which it was rendered, in particular with the rights of the defendant; and (e) the judgment of the foreign court must not be contrary to Luxembourg international public policy.

AVAILABLE INFORMATION

Copies of the Fiscal Agency Agreement will be on file and available for inspection at the specified office of the Fiscal Agent (as defined in this Offering Circular) upon prior written request during normal office hours. In accordance with the Securities and the Fiscal Agency Agreement, the Fiscal Agent also will make available for inspection by holders of the Securities or, in certain cases, arrange for the mailing to such holders, certain documents or communications received from the Issuer or the Guarantor, as the case may be. See "*Terms and Conditions of the Securities*."

PRESENTATION OF FINANCIAL INFORMATION

The Issuer's separate and consolidated financial statements as of and for the years ended December 31, 2013 and 2014 included in this Offering Circular have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union.

The Guarantor's separate financial statements and information as of and for the years ended December 31, 2013 and 2014 and as of and for the six months ended June 30, 2014 and 2015 included in this Offering Circular have been prepared in accordance with International Financial Reporting Standards as adopted in Korea ("Korean IFRS" or "K-IFRS"). References in this Offering Circular to "separate" financial statements and information are to financial statements and information prepared on a non-consolidated basis. Unless otherwise specified, the Guarantor's financial and other information included in this Offering Circular is presented on a separate basis in accordance with Korean IFRS and does not include such information with respect to its subsidiaries.

CERTAIN DEFINED TERMS AND CONVENTIONS

In this Offering Circular, all references to the "Issuer" are to Doosan Power Systems S.A. and, unless otherwise specified or the context otherwise requires, its consolidated subsidiaries. In addition, unless otherwise specified or the context otherwise requires:

- references to "Doosan Babcock" are to Doosan Babcock Ltd. and its consolidated subsidiaries, other than Doosan Lentjes;
- references to "Doosan Škoda Power" are to Doosan Škoda Power s.r.o and its consolidated subsidiaries; and
- references to "Doosan Lentjes" are to Doosan Lentjes GmbH and its consolidated subsidiaries.

All references to the "Doosan Group" are to a group of companies affiliated with Doosan Corporation, the holding company of the Doosan Group. The Doosan Group is not a legal entity but a reference to a group of such affiliated companies for the purposes of the Monopoly Regulation and Fair Trade Act of Korea.

All references to the “Bank” or the “Guarantor” are to The Export-Import Bank of Korea. All references to “Korea” or the “Republic” are to the Republic of Korea. All references to the “Government” are to the government of Korea. All references to “Luxembourg” are to the Grand Duchy of Luxembourg. All references to the “UK” are to the United Kingdom.

All references to “MW” are to megawatt and all references to “MWe” are to megawatt electrical.

Unless otherwise indicated, all references to “won”, “Won” or “₩” contained in this Offering Circular are to the currency of Korea, references to “U.S. dollar”, “Dollar”, “USD”, “$” or “US$” are to the currency of the United States of America, references to “Canadian Dollar” or “CAD” are to the currency of Canada, references to “Euro”, “EUR” or “€” are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended, references to “Japanese Yen”, “JPY” or “¥” are to the currency of Japan, references to “Chinese Renminbi” or “CNY” are to the currency of the People’s Republic of China, references to “Swiss franc” or “CHF” are to the currency of Switzerland, references to “pound sterling” or “GBP” are to the currency of the United Kingdom, references to “Hong Kong dollar” or “HKD” are to the currency of Hong Kong, S.A.R., references to “Singapore dollar” or “SGD” are to the currency of Singapore, references to “Turkish Lira” or “TRY” are to the currency of Turkey, references to “Malaysia Ringgit” or “MYR” are to the currency of Malaysia, references to “Brazilian Real” or “BRL” are to the currency of Federative Republic of Brazil, references to “Mexican Peso” or “MXN” are to the currency of the United Mexican States, references to “New Zealand Dollar” or “NZD” are to the currency of New Zealand, references to “Taiwan Dollar” or “TWD” are to the currency of Taiwan, references to “Thai Baht” or “THB” are to the currency of Thailand, references to “Australian dollar” or “AUD” are to the currency of Australia, references to “Indian Rupee” or “INR” are to the currency of India, references to “Indonesian Rupiah” or “IDR” are to the currency of Indonesia, references to “Philippine Peso” or “PHP” are to the currency of the Republic of the Philippines, references to “Saudi Riyal” or “SAR” are to the currency of Saudi Arabia, references to “Russian Ruble” or “RUB” are to the currency of the Russian Federation, references to “Swedish Krona” or “SEK” are to the currency of Sweden, references to “South African Rand” or “ZAR” are to the currency of South Africa, references to “Danish Krone” or “DKK” are to the currency of Denmark, references to “Norwegian Krone” or “NOK” are to the currency of Norway, references to “Canadian Dollar” or “CAD” are the currency of Canada, references to “Czech Koruna” or “CZK” are to the currency of the Czech Republic and references to “Peruvian nuevo sol” or “PEN” are to the currency of Peru.

In this Offering Circular, where information has been prepared in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, actual numbers may differ from those contained herein due to rounding. All discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes future expectations, projections or “forward-looking statements”, as defined in Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. The words “believe”, “expect”, “anticipate”, “estimate”, “project” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Although the Issuer and the Guarantor believe that the expectations reflected in the forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. This Offering Circular discloses important factors that could cause actual results to differ materially from the Issuer’s or the Guarantor’s expectations, including factors that could adversely affect the future performance of the Korean economy, as described below (collectively, the “Cautionary Statements”). All subsequent written and oral forward-looking statements attributable to the Issuer or the Guarantor or persons acting on behalf of either of them are expressly qualified in their entirety by the Cautionary Statements.

Factors that could adversely affect the future performance of the Korean economy include:

- continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;
- adverse conditions and volatility in the U.S. and worldwide credit and financial markets and the general weakness of the global economy;
- financial difficulties and resulting ratings downgrades experienced by the governments of Greece and other countries in Europe;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates and stock markets;
- substantial decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- declines in consumer confidence and a slowdown in consumer spending;
- adverse developments in the economies of countries that are important export markets for the Republic, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;
- the continued emergence of the Chinese economy, 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 the manufacturing base from the Republic to China);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;
- the economic impact of any pending or future free trade agreements;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea and other parts of the world;
- deterioration in economic or diplomatic relations between the Republic and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

- political uncertainty or increasing strife among or within political parties in the Republic;
- hostilities or unrest involving oil producing countries in the Middle East and Northern Africa and any material disruption in the supply of oil or increase in the price of oil;
- the occurrence of severe earthquakes, tsunamis or other natural disasters in Korea and other parts of the world, particularly in trading partners; and
- an increase in the level of tension or an outbreak of hostilities between North Korea and the Republic or the United States.

SUMMARY

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Securities, see "Terms and Conditions of the Securities" in this Offering Circular (the "Conditions"). Terms used and not otherwise defined in this summary have the meaning given to them in the Conditions.

Issuer	Doosan Power Systems S.A., a public limited liability company (*société anonyme*), organized and existing under the laws of Luxembourg, with its registered office at 6, rue Eugène Ruppert, L-2453 Luxembourg, and registered with Luxembourg trade and companies register under number B 125.754.
Securities	US$300,000,000 Guaranteed Senior Capital Securities
Issue Price	99.745%
Issue Date	December 3, 2015
Form and Denomination	The Securities will be issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.
Status of the Securities	The Securities constitute unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, except as may be required by mandatory provisions of law.
Guarantor	The Export-Import Bank of Korea, a statutory juridical entity established under The Export-Import Bank of Korea Act of 1969, as amended, in Korea.
Guarantee	The Guarantor has given for the benefit of the Holders of the Securities an unconditional and irrevocable guarantee for the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities as and when the same shall become due according to the Conditions.
	The Guarantee relating to the Securities constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law). The Guarantee will remain in full effect until the earlier of (i) the payment of all sums payable in respect of the relevant Securities having been paid in full and (ii) the First Call Date.

Interest	Each Security will entitle the Holder thereof to receive cumulative interest. The Interest on the Securities will accrue: (a) from (and including) the Issue Date to (but excluding) December 3, 2018 (the "First Call Date") at 2.50% per annum; and (b) (A) from (and including) the First Call Date to (but excluding) the immediately following Reset Date and (B) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the Step Up Margin, in each case on the Principal Amount of each Security, which interest will be payable semi-annually in arrear in U.S. dollars on June 3 and December 3 of each year (each an "Interest Payment Date").
Optional Deferral of Interest	The Issuer may determine in its sole discretion (not less than five Business Days prior to the relevant Interest Payment Date) not to pay all or part of the Interest Amount falling due on that Interest Payment Date. If the Issuer determines not to pay all or part of the Interest Amount falling due on an Interest Payment Date, such interest (or part thereof, as the case may be) will not be due and payable, or be paid, until the relevant Payment Reference Date and for so long as the same remains unpaid will constitute "Deferred Interest." Additional interest will accrue on Deferred Interest as set out in Condition 5.3(a) and will be added to such Deferred Interest (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Deferred Interest, including any additional interest thereon, will be payable in accordance with Condition 5.5. The Issuer is not subject to any limits as to the number of times the Interest Amount and Deferred Interest can be deferred, except as specified in Condition 5.5.
Restrictions in the Case of Deferral	If (a) some or all of an Interest Amount is deferred pursuant to Condition 5.3(a); and (b) such Interest Amount has not been paid in full by the date which is 20 Business Days following the Interest Payment Date on which it would otherwise have been due, each of the Issuer and Doosan Heavy Industries & Construction Co., Ltd. ("Doosan Heavy") will not: (i) declare or pay any discretionary dividends or distributions or make any other discretionary

	payment, and will procure that no discretionary dividend, distribution or other discretionary payment is made, on any of its Discretionary Obligations; or (ii) redeem, reduce, cancel, buy-back or acquire for any consideration, on a discretionary basis, any of its Discretionary Obligations; (other than in respect of employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or Doosan Heavy, as the case may be) until the date on which all Deferred Interest has been paid in full.
Payment of Deferred Interest	The Issuer may elect to pay any Deferred Interest at any time on the giving of at least five and not more than 15 Business Days' prior notice to the Agents. The Issuer must pay such Deferred Interest on the earliest to occur of: (i) the date on which any discretionary dividend, distribution or other discretionary payment is declared or paid on, or any discretionary redemption, reduction, cancellation, buy-back or acquisition is made of, any Discretionary Obligation of the Issuer (other than in respect of employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer); (ii) the date on which all of the Securities are redeemed pursuant to the provisions of Condition 6; and (iii) the date on which an order is made or a resolution is passed for the Winding-Up of the Issuer.
Maturity Date	Unless redeemed or purchased and cancelled earlier in accordance with the Conditions, the Securities may be redeemed at the option of the Issuer on December 3, 2045 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest and, if not redeemed on such date, at each Issuer Redemption Date; provided that, if the Securities are not redeemed at the option of the Issuer on an Issuer Redemption Date, the Securities will automatically be extended for 30 years from such Issuer Redemption Date.
Redemption at the Option of the Issuer	Subject to applicable laws, the Issuer may redeem the Securities (in whole but not in part) on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any interest accrued up to (but excluding) the

	relevant Redemption Date and any outstanding Deferred Interest, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders, the Agents and the Guarantor.
Redemption due to a Gross-Up Event	The Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents, if, as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of a Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, rules or regulations, which change or amendment becomes effective on or after November 30, 2015, the Issuer pays or will become obliged to pay an Additional Amount under Condition 8.
Redemption due to a Tax Event or an Accounting Event	If a Tax Event or an Accounting Event occurs, the Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at the Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents. Prior to giving such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an Authorized Signatory of the Issuer stating that a Tax Event or an Accounting Event (as the case may be) has occurred and stating in the case of a Tax Event that the relevant loss of deduction cannot be avoided by the Issuer taking reasonable measures available to it and, in the case of a Tax Event, the opinion referred to in Condition 6.4(b) and, in the case of an Accounting Event, the opinion referred to in Condition 6.4(c).
Bankruptcy Put Right	If a Bankruptcy Event occurs at any time from the Issue Date to 30 days prior to the First Call Date, to the extent permitted by applicable law, each Holder will have the right (the "Bankruptcy Put Right") to require the Guarantor to purchase on the Bankruptcy Put Date the Securities held by such Holder (in whole but not in part) at their Principal Amount plus any interest accrued up to (but excluding) the Bankruptcy Put Date and any outstanding Deferred Interest. If a Bankruptcy Event giving rise to such right has occurred during such period, it shall be deemed that the Bankruptcy Put Right has been irrevocably exercised by all Holders without the delivery of any written notice by the Holders of their intention to exercise the Bankruptcy Put Right.

Non-Call Put Right	If the Issuer elects not to redeem the Securities on the First Call Date as provided for in Condition 6.2, to the extent permitted by law, each Holder will be deemed to have exercised its right to require the Guarantor to purchase on the First Call Date (such date, the "Non-Call Put Date") all of the Securities held by such Holder at their Principal Amount plus any interest accrued up to (but excluding) the Non-Call Put Date and any outstanding Deferred Interest.
Governing Law	The Securities and the Guarantee are governed by, and will be construed in accordance with, the laws of the State of New York.
Rating	The Securities are expected to be rated "AA-" by Fitch Ratings. A rating is not a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by the assigning rating organization.
Fiscal Agent, Paying Agent, Transfer Agent and Calculation Agent	Citibank, N.A., London Branch
Registrar	Citigroup Global Markets Deutschland AG
Register	The Registrar shall maintain a register (the "Register") in respect of the Securities
Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. There can be no assurance, however, that the Securities will be admitted for listing and quotation on the SGX-ST. For as long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities will be traded on the SGX-ST in a minimum board lot size of SGD200,000 (or its equivalent in foreign currencies). Accordingly, the Securities will be traded on the SGX-ST in a minimum board lot size of US$200,000. So long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for Definitive Certificates, the Issuer will appoint and maintain a paying agent in Singapore where the Definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore.

Use of Proceeds	The Issuer expects to use the net proceeds from this offering for general corporate purposes. See "Use of Proceeds."
Clearance and Settlement	The Securities have been accepted for clearance by Euroclear and Clearstream, Luxembourg under the following codes: ISIN: XS1327109291 Common Code: 132710929

RISK FACTORS

Investing in the Securities involves risks and uncertainties. Prospective purchasers of the Securities are advised to review carefully all of the information contained elsewhere in this Offering Circular and should consider, in particular, the following risk factors before purchasing the Securities. The risks described below are not the only ones that may be relevant to the Securities.

Risks Relating to the Securities

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is denominated in a currency different from that of the potential investor;
- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex investment securities. Sophisticated institutional investors generally do not purchase complex investment securities as stand-alone investments. They purchase complex investment securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Payments under the Guarantee may be restricted under certain circumstances.

Under the Foreign Exchange Transactions Act and Presidential Decree and Regulations under that Act and Decree, the Government may impose any necessary restrictions on the remittance of payments out of Korea such as requiring the Guarantor to obtain prior approval from the Ministry of Strategy and Finance, if the Government deems that certain emergency circumstances are likely to occur including but not limited to:

- sudden fluctuations in interest rates or exchange rates;
- extreme difficulty in stabilizing the balance of payments; or
- any substantial disturbance in the Korean financial or capital markets.

If the Guarantor cannot obtain prior approval from the Ministry of Strategy and Finance under any such emergency circumstances, the Guarantor may not be able to make any payments under the Guarantee.

The Issuer has the right to defer Interest Amounts on the Securities.

The Issuer may in its sole discretion defer Interest Amounts (as defined in "*Terms and Conditions of the Securities*"), in whole or in part, by delivering the relevant deferral notices to Holders. The Issuer is not subject to any limits as to the number of times the Interest Amounts and Deferred Interest (as defined in "*Terms and Conditions of the Securities*") can be deferred. Deferred Interest may, at the option of the Issuer, be paid at any time, and the circumstances in which it is required to be paid are set out in Condition 5.5 of the Securities.

Any deferral of Interest Amounts is likely to have an adverse effect on the market price of the Securities. In addition, as a result of the deferral provisions of the Securities, the market price of the Securities may be more volatile than the market prices of other securities on which interest or distributions accrue that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's or the Guarantor's financial condition or results of operations.

The Securities may be redeemed or purchased under certain circumstances.

Holders should be aware that the Securities may be redeemed at the option of the Issuer (in whole but not in part) at their principal amount (plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest) on the First Call Date or on any Interest Payment Date thereafter (each capitalized term as defined in "*Terms and Conditions of the Securities*"), by delivering the relevant redemption notices to Holders. In addition, if the Issuer elects not to redeem the Securities on the First Call Date, the Securities will be purchased by the Guarantor on such date at their principal amount (plus any interest accrued up to (but excluding) such date and any outstanding Deferred Interest).

The Securities are also subject to redemption (in whole but not in part) at the Issuer's option at any time at their principal amount (plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest) upon the occurrence of a Gross-Up Event, a Tax Event or an Accounting Event (each as defined in "*Terms and Conditions of the Securities*"). The relevant redemption amount or purchase price may be less than the then current market value of the Securities.

The date on which the Securities are redeemed or purchased may not accord with the preference of individual Holders. This may be disadvantageous to Holders in light of market conditions or the individual circumstances of the Holders. In addition, an investor may not be able to reinvest the redemption or sale proceeds in comparable securities at an effective interest rate at the same level as that of the Securities.

There is no limitation on issuing pari passu securities.

There is no restriction on the amount of securities, guarantees or other liabilities which the Issuer or the Guarantor may issue or incur and which rank *pari passu* with the Securities and the Guarantee, respectively. The issue of any such securities or the incurrence of any such other liabilities by the Issuer may increase the likelihood of a deferral of interest under the Securities. Furthermore, the terms of such securities, guarantees or other liabilities may include provisions resulting in the Issuer being required to defer interest under the Securities in circumstances where a deferral of interest is made on such other securities, guarantees or liabilities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Holders to sell their Securities.

The bankruptcy laws of Luxembourg and other local bankruptcy laws may differ from those of another jurisdiction with which Holders are familiar.

If a Bankruptcy Event (as defined in "*Terms and Conditions of the Securities*") occurs with respect to the Issuer at any time between the issue date of the Securities to 30 days prior to the First Call Date, the Securities will be purchased by the Guarantor at their principal amount (plus any interest accrued up to (but excluding) such date and any outstanding Deferred Interest). Because the Issuer is incorporated under the laws of Luxembourg, any bankruptcy proceeding relating to the Issuer would involve Luxembourg bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local bankruptcy laws of jurisdictions with which Holders are familiar.

The rating assigned to the Securities may be suspended, lowered or withdrawn in the future.

The Securities are expected to be rated "AA-" by Fitch Ratings. The rating assigned to the Securities will have been based primarily on the Guarantee to be issued by the Guarantor with respect to the Securities. Pursuant to the Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities as and when such sums become due (the "Guaranteed Amounts"). The payment of the Guaranteed Amounts will, therefore, depend on the Guarantor performing its obligations under the Guarantee, and the likelihood of payment of the Guaranteed Amounts will depend on the creditworthiness of the Guarantor. Consequently, investors are relying not only on the creditworthiness of the Issuer but also on the creditworthiness of the Guarantor to perform its obligations under the Guarantee. A significant deterioration in the financial condition of the Guarantor could adversely affect the likelihood of investors receiving Guaranteed Amounts under the Guarantee and could result in a downgrade or withdrawal of the rating of the Securities.

A rating is not a recommendation to buy, sell or hold the Securities and may be subject to revision, suspension or withdrawal at any time. There can be no assurance that a rating will remain for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. Neither the Issuer nor the Guarantor has an obligation to inform Holders of any such revision, downgrade or withdrawal. A reduction, suspension, or withdrawal at any time of the rating assigned to the Securities may adversely affect the market price of the Securities or a Holder's ability to dispose of the Securities.

The liquidity and price of the Securities may be volatile.

The price and trading volume of the Securities may be highly volatile. Factors such as variations in the Issuer's or the Guarantor's revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions or dispositions, interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the Issuer's or the Guarantor's industry, as well as general economic conditions in Korea or internationally, could cause the price of the Securities to fluctuate. Any such developments may result in large and sudden adverse changes in the trading volume and price of the Securities. There is no assurance that these developments will not occur in the future.

An active trading market for the Securities may not develop.

The Securities are a new issue of securities for which there is currently no trading market. No assurance can be given that the Issuer will obtain or be able to maintain a listing of the Securities on the SGX-ST or that an active trading market for the Securities will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their Securities or the price at which Holders will be able to sell their Securities. The Managers are not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Managers.

The Securities contain provisions regarding meetings, modification, waivers and substitution which may affect the rights of Holders.

The Conditions of the Securities and the Fiscal Agency Agreement contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The Conditions of the Securities also provide that the Fiscal Agent may agree, without the consent of Holders, to the waiver or authorization of any breach or proposed breach of, any of the Conditions of the Securities or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Fiscal Agent, materially prejudicial to the interests of the Holders, or may agree, among other things, to make any modifications to the Securities or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Fiscal Agent to correct a manifest error or to comply with mandatory provisions of the laws of Korea or a Relevant Jurisdiction (as defined in "*Terms and Conditions of the Securities*") so long as such modification does not adversely affect the rights of any Holder in any material respect.

The Securities will be evidenced by a Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System(s).

Securities issued will be evidenced by the Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (each of Euroclear and Clearstream, Luxembourg, a "Clearing System"). Except in the circumstances described in the relevant Global Certificate, Holders will not be entitled to receive definitive note certificates. Upon deposit of a Global Certificate with the relevant Clearing System(s), such Clearing System(s) will credit each person shown in its records that has purchased Securities for its own account or for the account of one or more beneficial owners, with a principal amount of Securities equal to the principal amount such Holder has purchased for its own account or for the account of one or more beneficial owners and paid for. While the Securities are evidenced by the Global Certificate, Holders will be able to trade their beneficial interests only through the Clearing Systems.

While the Securities are evidenced by the Global Certificate, the Issuer (or failing which, the Guarantor under the Guarantee) will discharge its payment obligations under the Securities by making payments to the relevant Clearing System for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Securities. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

TERMS AND CONDITIONS OF THE SECURITIES

The following terms and conditions will be endorsed on the back of the Definitive Certificates (as defined below) issued in respect of the Securities:

The US$300,000,000 Guaranteed Senior Capital Securities (the "Securities," which expression, unless the context otherwise requires, includes any further Securities issued pursuant to Condition 10 and forming a single series with the Securities) of Doosan Power Systems S.A. (the "Issuer") are issued under a fiscal agency agreement dated December 3, 2015 (as amended from time to time, the "Fiscal Agency Agreement"), among the Issuer, Doosan Heavy Industries & Construction Co., Ltd. ("Doosan Heavy"), The Export-Import Bank of Korea as the guarantor (the "Guarantor") and Citibank, N.A., London Branch, as fiscal agent (the "Fiscal Agent," which expression shall include its successor(s)), paying agent (the "Paying Agent," which expression shall include its successor(s)), transfer agent (the "Transfer Agent," which expression shall include its successor(s)) and calculation agent (the "Calculation Agent," which expression shall include its successor(s)) and Citigroup Global Markets Deutschland AG as registrar (the "Registrar," which expression shall include its successor(s)). References herein to the "Agents" are to the Fiscal Agent, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar, and any reference to an "Agent" is to any one of them. The Securities are issued, and may or must be redeemed by the Issuer, on the terms set out in these Terms and Conditions (the "Conditions").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are available for inspection upon reasonable prior notice with proof of holding statement during normal business hours by the Holders (as defined below) at the specified office of the Fiscal Agent. Holders are deemed to have notice of those provisions applicable to them of the Fiscal Agency Agreement.

1. FORM AND TRANSFER

1.1 Form and Principal Amount

The Securities are in registered form and are issued on their date of issue and transferable in minimum principal amounts (the "Principal Amount") of US$200,000 and integral multiples of US$1,000 in excess thereof. A security certificate (a "Definitive Certificate") will be issued to each Holder in respect of its registered holding of Securities. Each Definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in the register of Holders (the "Register"). The Securities will initially be evidenced by one or more certificates in global form (each, a "Global Certificate"). No Definitive Certificates will be issued to Holders except upon the circumstances set forth in the Fiscal Agency Agreement. The Securities will be issued at the Issue Price.

1.2 Title

Title to the Securities passes only by registration in the Register and in accordance with the provisions of the Fiscal Agency Agreement. The holder of any Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "Holder" and (in relation to a Security) "holder" means the person in whose name a Security is registered in the Register (or, in the case of a joint holding, the first named thereof).

The Issuer shall maintain a register of holders of the Securities at its registered office in accordance with the provisions of the Luxembourg law of August 10, 1915 on commercial companies, as amended, which shall match the Register with regard to the entries therein. In the event of any discrepancies between the Register and the register held by the Issuer at its registered office, the register held by the Issuer at its registered office shall prevail for Luxembourg law purposes.

The Fiscal Agency Agreement contains provisions which oblige the Registrar to promptly provide an updated copy of the Register to the Issuer on the issue date of the Securities and at any time following any amendment to the Register, in order to allow the Issuer to update the register held by it at its registered office to reflect the Register.

2. TRANSFERS OF SECURITIES AND ISSUE OF DEFINITIVE CERTIFICATES

2.1 Transfers

Subject as provided in Condition 2.4, a Security may be transferred by depositing the Definitive Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Fiscal Agent (or, in the case of a Security represented by a Global Certificate, delivery of a duly executed form of transfer as set forth in the Fiscal Agency Agreement), together with such evidence as the Fiscal Agent may reasonably require to prove title to the Securities that are the subject of the transfer and the authority of the individuals who have executed the form of transfer. Legal title to the Securities will pass upon registration of such transfer in the Register.

All transfers of Securities and entries in the Register will be made subject to the terms concerning transfers of Securities provided in the Fiscal Agency Agreement.

2.2 Delivery of new Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Fiscal Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Security to the address specified in the form of transfer. For the purposes of this Condition, “business day” shall mean a day on which banks are open for business in the city where the Agents have their specified offices.

Where some but not all of the Securities in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Principal Amount of Securities not so transferred will, within 10 business days of receipt by the Fiscal Agent of the original Definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Securities not so transferred to the address of such holder appearing on the Register (or, in the case of a joint holding, the first named thereof).

2.3 Formalities free of charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer or the Fiscal Agent but upon payment (or the giving of such indemnity as the Issuer or the Fiscal Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed on the Issuer or the Fiscal Agent (as the case may be) in relation to such transfer.

2.4 Closed periods

No Holder may require the transfer of a Security to be registered during the period of 15 days ending on the due date for any payment of any principal or interest (including Deferred Interest) on that Security.

3. STATUS AND NEGATIVE PLEDGE

3.1 Status of the Securities

The Securities constitute unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, except as may be required by mandatory provisions of law.

3.2 Negative pledge

So long as there are any Outstanding Securities (as defined in the Fiscal Agency Agreement), the Guarantor will not create or permit to subsist any mortgage, charge, pledge or other security interest upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below):

(i) payment of any sum due in respect of any such International Investment Securities;

(ii) payment under any guarantee in respect of any such International Investment Securities; or

(iii) payment under any indemnity or other like obligation in respect of any such International Investment Securities,

without, in any such case and at the same time, according to the Securities either the same security as is available for the benefit of the holders of such International Investment Securities or such other security as shall be approved for the purpose by a resolution of the Holders as a Special Matter (as defined in the Fiscal Agency Agreement).

"International Investment Securities" means notes, bonds, debentures, certificates of deposit or investment securities of any person which (i) by their terms either are payable, or confer a right to receive payment, in any currency other than Korean won or are denominated in Korean won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Guarantor and (ii) 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.

3.3 No set-off

To the extent and in the manner permitted by applicable law, no Holder may exercise, claim or plead any right of set-off, counterclaim, compensation or retention in respect of any amount owed to it by the Issuer in respect of, and arising from, the Securities and each Holder will, by virtue of its holding of any Security, be deemed to have waived all such rights of set-off, counterclaim, compensation or retention.

3.4 No voting right

The Securities do not confer any voting rights on Holders with respect to the Issuer's Common Shares or any other class of share capital of the Issuer.

4. GUARANTEE

Pursuant to the guarantee set out in Section 3 of the Fiscal Agency Agreement as evidenced by the notation of guarantee dated December 3, 2015 (the "Guarantee"), the Guarantor has given for the benefit of the Holders an unconditional and irrevocable guarantee for the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities as and when the same shall become due according to these Conditions. For the avoidance of doubt, any Deferred Interest (including any additional interest accrued thereon in accordance with Condition 5.3(a)) will not be deemed due until it becomes due and payable in accordance with Condition 5.5(b). The Guarantee relating to the Securities constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law). The Guarantee will remain in full effect until the earlier of (i) the payment of all sums payable in respect of the relevant Securities having been paid in full and (ii) the First Call Date.

5. INTEREST

5.1 Interest

Each Security shall entitle the Holder thereof to receive cumulative interest in accordance with the provisions of this Condition 5.

5.2 Interest Rate

Interest on the Securities will accrue:

(a) from (and including) the Issue Date to (but excluding) December 3, 2018 (the "First Call Date") at 2.50% per annum; and

(b) (A) from (and including) the First Call Date to (but excluding) the immediately following Reset Date and (B) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate (as defined below) plus the Initial Credit Spread (as defined below) plus the Step Up Margin (as defined below) (such rate, the "Reset Rate"),

(each an "Interest Rate") in each case on the Principal Amount of each Security, which interest will be payable semi-annually in arrear in U.S. dollars on June 3 and December 3 of each year (each an "Interest Payment Date").

The Interest Amount payable on any Interest Payment Date shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

5.3 Optional deferral of interest

(a) The Issuer may determine in its sole discretion (not less than five Business Days prior to the relevant Interest Payment Date) not to pay all or part of the Interest Amount falling due on that Interest Payment Date. If the Issuer determines not to pay all or part of the Interest Amount falling due on an Interest Payment Date, such interest (or part thereof, as the case may be) will not be due and payable, or be paid, until the relevant Payment Reference Date and for so long as the same remains unpaid will constitute "Deferred Interest". Additional interest will accrue on such Deferred Interest:

(i) at the same Interest Rate as the Principal Amount of the Securities bears from time to time; and

(ii) from (and including) the date on which (but for such deferral) the Deferred Interest would otherwise have been due to (but excluding) the date the Deferred Interest is paid, and will be added to such Deferred Interest (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Deferred Interest, including any additional interest accrued thereon, will be payable in accordance with Condition 5.5.

(b) The Issuer will notify the Holders, the Guarantor, the Agents and (if and for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require) the SGX-ST of any determination by it not to pay all or part of the Interest Amount which would otherwise fall due on an Interest Payment Date, not less than five Business Days prior to the relevant Interest Payment Date. Deferral of Interest Amounts pursuant to this Condition will not constitute a default of the Issuer or a breach of its obligations under the Securities or for any other purpose.

(c) The Issuer is not subject to any limits as to the number of times the Interest Amount and Deferred Interest can be deferred, except as specified in Condition 5.5.

5.4 **Restrictions in the case of deferral**

If:

(a) some or all of an Interest Amount is deferred pursuant to Condition 5.3(a); and

(b) such Interest Amount has not been paid in full by the date which is 20 Business Days following the Interest Payment Date on which it would otherwise have been due,

each of the Issuer and Doosan Heavy will not:

(i) declare or pay any discretionary dividends or distributions or make any other discretionary payment, and will procure that no discretionary dividend, distribution or other discretionary payment is made, on any of its Discretionary Obligations; or

(ii) redeem, reduce, cancel, buy-back or acquire for any consideration, on a discretionary basis, any of its Discretionary Obligations,

(other than in respect of employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or Doosan Heavy, as the case may be) until the date on which all Deferred Interest has been paid in full. For the avoidance of doubt, nothing in this Condition shall restrict the ability of any Subsidiary of the Issuer or Doosan Heavy (other than the Issuer) to declare and pay dividends, advance loans or otherwise make payments to the Issuer or Doosan Heavy, as the case may be.

5.5 **Payment of Deferred Interest**

(a) The Issuer may elect to pay any Deferred Interest at any time on the giving of at least five and not more than 15 Business Days' prior notice to the Agents.

(b) The Issuer must pay such Deferred Interest on the earliest to occur of:

(i) the date on which any discretionary dividend, distribution or other discretionary payment is declared or paid on, or any discretionary redemption, reduction, cancellation, buy-back or acquisition is made of, any Discretionary Obligation of the Issuer (other than in respect of employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer);

(ii) the date on which all of the Securities are redeemed pursuant to the provisions of Condition 6; and

(iii) the date on which an order is made or a resolution is passed for the Winding-Up of the Issuer.

(c) Any partial payment of outstanding Deferred Interest (including any additional interest accrued thereon) by the Issuer shall be shared by the holders of all outstanding Securities on a pro rata basis.

5.6 **Accrual**

Interest will cease to accrue on each Security from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue.

5.7 **Determination and publication of Reset Rates**

The Reset Rate for each Reset Period will be determined by the Calculation Agent on the relevant Reset Determination Date and promptly notified by the Calculation Agent to the Issuer, the Guarantor and the other Agents and, if required by the rules of any stock exchange on which the Securities are listed from time to time, to such stock exchange, and to the Holders, without undue delay but, in any case, not later than the relevant Reset Date.

5.8 **Notifications, etc. to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Conditions, whether by the Reference Treasury Dealers (or any of them) or the Calculation Agent, will (in the absence of manifest error, negligence or willful default) be binding upon the Issuer, the Agents and all Holders and (in the absence of negligence or willful default) no liability to the Issuer or the Holders will attach to the Reference Treasury Dealers (or any of them) or the Calculation Agent in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

6. REDEMPTION, PURCHASE AND PUT

6.1 **Maturity**

Unless redeemed or purchased and cancelled earlier in accordance with these Conditions, the Securities may be redeemed at the option of the Issuer on December 3, 2045 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest and, if not redeemed on such date, at the end of each subsequent 30-year period (each of such dates, an “Issuer Redemption Date”); provided that, if the Securities are not redeemed at the option of the Issuer on an Issuer Redemption Date, the maturity date of the Securities will automatically be extended for 30 years from such Issuer Redemption Date.

6.2 **Redemption at the option of the Issuer**

Subject to applicable laws, the Issuer may redeem the Securities (in whole but not in part) on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest, on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Holders, the Agents and the Guarantor.

6.3 **Redemption due to a Gross-Up Event**

(a) If a Gross-Up Event occurs, the Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.

(b) In such event:

(i) no such notice of redemption may be given earlier than 90 calendar days prior to the earliest calendar day on which the Issuer would for the first time be obliged to pay the Additional Amounts in question on payments due in respect of the Securities; and

(ii) prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent:

(A) a certificate signed by an Authorized Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Issuer to redeem have been satisfied and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

(B) an opinion of an independent legal or tax adviser of recognized standing to the effect that the Issuer has or will become obliged to pay the Additional Amounts in question as a result of a Gross-Up Event,

and the Fiscal Agent shall be entitled, without liability to any person, to accept the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Holders.

(c) "Gross-Up Event" means that as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of a Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, rules or regulations, which change or amendment becomes effective on or after November 30, 2015, the Issuer pays or will become obliged to pay an Additional Amount under Condition 8 in respect of the Securities.

6.4 **Redemption due to a Tax Event or an Accounting Event**

(a) If a Tax Event or an Accounting Event occurs, the Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at the Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents. Prior to giving such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an Authorized Signatory of the Issuer stating that a Tax Event or an Accounting Event (as the case may be) has occurred and stating in the case of a Tax Event that the relevant loss or deduction cannot be avoided by the Issuer taking reasonable measures available to it and, in the case of a Tax Event, the opinion referred to in Condition 6.4(b) and, in the case of an Accounting Event, the opinion referred to in Condition 6.4(c). The Fiscal Agent shall be entitled, without liability to any person, to accept such certification and opinion as sufficient evidence that a Tax Event or an Accounting Event (as the case may be) has occurred, in which event it shall be conclusive and binding on the Holders.

(b) "Tax Event" means that, in the opinion of a recognized independent tax adviser, on or after November 30, 2015 as a result of:

(i) any amendment to, or change in, the laws (or any rules or regulations thereunder) of a Relevant Jurisdiction which is enacted, promulgated, issued or becomes effective otherwise on or after November 30, 2015; or

(ii) any amendment to, or change in, an official and binding interpretation of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) which is enacted, promulgated, issued or becomes effective otherwise on or after November 30, 2015; or

(iii) any generally applicable official interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the previous generally accepted position which is issued or announced on or after November 30, 2015,

interest paid by the Issuer on the Securities is no longer, or within 90 calendar days of the date of that opinion will no longer be, deductible (or the entitlement to make such deduction shall be materially reduced) by or on behalf of the Issuer for corporate income tax purposes in a Relevant Jurisdiction.

(c) An "Accounting Event" will occur if after November 30, 2015:

(i) the Issuer has received an opinion from internationally recognized independent auditors, which may be the Issuer's independent auditors, stating that the Securities, in whole or in part, will no longer be recorded as "equity" in the consolidated financial statements of the Issuer prepared in accordance with International Financial Reporting Standards as adopted in the European Union or any other accounting regime that is the primary accounting regime under which the Issuer presents such financial statements; or

(ii) Doosan Heavy has received an opinion from internationally recognized independent auditors, which may be Doosan Heavy's independent auditors, stating that the Securities, in whole or in part, will no longer be recorded as "equity" in the consolidated financial statements of Doosan Heavy prepared in accordance with International Financial Reporting Standards as adopted in Korea or any other accounting regime that is the primary accounting regime under which Doosan Heavy presents such financial statements.

6.5 Purchase of Securities

The Issuer or any of its Subsidiaries may, subject to applicable laws and any rules of any stock exchange or exchanges on which any of the Securities are listed from time to time, at any time purchase any amount of Securities in the open market or otherwise at any price. Such acquired Securities may at the Issuer's election be cancelled or held or resold.

In the event that the Issuer and/or any Subsidiary of the Issuer has, individually or in aggregate, purchased (and not resold) Securities equal to or in excess of 80% of the aggregate Principal Amount of the Securities issued on the Issue Date, the Issuer may redeem the remaining Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest, on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents.

6.6 **Cancellations**

All Securities which are (a) redeemed or (b) purchased by or on behalf of the Issuer, or any of the Issuer's Subsidiaries and which the Issuer elects to cancel, will forthwith be cancelled.

6.7 **Put Right**

The Guarantor will purchase from each Holder, upon the occurrence of certain events during the period commencing on the Issue Date and ending on the First Call Date as described in Condition 6.8, the Securities held by such Holder (in whole but not in part) at their Principal Amount plus any interest accrued up to (but excluding) the relevant Put Date (as defined below) and any outstanding Deferred Interest, all in accordance with the terms of this Condition 6 (the "Put Rights").

These Put Rights are not cumulative, and upon an exercise or a deemed exercise of a Put Right, the other Put Right shall terminate. To the extent that delivery of written notice is required to exercise a Put Right, such Put Right with respect to a Holder shall terminate if the Agent and the Guarantor do not receive a duly completed and signed notice from such Holder within the specified period for delivery of notice.

All Put Rights shall terminate upon delivery by the Issuer of written notice of redemption in the manner required under this Condition 6.

6.8 **(a) Bankruptcy prior to the First Call Date**

If a Bankruptcy Event (as defined below) occurs at any time from the Issue Date to 30 days prior to the First Call Date, to the extent permitted by applicable law, each Holder will have the right (the "Bankruptcy Put Right") to require the Guarantor to purchase on the Bankruptcy Put Date (as defined below) the Securities held by such Holder (in whole but not in part) at their Principal Amount plus any interest accrued up to (but excluding) the Bankruptcy Put Date and any outstanding Deferred Interest. If a Bankruptcy Event giving rise to such right has occurred during such period, it shall be deemed that the Bankruptcy Put Right has been irrevocably exercised by all Holders without the delivery of any written notice by the Holders of their intention to exercise the Bankruptcy Put Right.

If a Bankruptcy Event occurs during such period, the Issuer shall immediately, and in any event within three Business Days of such occurrence, deliver a written notice of such occurrence to the Fiscal Agent, together with a court document evidencing such occurrence, failure of which entitles any Holder, at any time after three Business Days of the occurrence of the Bankruptcy Event, to instruct the Fiscal Agent to notify the Guarantor. Upon receipt of such notice from the Issuer or a Holder (as the case may be), the Fiscal Agent shall immediately, and in any event within three Business Days, deliver a written notice to the Holders and the Guarantor that the deemed exercise of the Bankruptcy Put Right has occurred.

"Bankruptcy Event" means adjudication by a court of competent jurisdiction declaring that the Issuer (i) is subject to insolvency proceedings (*faillite*) within the meaning of Articles 437 ff. of the Luxembourg Commercial Code or any other insolvency proceedings pursuant to the Council Regulation (EC) N° 1346/2000 of May 29, 2000 on insolvency proceedings (the "Insolvency Regulation"), (ii) is subject to judicial liquidation in accordance with Article 203 of the Luxembourg law of August 10, 1915 on commercial companies, as amended, or (iii) is subject to any similar foreign law proceedings in accordance with the Insolvency Regulation.

"Bankruptcy Put Date" means the date that is 10 Business Days after the Guarantor receives from the Fiscal Agent a written notice that a Bankruptcy Event has occurred.

(b) Issuer's Election not to Redeem on the First Call Date

If the Issuer elects not to redeem the Securities on the First Call Date as provided for in Condition 6.2, to the extent permitted by law, each Holder shall be deemed to have exercised its right (the "Non-Call Put Right") to require the Guarantor to purchase on the First Call Date (such date, the "Non-Call Put Date") all of the Securities held by such Holder at their Principal Amount plus any interest accrued up to (but excluding) the Non-Call Put Date and any outstanding Deferred Interest.

"Put Date" means the Bankruptcy Put Date or the Non-Call Put Date, as applicable.

6.9 **Purchase Following Exercise of a Put Right; Guarantor as Transferee**

In the event a Put Right is exercised or deemed to be exercised, each Holder shall deliver a written notice to the Fiscal Agent, by not less than seven days prior to the relevant Put Date, that specifies (i) the name of such Holder, (ii) the Put Date, (iii) the principal amount of the Securities to be purchased by the Guarantor, (iv) the ISIN and Common Code or other identifying numbers of the Securities to be purchased by the Guarantor, (v) the Condition of the Securities under which the Put Right has become exercisable, (vi) the cash account and securities account details for settlement and (vii) the contact telephone and facsimile numbers of such Holder. Any notices to be given to the Guarantor under this Condition 6 shall be copied to appropriate parties as specified in the Fiscal Agency Agreement, including the Fiscal Agent, the Paying Agent or the clearing system, as the case may be. In the event a Put Right is exercised or deemed to be exercised, each Holder shall also authorize the clearing system to block its position in the Securities held by such Holder and notify the Fiscal Agent and Paying Agent of such exercise.

Payment by the Guarantor of the Principal Amount plus any interest accrued up to (but excluding) the Put Date and any outstanding Deferred Interest will be in U.S. dollars and will be made simultaneously with delivery of the Securities into the designated securities account of the Guarantor (i) with respect to a holder of the Global Certificate, by wire transfer to the registered account of such holder or (ii) with respect to a holder of individual Definitive Certificates, by check drawn on a bank in New York mailed to the registered address of the holder of the individual Definitive Certificate.

Exercise or deemed exercise of a Put Right shall be invalid if not accompanied by the Definitive Certificate (other than the Global Certificate) that represents the Securities for which such Put Right is being exercised. In such case, the Guarantor shall not be required to purchase those Securities pursuant to the relevant Put Right.

Upon the purchase of Securities in accordance with this Condition 6.9, the Guarantor, as transferee of such Securities, will be entitled to any and all rights of a Holder with respect to the Securities so acquired.

7. PAYMENTS

7.1 Payments of principal and interest in respect of each Security will be made by transfer to the registered account of the Holder or by U.S. dollar check drawn on a bank (nominated in writing to the Paying Agent by the Holder) that processes payments in U.S. dollars mailed to the registered address of the Holder if it does not have a registered account, provided that the nomination is received by the Paying Agent not later than 10 Payment Business Days before any date on which payment is scheduled. Interest on Securities due on an Interest Payment Date will be paid to the holder shown on the Register at the close of business on the date (the “record date”) being the fifteenth day before the due date for the payment of interest.

A Holder’s “registered account” means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date, and a Holder’s “registered address” means its address appearing on the Register at that time.

7.2 Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by check, the check will be mailed on the due date for payment, or if that is not a Payment Business Day, on the next succeeding Payment Business Day, without any interest or payment in respect of such delay.

7.3 Payments in respect of amounts payable by way of interest (including Deferred Interest) and on redemption of the Securities will be subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

7.4 In this Condition, “Payment Business Day” means a day which is both: (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Paying Agent has its registered office from time to time; and (b) a day on which banks are open for business in New York City, Seoul and London.

7.5 Unless the context otherwise requires, any reference in these Conditions to principal in respect of the Securities shall be deemed to include any other amounts (other than interest, including Deferred Interest) which may be payable by the Issuer under or in respect of the Securities.

8. TAXATION AND GROSS-UP

8.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Issuer 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, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction (“Relevant Taxes”), unless the withholding or deduction of such Relevant Taxes is required by law. In that event, the Issuer will pay such additional amounts (“Additional Amounts”) as may be necessary in order that the net amounts received by the Holders after the withholding or deduction (including any withholding or deduction in respect of such payment of Additional Amounts) will equal the respective amounts which would otherwise have been receivable in respect of the Securities in the absence of withholding or deduction; except that no Additional Amounts will be payable in relation to any Relevant Taxes imposed on, withheld or deducted from any payment in respect of any Security:

(a) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of such Security by reason of having some connection with the applicable Relevant Jurisdiction other than the mere holding of the Security or the receipt of payments or enforcement of rights thereunder; or

(b) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of the Security by reason of having some relationship with the Issuer for the applicable Relevant Jurisdiction's tax purposes other than the mere holding of such Security; or

(c) where such withholding or deduction is imposed by reason of a failure of a Holder or any other person to (i) comply with any certification, identification, information-provision or documentation requirement concerning the nationality, residence, identity or connection with the applicable Relevant Jurisdiction of the Holder or beneficial owner or (ii) comply with any other certification, identification, information-provision or documentation requirement, or enter into any agreement with any taxing authority, provided that (x) the Issuer or the Fiscal Agent has given the Holder at least 30 calendar days prior notice of an opportunity to satisfy such a requirement and (y) compliance is required or imposed by the applicable statute, treaty, rule, regulation, agreement or administrative practice of a Relevant Jurisdiction as a condition or precondition to relief or exemption from all or part of such Relevant Taxes; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) where such withholding or deduction is imposed on a Security presented for payment (where presentation is required) by a Holder or any other person if such Holder or other person could have avoided such Relevant Tax by presenting such Security to another paying agent; or

(f) where such withholding or deduction is imposed only by virtue of a Holder or any other person not having presented the Security (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such Holder or other person would be entitled to Additional Amounts had the Security been surrendered during such 30-day period; or

(g) in the event that a Holder or any other person who holds an interest in the Security is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, where such withholding or deduction would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual Holder of the Security; or

(h) where such withholding or deduction is imposed as a result of any combination of (a) through (g) above.

Additionally, the obligation of the Issuer to pay such Additional Amounts shall not apply with respect to (i) any estate, inheritance, gift, sales, transfer or personal property tax or any similar taxes, duties, assessments or other governmental charges or (ii) any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Securities.

8.2 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Securities (including in relation to any Deferred Interest and any additional interest accumulated thereon pursuant to Condition 5.3(a)) will be deemed also to refer to any Additional Amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Fiscal Agency Agreement.

8.3 **Documentation**

The Issuer will provide the Fiscal Agent with the official acknowledgment, if any, of the applicable Relevant Jurisdiction (or, if such acknowledgment is not available, other reasonable documentation) evidencing payment of any Relevant Taxes in respect of which the Issuer has paid any Additional Amounts. Copies of such documentation will be made available to the Holders or beneficial owners of the Securities by the Fiscal Agent upon written request therefor.

8.4 **Other Taxes**

The Issuer will pay any stamp, issue, excise, registration, documentary or other similar taxes and duties, including interest and penalties, imposed by a Relevant Jurisdiction in respect of the creation, issue, delivery, registration and offering of the Securities. The Issuer will also pay and indemnify the Holders and beneficial owners of the Securities from and against all court taxes or other taxes and duties, including interest and penalties, paid by any of them in any jurisdiction in connection with any action permitted to be taken by the Holders and beneficial owners to enforce the Issuer’s obligations under the Securities.

9. PRESCRIPTION

A claim against the Issuer or the Guarantor for payment under these Conditions will become void unless made within periods of 10 years (in the case of principal) and five years (in the case of interest, including any Deferred Interest and any additional interest accumulated thereon pursuant to Condition 5.3(a)) from the Relevant Date relating thereto.

10. FURTHER ISSUES

Subject to applicable law, the Issuer may from time to time without the consent of the Holders create and issue further securities or incur further debt obligations either (a) having the same terms and conditions as the Securities in all respects (or in all respects save for the first payment of Interest Amount thereon) and so that the same will be consolidated and form a single series with the Securities (provided, however, that any such issuance of securities shall be subject to the prior written consent of the Guarantor); or (b) upon such terms as the Issuer may determine at the time of issue.

11. NON-PAYMENT

If:

(a) the Issuer does not pay any principal or any interest or other amount due and payable in respect of the Securities or any of them, in each case in full within 30 days of its due date; or

(b) an order is made (other than an order successfully appealed or permanently stayed within 60 days) by a court in a Relevant Jurisdiction or a resolution is passed by the shareholders of the Issuer, for the Winding-Up of the Issuer (other than for the purposes of Solvent Reorganization of the Issuer),

then the Issuer shall be deemed to be in default under the Securities, and the Holders of at least one-quarter in Principal Amount of the Securities then outstanding may, subject to satisfaction of the relevant requirements of applicable laws and regulations, initiate steps, actions or proceedings for the Winding-Up of the Issuer and/or prove in the Winding-Up of the Issuer in respect of the Securities.

Notwithstanding the above, this Condition 11 shall not apply to the following:

(A) the non-payment by the Issuer of any amount due and payable in respect of any of the Securities:

(i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment; or

(ii) during any period where there is doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice given by an independent law firm as to such validity or applicability; or

(iii) to the extent such amount is paid in full within 30 days of its due date by the Guarantor; or

(B) the deferral of any Interest Amount pursuant to Condition 5.3; or

(C) the automatic extension of the term of the Securities as a result of non-redemption at the option of the Issuer on December 3, 2045 or any subsequent Issuer Redemption Dates pursuant to Condition 6.1.

12. VARIATION OF RIGHTS

12.1 Variation without consent

The Fiscal Agent may agree with the Issuer and the Guarantor, without the approval of Holders, to amend, modify, alter or add to either these Conditions or the provisions of the Fiscal Agency Agreement, if the Fiscal Agent is of the opinion that the amendment, modification, alteration or addition is:

(a) of a formal, minor or technical nature;

(b) made to correct an error which, in the opinion of the Fiscal Agent, is proven;

(c) not materially prejudicial to the interests of Holders as a whole; or

(d) required to comply with mandatory provisions of law.

12.2 Substitution

(a) Subject to applicable laws, the Issuer may, without the authority, assent or approval of Holders (but subject to the prior written consent of the Guarantor), substitute all (but not some only) of the Securities for other securities issued directly or indirectly by the Issuer, provided that such securities:

(i) have terms not materially less favorable to Holders than the terms of the Securities (as reasonably determined by the Issuer);

(ii) have a rating ascribed to them by Fitch Ratings Inc. which is equal to or higher than that ascribed to the Securities immediately prior to such substitution;

(iii) are guaranteed by the Guarantor to the same extent that the Securities are guaranteed pursuant to the Guarantee; and

(iv) are listed on the SGX-ST or another internationally recognized stock exchange selected by the Issuer.

(b) The Fiscal Agent shall (at the expense of the Issuer and following receipt by the Fiscal Agent of a certificate signed by an Authorized Signatory of the Issuer confirming (i) to (iii) above) use reasonable efforts to assist the Issuer in such substitution of the Securities (including, but not limited to, entering into such documents or deeds as may be necessary to give effect thereto), provided that the Fiscal Agent shall not be obliged to participate in, or assist with, any such substitution if the substitution, or the securities into which the Securities are to be substituted, or if the assistance with such substitution, would impose, in the Fiscal Agent's opinion, more onerous obligations upon it, expose it to liabilities or reduce its protections.

(c) The Fiscal Agent may, without the consent of the Holders (but subject to the prior written consent of the Guarantor), agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition 12.2(c)) as the principal debtor under the Securities, subject to:

(i) the Fiscal Agent being satisfied that the interests of the Holders will not be materially prejudiced by the substitution; and

(ii) compliance with certain other conditions set out in the Fiscal Agency Agreement.

12.3 **Meetings**

(a) The Fiscal Agency Agreement contains provisions for convening meetings of the Holders to consider any matter relating to the Securities and/or the Fiscal Agency Agreement, including the modification or abrogation of any of these Conditions or any of the provisions of the Fiscal Agency Agreement, upon either the written consent of the Holders of not less than a majority in Principal Amount of the outstanding Securities or the approval of persons entitled to vote not less than a majority of the Principal Amount of such Securities represented and voting at a meeting of the Holders duly called. The quorum at such meeting shall be one or more persons entitled to vote a majority in Principal Amount of the outstanding Securities, or at an adjourned meeting, one or more persons entitled to vote 25% in Principal Amount of the outstanding Securities.

(b) Notwithstanding Condition 12.3(a) above, for the purposes of passing a resolution at a meeting the business of which includes a Special Matter, no amendment, modification or abrogation shall be made to the Securities (including these Conditions) or the Fiscal Agency Agreement without the approval or written consent of the Holders of not less than 90% in Principal Amount of the then outstanding Securities or the approval of persons entitled to vote not less than 75% of the Principal Amount of such Securities represented and voting at a meeting of the Holders duly called, and where at such meeting a special quorum shall be required comprising one or more persons entitled to vote two-thirds in Principal Amount of the then outstanding Securities, or at an adjourned meeting, one or more persons entitled to vote one-third in Principal Amount of the then outstanding Securities.

(c) On a poll each Holder of a Security present in person or by proxy and entitled to vote shall have one vote in respect of each US$1,000 in Principal Amount of such Holder's Securities.

(d) The Issuer, the Guarantor and the Fiscal Agent may, at any time and from time to time, without the consent of any Holders, amend or supplement the Fiscal Agency Agreement or these Conditions: (i) to evidence the succession of another person to the Issuer or the Guarantor and the assumption by any such successor of the covenants of the Issuer or the Guarantor, as applicable, in the Fiscal Agency Agreement and the Securities; (ii) to add to the covenants of the Issuer or the Guarantor for the benefit of the Holders or to surrender any right or power conferred on the Issuer or the Guarantor; (iii) to provide for the issuance of additional Securities in accordance with the limitations set forth in these Conditions and the Fiscal Agency Agreement; (iv) to cure any ambiguity or to correct or supplement any provision in the Fiscal Agency Agreement or these Conditions, which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Fiscal Agency Agreement that are not inconsistent with the provisions of the Fiscal Agency Agreement; provided that such action shall not adversely affect the interests of the Holders in any material respect; or (v) to make any other modifications to the Securities or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Fiscal Agent to correct a manifest error or, in reliance on an opinion of counsel delivered to the Fiscal Agent, to comply with mandatory provisions of the laws of Korea or a Relevant Jurisdiction so long as such modification does not adversely affect the rights of any Holder in any material respect.

12.4 **Waiver, authorization and determination**

The Fiscal Agent may agree, without the consent of the Holders, to the waiver or authorization of any breach or proposed breach of, any of these Conditions or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Fiscal Agent, materially prejudicial to the interests of the Holders.

12.5 **Notification to the Holders**

Any modification, abrogation, waiver, determination, authorization or substitution pursuant to or described in this Condition 12 shall be (i) binding on the Holders, whether or not they are present at any meeting and whether or not they voted, and (ii) notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 13.

12.6 **Compliance with stock exchange rules**

In connection with any amendment, modification, alteration, addition or substitution under this Condition 12, the Issuer will comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

13. NOTICES

All notices regarding the Securities shall be valid if sent by post to the Holders at their respective addresses in the Register (which, in the case of a Global Certificate, is expected to consist solely of the common depositary of Euroclear or Clearstream or its nominee, or any successor thereto) and, if and for so long as the Securities are listed on the SGX-ST and the rules of that exchange so require, published in a newspaper of general circulation in Singapore and/or (where applicable) on the SGX-ST's website. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system appointed in accordance with the terms of the Securities and the Fiscal Agency Agreement, notices to Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system as aforesaid.

The Issuer shall provide the Guarantor with a copy of each notice it is required to provide to the Holders or an Agent.

All notices from the Holders to the Guarantor shall be sent by the Holders directly to the specified office of the Guarantor, and the Agents shall have no obligation or responsibility on the delivery to, or non-receipt by, the Guarantor of such notice.

14. AGENTS

Under the terms of the Fiscal Agency Agreement, the Issuer has the right to terminate the appointment of any Agent and appoint a successor provided that there shall at all times be:

(a) at least one paying agent, provided that:

   (i) so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for Definitive Certificates, the Issuer will appoint and maintain a paying agent in Singapore where the Definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore; and

   (ii) if a withholding or deduction is imposed by the United Kingdom or any taxing authority therein or thereof on a payment by a paying agent to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive, there shall be a paying agent in a location where such withholding would not be required;

(b) a fiscal agent;

(c) a registrar;

(d) a transfer agent; and

(e) a calculation agent.

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing law

The Securities and the Guarantee are governed by, and will be construed in accordance with, the laws of the State of New York.

15.2 **Jurisdiction**

In relation to any suit, legal action or proceedings arising out of or in connection with the Securities, each of the Issuer and the Guarantor will irrevocably submit to the non-exclusive jurisdiction of the New York State and United States Federal courts sitting in the Borough of Manhattan, New York City.

15.3 **Appointment of process agent**

The Issuer has irrevocably and unconditionally appointed Doosan Heavy Industry America Holdings Inc. at 400 Kelby Street, Fort Lee, NJ 07024, United States of America as its agent for service of process in respect of any suit, legal action or proceedings arising out of or in connection with the Securities and has undertaken that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

The Guarantor has irrevocably and unconditionally appointed its New York Representative Office at 460 Park Avenue, 8th Floor, New York, NY 10022, United States of America as its agent for service of process in respect of any suit, legal action or proceedings arising out of or in connection with the Securities and has undertaken that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

15.4 **Waiver of immunity**

To the extent that the Issuer or the Guarantor has acquired or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from nonexclusive jurisdiction or from service of process or from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its property, the Issuer and the Guarantor irrevocably waive, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agree not to assert any such right or claim in any action or proceeding against it arising out of or based on the Securities or these Conditions.

16. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

“Accounting Event” has the meaning specified in Condition 6.4(c).

“Additional Amounts” has the meaning specified in Condition 8.1.

“Agent” has the meaning specified in the preamble to these Conditions.

“Authorized Signatory” has the meaning given to it in the Fiscal Agency Agreement.

“Bankruptcy Event” has the meaning specified in Condition 6.8(a).

“Bankruptcy Put Date” has the meaning specified in Condition 6.8(a).

“Bankruptcy Put Right” has the meaning specified in Condition 6.8(a).

“Business Day” means a day on which banks are open for business in New York City, Seoul, London and Luxembourg.

“Calculation Agent” has the meaning specified in the preamble to these Conditions.

“Calculation Amount” means US$1,000 in Principal Amount of Securities.

“Common Share” means a fully paid ordinary share in the capital of the Issuer.

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Reference Treasury Dealer as having a maturity of three years that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of three years.

“Comparable Treasury Price” means, with respect to a determination date, (i) the average of three Reference Treasury Dealer Quotations for such determination date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“Conditions” means these terms and conditions of the Securities.

“Deferred Interest” has the meaning specified in Condition 5.3(a) and will, where relevant, include any amount of additional interest accrued thereon in accordance with Condition 5.3(a).

“Definitive Certificate” has the meaning specified in Condition 1.1.

“Discretionary Obligations” means, in relation to the Issuer or Doosan Heavy, any class of its share capital or any other securities issued by it which have discretionary dividends, distributions or other discretionary payments.

“First Call Date” has the meaning specified in Condition 5.2(a).

“Fiscal Agency Agreement” has the meaning specified in the preamble to these Conditions.

“Fiscal Agent” means has the meaning specified in the preamble to these Conditions.

“Global Certificate” has the meaning specified in Condition 1.1.

“Gross-Up Event” has the meaning specified in Condition 6.3(c).

“Guarantee” has the meaning specified in Condition 4.

“Guarantor” means The Export-Import Bank of Korea.

“Holder” has the meaning specified in Condition 1.2.

“Initial Credit Spread” means 1.35% per annum.

“Interest Amount” means the amount payable per Calculation Amount on an Interest Payment Date.

“Interest Payment Date” has the meaning specified in Condition 5.2.

“Interest Rate” has the meaning specified in Condition 5.2.

“International Investment Securities” has the meaning specified in Condition 3.2.

“Issue Date” means December 3, 2015.

“Issue Price”, in relation to a Security, has the meaning specified in the prospectus or other issuance documentation in respect of that Security.

"Issuer" means Doosan Power Systems S.A., a public limited liability company (*société anonyme*) organized and existing under the laws of the Grand Duchy of Luxembourg, with its registered office at 6, rue Eugène Ruppert, L-2453 Luxembourg, and registered with Luxembourg trade and companies register under number B 125.754.

"Issuer Redemption Date" has the meaning specified in Condition 6.1.

"Non-Call Put Date" has the meaning specified in Condition 6.8(b).

"Non-Call Put Right" has the meaning specified in Condition 6.8(b).

"Paying Agent" has the meaning specified in the preamble to these Conditions.

"Payment Business Day" has the meaning specified in Condition 7.4.

"Payment Reference Date" means: (i) the next following Interest Payment Date on which the Issuer elects to pay the relevant Deferred Interest at its discretion pursuant to Condition 5.5(a); or (ii) the date on which the Issuer is required to pay the relevant Deferred Interest pursuant to Condition 5.5(b).

"Principal Amount" has the meaning specified in Condition 1.1.

"Put Date" has the meaning specified in Condition 6.8(b).

"Put Rights" has the meaning specified in Condition 6.7.

"record date" has the meaning specified in Condition 7.1.

"Redemption Date" means any date on which the Securities become due for redemption in accordance with these Conditions.

"Reference Treasury Dealer" means each of the three internationally recognized investment banking firms selected by the Issuer that are primary U.S. Government securities dealers.

"Reference Treasury Dealer Quotations" means with respect to each Reference Treasury Dealer and any determination date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the two Business Days immediately preceding such determination date.

"Register" has the meaning specified in Condition 1.1.

"registered account" has the meaning specified in Condition 7.1.

"registered address" has the meaning specified in Condition 7.1.

"Registrar" has the meaning specified in the preamble to these Conditions.

"Relevant Date" means the date on which the relevant payment first becomes due but, if the full amount of the money payable has not been received by the relevant Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Holders by the Issuer.

"Relevant Jurisdiction" means Luxembourg, the United Kingdom or any political subdivision or any authority thereof or therein having power to tax the Issuer or, in the event of any substitution, Solvent Reorganization or other corporate action resulting in the Issuer being tax resident in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax the Issuer.

"Relevant Taxes" has the meaning specified in Condition 8.1.

"Reset Date" means the First Call Date and each date that falls three, or a multiple of three, years following the First Call Date.

"Reset Determination Date" means the second Business Day prior to the relevant Reset Date.

"Reset Period" means the period from (and including) the First Call Date to (but excluding) the next Reset Date, and each successive period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date.

"Reset Rate" has the meaning specified in Condition 5.2(b).

"Securities" has the meaning specified in the preamble to these Conditions, and "Security" shall be construed accordingly.

"SGX-ST" means Singapore Exchange Securities Trading Limited.

"Solvent Reorganization" means, with respect to the Issuer, solvent voluntary winding-up, deregistration, dissolution, scheme of arrangement or other reorganization of the Issuer solely for the purposes of a consolidation, amalgamation, merger or reconstruction under which the continuing or resulting corporation effectively assumes the obligations of the Issuer under the Securities and the Fiscal Agency Agreement.

"Special Matter" means each of the following matters:

(i) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Fiscal Agent bound to result in an increase of any principal or interest (including Deferred Interest) in respect of the Securities;

(ii) modification of the date of payment in respect of any principal or interest (including Deferred Interest) in respect of the Securities;

(iii) alteration of the currency in which payments under the Securities are to be made;

(iv) modification or waiver of the provisions regarding the negative pledge of the Guarantor referred to in Condition 3.2 (Negative Pledge);

(v) alteration of the obligations of the Issuer under Conditions 6 (Redemption, Purchase and Put) or 8 (Taxation and Gross-up);

(vi) reduction of any of the percentage voting and quorum provisions in Condition 12.3 (Meetings); or

(vii) modification of any of the above matters constituting the Special Matters.

"Step Up Margin" means 1.30% per annum.

"Subsidiary" means any corporation or other business entity of which one person owns or controls (in either case, either directly or through another Subsidiary or other Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such corporation or other business entity (other than capital stock or other ownership interest of any other class or classes which has voting power only upon the occurrence of any contingency).

"Tax Event" has the meaning specified in Condition 6.4(b).

"Transfer Agent" has the meaning specified in the preamble to these Conditions.

"Treasury Rate" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the rate in % per annum equal to the yield, under the heading that represents the average for the week immediately prior to such Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System (available on the website of the Board of Governors Federal Reserve System at http://www.federalreserve.gov/release/h15/, or any successor site) and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue. If such release (or any successor release) is not published during the week preceding the Reset Determination Date or does not contain such yields, "Treasury Rate" means the rate equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Reset Determination Date.

"Winding-Up" means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy (as set forth in Book III of the Luxembourg Commercial Code), winding up, liquidation or any other proceedings in respect of the Issuer, which commences with a view to liquidation of the Issuer.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions that apply to the Securities in respect of which it is issued, some of which modify the effect of the Conditions of the Securities set out in this Offering Circular. The following is a summary of provisions of the Securities while in global form.

Meetings

The registered holders of the Securities in respect of which the Global Certificate is issued will be treated as being one person for the purposes of any meeting of Holders, and at any such meeting, as having one vote in respect of each US$1,000 in principal amount of the Securities in respect of which the Global Certificate is issued.

Cancellation

Cancellation of any Securities following its redemption or purchase by the Issuer will be effected by a reduction in the principal amount of the Securities in the Register.

Transfers

Transfers of interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg, and their respective participants in accordance with their respective rules and operating procedures.

Notices

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or an alternative clearing system appointed in accordance with the terms of the Securities and the Fiscal Agency Agreement, notices to the Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream, Luxembourg or an alternative clearing system.

FORM AND TITLE

The Securities are issued in registered form in accordance with the provisions of Article 84 of the Luxembourg law of August 10, 1915 on commercial companies, as amended (the "Luxembourg Companies Law").

The Issuer will maintain a register of holders of Securities at its registered office in accordance with the provisions of the Luxembourg Companies Law which shall match the Register with regard to the entries therein. In the event of any discrepancies between the Register and the register held by the Issuer at its registered office, the register held by the Issuer at its registered office shall prevail for Luxembourg law purposes.

The Fiscal Agency Agreement contains provisions which oblige the Registrar to promptly provide an updated copy of the Register to the Issuer on the issue date of the Securities and at any time following any amendment to the Register, in order to allow the Issuer to update the register held by it at its registered office to reflect the Register.

USE OF PROCEEDS

The net proceeds to the Issuer from this offering (after deducting underwriting commissions but not estimated expenses relating to the offering) are expected to be US$297,735,000. The Issuer intends to use such net proceeds for general corporate purposes.

THE ISSUER

Overview

The Issuer is a wholly-owned subsidiary of Doosan Heavy. The Issuer specializes in providing power plant equipment and maintenance, repair and overhaul ("MRO") services to the thermal and nuclear power generation industry and the oil, gas and petrochemical industries by leveraging its proprietary technologies and efficient project management capability. The Issuer has obtained core technological expertise through various acquisitions, including core power plant boiler technology through the acquisition in 2006 of a controlling interest in United Kingdom-based Mitsui Babcock, which was subsequently renamed Doosan Babcock Ltd. ("Doosan Babcock"), core power plant steam turbine technology through the acquisition in 2009 of a controlling interest in Czech Republic-based Škoda Power, which was subsequently renamed Doosan Škoda Power s.r.o. ("Doosan Škoda Power"), and circulating fluidized bed ("CFB") boiler technology, waste-to-energy technology and air pollution control technology through the acquisition in 2011 of a controlling interest in Germany-based AE&E Lentjes, which was subsequently renamed Doosan Lentjes GmbH ("Doosan Lentjes").

The Issuer and Doosan Heavy are member companies of the Doosan Group, which was founded in 1896 and was one of the twenty largest business groups in Korea in terms of combined assets as of April 2015, according to the Korea Fair Trade Commission. The Issuer is incorporated in Luxembourg and its registered office is at 6, rue Eugène Ruppert, L-2453 Luxembourg.

Business Areas

The Issuer operates through its principal subsidiaries, Doosan Babcock, Doosan Škoda Power and Doosan Lentjes.

Doosan Babcock. Doosan Babcock offers boiler solutions and provides asset management services, including plant life extension, MRO and technical services, to existing nuclear and thermal power plants as well as oil, gas and petrochemical plants. With respect to nuclear power plants, Doosan Babcock also provides integrated engineering, procurement and construction ("EPC") services and nuclear power plant decommissioning services.

Doosan Babcock provides subcritical and supercritical boiler solutions for thermal power plants with unit sizes ranging from 100 MW to more than 660 MW, utilizing various firing technologies and fuels. Doosan Babcock also provides boiler retrofitting and upgrade services to increase energy efficiency, enhance safety and reliability, reduce emissions and add operational improvements, including biomass co-firing and conversion services, installment of precision combustion systems using nitrogen oxide reduction technologies and installment of secondary nitrogen oxide control solutions to optimize emission controls.

Doosan Babcock is a major supplier of specialist MRO services to existing nuclear and thermal power plants and oil, gas and petrochemical plants, including project design and construction, plant repair and maintenance, asset integrity assessment, plant shutdown and turnaround management as well as plant life extension and upgrade services. By providing such services, Doosan Babcock strives to reduce plant maintenance costs, minimize operational problems and stoppages, increase fuel savings and enhance the lifetime performance of the power generation and industrial plants that it services.

In the nuclear power generation industry, Doosan Babcock offers fully-integrated EPC services to construct new nuclear power plants. In addition, Doosan Babcock provides decommissioning services for nuclear facilities in compliance with applicable regulatory standards and offers techniques and processes for the removal of radioactive waste and the remediation of nuclear facilities.

Doosan Škoda Power. Doosan Škoda Power designs, manufactures and supplies steam turbines and provides systems, components and steam turbine MRO services to thermal and nuclear power plants, district heating systems, municipal waste and biomass incineration plants and industrial plants.

Doosan Škoda Power manufactures steam turbines that generate 10 MW to 1,200 MW of power as well as auxiliary components such as condensers and heat exchangers, custom-made equipment for turbine islands and complete steam turbine engine halls. Doosan Škoda Power develops steam turbines to meet a wide range of customer requirements, including steam turbines for combined cycle applications, back-pressure and condensing steam turbines for district heating with regulated steam consumption, and steam turbines for coal-fired power plants that meet strict emissions targets by operating at increasingly high temperatures (between 600°C and 620°C) using ultra-supercritical steam technology.

In addition, Doosan Škoda Power provides steam turbine MRO services and applies technology solutions to modernize and retrofit existing steam turbine equipment to increase energy efficiency, enhance reliability and extend the service life of such steam turbines and auxiliary components.

Doosan Lentjes. Doosan Lentjes develops and provides proprietary CFB boiler technologies, waste-to-energy technologies and air pollution control technologies to the thermal power plant, industrial and municipal sectors.

Doosan Lentjes designed and manufactured the first CFB boiler featuring a fluidized bed heat exchanger in Germany in 1982. As of December 31, 2014, CFB boilers designed by Doosan Lentjes generated power in more than 100 units around the world with power generation capabilities of up to 300 MWe per unit. Doosan Lentjes' CFB boilers are designed to enable the combustion of a wide range of fuel types, particularly those with difficult combustion properties such as low calorific and reactive values or low ash melting temperatures. Its CFB boiler technology uses an integrated emission control system that removes sulphur dioxide from the emission process and prevents the formation of thermal nitrogen oxide.

Doosan Lentjes provides waste-to-energy technologies aimed at reducing the volume of residual wastes, generating the highest possible energy yield and maximizing the reduction of pollutants and toxins. In addition, Doosan Lentjes has developed air pollution control technologies to remove sulphur dioxide, dust and other pollutants from flue gases after the combustion process so that its customers can meet strict emissions targets.

Sales and Marketing

The Issuer has customers in more than 30 countries across Europe, North America, the Middle East and Asia, with a concentration in the United Kingdom, the Czech Republic, Germany, Poland and the United States. Its customers consist mainly of public and private electric utility companies as well as industrial customers in oil, gas, petrochemical and pharmaceutical industries that utilize the Issuer's equipment and incorporate its component products into their production processes. The Issuer believes that demand for its power plant MRO services will continue to grow particularly in Eastern Europe, the Middle East and Africa in light of the need maintain and repair power plants that were built decades ago in these regions, and it plans to devote increased sales and marketing efforts to these regions.

The Issuer generally enters into long-term service contracts with its customers that are renewable every three to five years with respect to its MRO services. The Issuer believes that such long-term relationships contribute to the predictability and stable nature of its revenues. Orders for power generation equipment are typically carried out on a fixed price basis and according to a predetermined timetable, pursuant to the terms of a delivery contract.

The Issuer markets its products and services primarily through global direct sales forces maintained by it through local sales offices located in key strategic locations around the world, while also leveraging the broad customer base of Doosan Heavy. Such sales offices support the Issuer's marketing activities by identifying and communicating with potential local customers, identifying business opportunities and providing information regarding local market conditions.

Competition

The Issuer faces a broad range of competition from existing and new competitors ranging from multinational companies to specialized companies that focus on a limited number of product lines or operate in specific regions. The Issuer competes with its competitors based mainly on the following factors: product performance, quality and reliability of products and services, responsiveness to customers in developing customized solutions and products, ability to accurately identify and respond to emerging regulatory and industry trends and customer demand for product features and performance characteristics, proven safety track record, effectiveness of sales and marketing efforts to build and maintain customer relationships, brand recognition and financial strength.

Doosan Babcock's principal competitors in the United Kingdom for its nuclear power plant MRO services include Amec Foster Wheeler, Cavendish Nuclear and Jacobs, and its principal competitors in the boiler solutions market include Alstom, Hitachi, Babcock Power and Babcock & Wilcox. Doosan Škoda Power's principal competitors in the steam turbine market include Alstom, General Electric and Siemens. Doosan Lentjes' principal competitors in the CFB boiler market include Amec Foster Wheeler and Alstom.

Properties

The Issuer has major boiler equipment manufacturing facilities in the United Kingdom, Germany and Poland and steam turbine equipment manufacturing facilities in the Czech Republic.

Environmental Matters

The Issuer uses and generates a variety of chemicals, by-products, gas emissions and other waste materials in its manufacturing operations and also handles radioactive waste in connection with the decommissioning of nuclear power plants. The Issuer is subject to certain regulations in the United Kingdom and other countries in which it does business relating to the use, storage, discharge, treatment and disposal of such materials.

The Issuer employs licensed environmental specialists for each area of environmental concern, such as specialists to monitor air and water quality, toxic materials and radiation levels. The Issuer has a comprehensive environmental safety and health management system to eliminate or minimize the possible negative effects of the hazardous materials it handles on the environment and its employees' health. The Issuer educates and trains its employees on environmental issues and the proper handling of hazardous substances and requires adherence to corporate guidelines on environmental protection measures. The Issuer has installed equipment and adopted processes designed to comply with environmental laws and regulations as well as its internal compliance thresholds. The Issuer believes that it is in compliance in all material respects with applicable environmental laws and regulations. There is, nevertheless, a risk that the Issuer may be subject to environmental liabilities or litigation that could result in the assessment of damages, imposition of fines, suspension of production or cessation of operations. In addition, changes in environmental regulations could necessitate additional capital expenditures, modification of operations or other compliance actions.

Employees

As of December 31, 2014, the Issuer had approximately 5,500 full-time employees on a consolidated basis and also employed a significant number of part-time or contract employees. The Issuer's success depends to a significant extent upon its ability to attract, retain and motivate highly-skilled and qualified personnel. The Issuer considers labor relations with its work force to be good.

Legal Proceedings

The Issuer may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of business. As of the date of this Offering Circular, the Issuer is not involved in any legal or administrative proceedings, the outcome of which would, in the reasonable judgment of its management, have a material adverse effect on the Issuer's financial condition or results of operations.

THE GUARANTOR

Overview

The Bank was established in 1976 as a special governmental financial institution pursuant to the Export-Import Bank of Korea Act, as amended (the "KEXIM Act"). Since the Bank's establishment, the Bank has been promoting the export and competitiveness of Korean goods and services in international markets. To this end, the Bank has introduced financing facilities and implemented lending policies that are responsive to the needs of Korean exporters.

The Bank's primary purpose, as stated in the KEXIM Act, is to "promote the sound development of the national economy and economic cooperation with foreign countries by extending the financial aid required for export and import transactions, overseas investment and the development of natural resources abroad." Over the years, the Bank has developed various financing facilities and lending policies that are consistent with the Government's overall economic policies. In the latter part of the 1980s, as a result of changing trade conditions and the increased internationalization of the Korean economy, overseas investment credits and import credits were promoted and began to constitute an important portion of the Bank's business. In recent years, the Bank has focused on the development of new financing facilities, including structured financing for ships and project financing for the construction of industrial plants and the development of natural resources abroad.

As of June 30, 2015, the Bank had ₩66,650 billion of outstanding loans, including ₩35,436 billion of outstanding export credits, ₩23,688 billion of outstanding overseas investment credits and ₩3,894 billion of outstanding import credits, as compared to ₩63,287 billion of outstanding loans, including ₩32,042 billion of outstanding export credits, ₩21,700 billion of outstanding overseas investment credits and ₩4,388 billion of outstanding import credits as of December 31, 2014.

Although the Bank's management has control of the Bank's day-to-day operations, the Bank's operations are subject to the close supervision of the Government. The Government's determination each fiscal year regarding the amount of financial support to extend to the Bank, in the form of contributions to capital or transfers of its income to reserves, plays an important role in determining the Bank's lending capacity. The Government has the power to appoint or dismiss the Bank's President, Deputy President, Executive Directors and Auditor.

The Government supports the Bank's operations pursuant to Article 37 of the KEXIM Act. Article 37 of the KEXIM Act provides that "the annual net losses of the Export-Import Bank of Korea shall be offset each year by the reserve, and if the reserve be insufficient, the Government shall provide funds to cover the deficit." As a result of the KEXIM Act, the Government is generally responsible for the Bank's operations and is legally obligated to replenish any deficit that arises if the Bank's reserves, consisting of the Bank's surplus and capital surplus items, are insufficient to cover any of the Bank's annual net losses. In light of the above, if the Bank has insufficient funds to make any payment under any of its obligations, including the debt securities covered by this Offering Circular, the Government would take appropriate steps, such as by making a capital contribution, by allocating funds or by taking other action, to enable the Bank to make such payment when due. The provisions of Article 37 do not, however, constitute a direct guarantee by the Government of the Bank's obligations, and the provisions of the KEXIM Act, including Article 37, may be amended at any time by action of the National Assembly.

In January 2014, the Government amended the KEXIM Act to:

- increase the Bank's authorized capital from ₩8,000 billion to ₩15,000 billion;
- expand the Bank's operation scope that enables it, among other things, to invest in (i) funds intended to support export and import transactions by small- and medium-sized

enterprises and (ii) special purpose companies that carry out value added overseas development projects in a flexible way; and

- reduce restrictions on the Bank's financing and investment activities by providing additional flexibility to the Bank to cope with changes in market conditions.

Capitalization

As of June 30, 2015, the Bank's authorized capital was ₩15,000 billion and capitalization was as follows:

		June 30, 2015 (1)
		(billions of Won)
Long-Term Debt (2)(3)(4)(5):		
Borrowings in Korean Won	₩	-
Borrowings in Foreign Currencies		4,969
Export-Import Financing Debentures		35,816
Total Long-term Debt	₩	40,784
Capital:		
Paid-in Capital (6)	₩	7,788
Retained Earnings		2,042
Accumulated Legal Reserve (7)		327
Accumulated Voluntary Reserve (7)		1,107
Reserve for Bad Loans (8)		572
Retained Earnings before appropriation		36
Other Components of Equity (9)		114
Total Capital	₩	9,943
Total Capitalization	₩	50,727

(1) Except as described in this Offering Circular, there has been no material adverse change in the Bank's capitalization since June 30, 2015.

(2) The Bank translated borrowings in foreign currencies as of June 30, 2015 into Won at the rate of ₩1,124.1 to US$1.00, which was the market average exchange rate as announced by the Seoul Monetary Brokerage Services Ltd., on June 30, 2015.

(3) As of June 30, 2015, the Bank had contingent liabilities totaling ₩65,194 billion, which consisted of ₩52,129 billion under confirmed guarantees and ₩13,065 billion under unconfirmed guarantees issued on behalf of its clients. For further information relating to the Bank's contingent liabilities under outstanding guarantees as of June 30, 2015, see Note 36 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.

(4) As of June 30, 2015, the Bank had 260 interest rate related derivative contracts with a notional amount of ₩19,240 billion and 290 currency related derivative contracts with a notional amount of ₩20,900 billion in accordance with its policy to hedge interest rate and currency risks. See Note 20 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.

(5) See "*—Description of Assets and Liabilities—Sources of Funding*" for an explanation of these sources of funds. All the Bank's borrowings, whether domestic or international, are unsecured and unguaranteed.

(6) As of June 30, 2015, the Bank's authorized ordinary share capital is ₩15,000 billion and issued fully-paid ordinary share capital is ₩7,788 billion. In August and September 2015, the Government contributed ₩75 billion in cash and ₩15 billion in cash, respectively, to the Bank's capital. As of September 30, 2015, the Bank's paid-in capital was ₩7,878 billion compared to ₩7,788 billion as of June 30, 2015. See "*—Business—Government Support and Supervision*."

(7) See "—*Business—Government Support and Supervision*" for a description of the manner in which annual net income is transferred to the legal reserve and may be transferred to the voluntary reserve.
(8) If the Bank's provision for bad loans is deemed insufficient for regulatory purposes, the Bank compensates for the difference by recording a regulatory reserve for bad loans, which is shown as a separate item included in retained earnings.
(9) See Note 22 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.

Business

Purpose and Authority

The Bank was established in 1976 as a special governmental financial institution pursuant to the KEXIM Act. The KEXIM Act, the Enforcement Decree of the KEXIM Act (the "KEXIM Decree") and the Bank's Articles of Incorporation (the "By-laws") define and regulate the Bank's powers and authority. The Bank is treated as a special juridical entity under Korean law and are not subject to certain of the laws regulating activities of commercial banks.

The Bank was established, as stated in the KEXIM Act, to "promote the sound development of the national economy and economic cooperation with foreign countries by extending the financial aid required for export and import transactions, overseas investment and the development of natural resources abroad." As an instrument in serving the Government's public policy objectives, the Bank does not seek to maximize its profits. The Bank does, however, strive to maintain an adequate level of profitability to strengthen its equity base in order to support the growth in the volume of its business.

The Bank's primary purpose has been the provision of loans and guarantees to facilitate Korean companies' exports and overseas investments and projects. Most of the Bank's activities have been carried out pursuant to this authority.

The Bank has the authority to undertake a range of financial activities. These fall into four principal categories:

- export credits;
- overseas investment credits;
- import credits; and
- guarantee facilities.

Export credits include loans to facilitate Korean exports of capital and non-capital goods and technical and non-technical services. Overseas investment credits consist of loans to finance Korean overseas investments and projects. Import credits include the extension of loans to finance Korean imports of essential materials and natural resources. Guarantee facilities are made available to support the obligations of Korean exporters and importers.

The Bank also has the authority to administer, on behalf of the Government, the Government's Economic Development Cooperation Fund and the Inter-Korea Cooperation Fund, formerly known as South and North Korea Co-operation Fund.

The Bank may also undertake other business activities incidental to the foregoing, including currency and interest rate swap transactions. The Bank has engaged in such swap transactions for hedging purposes only.

Government Support and Supervision

The Government's determination each fiscal year, regarding the amount of financial support to extend to the Bank, plays an important role in determining the Bank's lending capacity. Such support has included contributions to capital, loans and transfers of the Bank's income to reserves.

The Bank's authorized capital was ₩30 billion when the Government enacted the KEXIM Act in 1969. The National Assembly amended the KEXIM Act and increased the Bank's authorized capital to ₩150 billion in 1974, ₩500 billion in 1977, ₩1,000 billion in 1986, ₩2,000 billion in January 1998, ₩4,000 billion in September 1998 and ₩8,000 billion in January 2009. In January 2014, the Government further increased the Bank's authorized capital to ₩15,000 billion.

As of December 31, 1996, the capital contribution from the Government was approximately ₩686 billion, all in cash. Since 1997, the Government has made capital contributions not only in cash but also in the form of shares of common stock of Government-affiliated entities. In 1997, the Government contributed ₩185 billion in cash and in the form of shares of common stock of KT&G (formerly known as Korea Tobacco & Ginseng). In 1998, the Government contributed ₩805 billion in cash and in the form of shares of common stock of KT&G, Korea Electric Power Corporation and Korea Expressway Corporation (formerly known as Korea Highway Corporation). From 1999 to 2004, the Government contributed ₩1,100 billion in cash to the Bank's capital, directly and indirectly through The Bank of Korea and the Korea Development Bank.

In April 2005, the Government contributed ₩500 billion in the form of shares of common stock of Korea Expressway Corporation owned by the Government and ₩20 billion in cash to the Bank's capital to further support the Bank's lending to Korean manufacturers and exporters, in accordance with the Government policy to promote the Republic's exports by providing such entities with the funds required for the construction and export of capital goods (such as industrial plants, industrial machinery, natural resource development, information infrastructure and overseas construction projects). In July 2007, the Government contributed ₩3 billion in cash to the Bank's capital. In December 2008, the Government contributed ₩650 billion in the form of shares of common stock of Kyobo Life Insurance Co., Ltd. and Korea Expressway Corporation to the Bank's capital. The Government contributed to the Bank's capital ₩300 billion in cash in January 2009, ₩500 billion in the form of shares of common stock of Korea Expressway Corporation in March 2009 and ₩250 billion in cash in May 2009, in order to support the Bank's lending to Korean exporters, including small- and medium-sized enterprises. In January 2010 and January 2011, the Government further contributed ₩150 billion and ₩50 billion, respectively, in cash to the Bank's capital. In April 2011, the Government contributed, indirectly through Korea Finance Corporation, ₩1,000 billion in the form of shares of common stock of Korea Expressway Corporation to the Bank's capital in order to enhance the Bank's capability to undertake large-scale overseas project financings. In November 2011, the Government contributed to the Bank's capital ₩50 billion in cash, in order to support the Bank's lending to Korean exporters. In May 2012, the Government contributed ₩779 billion in the form of shares of common stock of Korea Expressway Corporation and Korea Asset Management Corporation to the Bank's capital. In September 2012, the Government contributed ₩100 billion in the form of shares of common stock of Korea Expressway Corporation to the Bank's capital. The Government contributed ₩20 billion in cash to the Bank's capital in January 2013 and ₩80 billion in cash to the Bank's capital in July 2013. In January 2014 and July 2014, the Government contributed ₩130 billion in cash and ₩380 billion in the form of shares of Korea Land & Housing Corporation, respectively, to the Bank's capital in order to enhance the Bank's capacity to finance large-scale overseas development projects. In January 2015, the Government contributed ₩40 billion in cash to the Bank's capital. Taking into account these capital contributions, as of June 30, 2015, the Bank's total paid-in capital was ₩7,788 billion. In August and September 2015, the Government contributed ₩75 billion in cash and ₩15 billion in cash, respectively, to the Bank's capital and as of September 30, 2015, the Bank's paid-in capital was ₩7,878 billion.

Pursuant to the KEXIM Act, only the Government, The Bank of Korea, The Korea Development Bank, certain designated domestic banking institutions, exporters' associations and international financial organizations may contribute to the Bank's paid-in capital. As of September 30, 2015, the Government directly owned 70.6% of the Bank's paid-in capital and indirectly owned, through The Bank of Korea and The Korea Development Bank, 14.8% and 14.6%, respectively, of the Bank's paid-in capital.

In addition to contributions to the Bank's capital, the Government provides funding for the Bank's financing activities. The Government has made loans available to the Bank for its lending activities. See "*—Description of Assets and Liabilities—Sources of Funding*."

The Government also supports the Bank's operation pursuant to Articles 36 and 37 of the KEXIM Act. Article 36 of the KEXIM Act and the By-laws provide that the Bank shall apply its net income earned during each fiscal year, after deduction of depreciation expense for such fiscal year, in the following manner and in order of priority:

- first, 10% of such net income is transferred to the Bank's legal reserve until the total amount of the Bank's legal reserve equals the total amount of the Bank's paid-in capital;

- second, if the Minister of Strategy and Finance approves such distribution, the balance of any such net income, after such transfer to the legal reserve, is distributed to the institutions, other than the Government, that have contributed to the Bank's capital (up to a maximum 15% annual dividend rate); and

- third, the remaining balance of any such net income is distributed in whatever manner the Bank's Operations Committee determines and the Minister of Strategy and Finance approves, such as additions to the Bank's voluntary reserve.

Article 37 of the KEXIM Act provides that "the annual net losses of the Export-Import Bank of Korea shall be offset each year by the reserve, and if the reserve be insufficient, the Government shall provide funds to cover the deficit." As a result of the KEXIM Act, the Government is generally responsible for the Bank's operations and is legally obligated to replenish any deficit that arises if the Bank's reserves are insufficient to cover any of the Bank's annual net losses. In light of this provision, if the Bank has insufficient funds to make any payment under any of its obligations, the Government would take appropriate steps by making a capital contribution, by allocating funds or by taking other action to enable the Bank to make such payment when due. The provisions of Article 37 do not, however, constitute a direct guarantee by the Government of the Bank's obligations, and the provisions of the KEXIM Act, including Article 37, may be amended at any time by action of the National Assembly.

The Government closely supervises the Bank's operations including in the following ways:

- the President of the Republic appoints the Bank's President upon the recommendation of the Minister of Strategy and Finance;

- the Minister of Strategy and Finance appoints the Bank's Deputy President and Executive Directors upon the recommendation of the Bank's President;

- the Minister of Strategy and Finance appoints the Bank's Auditor;

- one month prior to the beginning of each fiscal year, the Bank must submit its proposed program of operations and budget for the fiscal year to the Minister of Strategy and Finance for his approval and immediately after the approval of the Minister of Strategy and Finance, it must report such program to the National Assembly;

- the Minister of Strategy and Finance must approve the Bank's operating manual, which sets out guidelines for all principal operating matters, including the range of permitted financings;

- the Board of Audit and Inspection, a Government department, examines the Bank's settlement of accounts annually;

- each of the Minister of Strategy and Finance and the Financial Services Commission has broad authority to require reports from the Bank on any matter and to examine its books, records and other documents. On the basis of the reports and examinations, the Minister of Strategy and Finance may issue any orders it deems necessary to enforce the KEXIM Act or delegate examinations to the Financial Services Commission;

- the Financial Services Commission may supervise the Bank's operations to ensure managerial soundness based upon the KEXIM Decree and the Supervisory Regulations of Banking Business legislated by the Financial Services Commission and may issue orders deemed necessary for such supervision;

- the Bank must submit its annual report to the Ministry of Strategy and Finance (formerly, the Ministry of Finance and Economy) within two months after the end of each fiscal year and to the National Assembly within nine months after the end of each fiscal year outlining its operations and analyzing its activities during the relevant fiscal year; and

- the Bank may amend its By-laws and operating manual only with the approval of the Minister of Strategy and Finance.

Selected Financial Statement Data

Except where expressly indicated otherwise in this Offering Circular, loans in Won and loans in foreign currencies are collectively referred to as the "Loans"; bills bought, foreign exchange bought and advances for customers are collectively referred to as the "Other Loans"; Loans and Other Loans are collectively referred to as the "Loan Credits"; confirmed guarantees and acceptances are collectively referred to as the "Guarantees"; and Loan Credits and Guarantees are collectively referred to as the "Credit Exposure."

Recent Developments

You should read the following financial statement data together with the Bank's separate financial statements and notes included in this Offering Circular. The following tables present selected separate financial information for the six months ended June 30, 2015 and 2014 and as of June 30, 2015 and December 31, 2014, which has been derived from the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014 included in this Offering Circular:

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(billions of Won) (unaudited)	
Income Statement Data		
Total Interest Income	₩ 888	₩ 822
Total Interest Expense	602	645
Net Interest Income	287	177
Operating Income	55	105
Income before Income Tax	60	108
Income Tax Expense	(24)	(31)
Net Income	36	77

	As of June 30, 2015 (unaudited)	As of December 31, 2014
	(billions of Won)	
Balance Sheet Data		
Total Loan Credits[(1)]	₩ 66,650	₩ 63,287
Total Borrowings[(2)]	62,088	57,310
Total Assets	76,622	73,074
Total Liabilities	66,679	63,194
Total Shareholders' Equity[(3)]	9,943	9,880

(1) Gross amount, which includes bills bought, foreign exchange bought, call loans, inter-bank loans in foreign currency and others without adjusting for valuation adjustment of loans in foreign currencies, deferred loan origination fees or allowance for loan losses.
(2) Includes debentures.
(3) Includes unappropriated retained earnings.

For the six months ended June 30, 2015, the Bank had net income of ₩36 billion compared to net income of ₩77 billion for the six months ended June 30, 2014. The principal factors for the decrease in net income for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 included:

- net loss on hedging derivatives of ₩696 billion in the first half of 2015 compared to net gain of ₩518 billion in the corresponding period of 2014, primarily due to valuation losses from cross currency swap transactions; and

- net loss from trading derivatives of ₩249 billion in the first half of 2015 compared to net gain of ₩229 billion in the corresponding period of 2014, primarily due to valuation losses from cross currency swap transactions.

The above factors were partially offset by (i) net gain on foreign exchange transaction of ₩922 billion in the first half of 2015 compared to net loss of ₩435 billion in the corresponding period of 2014, primarily due to the depreciation of the Won against foreign currencies in the first half of 2015 and (ii) an increase in net interest income to ₩287 billion in the six months ended June 30, 2015 from ₩177 billion in the corresponding period of 2014, primarily due to an increase in interest income resulting from increased Loan Credits.

As of June 30, 2015, the Bank's total assets increased by 5% to ₩76,622 billion from ₩73,074 billion as of December 31, 2014, primarily due to a 5% increase in Loan Credits to ₩66,650 billion as of June 30, 2015 from ₩63,287 billion as of December 31, 2014.

As of June 30, 2015, the Bank's total liabilities increased by 6% to ₩66,679 billion from ₩63,194 billion as of December 31, 2014. The increase in liabilities was primarily due to an 8% increase in debentures to ₩50,889 billion as of June 30, 2015 from ₩47,292 billion as of December 31, 2014.

The increase in assets and liabilities was primarily due to an increase in the volume of loans and debt, respectively. The depreciation of the Won against the U.S. dollar as of June 30, 2015 compared to December 31, 2014 magnified the effect of the increase in the volume of loans and debt, as a majority of the Bank's assets and liabilities consisted of foreign currency loans and debt (including a significant percentage in U.S. dollar).

As of June 30, 2015, the Bank's total shareholders' equity increased by 1% to ₩9,943 billion from ₩9,880 billion as of December 31, 2014, primarily due to the Government's ₩40 billion contribution to the Bank's capital in January 2015.

Results of Operations

You should read the following financial statement data together with the Bank's separate financial statements and notes included in this Offering Circular. The following tables present selected separate financial information as of and for the years ended December 31, 2013 and 2014, which has been derived from the Bank's separate financial statements as of and for the years ended December 31, 2013 and 2014 included in this Offering Circular.

	Year Ended December 31,	
	2013	2014
	(billions of Won) (audited)	
Income Statement Data		
Total Interest Income	₩ 1,698	₩ 1,689
Total Interest Expense	1,336	1,294
Net Interest Income	363	394
Operating Income	72	93
Income before Income Tax	73	93
Income Tax Expense	(14)	(26)
Net Income	60	67

	As of December 31,	
	2013	2014
	(billions of won) (audited)	
Balance Sheet Data		
Total Loan Credits (1)	₩ 53,809	₩ 63,287
Total Borrowings (2)	48,198	57,310
Total Assets	60,933	73,074
Total Liabilities	51,683	63,194
Total Shareholders' Equity (3)	9,250	9,880

(1) Gross amount, including bills bought, foreign exchange bought, call loans, inter-bank loans in foreign currency and others and before deducting valuation adjustment of loans in foreign currencies, deferred loan origination fees and allowance for loan losses. See Note 4 of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013.
(2) Includes debentures.
(3) Includes unappropriated retained earnings.

The Bank had net income of ₩67 billion in 2014 compared to net income of ₩60 billion in 2013. The principal factors for the increase in net income in 2014 compared to 2013 included:

- a decrease in net loss on hedging derivatives to ₩623 billion in 2014 from ₩1,859 billion in 2013, primarily due to a decline in the U.S. dollar LIBOR in 2014; and

- an increase in net gain on foreign exchange transaction to ₩1,610 billion in 2014 from ₩1,189 billion in 2013, primarily due to the appreciation of the Won against foreign currencies in the first half of 2014.

The above factors were mostly offset by (i) net loss on fair value hedged items of ₩416 billion in 2014 compared to net gain of ₩658 billion in 2013, primarily due to a decline in the U.S. dollar LIBOR in 2014 and the appreciation of the U.S. dollar against other foreign currencies in the second half of 2014 and (ii) net losses from trading purpose of derivatives of ₩363 billion in 2014 compared to net gains of ₩163 billion in 2013, primarily due to valuation losses from cross currency swap transactions in 2014.

As of December 31, 2014, the Bank's total assets increased by 20% to ₩73,074 billion from ₩60,933 billion as of December 31, 2013, primarily due to an 18% increase in Loan Credits to ₩63,287 billion as of December 31, 2014 from ₩53,809 billion as of December 31, 2013.

As of December 31, 2014, the Bank's total liabilities increased by 22% to ₩63,194 billion from ₩51,683 billion as of December 31, 2013, primarily due to a 19% increase in borrowings and debentures to ₩57,310 billion as of December 31, 2014 from ₩48,198 billion as of December 31, 2013.

The increase in assets and liabilities was primarily due to an increase in the volume of loans and debt, respectively. The depreciation of the Won against the U.S. dollar as of December 31, 2014 compared to December 31, 2013 magnified the effect of the increase in the volume of loans and debt, as a majority of the Bank's assets and liabilities consisted of foreign currency loans and debt (including significant percentages in U.S. dollars).

As of December 31, 2014, the Bank's total shareholders' equity increased by 7% to ₩9,880 billion from ₩9,250 billion as of December 31, 2013, primarily due to the Government's ₩510 billion contribution to the Bank's capital in 2014.

Operations

Loan Operations

The Bank's primary objective since its establishment has been to promote the export and competitiveness of Korean goods and services in international markets. To this end, the Bank has introduced various financing facilities and implemented lending policies that are responsive to the needs of Korean exporters and foreign importers. Over the years, the Bank has also developed financing facilities and lending policies that are consistent with the Government's overall economic policies. In the latter part of the 1980s, as a result of changing trade conditions and the increased internationalization of the Korean economy, overseas investment credits and import credits were promoted and began to constitute an important portion of the Bank's business. The Bank's lending programs include (1) export credits to Korean exporters or foreign buyers of Korean goods and services, (2) overseas investment credits to Korean firms and (3) import credits to Korean importers.

Before approving a credit, the Bank considers:

- economic benefits to the Republic;
- the industry's rank in the order of priorities established by the Government's export-import policy;
- credit risk associated with the loans to be extended; and
- the goal of diversifying its lending activities.

The KEXIM Act and the By-laws provide that the Bank may extend credit only where repayment "is considered probable." Accordingly, the Bank carefully investigates the financial position of each prospective borrower and the technical and financial aspects of the project to be financed, and a loan is made only if the Bank believes there is reasonable assurance of repayment. See "*—Credit Policies, Credit Approval and Risk Management—Credit Approval*."

In 2014, the Bank provided Loans of ₩57,921 billion, an increase of 8% from the previous year, and its commitments of Loans amounted to ₩59,195 billion, an increase of 6% from the previous year. The increase in disbursements for Loans was attributable to an increase in demand for each type of credit. In the first half of 2015, the Bank provided total loans of ₩30,380 billion, an increase of 9% from the corresponding period of 2014.

The following table sets out the total amounts of the Bank's outstanding Loan Credits, categorized by type of credit:

	As of December 31, 2013	As of December 31, 2014	As % of 2014 Total
	(billions of Won)		
Export Credits			
Industrial Plants	₩ 12,107	₩ 13,827	22%
Shipbuilding	7,602	9,318	15
Transportation	2,068	2,228	4
Petrochemicals	1,122	1,320	2
Electronics	1,423	1,556	2
Others (1)	3,575	3,793	6
Sub-total	27,897	32,042	51
Overseas Investment Credits	18,393	21,700	34
Import Credits	2,203	4,388	7
Call Loans and Inter-bank Loans in Foreign Currency	4,483	5,102	8
Others (2)	833	55	0
Total Loan Credits	₩ 53,809	₩ 63,287	100%

(1) Includes steel and nonferrous metal products, general machinery, service sector, etc.
(2) Includes loans for debt-equity swap, advances for customers, etc.
Source: Internal accounting records

The following table sets out the Bank's new loan commitments, categorized by type of credit:

New Loan Credit Commitments by Type of Credit

	As of December 31, 2013	As of December 31, 2014	As % of 2014 Total
	(billions of Won)		
Export Credits			
Industrial Plants	₩ 15,758	₩ 12,853	22%
Shipbuilding	3,810	5,883	10
Transportation	3,461	3,315	6
Petrochemicals	4,537	4,964	8
Electronics	3,181	3,227	5
Others (1)	9,523	10,400	18
Sub-total	40,270	40,642	69
Overseas Investment Credits	9,815	11,467	19
Import Credits	5,541	7,087	12
Total	₩ 55,626	₩ 59,196	100%

(1) Includes steel and nonferrous metal products, general machinery, service sector, etc.
Source: Internal accounting records

Export Credits

The Bank offers export credits to either domestic suppliers or foreign buyers to finance export transactions.

Export Credits to domestic suppliers include:

- export loans to Korean exporters that export capital goods such as ships, industrial plants and machinery;
- pre-shipment credit to Korean exporters or manufacturers producing export products;
- technical service credit to Korean companies that export technical services abroad, including overseas construction projects;
- short-term trade financing to Korean exporters that manufacture export goods under short-term export contracts;
- small business export credit to small- and medium-sized enterprises that manufacture export goods or supply materials needed by their primary exporters;
- rediscount on trade bills to domestic commercial banks for exporters;
- forfeiting to Korean exporters by discounting trade bills under the usance line of credit from export transactions on a non-recourse basis; and
- export factoring to Korean exporters by discounting trade receivables that occurs from open account export transactions on credit on a non-recourse basis.

Export credits to foreign buyers include:

- direct loans to foreign buyers that purchase Korean goods and services;

- project finance to foreign companies that intend to import industrial plants, facilities and technical services from Korea for large-scale projects, of which the cash flows from such projects are the main source for repayment;

- structured finance to foreign shipping companies that purchase ships from Korean shipyards, of which the repayment usually depends on the cash flows generated by the operation of ships; and

- interbank export loans to creditworthy banks in foreign countries to help foreign buyers obtain credit for the purchase of goods and services of Korean origin.

As of December 31, 2014, export credits in the amount of ₩32,042 billion represented 51% of the Bank's total outstanding Loan Credits. The Bank's disbursements of export credits in 2014 amounted to ₩39,759 billion, an increase of 5% from the previous year, and the Bank's commitments of export credits in 2014 amounted to ₩40,642 billion, an increase of 1% from the previous year. This increase in disbursements and new commitments for export credits was primarily due to increased activity for shipbuilding and construction of industrial plants.

As of June 30, 2015, export credits in the amount of ₩35,436 billion represented 53% of the Bank's total outstanding Loan Credits. The Bank's disbursements of export credits amounted to ₩19,478 billion in the first half of 2015, a decrease of 4% from the corresponding period of 2014, which was mainly due to a decrease in demand for loan financing from domestic exporters. The depreciation of the Won against the U.S. dollar as of June 30, 2015 compared to June 30, 2014 partially offset the effect of the decrease in the volume of export credits in the first half of 2015, as a majority of the Bank's export credits consisted of foreign currency credits (including a significant percentage in U.S. dollars).

The Bank offers export credits to Korean manufacturers and exporters in order to provide them with the funds required for the construction and export of Korean capital goods and technical services designated in the Bank's operating manual. Capital goods eligible for export credit financings currently include ships, industrial plants, industrial machinery and overseas construction projects. With respect to eligible items supported by the Bank's export credits, ships have traditionally had the largest share of the Bank's export credit operations. In September 1998, the Government amended the KEXIM Act to expand the types of goods eligible for the Bank's export credits to include non-capital goods.

The Bank offers export loans and technical service credits to domestic suppliers at fixed (no less than the Commercial Interest Reference Rate) or floating rates of interest with maturities of up to twelve years for ships and maturities of varying terms, from two to 18 years, for financings of other eligible items. The Bank typically requires a minimum down payment of 20% of the contract amount for ship export financings and a minimum down payment of 15% for financings of other eligible items. When the credit rating of a prospective borrower does not meet the Bank's internal rating criteria, these export credits are secured by promissory notes issued in connection with the relevant transaction, or letters of guarantees or letters of credit issued or confirmed by a creditworthy international bank or the importer's government or central bank. Other terms and conditions under such export credit facilities must be in accordance with the Arrangement on Guidelines for Officially Supported Export Credits by the Organization for Economic Cooperation and Development. The Bank offers direct loans to foreign buyers, project finance to project companies and structured finance for ships to foreign shipping companies under similar terms and conditions as export credit financings to domestic suppliers. The Bank offers interbank export loans to overseas banks to facilitate imports by foreign importers of Korean manufactured goods. Interbank export loans are offered at fixed or floating rates of interest with maturities of up to ten years.

Overseas Investment Credits

The Bank extends overseas investment credits to either Korean companies or foreign companies in which a Korean company has an equity share, to finance investments in eligible overseas businesses and projects. Such financing programs include:

- overseas investment credit to Korean companies that invest abroad in the form of capital subscription, acquisition of stocks and long-term credit;
- overseas project credit to Korean companies or their overseas subsidiaries engaging in businesses outside Korea;
- major resources development credit to Korean companies for development of natural resources and acquisition of mining rights abroad; and
- overseas business credit to foreign companies in which Korean companies have an equity stake, in the form of funds for purchasing equipment or working capital.

As of December 31, 2014, overseas investment credits amounted to ₩21,700 billion, representing 34% of the Bank's total outstanding Loan Credits. The Bank's disbursements and commitments of overseas investment credits in 2014 amounted to ₩11,118 billion and ₩11,467 billion, respectively, an increase of 11% and 17%, respectively, over the previous year. This increase in disbursements and new commitments for overseas investment credits was primarily due to increased demand in overseas investment and project credits. Most of the overseas investment credits were loans to foreign companies in which a Korean company has an equity share.

As of June 30, 2015, overseas investment credits amounted to ₩23,688 billion, representing 36% of the Bank's total outstanding Loan Credits. The Bank's disbursements of overseas investment credits in the first half 2015 increased by 36% to ₩7,050 billion from the corresponding period of 2014, primarily due to an increased demand in overseas investment and project credits. The depreciation of the Won against the U.S. dollar as of June 30, 2015 compared to June 30, 2014 magnified the effect of the increase in the volume of overseas investment credits in the first half of 2015, as a majority of the Bank's overseas investment credits consisted of foreign currency credits (including a significant percentage in U.S. dollars).

Proposals for overseas investment credits to finance the acquisition of important materials or the development of natural resources for the Korean economy, as determined by the Government, are given priority, together with projects that promote the export of Korean goods and services. As a result, projects financed by the Bank's overseas investment credit program have been mainly in the fields of manufacturing or development of natural resources.

The Bank offers overseas investment credits at either fixed or floating rates of interest with maturities up to 30 years. Such facilities may require security in the form of a bank guarantee, pledge or mortgage on the borrower's local assets. Depending upon the size of the borrower, the Bank will provide up to 100% of the financing required for the overseas investment project.

Import Credits

The Bank offers import credits to Korean companies that directly import essential materials, natural resources and high-technology materials whose stable and timely supply is required for the national economy, or to Korean companies that import such items after developing them overseas. Import credits are extended for importation of eligible items, including nuclear fuels, aircraft, mineral ores, crude oil, lumber, wood pulp, grains, cotton, sugar, and equipment and machinery for research and development, and for use in advanced technological industries.

As of December 31, 2014, import credits in the amount of ₩4,388 billion represented 7% of the Bank's total outstanding Loan Credits. Disbursements and new commitments of import credits amounted to ₩7,045 billion and ₩7,087 billion, respectively, in 2014, an increase of 27% and 28%, respectively, over the previous year.

As of June 30, 2015, import credits in the amount of ₩3,894 billion represented 6% of the Bank's total outstanding Loan Credits. The Bank's disbursements of import credits amounted to ₩3,852 billion in the first half of 2015, an increase of 62% over the corresponding period of 2014, which was mainly due to an increase in demand for financing for raw materials used for exports and domestic consumption. The depreciation of the Won against the U.S. dollar as of June 30, 2015 compared to June 30, 2014 magnified the effect of the increase in the volume of import credits in the first half of 2015, as a significant portion of the Bank's import credits consisted of foreign currency credits (including a significant percentage in U.S. dollars).

The Bank offers import credits at either fixed or floating rates of interest with maturities up to ten years for equipment and machinery and shorter maturities of up to two years for other items, which may require security in the form of a bank guarantee, pledge or mortgage on the borrower's local assets. The Bank generally provides up to 80% of the import contract amount, but provide up to 90% of the import contract amount in the case of small- and medium-sized enterprises and up to 100% for transactions with a letter of credit opened by a bank.

Guarantee Operations

The Bank provides guarantees in favor of Korean commercial banks and foreign banks or foreign importers in respect of the obligations of Korean exporters in order to facilitate export and import financings. Such guarantee programs for Korean exporters and importers include (1) financial guarantees to co-financing banks that provide loans for transactions that satisfy the Bank's eligibility requirements and (2) project-related guarantees to foreign importers for the performance of Korean exporters on eligible projects in the form of bid bonds, advance payment bonds, performance bonds and retention bonds. Guarantee commitments as of June 30, 2015 increased to ₩65,194 billion from ₩61,373 billion as of December 31, 2014. Guarantees the Bank had confirmed as of June 30, 2015 increased to ₩52,129 billion from ₩48,058 billion as of December 31, 2014.

The Bank mainly issues project-related guarantees, which include:

- advance payment guarantees that are issued to overseas importers of Korean goods and services to support obligations to refund down payments made to Korean exporters in the event of a failure to deliver the goods to be exported; and

- performance guarantees that are issued to foreign importers to support the performance by Korean exporters of their contractual obligations.

In 2014, the Bank issued project-related confirmed guarantees in the amount of ₩16,479 billion, a decrease of 5% from the previous year.

The Bank also issues letters of credit to foreign exporters to assist in the financing of projects approved in connection with import credit loans, and to Korean exporters to assist in the financing of projects approved in connection with export credit loans.

For further information regarding the Bank's guarantee and letter of credit operations, see Note 36 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014 and Note 37 of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013.

Government Account Operations

Economic Development Cooperation Fund

In 1987, the Government established the Economic Development Cooperation Fund (the "EDCF") to provide loans, at concessional interest rates, to governments or agencies of developing countries for projects that contribute to industrial development or economic stabilization of such countries. The Bank administers the EDCF on behalf of the Government and are responsible for project appraisal, documentation and administrative work relating to the EDCF Loans. The EDCF business accounts are maintained separately from the Bank's own account on behalf of the Government, and the Bank derives no separate income or expenditures from the Bank's operation of the EDCF business. Government contributions constitute the primary funding source of the EDCF. Loan disbursements by the EDCF in 2014 amounted to ₩631 billion for 90 projects in 31 countries, an increase of 3% from the previous year. As of December 31, 2014, the total outstanding loans extended by the EDCF was ₩4,382 billion, an increase of 14% from the previous year.

Inter-Korea Cooperation Fund

In 1991, the Government established the Inter-Korea Cooperation Fund (the "IKCF") to promote mutual exchanges and cooperation between the Republic and North Korea by engaging in funding and financing activities to support family reunions, cultural events, academic seminars, trade and economic cooperation between the two countries. The Bank administers the IKCF under the initiative and policy coordination of the Ministry of Unification. The IKCF accounts are maintained separately from the Bank's own account on behalf of the Government. Government contributions are the major funding source of the IKCF. The IKCF disbursements during 2014 amounted to ₩88 billion for 91 projects, and cumulative total disbursements as of December 31, 2014 were ₩6,092 billion, an increase of 1% from ₩6,005 billion as of December 31, 2013.

Other Operations

The Bank engages in various other activities related to the Bank's financing activities.

Activities in which the Bank currently engages include:

- country information services performed by the Overseas Economic Research Institute, which conducts country studies and country risk evaluation to assist in the efficient utilization of the Bank's financial resources;

- export credit advisory services, which are aimed at bringing about a larger share of overseas bidding by giving Korean exporters a wide range of knowledge on the country, industry, market and financial situation of the importing country in the early stage of the tendering process or contract negotiations;

- consulting services by in-house professionals including lawyers, accountants and regional experts who consult on international transactions; and

- management of Korea's foreign direct investment database.

Description of Assets and Liabilities

Total Credit Exposure

The Bank extends credits to support export and import transactions, overseas investment projects and other relevant products in various forms including loans and guarantees.

The following table sets out the Bank's Credit Exposure as of June 30, 2015, December 31, 2014 and December 31, 2013, categorized by type of exposure extended:

		As of June 30, 2015		As of December 31, 2014		As of December 31, 2013	
		(billions of Won, except for percentages)					
A	Loans in Won	₩ 13,790	12%	₩ 13,185	12%	₩ 13,584	15%
B	Loans in Foreign Currencies	48,238	41	43,615	40	34,491	37
C	**Loans (A+B)**	62,028	53	56,800	52	48,075	52
D	Other Loans	1,103	1	1,385	1	1,251	1
E	Call Loans and Inter-bank Loans in Foreign Currency	3,519	3	5,102	5	4,483	5
F	**Loan Credits (C+D+E)**	66,650	57	63,287	58	53,809	58
G	Allowances for Loan Losses	(2,020)	(2)	(1,814)	(2)	(2,382)	(3)
H	**Loan Credits including PVD (F-G)**	64,630	55	61,473	56	51,427	55
I	Guarantees	52,129	45	48,058	44	41,587	45
J	**Credit Exposure (H+I)**	116,759	100%	109,531	100	93,014	100

Loan Credits by Geographic Area

The following table sets out the total amount of the Bank's outstanding Loan Credits (including call loans and inter-bank loans in foreign currency) as of June 30, 2015, December 31, 2013 and December 31, 2014, categorized by geographic area [(1)]:

	June 30, 2015	As % of June 30, 2015 Total	As of December 31, 2013	As of December 31, 2014	As % of 2014 Total
	(billions of Won except for percentages)		(billions of Won)		
Asia	₩ 49,890	75%	₩ 40,875	₩ 47,845	76%
Europe	5,631	8	4,815	5,951	9
America	7,307	11	5,335	5,964	9
Africa	3,823	6	2,784	3,527	6
Oceania	—	—	—	—	—
Total	₩ 66,650	100%	₩ 53,809	₩ 63,287	100%

(1) For purposes of this table, export credits have been allocated to the geographic areas in which the foreign buyers of Korean exports are located; overseas investment credits have been allocated to the geographic areas in which the overseas investments being financed are located; and import credits have been allocated to the geographic areas in which the sellers of the imported goods are located.

Source: Internal accounting records.

The Bank engages in business related to Iran, including transactions involving as counterparties Iranian banks that may be indirectly owned or controlled by the Iranian government. The U.S. State Department has designated Iran as a state sponsor of terrorism, and U.S. law generally prohibits U.S. persons from doing business in Iran. The Bank is a Korean bank and its activities with respect to Iran have not involved any U.S. person in either a managerial or operational role and have been subject to policies and procedures designed to ensure compliance with applicable Korean laws and regulations. The Bank believes that its activities related to Iran are not subject to the mandatory sanctions administered or enforced by the United States Government (including, without limitation, Section 104 of the U.S. Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 ("CISADA") and the Iran Financial Sanctions Regulations issued by the U.S. Secretary of the Treasury thereunder (the "IFSR")).

The Bank's business related to Iran consists solely of extensions of credit and financing provided in connection with exports of Korean goods and services to Iran and the Bank's disbursements of Iran-related credits are made directly to Korean suppliers or exporters except certain credits made to Iranian banks. Such activities have involved export-related credits to finance the export contracts of Korean exporters supplying goods and services to Iranian companies, credit line extensions to Iranian banks to finance consumer products exports by Korean exporters, extensions of credit through non-recourse discounting of export trade bills, and purchases of promissory notes securing export transactions. The Bank's Loans to Iran represented 0.2%, 0.1% and 0.1% of the Bank's total assets as of December 31, 2013, December 31, 2014 and June 30, 2015, respectively, and also represented 0.2%, 0.2% and 0.1% of the Bank's Loan Credits, respectively, as of the above dates. The Bank's total revenues from transactions with Iran in 2013, 2014 and the first half of 2015 represented 0.3%, 0.2% and 0.1% of the Bank's total revenues, respectively, in those periods.

The Bank is aware, through press reports and other means, of initiatives by governmental entities in the U.S. and by U.S. institutions such as universities and pension funds, to adopt laws, regulations or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with Iran, including, without limitation, CISADA and IFSR. It is possible that such initiatives may result in the Bank's being unable to gain or retain entities subject to such prohibitions as customers or as investors in the Bank's debt securities. In addition, the Bank's reputation may suffer due to the Bank's association with Iran. Such a result could have significant adverse effects on the Bank's business or the price of the Bank's debt securities.

Individual Exposure

The KEXIM Decree imposes limits on the Bank's aggregate credits extended to a single person or business group. As of the date hereof, the Bank is in compliance with such requirements.

As of June 30, 2015, the Bank's largest Credit Exposure was to Daewoo Shipbuilding & Marine Engineering in the amount of ₩8,317 billion. As of June 30, 2015, the Bank's second and third largest Credit Exposures were to Hyundai Heavy Industries in the amount of ₩5,046 billion and to GS Engineering & Construction in the amount of ₩3,546 billion, respectively.

The following table sets out the Bank's five largest Credit Exposures as of June 30, 2015(1):

Rank	Name of Borrower	Loans	Guarantees	Total
			(billions of Won)	
1	Daewoo Shipbuilding & Marine Engineering	₩ 1,201	₩ 7,116	₩ 8,317
2	Hyundai Heavy Industries	1,391	3,655	5,046
3	GS Engineering & Construction	1,278	2,268	3,546
4	Hanwha Engineering & Construction	169	3,288	3,457
5	Samsung Heavy Industries	400	2,924	3,324

(1) Includes loans and guarantees extended to affiliates.
Source: Internal accounting records.

Asset Quality

The Supervisory Regulation of Banking Business ("Supervisory Regulation") legislated by the Financial Services Commission requires banks, including the Bank, to analyze and classify their credits into one of five categories as normal, precautionary, substandard, doubtful or estimated loss by taking into account borrowers' repayment capacity as well as a number of other factors including the financial position, profitability, transaction history of the relevant borrower and the value of any collateral or guarantee taken as security for the extension of credit. Categorizations are applied to all loans except call loans and interbank loans, which are classified as normal. Credit categorizations are as follows:

Normal . . . . Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, do not raise concerns regarding their ability to repay the credits.

Precautionary . . . . Credits extended to customers (1) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although there have not occurred any immediate risks of default in repayment; or (2) which are in arrears for one month or more but less than three months.

Substandard . . . . . (1) Credits extended to customers, which in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred considerable risks for default in repayment as the customers' ability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) extended to customers which are judged to have incurred serious risks due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of "Doubtful Customers" or "Estimated-loss Customers" (each as defined below).

Doubtful . . . . That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Doubtful Customers") which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred serious risks of default in repayment due to noticeable deterioration in their ability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months.

Estimated Loss . . . That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers ("Estimated-loss Customers"), which, in consideration of their business and operations, financial conditions 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; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks of default in repayment due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses.

Under K-IFRS, the Bank establishes provisions for credit losses with respect to loans using either a case-by-case or collective approach. The Bank assesses individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if the Bank determines that no objective evidence of impairment exists for a loan, it includes such loan in a group of loans with similar credit risk characteristics and assesses them collectively for impairment regardless of whether such loan is significant. If there is objective evidence that an impairment loss has been incurred for individually significant loans, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at such asset's original effective interest rate. Future cash flows are estimated through a case-by-case analysis of individually assessed assets, which takes into account the benefit of any guarantee or other collateral held. The value and timing of future cash flow receipts are based on available estimates in conjunction with facts available at the time of review and reassessed on a periodic basis as new information becomes available. For collectively assessed loans, the Bank bases the level of provisions for credit losses on a portfolio basis in light of the homogenous nature of the assets included in each portfolio. The provisions are determined based on a quantitative review of the relevant portfolio, taking into account such factors as the level of arrears, the value of any security, and historical and projected cash recovery trends over the recovery period. For more detailed information regarding the Bank's loan loss provisioning policy, see Note 3(8) of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013.

Asset Classifications

The following table provides information on the Bank's loan loss reserves as of June 30, 2015, December 31, 2014 and December 31, 2013:

	As of June 30, 2015		As of December 31, 2014		As of December 31, 2013	
	Loan Amount(1)	Loan Loss Reserve(2)	Loan Amount (1) (2)	Loan Loss Reserve (2)	Loan Amount (1) (2)	Loan Loss Reserve (2)
	(billions of Won)					
Normal	₩ 109,394	₩ 761	₩ 100,967	₩ 702	₩ 85,049	₩ 581
Precautionary	3,412	542	3,117	493	4,468	1,447
Sub-standard	898	417	1,694	854	1,131	616
Doubtful	1,339	836	217	167	107	70
Estimated Loss	159	159	238	237	139	129
Total	₩ 115,202	₩ 2,715	₩ 106,233	₩ 2,452	₩ 90,894	₩ 2,843

(1) These figures include loans (excluding interbank loans and call loans), domestic usance bills, bills bought, notes bought, advances for customers, confirmed acceptances and guarantees.
(2) These figures include present value discount.

Reserves for Credit Losses

Non-performing assets ("NPA") are (i) assets classified as doubtful or estimated loss, (ii) assets in delinquency of repayments of principal or interest more than three months, or (iii) assets exempted from interest payments due to restructuring or rescheduling.

The following table sets out the Bank's 10 largest non-performing assets as of December 31, 2014:

Borrower	Loans	Guarantees	Total
		(billions of Won)	
Moneual Inc.	₩ 117	₩ -	₩ 117
Sekwang Heavy Industries Co., Ltd.	32	-	32
Nexolon Co., Ltd.	27	-	27
Kuk Dong Engineering & Construction Co., Ltd.	15	10	25
Ssangyong Engineering & Construction Co., Ltd.	2	20	22
Taesan LCD Co., Ltd.	20	-	20
Digitech Systems Inc.	20	-	20
Daehan Shipbuilding Co., Ltd.	8	8	16
Steel & Resources Co., Ltd.	13	-	13
Woosung Enterprise Co., Ltd.	8	-	8
Total	₩ 262	₩ 38	₩ 300

In the early 1990's, at the direction of the Government, the Bank extended a commodity loan in the aggregate amount of US$466 million to Vnesheconombank, the Bank for Foreign Economic Affairs of the former Soviet Union, which was guaranteed by the government of the former Soviet Union, as part of the Government's policy to enhance economic cooperation between the two countries. Since the dissolution of the Soviet Union, the Government had been negotiating repayment terms with the government of the Russian Federation, which agreed to assume the guarantee of the former Soviet Union in respect of the obligations of Vnesheconombank under such loan. In 1995, the two governments came to an agreement on a repayment schedule in respect of approximately half of the loan. Since the agreement was made, US$229 million of the principal was repaid.

In June 2003, the two governments reached an agreement as to the rescheduling of the remaining portion of the loan and the change of the borrower from Vnesheconombank to the government of the Russian Federation. As a result, in September 2003, the Bank upgraded the classification of the outstanding ₩258 billion (including accrued and unpaid interest) of its exposure to the government of the Russian Federation from estimated loss to doubtful in terms of asset quality and established a 70% provisioning level for that credit exposure. In June 2004, the Bank further upgraded the classification of its exposure to the government of the Russian Federation from doubtful to precautionary in terms of asset quality, following the continued repayment of the loan by the government of the Russian Federation in accordance with the agreed payment schedule. As of December 31, 2014, the Bank's exposure to the government of the Russian Federation amounted to ₩134 billion and the Bank established a 10% provisioning level for that credit exposure.

The Bank cannot provide any assurance that its current level of exposure to non-performing assets will continue in the future or that any of its borrowers (including its largest borrowers as described above) is not currently facing, or in the future will not face, material financial difficulties.

As of June 30, 2015, the amount of the Bank's non-performing assets was ₩1,511 billion, an increase of 220% from ₩472 billion as of December 31, 2014. As of June 30, 2015, the Bank's non-performing asset ratio was 1.3%, compared to 0.4% as of December 31, 2014.

The following table sets forth the Bank's reserves for possible credit losses as of June 30, 2015, December 31, 2014 and December 31, 2013:

	As of June 30, 2015	As of December 31, 2014	As of December 31, 2013
	(billions of Won, except for percentages)		
Loan Loss Reserve (A)	₩ 2,715	₩ 2,452	₩ 2,843
NPA (B) (1)	1,511	472	491
Total Equity (C)	9,943	9,880	9,250
Reserve to NPA (A/B)	179.6%	519%	579%
Equity at Risk (B-A)/C	—	—	—

(1) Non-performing assets.
Source: Internal accounting records.

The following table sets forth the Bank's actual loan loss reserve ratios as of December 31, 2013 and 2014:

Classification of Loans	Actual Reserve Coverage (as of December 31, 2013)	Actual Reserve Coverage (as of December 31, 2014)
Normal	0.9%	0.9%
Precautionary	38.2%	19.0%
Substandard	55.0%	57.3%
Doubtful	84.1%	85.1%
Estimated Loss	100.0%	100.0%

Investments

Under the KEXIM Decree, the Bank is not allowed to hold stocks or securities of more than three years' maturity in excess of 60% of its equity capital. However, investment in the following securities is not subject to this restriction:

- Government bonds;
- The Bank of Korea currency stabilization bonds;
- securities acquired via Government investment; and
- securities acquired through investment approved by the Government, for research related to the Bank's operations, for the Bank's financing or pursuant to Korean statutes.

As of June 30, 2015, the Bank's total investment in securities amounted to ₩5,604 billion, representing 7% of the Bank's total assets. The Bank's securities portfolio consists primarily of available-for-sale securities. Available-for-sale securities mainly comprises marketable securities (including equity securities in Industrial Bank of Korea which was recapitalized by the Government through the Bank) and non-marketable securities (including equity securities in Korea Expressway Corporation which were in-kind contributions made by the Government to the Bank). In 2012, the Bank sold 40,314,387 shares of common stock, which represented all of its holding of common stock in Korea Exchange Bank, for ₩479 billion. In 2013, the Bank sold 9,886,160 shares of common stock, which represented all of its holding of common stock in SK Networks, for ₩63 billion. In 2014, the Bank sold 976,625 shares of common stock, which represented all of its holding of common stock in Kumho Tire, for ₩11 billion.

The following table sets out the composition of the Bank's securities as of June 30, 2015, December 31, 2014 and December 31, 2013:

Type of Investment Securities	As of June 31, 2015 Amount	%	As of December 31, 2014 Amount	%	As of December 31, 2013 Amount	%
	(billions Won, except for percentages)					
Available-for-sale Securities	₩ 4,834	86%	₩ 4,753	87%	₩ 4,030	86%
Held-to-maturity Securities	111	2	39	1	44	1
Investments in Associates and Subsidiaries	659	12	659	12	629	13
Total	₩ 5,604	100%	₩ 5,451	100%	₩ 4,703	100%

For further information relating to the classification guidelines and methods of valuation for unrealized gains and losses on the Bank's securities, see Note 5 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014 and Note 2 of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013.

Guarantees and Acceptances and Contingent Liabilities

The Bank has credit risk factors that are not reflected on the balance sheet, which include risks associated with guarantees and acceptances. Guarantees and acceptances do not appear on the balance sheet, but rather are recorded as an off-balance sheet item in the notes to the financial statements. Guarantees and acceptances include financial guarantees, project related guarantees, such as bid bond, advance payment bond, performance bond or retention bond, and acceptances and advances relating to trade financings such as letters of credit or import freight. Contingent liabilities, for which the guaranteed amounts were not finalized, appear as unconfirmed guarantees and acceptance items in the notes to the financial statements as off-balance sheet items.

As of June 30, 2015, the Bank had issued a total amount of ₩52,129 billion in confirmed guarantees and acceptances, of which ₩50,448 billion, representing 97% of the total amount, was classified as normal and ₩1,236 billion, representing 2% of the total amount, was classified as precautionary, and ₩445 billion, representing 1% of the total amount, was classified as substandard or below.

Derivatives

The objective in the Bank's strategy and policies on derivatives is to actively manage and minimize the Bank's foreign exchange and interest rate risks. The Bank does not take proprietary derivative positions. It is the Bank's policy to hedge all currency and interest rate risks wherever possible (taking into consideration the cost of hedging). The Bank uses various hedging instruments, including foreign exchange forwards and options, interest rate swaps, and cross currency swaps.

Under the Bank's internal trading rules that have been submitted to the Financial Supervisory Service, the Bank's policy is to engage in derivative transactions mainly for hedging the Bank's own position. As part of the Bank's total exposure management system, the Bank monitors its exposure to derivatives and may make real-time inquiries, which enables its Risk Management Department to check its exposure on a regular basis. Under the guidelines set by the Financial Supervisory Service, the Bank is required to submit reports on its derivatives exposure to the Financial Supervisory Service on a quarterly basis. As a measure to reduce the risk of intentional manipulation or error, the Bank has separated responsibility for different functions such as initiation, authorization, approval, recording, monitoring and reporting to the Financial Supervisory Service. The Risk Management Department conducts regular reviews of derivative transactions to monitor any breach of compliance with the relevant regulatory requirements.

As of June 30, 2015, the Bank's outstanding loans made at floating rates of interest totaled approximately ₩44,484 billion, whereas the Bank's outstanding borrowings made at floating rates of interest totaled approximately ₩31,764 billion, including those raised in Swiss franc, Hong Kong dollar, Brazil real, Saudi riyal, Czech koruna and Euro and swapped into U.S. dollar floating rate borrowings. As a result, the Bank is exposed to possible interest rate risks to the extent that the amount of its borrowings made at floating rates of interest exceeds the amount of its loans made at floating rates of interest. Foreign exchange risk arises because a majority of the Bank's assets and liabilities are denominated in non-Won currencies. In order to match the Bank's currency and interest rate structure, the Bank generally enters into swap transactions.

The following table shows the unsettled notional amounts and estimated fair values of derivatives the Bank held as of the dates indicated.

	As of December 31,					
	2013			2014		
	Unsettled Notional Amount	Fair Value of Assets	Fair Value of Liabilities	Unsettled Notional Amount	Fair Value of Assets	Fair Value of Liabilities
	(billions of Won)					
Currency forwards	₩ 1,196	₩ 28	₩ 1	₩ 1,842	₩ 5	₩ 48
Currency swaps	15,393	326	1,719	15,528	78	2,304
Interest rate swaps	14,267	179	292	13,806	262	121
Total	₩ 30,856	₩ 533	₩ 2,012	₩ 31,177	₩ 345	₩ 2,473

As of December 31, 2014, the Bank had entered into 263 currency related derivative contracts with a notional amount of ₩17,371 billion and had entered into 160 interest rate related derivative contracts with a notional amount of ₩13,806 billion. In connection with the Bank's currency forwards and currency swaps, the Bank had net valuation loss of ₩2,269 billion in 2014 compared to net valuation loss of ₩1,366 billion in 2013, primarily due to the appreciation of the U.S. dollar against other currencies in 2014, which resulted in an increase in the value of the Bank's obligations denominated in the U.S. dollar. In connection with the Bank's interest rate swaps, the Bank recorded net valuation gain of ₩141 billion in 2014 compared to net valuation loss of ₩113 billion in 2013, primarily due to a decrease in benchmark interest swap rates, such as the US dollar interest swap rate in 2014, which resulted in an increase in the value of the Bank's floating-for-fixed interest rate swaps. See Note 20 of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013.

As of June 30, 2015, the Bank had entered into 290 currency related derivative contracts with a notional amount of ₩20,900 billion and had entered into 260 interest rate related derivative contracts with a notional amount of ₩19,240 billion. See Note 20 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.

Sources of Funding

The Bank obtains funds primarily through borrowings from the issuance of bonds in both domestic and international capital markets, borrowings from domestic and foreign financial institutions, capital contributions and internally generated funds. Internally generated funds result from various activities the Bank carried on and include principal and interest payments on the Bank's loans, fees from guarantee operations and other services, and income from marketable securities the Bank holds.

The Bank raised a net total of ₩63,651 billion (new borrowings plus loan repayments by the Bank's clients less repayment of the Bank's existing debt) during 2014, a 9% increase compared with the previous year's ₩58,222 billion. The total loan repayments, including prepayments by the Bank's clients, during 2014 amounted to ₩51,690 billion, an increase of 7% from ₩48,235 billion during 2013. The Bank raised a net total of ₩34,809 billion (new borrowings plus loan repayments by the Bank's clients less repayment of the Bank's existing debt) during the first half of 2015, an increase of 10% from ₩31,510 billion in the corresponding period of 2014. The total loan repayments, including prepayments by the Bank's clients, during the first half of 2015 amounted to ₩26,485 billion, an increase of 10% from ₩23,991 billion during the corresponding period of 2014.

Since the Bank's establishment, borrowings from the Government have provided a portion of the Bank's financial resources. The Government provided the Bank with loans in the amount of US$2,595 million in 2008 and US$383 million in the first quarter of 2009 to support the Bank's lending to Korean exporters and provide U.S. dollar liquidity to the Bank. In 2009, the Bank repaid all of the amounts borrowed from the Government and as of June 30, 2015, the Bank had no outstanding borrowings from the Government. The Bank also issued Won-denominated domestic bonds in the aggregate amount of ₩7,850 billion, ₩8,080 billion, ₩9,560 billion and ₩5,540 billion during 2012, 2013, 2014 and the first half of 2015, respectively.

The Bank has diversified the Bank's funding sources by borrowing from various overseas sources and issuing long-term floating-rate notes and fixed-rate debentures in the international capital markets. These issues were in foreign currencies, including the U.S. dollar, Thai Baht, Malaysia Ringgit, Japanese Yen, Australian Dollar, Euro, Hong Kong dollar, Singapore dollar, Swiss franc, Brazilian Real, Turkish Lira, Mexican Peso, Peruvian sol, Indian rupee, Indonesian Rupiah, Chinese Yuan, Philippine Peso, New Zealand Dollar, Saudi Riyal, Taiwan Dollar, Russian Ruble, South African Rand, Danish Krone, Swedish Krona, Czech Koruna, Norwegian Krone, British Pound and Canadian Dollar and have original maturities ranging from one to thirty years.

During 2014, the Bank issued eurobonds in the aggregate principal amount of US$5,450 million in various types of currencies under the Bank's existing Euro medium term notes program (the "EMTN Program"), a 29% decrease from US$7,662 million in 2013. These bond issues consisted of offerings of US$2,546 million, HKD 1,250 million, IDR 1,100,000 million, INR 3,803 million, BRL 472 million, AUD 368 million, NZD 508 million, EUR 174 million, GBP 300 million, CHF 225 million, CNY 2,306 million, TRY 21 million, and CAD 325 million. In addition, the Bank issued global bonds during 2014 in the aggregate amount of US$2,500 million under the Bank's U.S. shelf registration statement (the "U.S. Shelf Program") compared with US$1,800 million in 2013. During the first half of 2015, the Bank issued eurobonds in the aggregate principal amount of US$3,173 million in various types of currencies under the EMTN Program, a 47% increase from US$2,152 million in the corresponding period of 2014. In addition, the Bank issued global bonds during the first half of 2015 in the aggregate amount of US$3,450 million under the U.S. Shelf Program compared with US$1,500 million in the corresponding period of 2014. As of June 30, 2015, the outstanding amounts of the Bank's notes and debentures were US$25,070 million, JPY 160,220 million, HKD 5,207 million, MYR 1,400 million, BRL 3,214 million, EUR 2,071 million, MXN 3,031 million, THB 19,000 million, CHF 275 million, AUD 3,075 million, INR 6,005 million, CNY 10,144 million, IDR 4,617,630 million, PEN 266 million, PHP 11,350 million, TRY 556 million, TWD 600 million, NZD 553 million, SAR 750 million, ZAR 1,025 million, RUB 1,260 million, NOK 2,750million, CZK 700 million, CAD 325 million, SGD 118 million and GBP 600 million. In August 2015, the Bank issued global bonds in the aggregate principal amount of US$125 million pursuant to the U.S. Shelf Program.

The Bank also borrows from foreign financial institutions in the form of loans that are principally made by syndicates of commercial banks at floating or fixed interest rates and in foreign currencies, with original maturities ranging from two to five years. As of June 30, 2015, the outstanding amount of such borrowings from foreign financial institutions was US$2,700 million.

The Bank's paid-in capital has increased from time to time since the Bank's establishment. From January 1998 to December 2014, the Government contributed ₩5,888 billion to the Bank's capital. As of September 30, 2015, the Bank's total paid-in capital amounted to ₩7,878 billion, and the Government, The Bank of Korea and Korea Development Bank owned 70.6%, 14.8% and 14.6%, respectively, of the Bank's paid-in capital.

In connection with the Bank's fund raising activities, the Bank has from time to time sold third parties promissory notes, including related guarantees, acquired as collateral in connection with export credit financings.

The KEXIM Act provides that the aggregate outstanding principal amount of all of the Bank's borrowings, including the total outstanding export-import financing debentures the Bank issued in accordance with the KEXIM Decree, may not exceed an amount equal to thirty times the sum of the

Bank's paid-in capital plus the Bank's reserves. As of June 30, 2015, the aggregate outstanding principal amount of the Bank's borrowings (including export-import financing debentures), which was ₩62,088 billion, was equal to 21% of the authorized amount of ₩293,819 billion.

The Bank is not permitted to accept demand or time deposits.

Each year the Bank must submit to the Government for its approval an operating plan which includes the Bank's target levels for different types of funding. The following table is the part of the operating plan dealing with fund-raising for 2015:

Sources of Fund	(billions of Won)
Capital Contribution	₩ 40
Borrowings	22,890
Net Collection of Loans	30,719
Collection of Loans	47,807
Repayment of Debts	(17,088)
Others	2,351
Total	₩ 56,000

Debt

Debt Repayment Schedule

The following table sets out the principal repayment schedule for the Bank's outstanding debt (consisting of borrowings and debentures) as of June 30, 2015:

Debt Principal Repayment Schedule

	Maturing on or before December 31,				
Currency (1)	2015	2016	2017	2018	Thereafter
			(billions of won)		
Won	₩ 5,120	₩ 3,410	₩ -	₩ -	₩ 890
Foreign (2)	8,610	9,252	7,826	4,714	22,112
Total Won Equivalent	₩ 13,730	₩ 12,662	₩ 7,826	₩ 4,714	₩ 23,002

(1) Borrowings and debentures in foreign currency have been translated into Won at the market average exchange rates on June 30, 2015, as announced by the Seoul Money Brokerage Services Ltd.
(2) This figure includes debentures, bank loans, commercial papers and repurchase agreements.

Normally the Bank determines the level of its foreign currency reserves based upon an estimate, at any given time, of aggregate loan disbursements to be made over the next two to three months. The Bank's average foreign currency reserves in 2013 and 2014 were approximately US$4,781 million and US$5,678 million, respectively.

Although the Bank currently believes that such reserves, together with additional borrowings available under its uncommitted short-term backup credit facilities and commercial paper programs, will be sufficient to repay its outstanding debt as it becomes due, there can be no assurance that the Bank will continue to be able to borrow under such credit facilities, or that the devaluation of the Won will not adversely affect its ability to access funds sufficient to repay its foreign currency denominated indebtedness in the future. In addition to maintaining sufficient foreign currency reserves, the Bank monitors the maturity profile of its foreign currency assets and liabilities to ensure that there are sufficient maturing assets to meet its liabilities as they become due. As of June 30, 2015, the Bank's foreign currency assets maturing within three months, six months and one year exceeded the Bank's foreign currency liabilities coming due within such periods by US$2,879 million, US$4,900 million and US$4,769 million, respectively. As of June 30, 2015, the Bank's total foreign currency liabilities exceeded the Bank's total foreign currency assets by US$7,340 million.

Internal and External Debt of the Bank

The following table summarizes, as of December 31 of the years indicated, the outstanding internal debt of the Bank:

Internal Debt of the Bank

		(billions of Won)
2010	₩	6,320
2011		7,530
2012		7,330
2013		8,130
2014		8,670

The following table sets out, by currency and the equivalent amount in U.S. Dollars, the outstanding external debt of the Bank as of December 31, 2014:

External Debt of the Bank

	Amount in Original Currency		Equivalent Amount in U.S. Dollars (1)	
	(billions)			
US$	US$	27.7	US$	27.7
Euro (EUR)	EUR	2.7		3.3
Japanese yen (JPY)	JPY	252.5		2.1
Brazilian real (BRL)	BRL	3.5		1.3
Australian Dollars (AUD)	AUD	3.1		2.5
British Pound(GBP)	GBP	0.8		1.3
Thai Bhat (THB)	THB	19.0		0.6
Hong Kong dollar (HKD)	HKD	4.2		0.5
Swiss franc (CHF)	CHF	0.7		0.7
Malaysian Ringgit (MYR)	MYR	1.6		0.5
Indonesian rupiah (IDR)	IDR	4,410.1		0.4
Chinese Yuan (CNY)	CNY	4.8		0.8
Norwegian Krone (NOK)	NOK	2.8		0.4
Turkish Lira (TRY)	TRY	0.6		0.3
Philippine peso (PHP)	PHP	11.4		0.3
Mexican Peso (MXN)	MXN	3.0		0.2
New Zealand Dollar (NZD)	NZD	0.6		0.4
Saudi Riyal (SAR)	SAR	0.8		0.2
Indian Rupee (INR)	INR	6.0		0.1
South African Rand (ZAR)	ZAR	1.4		0.1
Peru Nuevo sol (PEN)	PEN	0.3		0.1
Russian Ruble (RUB)	RUB	1.3		0.02
Czech Koruna (CZK)	CZK	0.7		0.03
Taiwan Dollar (TWD)	TWD	0.6		0.02
Canadian Dollar (CAD)	CAD	0.3		0.3
			US$	44.2

(1) Amounts expressed in currencies other than US$ are converted to US$ at the exchange rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2014 or the prevailing market rate on December 31, 2014.

The following table summarizes, as of December 31 of the years indicated, the outstanding external debt of the Bank:

External Debt of the Bank

	(billions of Won)
2010	₩ 30,668
2011	36,838
2012	35,075
2013	40,203
2014	48,411

Debt Record

The Bank has never defaulted in the payment of principal of, or interest on, any of its obligations.

Credit Policies, Credit Approval and Risk Management

Credit Policies

The Credit Policy Department functions as the Bank's centralized policy-making and planning division with respect to the Bank's lending activities. The Credit Policy Department formulates and revises the Bank's internal regulations on loan programs, sets basic lending guidelines on a country basis and gathers data from the Bank's various operating groups and produces various internal and external reports.

Credit Approval

The Bank has multiple levels of loan approval authority, depending on the loan amount and other factors such as the nature of the credit, the conditions of the transaction, and whether the loan is secured. The Bank's Executive Board of Directors can approve loans of any amount. The Chief Executive Committee, Credit Committee, Loan Officer Committee, Director Generals and Directors (Team Heads) each have authority to approve loans up to a specified amount. The amount differs depending on the type of loan and certain other factors, for example, whether a loan is collateralized or guaranteed.

At each level of authority, loan applications are reviewed on the basis of the feasibility of the project from a technical, financial and economic point of view in addition to evaluating the probability of recovery. In conducting such a review, the following factors are considered:

- eligibility of the transaction under the Bank's financing criteria;
- country risk of the country of the borrower and the country in which the related project is located;
- credit risk of the borrower;
- a supplier's ability to perform under the related supply contract;
- legal disputes over the related project and supply contract; and
- availability of collateral.

When the credit rating of a prospective borrower does not meet the Bank's internal rating criteria, the Bank's policy is to ensure that the loans are either guaranteed or made on a partially or fully secured basis. As of December 31, 2014, approximately 7% of the Bank's total outstanding loans were guaranteed or made on a partially or fully secured basis.

Risk Management

The Bank's overall risk management policy is set by the Risk Management Committee, which meets on a quarterly basis and from time to time to establish tolerance limits for various exposures, whereas the overall risk management is overseen by the Risk Management Department, which is responsible for monitoring risk exposure.

The Risk Management Department reports the Bank's loan portfolio to the Financial Supervisory Service on a quarterly basis. The Risk Management Department also monitors the Bank's operating groups' compliance with internal guidelines and procedures. To manage liquidity risk, the Bank reviews the strategy for the sources and uses of funds, with each division submitting projected sources and uses to the Treasury Department. The Risk Management Department and the Treasury Department continually monitor the Bank's overall liquidity and the Treasury Department prepares both weekly and monthly cash flow forecasts. The Bank's policy is to maintain a liquidity level, which can cover loan disbursements for a period of two to three months going forward. The Bank protects itself from potential liquidity squeezes by maintaining sufficient amount of liquid assets with additional back-up of short-term credit lines.

The Bank's core lending activities expose the Bank to market risk, mostly in the form of interest rate and foreign currency risks. The Risk Management Department reports interest rate and foreign exchange gap positions to the Risk Management Committee on a quarterly basis. The Bank also monitors changes in, and matches of, foreign currency assets and liabilities in order to reduce exposure to currency fluctuations.

One of the key components of the Bank's risk management policy, which also affects the Bank's fund-raising efforts, is to monitor matches of asset maturities and liability maturities. The average maturity as of December 31, 2014 for the Bank's Won- and foreign currency-denominated loans was 10 months and 41 months, respectively, and for Won- and foreign currency-denominated liabilities was 23 months and 40 months, respectively.

The Bank follows an overall risk management process where the Bank:

- determines the risk management objectives;
- identifies key exposures;
- measures key risks; and
- monitors risk management results.

The Bank's risk management system is a continuous system that is frequently evaluated and updated on an ongoing basis.

Capital Adequacy

Under the Financial Supervisory Service's guidelines on risk-adjusted capital which were introduced in consideration of the standards set by the Bank for International Settlements, all banks in Korea, including the Bank, are required to maintain a capital adequacy ratio (Tier I and Tier II) of at least 8% on a consolidated basis. To the extent that the Bank fails to maintain this ratio, the Korean regulatory authorities may require corrective measures ranging from management improvement recommendations to emergency measures such as disposal of assets. Beginning on January 1, 2008, the Financial Services Commission implemented the new Basel Capital Accord, referred to as Basel II, in Korea, substantially affecting the way risk is measured among Korean financial institutions, including the Bank. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk, market risk, capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operations risk. Basel II also institutes new measures that require the Bank to take into account individual borrower credit risk and operations risk when calculating risk-weighted assets. In July 2013, the Financial Services Commission implemented the Third Basel Capital Accord, referred to as Basel III, in Korea and promulgated amended regulations, which went into effect from December 1, 2013, pursuant to which Korean banks (including the Bank) are required to maintain a minimum ratio of Tier I common equity capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios are to increase to 4.0% and 5.5%, respectively, from December 1, 2014 and 4.5% and 6.0%, respectively, from December 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. As of June 30, 2015, the Bank's capital adequacy ratio was 10.1%, a decrease from 10.5% as of December 31, 2014, which was primarily due to an increase in total capital which more than offset an increase in risk adjusted assets.

The following table sets forth the Bank's capital base and capital adequacy ratios reported as of June 30, 2015, December 31, 2014 and December 31, 2013:

	As of June 30,	As of December 31,	
	2015	2014	2013
	(billions of Won, except for percentages)		
Tier I	₩ 9,359	₩ 9,321	₩ 8,724
Paid-in Capital	7,788	7,748	7,238
Retained Earnings	1,482	1,492	1,465
Accumulated other comprehensive income	104	96	37
Common shares issued by consolidated subsidiaries of the bank and held by third parties	2	2	1
Deductions from Tier I Capital	(18)	(17)	(17)
Capital Adjustments	—	—	—
Deferred Tax Asset	—	—	—
Others	(18)	(17)	(17)
Tier II (General Loan Loss Reserves)	1,277	1,223	1,031
Total Capital	10,636	10,544	9,755
Risk Adjusted Assets	104,967	100,445	84,117
Capital Adequacy Ratios			
Tier I common equity	8.9%	9.3%	10.4%
Tier I	8.9%	9.3%	10.4%
Tier I and Tier II	10.1%	10.5%	11.6%

Source: Internal accounting records.

Overseas Operations

The Bank maintains an international presence through 21 overseas representative offices, which are located in New York, Tokyo, Beijing, Sâo Paolo, Paris, Washington D.C., Shanghai, New Delhi, Dubai, Moscow, Mexico City, Tashkent, Hanoi, Manila, Jakarta, Yangon, Dar es Salaam, Maputo and Accra.

The Bank also has three wholly-owned subsidiaries, KEXIM Bank (UK) Ltd., London, KEXIM (Asia) Ltd., Hong Kong, and KEXIM Vietnam Leasing Co., Ltd., Ho Chi Minh City. These subsidiaries are engaged in the merchant banking and lease financing businesses, and assist the Bank in raising overseas financing. The Bank also owns 85% of P.T. Koexim Mandiri Finance, a subsidiary in Jakarta, which is primarily engaged in the business of lease financing.

The table below sets forth brief details of the Bank's subsidiaries as of December 31, 2014:

	Principal Place of Business	Type of Business	Book Value (billions of Won)	Bank's Holding (%)
Kexim Bank (UK) Ltd.	United Kingdom	Commercial Banking	₩ 48	100%
KEXIM (Asia) Ltd.	Hong Kong	Commercial Banking	49	100
P.T. Koexim Mandiri Finance	Indonesia	Leasing and Factoring	25	85
Kexim Vietnam Leasing Co., Ltd.	Vietnam	Leasing and Lending	10	100

Property

The Bank's head office is located at 38 Eunhaeng-ro, Yeongdeungpo-gu, Seoul 07242, Korea, a 34,820 square meter building completed in 1985 on a site of 9,110 square meters and owned by the Bank. In addition to the head office, the Bank owns a staff training center located near Seoul on a site of 47,881 square meters. The Bank also maintains 10 branches in Busan, Gwangju, Daegu, Changwon, Daejeon, Suwon, Inchon, Ulsan, Chungju and Jeonju. The Bank's domestic branch offices and overseas representative offices are located in facilities held under long-term leases.

Management and Employees

Management

The Bank's governance and management is the responsibility of the Bank's Board of Directors, which has authority to decide important matters relating to the Bank's business. The Board of Directors is chaired by the Bank's President and is comprised of six Directors consisting of the President, the Deputy President, two Senior Executive Directors and two Non-executive Directors. The President of Korea appoints the Bank's President upon the recommendation of the Minister of Strategy and Finance. The Minister of Strategy and Finance appoints the Deputy President and all the other Directors upon the recommendation of the Bank's President. All Board members serve for three years and are eligible for re-appointment for successive terms of office.

The members of the Board of Directors are currently as follows:

Name	Age	Executive Director Since	Position
Duk-hoon Lee	66	March 6, 2014	Chairman and President
Young-Pyo Hong	59	May 15, 2015	Deputy President
Sunghwan Choi	58	July 1, 2015	Senior Executive Director
Sungtaek Kim	55	July 1, 2015	Senior Executive Director
Sung-ik Oh	62	November 29, 2013	Non-Executive Director
Young-yul An	58	November 29, 2013	Non-Executive Director

The Bank's basic policy guidelines for activities are established by the Operations Committee. According to the By-laws, the Operations Committee is composed of officials nominated as follows:

- President of KEXIM;
- official of the Ministry of Strategy and Finance, nominated by the Minister of Strategy and Finance;
- official of the Ministry of Foreign Affairs, nominated by the Minister of Foreign Affairs;
- official of the Ministry of Trade, Industry & Energy, nominated by the Minister of Trade, Industry & Energy;

- official of the Ministry of Land, Infrastructure and Transport, nominated by the Minister of Land, Infrastructure and Transport;
- official of the Ministry of Oceans and Fisheries, nominated by the Minister of Oceans and Fisheries;
- official of the Financial Services Commission, nominated by the Chairman of the Financial Services Commission;
- executive director of The Bank of Korea, nominated by the Governor of The Bank of Korea;
- executive director of the Korea Federation of Banks, nominated by the Chairman of the Korea Federation of Banks;
- representative of an exporters' association (Korea International Trade Association), nominated by the Minister of Strategy and Finance after consultation with the Minister of Trade, Industry & Energy;
- officer of the Korea Trade Insurance Corporation established under the Trade Insurance Act, nominated by the Chairman and President of the Korea Trade Insurance Corporation; and
- up to two persons who have extensive knowledge and experience in international economic cooperation work, recommended by the Bank's President and appointed by the Minister of Strategy and Finance.

The members of the Operations Committee are currently as follows:

Name	Age	Member Since	Position
Duk-hoon Lee	66	March 6, 2014	Chairman and President of KEXIM
Sung-soo Eun	54	April 17, 2013	Deputy Minister for International Economic Affairs, Ministry of Strategy and Finance
Chong-ghee Ahn	58	April 12, 2013	Deputy Minister for Economic Affairs, Ministry of Foreign Affairs
Pyung-oh Kwon	58	April 11, 2013	Deputy Minister for International Trade and Investment, Ministry of Trade, Industry & Energy
Si-kweon Ahn	53	April 12, 2013	Assistant Minister for Construction Policy Bureau, Ministry of Land, Infrastructure and Transport
Ki-jeong Jeon	50	May 2, 2013	Director of Shipping & Logistics Department, Ministry of Oceans and Fisheries
Seung-beom Koh	53	May 13, 2013	Secretary General, Financial Services Commission
Tae-soo Kang	57	April 26, 2012	Deputy Governor, The Bank of Korea
Young-dae Kim	57	March 16, 2012	Vice Chairman, Korea Federation of Banks
Hyun-ho Ahn	58	December 15, 2011	Executive Vice Chairman, Korea International Trade Association
Moon-hong Kwon	60	September 15, 2011	Deputy President, Korea Trade Insurance Corporation
Sang-kuk Kim (Private Sector)	63	November 24, 2012	Professor, Kyung Hee University
Hak-loh Lee (Private Sector)	57	November 24, 2012	Professor, Dongkuk University

Employees

As of December 31, 2014, the Bank had 1,023 employees, among which 662 employees were members of its labor union. The Bank has never experienced a work stoppage of a serious nature. Every year during the fourth quarter, the management and union negotiate and enter into a collective bargaining agreement that has a one-year duration. The most recent collective bargaining agreement was entered into in December 2014.

Financial Statements and the Auditors

The Minister of Strategy and Finance appoints the Bank's internal Auditor who is responsible for examining the Bank's financial operations and auditing the Bank's financial statements and accounting records. The present internal Auditor is Kong Myung-Jai, who was appointed for a three-year term on August 29, 2014.

The Bank prepares its financial statements annually for submission to the Minister of Strategy and Finance, accompanied by an opinion of the Auditor. Although the Bank is not legally required to have financial statements audited by external auditors, an independent public accounting firm has audited the Bank's separate financial statements since 1983 and consolidated financial statements since 1998. As of the date of this Offering Circular, the Bank's independent auditor is Deloitte Anjin LLC, located at 9th Floor, One IFC Bldg., 10 Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul 07326, Korea which has audited the Bank's separate financial statements as of and for the years ended December 31, 2013 and 2014 included in this Offering Circular.

The Bank's separate financial statements appearing in this Offering Circular were prepared in conformity with the KEXIM Act and the related accounting principles, summarized in Note 2 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014 and Note 2 of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013. These principles and procedures differ in certain material respects from generally accepted accounting principles in the United States.

The Bank recognizes interest income on loans and debt securities using the effective interest method on an accrual basis.

The Bank classifies a non-derivative financial asset as held for trading if either it is acquired for the purpose of selling it in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. The Bank classifies debt securities with fixed or determinable payments and fixed maturities, and which the Bank intends to hold to maturity, as held-to-maturity securities. The Bank classifies investments that are categorized as neither trading securities nor held-to-maturity securities as available-for-sale securities. The Bank records its trading and available-for-sale securities at fair value. However, investments in available-for-sale securities that do not have readily determinable fair values are recognized at cost. The Bank records held-to-maturity securities at amortized cost. The Bank recognizes impairment losses on securities in current operations when the recoverable amounts are less than the carrying amount of equity securities or amortized cost of debt securities.

The Bank records debenture issuance costs as discounts on debentures and amortize them over the maturity period of the debentures using the effective interest method.

The Bank's financial statements are separate financial statements prepared in accordance with the requirements of K-IFRS 1027 Separate Financial Statements, in which a parent, or an investor with joint control of, or significant influence over, an investee accounts for the investments based on the cost method or valuation methods in accordance with K-IFRS 1039 Financial Instruments.

The Bank records the value of its premises and equipment on its statements of financial position on the basis of a revaluation conducted as of July 1, 1998. The Minister of Strategy and Finance approved the revaluation in accordance with applicable Korean law. The Bank records additions to premises and equipment since such date at cost. In addition, as the Bank initially adopted K-IFRS in 2013, its premises and equipment on the statements of financial position as of January 1, 2013 are remeasured at their fair value in accordance with IFRS 1 paragraph 30(b). Since the conversion into K-IFRS, the Bank has chosen to apply the cost model to the premises and equipment in accordance with IAS 16 paragraph 29.

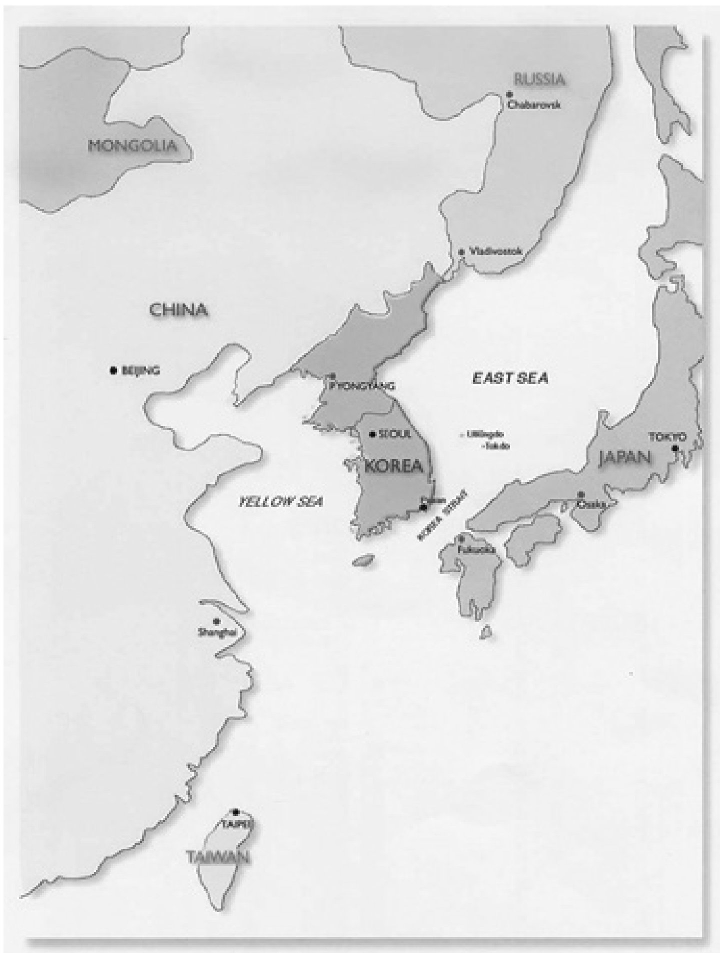
THE REPUBLIC OF KOREA

Land and History

Territory and Population

Located generally south of the 38th parallel on the Korean peninsula, the Republic of Korea covers about 38,000 square miles, approximately one-fourth of which is arable. The Republic has a population of approximately 51 million people. The country's largest city and capital, Seoul, has a population of about 10 million people.

Map of the Republic of Korea



Political History

Dr. Rhee Syngman, who was elected President in each of 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963. President Park served as President until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister

Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

In late 1980, the country approved, by national referendum, a new Constitution, providing for indirect election of the President by an electoral college and for certain democratic reforms, and shortly thereafter, in early 1981, re-elected President Chun.

Responding to public demonstrations in 1987, the legislature revised the Constitution to provide for direct election of the President. In December 1987, Roh Tae Woo won the Presidency by a narrow plurality, after opposition parties led by Kim Young Sam and Kim Dae Jung failed to unite behind a single candidate. In February 1990, two opposition political parties, including the one led by Kim Young Sam, merged into President Roh's ruling Democratic Liberal Party.

In December 1992, the country elected Kim Young Sam as President. The election of a civilian and former opposition party leader considerably lessened the controversy concerning the legitimacy of the political regime. President Kim's administration reformed the political sector and deregulated and internationalized the Korean economy.

In December 1997, the country elected Kim Dae Jung as President. President Kim's party, the Millennium Democratic Party (formerly known as the National Congress for New Politics), formed a coalition with the United Liberal Democrats led by Kim Jong Pil, with Kim Jong Pil becoming the first prime minister in President Kim's administration. The coalition, which temporarily ended before the election held in April 2000, continued with the appointment of Lee Han Dong of the United Liberal Democrats as the Prime Minister in June 2000. The coalition again ended in September 2001.

In December 2002, the country elected Roh Moo Hyun as President. President Roh and his supporters left the Millennium Democratic Party in 2003 and formed a new party, the Uri Party, in November 2003. On August 15, 2007, 85 members of the National Assembly, previously belonging to the Uri Party, or the Democratic Party, formed the United New Democratic Party (the "UNDP"). The Uri Party merged into the UNDP in August 20, 2007. In February 2008, the UNDP merged back into the Democratic Party. In December 2011, the Democratic Party merged with the Citizens Unity Party to form the Democratic United Party, which changed its name to the Democratic Party in May 2013.

In December 2007, the country elected Lee Myung-Bak as President. He commenced his term on February 25, 2008. The Lee administration pursued a lively market economy through deregulation, free trade and the attraction of foreign investment.

In December 2012, the country elected Park Geun-hye as President. She commenced her term on February 25, 2013. The Park administration's key policy priorities include:

- facilitating the growth of small- and medium-enterprises and job creation;
- seeking a productive welfare system based on customized welfare benefits and job training;
- promoting clean and renewable energy technologies;
- facilitating new growth engine industries;
- taking initiatives on the denuclearization of North Korea; and
- establishing an efficient government by reorganizing government functions.

Government and Politics

Government and Administrative Structure

Governmental authority in the Republic is centralized and concentrated in a strong Presidency. The President is elected by popular vote and can only serve one term of five years. The President chairs the State Council, which consists of the prime minister, the deputy prime ministers, the respective heads of Government ministries and the ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for elected local officials.

The President can veto new legislation and take emergency measures in cases of natural disaster, serious fiscal or economic crisis, state of war or other similar circumstances. The President must promptly seek the concurrence of the National Assembly for any emergency measures taken and failing to do so automatically invalidates the emergency measures. In the case of martial law, the President may declare martial law without the consent of the National Assembly; provided, however, that the National Assembly may request the President to rescind such martial law.

The National Assembly exercises the country's legislative power. The Constitution and the Election for Public Offices Act provide for the direct election of about 82% of the members of the National Assembly and the distribution of the remaining seats proportionately among parties winning more than 5 seats in the direct election or receiving over 3% of the popular vote. National Assembly members serve four-year terms. The National Assembly enacts laws, ratifies treaties and approves the national budget. The executive branch drafts most legislation and submits it to the National Assembly for approval.

The country's judicial branch comprises the Supreme Court, the Constitutional Court and lower courts of various levels. The President appoints the Chief Justice of the Supreme Court and appoints the other Justices of the Supreme Court upon the recommendation of the Chief Justice. All appointments to the Supreme Court require the consent of the National Assembly. The Chief Justice, with the consent of the conference of Supreme Court Justices, appoints all the other judges in Korea. Supreme Court Justices serve for six years and all other judges serve for ten years. Other than the Chief Justice, justices and judges may be reappointed to successive terms.

The President formally appoints all nine judges of the Constitutional Court, but three judges must be designated by the National Assembly and three by the Chief Justice of the Supreme Court. Constitutional Court judges serve for six years and may be reappointed to successive terms.

Administratively, the Republic comprises eight provinces, one special autonomous province (Jeju), one special city (Seoul), six metropolitan cities (Busan, Daegu, Incheon, Gwangju, Daejon and Ulsan) and one special autonomous city (Sejong). From 1961 to 1995, the national government controlled the provinces and the President appointed provincial officials. Local autonomy, including the election of provincial officials, was reintroduced in June 1995.

Political Organizations

The 19th legislative general election was held on April 11, 2012 and the term of the National Assembly members elected in the 19th legislative general election commenced on May 30, 2012. In March 2014, the Democratic Party merged with the New Politics Alliance and changed its name to the New Politics Alliance for Democracy, or the NPAD. Currently, there are two major political parties, the Saenuri Party (formerly known as the Grand National Party), or SP, to which President Park Geun-hye belongs, and the NPAD.

As of November 25, 2015, the parties controlled the following number of seats in the National Assembly:

	SP	NPAD	Others	Total
Number of Seats	159	128	10	297

Relations with North Korea

Relations between the Republic and North Korea have been tense over most of the Republic's history. The Korean War, which took place between 1950 and 1953 began with the invasion of the Republic by communist forces from North Korea and, following a military stalemate, an armistice was reached establishing a demilitarized zone monitored by the United Nations in the vicinity of the 38th parallel.

North Korea maintains a regular military force estimated at more than 1,000,000 troops, mostly concentrated near the northern border of the demilitarized zone. The Republic's military forces, composed of approximately 650,000 regular troops and almost 3.0 million reserves, maintain a state of military preparedness along the southern border of the demilitarized zone. In addition, the United States has historically maintained its military presence in the Republic. In October 2004, the United States and the Republic agreed to a three-phase withdrawal of approximately one-third of the 37,500 troops stationed in the Republic by the end of 2008. By the end of 2004, 5,000 U.S. troops departed the Republic in the first phase of such withdrawal and in the plan's second phase, the United States removed 5,000 troops by the end of 2006. In the final phase, another 2,500 U.S. troops were scheduled to depart by the end of 2008. In April 2008, however, the United States and the Republic decided not to proceed with the final phase of withdrawal and agreed to maintain 28,500 U.S. troops in the Republic. In February 2007, the United States and the Republic agreed to dissolve their joint command structure by 2012, which would allow the Republic to assume the command of its own armed forces in the event of war on the Korean peninsula. In June 2010, however, the United States and the Republic agreed to delay the dissolution of their joint command structure to 2015. In October 2014, the United States and the Republic further agreed to implement a conditions-based approach to the dissolution of their joint command structure at an appropriate future date, and in November 2015, the Republic and the United States reaffirmed such approach.

The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. There have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, the Republic, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea's weapons program, and calls upon all United Nations member states to take cooperative action, including thorough inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications.

In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. The Republic, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea, and the United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. Subsequently, North Korea announced that it would permanently pull out of the six-party talks and restart its nuclear program, and the International Atomic Energy Agency reported that its inspectors had been ordered to remove surveillance devices and other equipment at the Yongbyon nuclear power plant and to leave North Korea. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range, surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking in May 2010. North Korea denied responsibility for the sinking and threatened retaliation for any attempt to punish it for the act. In November 2010, North Korean forces fired more than one hundred artillery shells targeting Yeonpyeong Island located near the maritime border between the Republic and North Korea on the west coast of the Korean peninsula, killing two Korean soldiers and two civilians as well as causing substantial property damage. The Republic responded by firing approximately 80 artillery shells and putting the military on its highest alert level. The Government condemned North Korea for the act and vowed stern retaliation should there be further provocation. In April 2012, North Korea launched a long-range rocket over the Yellow Sea. The Republic, Japan and the United States condemned the launch and the United Nations Security Council adopted a chairman's statement condemning North Korea for the launch. In December 2012, North Korea successfully launched a satellite into orbit using a long-range rocket after an unsuccessful attempt in April 2012, despite concerns in the international community that such a launch would be in violation of the United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology. In February 2013, North Korea announced that it had successfully conducted a third nuclear test, which increased tensions in the region. In response, the United Nations Security Council strongly condemned North Korea for the nuclear test. In March 2013, North Korea stated that it had entered "a state of war" with the Republic, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Republic-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests. In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space. From time to time, North Korea has also fired short to medium range missiles from the coast of the Korean peninsula into the sea, most recently in March 2015, in apparent protest of annual joint military exercises being held by the Republic and the United States. In August 2015, two Korean soldiers were seriously wounded in mine explosions while on routine patrol of the southern side of the demilitarized zone. The Republic and the United Nations Command announced that the mines were recently emplaced by North Korea. After high-level talks between the Republic and North Korea, a joint statement was released whereby North Korea expressed regret over the mine explosions that wounded the Korean soldiers.

In addition, North Korea's economy faces severe challenges including chronic food shortages. In November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. 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.

Since the death of Kim Jong-il, the former North Korean ruler, in mid-December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-un, Kim Jong-il's third son, assumed power as North Korea's new ruler, the eventual outcome of the leadership transition remains uncertain. Furthermore, as only limited information is available outside of North Korea about Kim Jong-un, and it is unclear which individuals or factions, if any, will share political power with Kim Jong-un or assume the leadership if the transition is not successful, there is significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that such escalation will not have a material adverse impact on the Republic's economy or its ability to obtain future funding. Any further increase in tension, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between the Republic and North Korea break down or military hostilities occur, could have a material adverse effect on the Republic's economy.

Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by the Republic. In former President Lee's national address in August 2010, he suggested the possible adoption of a reunification tax as a potential means of alleviating the potential long-term economic burden associated with reunification. Such discussions on reunification are very preliminary, and it has not been decided whether or when such a reunification tax would be implemented. If a reunification tax is implemented, depending on how it is structured, it may lead to a decrease in domestic consumption, which in turn may have a material adverse effect on the Republic's economy.

Foreign Relations and International Organizations

The Republic maintains diplomatic relations with most nations of the world, most importantly with the United States with which it entered into a mutual defense treaty and several economic agreements. The Republic also has important relationships with Japan and China, its largest trading partners together with the United States.

The Republic belongs to a number of supranational organizations, including:

- United Nations;
- the International Monetary Fund, or the IMF;
- the World Bank;
- the Asian Development Bank, or ADB;
- the Multilateral Investment Guarantee Agency;
- the International Finance Corporation;
- the International Development Association;
- the African Development Bank;
- the European Bank for Reconstruction and Development;
- the Bank for International Settlements;

- the World Trade Organization, or WTO;
- the Inter-American Development Bank, or IDB; and
- the Organization for Economic Cooperation and Development, or OECD.

The Economy

The following table sets forth information regarding certain of the Republic's key economic indicators for the periods indicated.

	As of or for the year ended December 31,				
	2010	2011	2012	2013	2014
	(billions of dollars and trillions of Won, except percentages)				
GDP Growth (at current prices)	9.9%	5.3%	3.4%	3.8%	3.9%
GDP Growth (at chained 2010 year prices)	6.5%	3.7%	2.3%	2.9%	3.3%
Inflation	3.0%	4.0%	2.2%	1.3%	1.3%
Unemployment (1)	3.7%	3.4%	3.2%	3.1%	3.5%
Trade Surplus (2)	$ 41.2	$ 30.8	$ 28.3	$ 44.0	$ 47.2
Foreign Currency Reserves	$ 291.6	$ 306.4	$ 327.0	$ 346.5	$ 363.6
External Liabilities(3)	$ 355.9	$ 400.0	$ 408.9	$ 423.5	$ 425.4(6)
Fiscal Balance	₩ 16.7	₩ 18.6	₩ 18.5	₩ 14.2	₩ 8.5(6)
Direct Internal Debt of the Government(4) (as % of GDP(5))	28.5%	29.7%	30.9%	32.8%	34.6(6)
Direct External Debt of the Government(4) (as % of GDP(5))	0.8%	0.7%	0.6%	0.6%	0.5(6)

(1) Average for year.
(2) Derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
(3) Calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010.
(4) Does not include guarantees by the Government. See "*—Debt—External and Internal Debt of the Government—Guarantees by the Government*" for information on outstanding guarantees by the Government.
(5) At chained 2010 year prices.
(6) Preliminary.

Source: The Bank of Korea

Current Worldwide Economic and Financial Difficulties

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.

As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, the value of the Won relative to the U.S. dollar depreciated at an accelerated rate during the fourth quarter of 2008 and first half of 2009. See "*—Monetary Policy—Foreign Exchange*." Such depreciation of the Won increased the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. Furthermore, as a result of adverse global and Korean economic conditions, there was a significant overall decline and continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index declined by 27.8% from 1,852.0 on May 30, 2008 to 1,336.7 on April 16, 2009. See

"—*The Financial System—Securities Markets*." Moreover, gross domestic product, or GDP, in the first quarter of 2009 contracted by 4.3% at chained 2005 year prices compared with the same period in 2008, and exports in the first quarter of 2009 decreased by 24.8% to US$74.7 billion from US$99.4 billion in the same period in 2008. In addition, increases in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically that led many lenders and institutional investors to reduce or cease funding to borrowers, adversely affected Korean banks' ability to borrow, particularly with respect to foreign currency funding, in the fourth quarter of 2008 and first half of 2009.

In response to these developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. In particular, the Government implemented, among other things, the following measures in the fourth quarter of 2008 and in 2009:

- in October 2008, the Government implemented a guarantee program to guarantee foreign currency-denominated debt incurred by Korean banks and their overseas branches between October 20, 2008 and June 30, 2009 (subsequently extended to December 31, 2009), up to an aggregate amount of US$100 billion, for a period of three years (subsequently extended to five years) from the date such debt was incurred;
- in October 2008, The Bank of Korea established a temporary reciprocal currency swap arrangement with the Federal Reserve Board of the United States for up to US$30 billion, effective until April 30, 2009 (subsequently extended to October 30, 2009). The Bank of Korea provided U.S. dollar liquidity, through competitive auction facilities, to financial institutions established in Korea, using funds from the swap line;
- in December 2008, a ₩10 trillion bond market stabilization fund was established to purchase financial and corporate bonds and debentures in order to provide liquidity to companies and financial institutions;
- in December 2008, The Bank of Korea agreed with the People's Bank of China to establish a bilateral currency swap arrangement for up to ₩38 trillion, effective for three years, and agreed with the Bank of Japan to increase the maximum amount of their bilateral swap arrangement from US$3 billion to US$20 billion, effective until April 30, 2009;
- in December 2008 and March 2009, the Government, through Korea Asset Management Corporation, purchased approximately ₩1.7 trillion of non-performing loans held by savings banks;
- during the first quarter of 2009, the Government, through the Bank of Korea and the Korea Development Bank, purchased from Korean banks approximately ₩4 trillion of hybrid securities and subordinated bonds;
- during the fourth quarter of 2008 and the first quarter of 2009, The Bank of Korea decreased the policy rate by a total of 3.25% points to 2.00% in order to address financial market instability and to help combat the slowdown of the domestic economy;
- in April 2009, the National Assembly authorized the expansion of the 2009 national budget by ₩28.4 trillion to provide stimulus for the Korean economy; and
- in December 2009, the Government, together with the member countries of the Association of Southeast Asian Nations, China and Japan, signed the Chiang Mai Initiative Multilateralization Agreement to address balance-of-payments and short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.

The global financial markets have experienced significant volatility in recent years as a result of, among other things, the downgrading by Standard & Poor's Rating Services of the long-term sovereign credit rating of the United States to "AA+" from "AAA" in August 2011, as well as the continuing financial difficulties affecting many other governments worldwide, including Greece, Spain, Italy and Portugal. In November 2009, the Dubai government announced a moratorium on the outstanding debt of Dubai World, a government-affiliated investment company. In November 2008, the Icelandic government, facing mounting debt problems, reached an agreement with the IMF to receive loans in the amount of US$2.1 billion over a two-year period, and in May 2010 and March 2012, the Greek government reached an agreement with the IMF and the European Union to receive loans in the amount of Euro 110 billion over a three-year period and to receive additional loans in the amount of Euro 130 billion over a four-year period, respectively. In July 2012, the Spanish government reached an agreement with the European Union under the European Stability Mechanism, or ESM, to receive up to Euro 100 billion to cover the capitalization needs of the Spanish banking sector. In connection with the agreement with the Spanish government, the ESM disbursed Euro 37 billion and Euro 1.9 billion in December 2012 and February 2013, respectively, for the recapitalization of certain Spanish banks. Any of these or other developments could potentially trigger another financial and economic crisis, which could have a material adverse effect on the Korean economy and financial markets (including depreciation of the value of the Won, decline and volatility in the stock prices of Korean companies, increases in credit spreads and funding costs and decreases in exports).

There has been significant volatility in the Korea Composite Stock Index in recent years, due to adverse global financial and economic conditions. See "*—The Financial System—Securities Markets*." There is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the index and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies and banks to raise capital. In the event that such difficult conditions in the global credit markets continue or the global economy deteriorates in the future, the Korean economy could be adversely affected and Korean banks may be forced to fund their operations at a higher cost or may be unable to raise as much funding as they need to support their lending and other activities.

Furthermore, while many governments worldwide are considering or are in the process of 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.

Any of the foregoing global developments may have a material adverse effect on the Korean economy. In addition, domestic developments that could lead or contribute to a material adverse effect on the Korean economy include, among other things, the following:

- steadily rising household debt consisting of housing loans and merchandise credit, which increased to ₩1,089.0 trillion as of December 31, 2014 from ₩843.2 trillion as of December 31, 2010, primarily due to increases in mortgage loans and purchases with credit cards;

- a slowdown in consumer spending and depressed consumer sentiment, due in part to a decrease in consumer spending following the sinking of the Sewol passenger ferry in April 2014, which led to the death of hundreds of passengers, and the outbreak of Middle East Respiratory Syndrome ("MERS") in May 2015, which resulted in the death of over 30 people and the quarantine of thousands;

- a decrease in tax revenue and a substantial increase in the Korean government's expenditures for pension and social welfare programs, due in part to an aging population (defined as the population of people aged 65 years or older) that accounted for 12.7% of the Republic's total population as of December 31, 2014, an increase from 7.2% as of December 31, 2000, and is expected to surpass 15% in 2020 and 20% in 2026, which could lead to the Korean government's budget deficit;

- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- decreases in the market prices of Korean real estate; and
- the occurrence of severe health epidemics, including epidemics that affect the livestock industry.

Gross Domestic Product

GDP measures the market value of all final goods and services produced within a country for a given period and reveals whether a country's productive output rises or falls over time. Economists present GDP in both current market prices and "real" or "inflation-adjusted" terms. In March 2009, the Republic adopted a method known as the "chain-linked" measure of GDP, replacing the previous fixed-base, or "constant" measure of GDP, to show the real growth of the aggregate economic activity, as recommended by the System of National Accounts 1993. GDP at current market prices values a country's output using the actual prices of each year, whereas the "chain-linked" measure of GDP is compiled by using "chained indices" linking volume growth between consecutive time periods. In March 2014, the Republic published a revised GDP calculation method by implementing the System of National Accounts 2008 and updating the reference year from 2005 to 2010 to align Korean national accounts statistics with the recommendations of the new international standards for compiling national economic accounts and to maintain comparability with other nations' accounts. The main components of these revisions include, among other things, (i) recognizing expenditures for research and development and creative activity for the products of entertainment, literary and artistic originals as fixed investment, (ii) incorporating a wide array of new and revised source data such as the economic census, the population and housing census and 2010 benchmark input-output tables, which provide thorough and detailed information on the structure of the Korean economy, (iii) developing supply-use tables, which provide a statistical tool for ensuring consistency among the production, expenditure and income approaches to measuring GDP and (iv) recording merchandise trade transactions based on ownership changes rather than movements of goods across the national frontier.

The following table sets out the composition of the Republic's GDP at current market and chained 2010 year prices and the annual average increase in the Republic's GDP.

Gross Domestic Product

	2010	2011	2012	2013	2014 (1)	As % of GDP 2014 (1)
			(billions of Won)			
Gross Domestic Product at Current Market Prices:						
Private	636,712.7	679,141.5	707,614.0	727,799.9	748,906.5	50.4
Government	183,108.5	194,381.2	204,324.2	214,467.3	224,045.2	15.1
Gross Capital Formation	405,188.0	439,236.1	427,028.5	416,000.3	433,068.9	29.2
Exports of Goods and Services	625,308.8	742,936.0	776,062.4	770,114.8	752,061.8	50.6
Less Imports of Goods and Services	(585,010.0)	(723,013.8)	(737,572.4)	(698,936.9)	(672,822.1)	(45.3)
Statistical Discrepancy	—	—	—	—	(182.4)	(0.0)
Expenditures on Gross Domestic Product	1,265,308.0	1,332,681.0	1,377,456.7	1,429,445.4	1,485,078.0	100.0
Net Factor Income from the Rest of the World	1,271.9	7,848.8	14,138.8	10,199.0	11,515.4	0.8
Gross National Income (2)	1,266,579.8	1,340,529.8	1,391,595.5	1,439,644.4	1,496,593.4	100.8
Gross Domestic Product at Chained 2010 Year Prices:						
Private	636,712.7	655,181.1	667,781.2	680,349.5	692,594.0	48.6
Government	183,108.5	187,158.2	193,473.5	199,783.4	205,417.7	14.4
Gross Capital Formation	405,188.0	419,282.7	409,639.9	409,153.8	429,714.9	30.1
Exports of Goods and Services	625,308.8	719,943.2	756,558.4	788,788.0	810,723.2	56.8
Less Imports of Goods and Services	(585,010.0)	(668,931.5)	(685,009.4)	(696,724.6)	(711,437.3)	(49.9)
Statistical Discrepancy	—	(740.9)	(142.1)	(172.8)	409.1	0.0
Expenditures on Gross Domestic Product (3)	1,265,308.0	1,311,892.7	1,341,966.5	1,380,832.6	1,426,540.3	100.0
Net Factor Income from the Rest of the World in the Terms of Trade	1,271.9	7,573.1	13,577.8	10,037.5	11,255.7	0.8
Trading Gains and Losses from Changes in the Terms of Trade	—	(32,183.6)	(33,075.1)	(19,138.8)	(13,984.6)	(1.0)
Gross National Income (4)	1,266,579.8	1,287,282.2	1,322,449.9	1,371,733.1	1,423,790.2	99.8
Percentage Increase (Decrease) of GDP over Previous Year At Current Prices	9.9	5.3	3.4	3.8	3.9	
At Chained 2010 Year Prices	6.5	3.7	2.3	2.9	3.3	

(1) Preliminary.
(2) GDP plus net factor income from the rest of the world is equal to the Republic's gross national product.
(3) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add to the total GDP.
(4) Under the "chain-linked" measure of Gross National Income, the components of Gross National Income will not necessarily add to the total Gross National Income.

Source: The Bank of Korea.

The following table sets out the Republic's GDP by economic sector at current market prices:

Gross Domestic Product by Economic Sector
(at current market prices)

	2010	2011	2012	2013	2014 (1)	As % of GDP 2014 (1)
			(billions of Won)			
Industrial Sectors:						
Agriculture, Forestry and Fisheries	28,297.4	30,454.0	30,775.1	30,437.2	31,710.3	2.1
Mining and Manufacturing	353,969.9	381,808.0	390,288.6	406,127.7	412,732.5	27.8
Mining and Quarrying	2,199.3	2,287.0	2,278.5	2,471.0	2,518.3	0.2
Manufacturing	351,770.6	379,521.0	388,010.1	403,656.7	410,214.2	27.6
Electricity, Gas and Water Supply	25,632.3	23,994.1	26,178.2	30,238.7	38,114.8	2.6
Construction	58,633.7	58,587.3	59,959.4	64,250.5	66,954.8	4.5
Services:	678,590.8	715,112.9	744,253.9	772,184.1	804,774.1	54.2
Wholesale and Retail Trade, Restaurants and Hotels	130,351.2	140,705.3	146,807.7	150,251.9	152,118.1	10.2
Transportation and Storage	44,539.1	42,458.7	43,570.7	46,772.0	50,190.1	3.4
Finance and Insurance	71,669.6	77,872.6	75,808.5	72,478.1	75,557.6	5.1
Real Estate and Leasing	91,042.0	94,716.1	98,923.6	103,527.1	108,004.5	7.3
Information and Communication	45,364.1	46,827.0	48,774.2	50,589.2	52,079.0	3.5
Business Activities	77,950.1	83,277.4	88,828.1	94,758.4	99,799.3	6.7
Public Administration and Defense	78,885.9	83,290.8	88,654.6	93,776.3	98,279.6	6.6
Education	63,749.4	66,559.6	68,546.3	71,599.3	74,294.1	5.0
Health and Social Work	43,925.1	46,656.1	50,031.3	52,851.5	57,178.3	3.9
Cultural and Other Services	31,114.5	32,749.4	34,309.0	35,580.3	37,273.5	2.5
Taxes Less Subsidies on Products	120,183.9	122,724.8	126,001.4	126,207.2	130,791.5	8.8
Gross Domestic Product at Current Market Prices	1,265,308.0	1,332,681.0	1,377,456.7	1,429,445.4	1,485,078.0	100.0
Net Factor Income from the Rest of the World	1,271.9	7,848.8	14,138.8	10,199.0	11,515.4	0.8
Gross National Income at Current Market Price	1,266,579.8	1,340,529.8	1,391,595.5	1,439,644.4	1,496,593.4	100.8

(1) Preliminary.
Source: The Bank of Korea.

The following table sets out the Republic's GDP per capita:

Gross Domestic Product per capita
(at current market prices)

	2010	2011	2012	2013	2014 (1)
GDP per capita (thousands of Won)	25,608	26,772	27,547	28,464	29,452
GDP per capita (U.S. dollar)	22,147	24,160	24,445	25,993	27,964
Average Exchange Rate (in Won per U.S. dollar)	1,156.3	1,108.1	1,126.9	1,095.0	1,053.2

(1) Preliminary.
Source: The Bank of Korea.

The following table sets out the Republic's Gross National Income, or GNI, per capita:

Gross National Income per capita
(at current market prices)

	2010	2011	2012	2013	2014 (1)
GNI per capita (thousands of Won)	25,634	26,929	27,829	28,667	29,680
GNI per capita (U.S. dollar)	22,170	24,302	24,696	26,179	28,180
Average Exchange Rate (in Won per U.S. dollar)	1,156.3	1,108.1	1,126.9	1,095.0	1,053.2

(1) Preliminary.
Source: The Bank of Korea.

The following table sets out the Republic's GDP by economic sector at chained 2010 year prices:

Gross Domestic Product by Economic Sector
(at chained 2010 year prices)

	2010	2011	2012	2013	2014 (1)	As % of GDP 2014 (1)
			(billions of Won)			
Industrial Sectors:						
Agriculture, Forestry and Fisheries	28,297.4	27,744.6	27,506.9	28,357.7	29,086.8	2.0
Mining and Manufacturing	353,969.9	376,958.3	385,853.1	399,773.1	415,513.0	29.1
Mining and Quarrying	2,199.3	2,176.3	2,170.5	2,347.1	2,343.1	0.2
Manufacturing	351,770.6	374,782.0	383,682.6	397,426.0	413,169.9	29.0
Electricity, Gas and Water Supply	25,632.3	25,687.4	26,710.3	26,629.2	27,220.5	1.9
Construction	58,633.7	55,432.2	54,430.5	56,044.1	56,369.4	4.0
Services:	678,590.8	699,580.8	718,906.2	739,463.1	762,553.9	53.5
Wholesale and Retail Trade, Restaurants and Hotels	130,351.2	137,058.1	141,698.2	145,620.3	149,258.4	10.5
Transportation and Storage	44,539.1	46,157.9	46,877.6	47,556.1	48,713.4	3.4
Finance and Insurance	71,669.6	72,741.3	75,547.3	78,583.9	83,067.2	5.8
Real Estate and Leasing	91,042.0	93,383.7	93,182.9	93,999.5	95,726.9	6.7
Information and Communication	45,364.1	47,931.6	50,199.3	52,773.2	54,432.7	3.8
Business Activities	77,950.1	80,913.7	83,352.8	87,244.6	90,794.2	6.4
Public Administration and Defense	78,885.9	80,639.1	82,940.5	85,024.5	87,133.4	6.1
Education	63,749.4	63,806.6	64,386.6	64,773.0	65,211.2	4.6
Health and Social Work	43,925.1	45,483.3	48,693.4	51,247.1	55,071.1	3.9
Cultural and Other Services	31,114.5	31,465.5	31,972.6	32,683.2	33,586.1	2.4
Taxes Less Subsidies on Products	120,183.9	126,489.5	128,708.4	130,627.4	136,207.0	9.5
Gross Domestic Product at Chained 2010 Year Prices (2)	1,265,308.0	1,311,892.7	1,341,966.5	1,380,832.6	1,426,540.3	100.0

(1) Preliminary.
(2) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add to the total GDP.
Source: The Bank of Korea.

GDP growth in 2010 was 6.5% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 4.3%, exports of goods and services increased by 12.7% and gross domestic fixed capital formation increased by 5.5%, each compared with 2009.

GDP growth in 2011 was 3.7% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.7%, exports of goods and services increased by 15.1% and gross domestic fixed capital formation increased by 0.8%, each compared with 2010.

GDP growth in 2012 was 2.3% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.2% and exports of goods and services increased by 5.1%, which more than offset a decrease in gross domestic fixed capital formation by 0.5%, each compared with 2011.

GDP growth in 2013 was 2.9% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.2%, exports of goods and services increased by 4.3% and gross domestic fixed capital formation increased by 3.3%, each compared with 2012.

Based on preliminary data, GDP growth in 2014 was 3.3% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.0%, exports of goods and services increased by 2.8% and gross domestic fixed capital formation increased by 3.1%, each compared with 2013.

Based on preliminary data, GDP growth in the first half of 2015 was 2.3% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.0% and gross domestic fixed capital formation increased by 2.4% but exports of goods and services decreased by 0.3%, each compared with the corresponding period of 2014.

Based on preliminary data, GDP growth in the third quarter of 2015 was 2.6% at chained 2010 year prices, as aggregate private and general government consumption expenditures increased by 2.3%, gross domestic fixed capital formation increased by 5.0% and exports of goods and services increased by 0.6%, each compared with the corresponding period of 2014.

Principal Sectors of the Economy

Industrial Sectors

The following table sets out production indices for the principal industrial products of the Republic and their relative contribution to total industrial production:

Industrial Production
(2010 = 100)

	Index Weight (1)	2010	2011	2012	2013	2014(2)
All Industries	10,000.0	100.0	106.0	107.4	108.2	108.2
Mining and Manufacturing	9,611.6	100.0	106.0	107.5	108.2	107.8
Mining	33.9	100.0	104.5	99.8	103.8	95.7
Petroleum, Crude Petroleum and Natural Gas	8.7	100.0	91.6	90.2	86.2	71.1
Metal Ores	0.9	100.0	124.9	108.5	98.4	99.9
Non-metallic Minerals	24.3	100.0	108.4	102.9	110.3	104.3
Manufacturing	9,577.7	100.0	106.0	107.5	108.2	108.3
Food Products	434.4	100.0	101.9	103.4	103.7	104.7
Beverage Products	82.4	100.0	103.5	108.2	108.8	110.0
Tobacco Products	43.2	100.0	101.6	105.6	96.5	103.9
Textiles	160.6	100.0	101.5	99.1	97.6	95.8
Wearing Apparel, Clothing Accessories and Fur Articles	145.2	100.0	100.6	97.9	93.6	88.1
Tanning and Dressing of Leather, Luggage and Footwear	42.1	100.0	101.1	98.2	111.5	109.8
Wood and Products of Wood and Cork (Except Furniture)	31.7	100.0	97.5	87.9	92.9	89.1
Pulp, Paper and Paper Products	126.8	100.0	102.3	102.7	105.1	105.2
Printing and Reproduction of Recorded Media	50.2	100.0	91.8	90.5	86.8	86.5
Coke, hard-coal and lignite fuel briquettes and Refined Petroleum Products	471.0	100.0	106.9	109.1	104.6	108.9
Chemicals and Chemical Products	847.5	100.0	102.7	106.6	110.9	111.8
Pharmaceuticals, Medicinal Chemicals and Botanical Products	144.1	100.0	100.3	101.2	103.2	104.6
Rubber and Plastic Products	421.1	100.0	105.1	106.4	109.9	110.4
Non-metallic Minerals	271.7	100.0	100.3	95.2	100.6	96.7
Basic Metals	827.6	100.0	106.2	106.8	106.0	109.9
Fabricated Metal Products	557.8	100.0	108.9	117.9	117.3	121.2
Electronic Components, Computer, Radio, Television and Communication Equipment and Apparatuses	1,794.3	100.0	107.1	109.7	113.6	111.5
Medical, Precision and Optical Instruments, Watches and Clocks	148.1	100.0	105.6	111.6	124.2	110.6
Electrical Equipment	479.5	100.0	100.8	98.8	97.0	97.7
Other Machinery and Equipment	803.6	100.0	109.3	107.0	102.7	104.8
Motor Vehicles, Trailers and Semitrailers	1,076.4	100.0	114.7	114.5	116.1	118.9
Other Transport Equipment	506.5	100.0	101.7	107.1	101.7	89.5
Furniture	69.5	100.0	105.4	98.2	97.2	104.2
Other Products	42.4	100.0	102.2	103.8	104.9	104.8
Electricity, Gas	388.4	100.0	104.5	106.4	106.8	107.6
Total Index	10,000.0	100.0	106.0	107.4	108.2	108.2

(1) Index weights were established on the basis of an industrial census in 2010 and reflect the average annual value added by production in each of the classifications shown, expressed as a percentage of total value added in the mining, manufacturing and electricity and gas industries in that year.
(2) Preliminary.
Source: The Bank of Korea; Korea National Statistical Office.

Industrial production increased by 16.3% in 2010, primarily due to increased exports and domestic consumption. Industrial production increased by 6.0% in 2011, primarily due to increased exports and domestic consumption. Industrial production increased by 1.3% in 2012, primarily due to increased domestic consumption. Industrial production increased by 0.7% in 2013, primarily due to increased exports. Based on preliminary data, industrial production remained unchanged in 2014.

Manufacturing

The manufacturing sector increased production by 16.7% in 2010, primarily due to the recovery of domestic and global demand for automobiles, mobile phones and consumer electronics products, by 6.0% in 2011, primarily due to increased domestic consumption and exports, and by 1.4% in 2012, primarily due to increased demand for consumer electronics products, electronic equipment and chemical products. In 2013, the manufacturing sector increased production by 0.3%, primarily due to increased demand for consumer electronics products, electronic equipment, chemical products, medical equipment and transport equipment. Based on preliminary data, the manufacturing sector increased production by 0.1% in 2014, primarily due to increased demand for basic metals, machinery and equipment and motor vehicles, trailers and semitrailers.

Automobiles. In 2010, automobile production increased by 21.6%, domestic sales volume recorded an increase of 5.1% and export sales volume recorded an increase of 29.0%, compared with 2009, primarily due to the recovery of global demand for automobiles. In 2011, automobile production increased by 9.0%, domestic sales volume recorded an increase of 0.6% and export sales volume recorded an increase of 13.7%, compared with 2010, primarily due to increased demand for automobiles in the United States, Brazil, Russia and China. In 2012, automobile production decreased by 2.1%, domestic sales volume recorded a decrease of 4.3% and export sales volume recorded an increase of 0.6%, compared with 2011, primarily due to decreased domestic demand for automobiles. In 2013, automobile production decreased by 0.9%, domestic sales volume recorded a decrease of 2.0% and export sales volume recorded a decrease of 2.6%, compared with 2012, primarily due to decreased supply of automobiles resulting mainly from partial strikes by unionized workers of automobile manufacturers in August 2013 and the appreciation of the Won against the US dollar and the Japanese Yen. Based on preliminary data, in 2014, automobile production increased by 0.1% and domestic sales volume recorded an increase of 4.4%, compared with 2013, primarily due to increased domestic demand for recreational vehicles, and export sales volume recorded a decrease of 0.9%, compared with 2013, primarily due to decreased demand for automobiles in countries of Eastern Europe and South America.

Electronics. In 2010, electronics production amounted to ₩309,777 billion, an increase of 22.9% from the previous year, and exports amounted to US$153.9 billion, an increase of 27.3% from the previous year, primarily due to the recovery of global demand for consumer electronics products. In 2010, export sales of semiconductor memory chips constituted approximately 10.9% of the Republic's total exports. In 2011, electronics production amounted to ₩314,314 billion, an increase of 1.5% from the previous year, and exports amounted to US$156.6 billion, an increase of 1.8% from the previous year, primarily due to continued increase in global demand for mobile phones and tablet computers. In 2011, export sales of semiconductor memory chips constituted approximately 9.0% of the Republic's total exports. In 2012, electronics production amounted to ₩314,558 billion, an increase of 0.1% from the previous year, primarily due to increased domestic demand for mobile phones and non-memory semiconductors, and exports amounted to US$155.2 billion, a decrease of 0.9% from the previous year, primarily due to adverse economic conditions in European countries. In 2012, export sales of semiconductor memory chips constituted approximately 9.2% of the Republic's total exports. In 2013, electronics production amounted to ₩334,402 billion, an increase of 6.3% from the previous year, and exports amounted to US$169.4 billion, an increase of 9.1% from the previous year, primarily due to increases in demand for mobile phones in emerging markets and global demand for non-memory semiconductors. In 2013, export sales of semiconductor memory chips constituted approximately

10.2% of the Republic's total exports. Based on preliminary data, in 2014, electronics production amounted to ₩339,805 billion, an increase of 1.6% from the previous year, and exports amounted to US$173.9 billion, an increase of 2.7% from the previous year, primarily due to increases in demand for mobile phones and semiconductors. In 2014, export sales of semiconductor memory chips constituted approximately 10.9% of the Republic's total exports.

Iron and Steel. In 2010, crude steel production totaled 58.9 million tons, an increase of 20.2% from 2009, and domestic sales volume and export sales volume increased by 21.6% and 21.1%, respectively, primarily due to the recovery of global demand for crude steel products. In 2011, crude steel production totaled 68.5 million tons, an increase of 16.3% from 2010, and domestic sales volume and export sales volume increased by 5.8% and 16.9%, respectively, primarily due to continued increase in global demand for crude steel products. In 2012, crude steel production totaled 69.1 million tons, an increase of 0.9% from 2011, and domestic sales volume decreased by 5.1% but export sales volume increased by 4.8%, primarily due to adverse conditions in the domestic shipbuilding and construction industries. Based on preliminary data, in 2013, crude steel production totaled 66.1 million tons, a decrease of 4.4% from 2012, and domestic sales volume and export sales volume decreased by 4.3% and 4.2%, respectively, primarily due to the appreciation of the Won against the US dollar and the Japanese Yen and excess supply from China. Based on preliminary data, in 2014, crude steel production totaled 71.5 million tons, an increase of 8.3% from 2013, and domestic sales volume and export sales volume increased by 7.1% and 10.5%, respectively, primarily due to the recovery of domestic and global demand for crude steel products.

Shipbuilding. In 2009, the Republic's shipbuilding orders amounted to approximately 2 million compensated gross tons, a decrease of 85.7% compared to 2008 as a result of a decrease in ship orders due to adverse global economic conditions. In 2010, the Republic's shipbuilding orders amounted to approximately 8 million compensated gross tons, an increase of 300.0% compared to 2009, primarily due to the recovery of global demand for bulk carriers and tank vessels. In 2011, the Republic's shipbuilding orders amounted to approximately 12 million compensated gross tons, an increase of 50.0% compared to 2010, primarily due to increased demand for large container carriers, LNG carriers and floating production storage and offloading vessels. In 2012, the Republic's shipbuilding orders amounted to approximately 7 million compensated gross tons, a decrease of 41.7% compared to 2011, primarily due to a downturn in the shipping and shipbuilding industry. Based on preliminary data, in 2013, the Republic's shipbuilding orders amounted to approximately 17 million compensated gross tons, an increase of 142.8% compared to 2012, primarily due to increased demand for LNG carriers, bulk carriers and container carriers. Based on preliminary data, in 2014, the Republic's shipbuilding orders amounted to approximately 11 million compensated gross tons, a decrease of 35.3% compared to 2013, primarily due to decreased demand for offshore plants.

Agriculture, Forestry and Fisheries

The Government's agricultural policy has traditionally focused on:

- grain production;
- development of irrigation systems;
- land consolidation and reclamation;
- seed improvement;
- mechanization measures to combat drought and flood damage; and
- increasing agricultural incomes.

Recently, however, the Government has increased emphasis on cultivating profitable crops and strengthening international competitiveness in anticipation of opening the domestic agricultural market.

In 2010, rice production decreased 12.2% from 2009 to 4.3 million tons. In 2011, rice production decreased 2.3% from 2010 to 4.2 million tons. In 2012, rice production decreased 4.7% from 2011 to 4.0 million tons. In 2013, rice production increased 5.0% from 2012 to 4.2 million tons. In 2014, rice production remained at 4.2 million tons. Due to limited crop yields resulting from geographical and physical constraints, the Republic depends on imports for certain basic foodstuffs.

The Government is seeking to develop the fishing industry by encouraging the building of large fishing vessels and modernizing fishing equipment, marketing techniques and distribution outlets.

In 2010, the agriculture, forestry and fisheries industry decreased by 4.4% compared to 2009, primarily due to decreases in production of rice, fruits and corns and fishing catch resulting from unusually unfavorable weather conditions, which more than offset an increase in the livestock industry. In 2011, the agriculture, forestry and fisheries industry decreased by 2.1% compared to 2010, primarily due to unfavorable weather conditions, including heavy rains, during the summer and a decrease in fishing catch. In 2012, the agriculture, forestry and fisheries industry decreased by 0.6% compared to 2011, primarily due to unfavorable weather conditions, including severe typhoons, which more than offset an increase in the livestock industry. In 2013, the agriculture, forestry and fisheries industry increased by 3.1% compared to 2012, primarily due to an increase in the cultivation and livestock industry. Based on preliminary data, in 2014, the agriculture, forestry and fisheries industry increased by 2.6% compared to 2013.

Construction

In 2010, the construction industry decreased by 2.7% compared to 2009, primarily due to a decrease in residential construction which more than offset an increase in commercial construction. In 2011, the construction industry decreased by 4.3% compared to 2010, primarily due to a decrease in the construction of residential and commercial buildings. In 2012, the construction industry decreased by 1.6% compared to 2011, primarily due to a decrease in the construction of residential buildings and port facilities. In 2013, the construction industry increased by 3.0% compared to 2012, primarily due to an increase in the construction of residential and commercial buildings. Based on preliminary data, in 2014, the construction industry increased by 0.6% compared to 2013. The construction industry has experienced a significant downturn since the second half of 2009, due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, as a result of deteriorating conditions in the Korean economy in the second half of 2009 and into 2010. The Government has taken measures to support the Korean construction industry, including a ₩5 trillion program to buy unsold housing units and land from construction companies, the exemption of acquisition tax for first-time homebuyers, the reduction of acquisition tax for homebuyers and the reduction of transfer income tax for multiple home owners. However, the effect of these measures is uncertain and the construction industry may continue to experience adverse conditions.

Electricity and Gas

The following table sets out the Republic's dependence on imports for energy consumption:

Dependence on Imports for Energy Consumption

	Total Energy Consumption	Imports	Imports Dependence Ratio
	(millions of tons of oil equivalents, except ratios)		
2010	263.8	254.6	96.5
2011	276.6	266.8	96.4
2012	278.7	267.6	96.0
2013	280.3	268.1	95.7
2014(1)	281.9	269.5	95.6

(1) Preliminary
Source: Korea Energy Economics Institute; Korea National Statistical Office.

Korea has almost no domestic oil or gas production and depends on imported oil and gas to meet its energy requirements. Accordingly, the international prices of oil and gas significantly affect the Korean economy. Any significant long-term increase in the prices of oil and gas will increase inflationary pressures in Korea and adversely affect the Republic's balance of trade.

To reduce its dependence on oil and gas imports, the Government has encouraged energy conservation and energy source diversification emphasizing nuclear energy. The following table sets out the principal primary sources of energy consumed in the Republic, expressed in oil equivalents and as a percentage of total energy consumption.

Consumption of Energy by Source

	Coal		Petroleum		Nuclear		Others (1)		Total	
	Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%
	(millions of tons of oil equivalents, except percentages)									
2010	77.1	29.2	104.3	39.5	31.9	12.1	50.5	19.1	263.8	100.0
2011	83.5	30.2	105.1	38.0	33.2	12.0	54.8	19.8	276.6	100.0
2012	81.1	29.1	106.2	38.1	31.8	11.4	59.6	21.4	278.7	100.0
2013	81.9	29.2	105.8	37.7	29.3	10.5	63.3	22.6	280.3	100.0
2014	84.8	30.1	105.0	37.2	33.0	11.7	59.1	21.0	281.9	100.0

(1) Includes natural gas, hydroelectric power and renewable energy.
Source: Korea Energy Economics Institute; The Bank of Korea.

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. As of December 31, 2014, the Republic has 23 nuclear plants with a total estimated nuclear power generating capacity of 20,716 megawatts and six nuclear plants under construction. In January 2014, the Ministry of Trade, Industry and Energy revised the target proportion of nuclear supply in the Korea's energy supply mix from 41% by 2030 to 29% by 2035 while also approving the construction of two additional plants in line with previously announced plans to build 10 new nuclear plants by 2030 to replace aging nuclear power plants. The Government plans to expand infrastructure to supply natural gas to households, pursue a long-term strategy of overseas energy development projects to ensure supply stability, increase clean and renewable energy and provide support for research and development pertaining to green technologies.

Services Sector

In 2010, the service industry increased by 4.4% compared to 2009 as the transportation and storage sector increased by 9.6%, the finance and insurance sector increased by 2.5% and the real estate and leasing sector increased by 0.3%, each compared with 2009. In 2011, the service industry increased by 3.0% compared to 2010 as the transportation and storage sector increased by 3.8%, the wholesale and retail trade, restaurants and hotels sector increased by 5.1% and the real estate and leasing sector increased by 2.2%, each compared with 2010. In 2012, the service industry increased by 2.7% compared to 2011 as the health and social work sector increased by 7.1%, the finance and insurance sector increased by 3.6% and the wholesale and retail trade, restaurants and hotels sector increased by 3.4%, each compared with 2011. In 2013, the service industry increased by 2.8% compared to 2012 as the business activities sector increased by 4.7%, the finance and insurance sector increased by 3.6% and the health and social work sector increased by 5.2%, each compared with 2012. Based on preliminary data, in 2014, the service industry increased by 3.1% compared to 2013 as the health and social work sector increased by 7.5%, the financial intermediation sector increased by 3.6% and the business activities sector increased by 4.1%, each compared with 2013.

Prices, Wages and Employment

The following table shows selected price and wage indices and unemployment rates:

	Producer Price Index (1)	Increase (Decrease) Over Previous Year	Consumer Price Index (1)	Increase (Decrease) Over Previous Year	Wage Index (1) (2)	Increase (Decrease) Over Previous Year	Unemployment Rate (1) (3)
	(2010=100)	(%)	(2010=100)	(%)	(2010=100)	(%)	(%)
2010	100.0	3.8	100.0	3.0	100.0	(2.3)	3.7
2011	106.7	6.7	104.0	4.0	100.3	0.3	3.4
2012	107.5	0.7	106.3	2.2	109.1	8.8	3.2
2013	105.7	(1.6)	107.7	1.3	116.4	6.7	3.1
2014	105.2	(0.5)	109.0	1.3	123.1	5.8	3.5

(1) Average for year.
(2) Nominal wage index of average earnings in manufacturing industry.
(3) Expressed as a percentage of the economically active population.
Source: The Bank of Korea; Korea National Statistical Office.

In 2010, the inflation rate increased to 3.0% from 2.8% in 2009, primarily due to increased oil prices and agricultural goods prices caused by abnormal weather in the second half of 2010. In 2011, the inflation rate increased to 4.0%, primarily due to increased oil prices in the first quarter as well as decreased supply in agricultural goods caused by unusually low temperatures in the spring and heavy rainfall in the summer. In 2012, the inflation rate decreased to 2.2%, primarily due to weakened aggregate demand and the implementation of new policies, including free school lunches. In 2013, the inflation rate decreased to 1.3%, primarily due to increased supply of agricultural goods. In 2014, the inflation rate remained at 1.3%, primarily due to increases in the prices of electricity, gas, water supply, food products and education, which were offset by lower oil prices. The inflation rate was 0.6% in the first quarter of 2015, 0.5% in the second quarter of 2015 and 0.7% in the third quarter of 2015.

In 2010, the unemployment rate increased to 3.7% from 3.6% in 2009, primarily due to a steeper increase in the economically active population than the increase in the number of employed workers. In 2011, the unemployment rate decreased to 3.4%, primarily due to an increase in the number of workers employed in the service industry (including healthcare, social welfare and education). In 2012, the unemployment rate decreased to 3.2%, primarily due to the continued increase in the number of workers employed in the service industry. In 2013, the unemployment rate decreased to 3.1%, primarily due to the continued increase in the number of workers employed in the service industry. In 2014, the unemployment rate increased to 3.5%, primarily due to the sluggishness of the domestic economy. The unemployment rate was 4.1% in the first quarter of 2015, 3.8% in the second quarter of 2015 and 3.4% in the third quarter of 2015.

From 1992 to 2009, the economically active population of the Republic increased by approximately 24.8% to 24.3 million, while the number of employees increased by approximately 23.7% to 23.5 million. The economically active population over 15 years old as a percentage of the total over-15 population has remained between 60% and 63% over the past decade. Literacy among workers under 50 is almost universal. As of December 31, 2014, the economically active population of the Republic was 26.5 million and the number of employees was 25.6 million.

The following table shows selected employment information by industry and by gender:

	2010	2011	2012	2013	2014
	(all figures in percentages, except as indicated)				
Labor force (in thousands of persons)	23,829	24,244	24,681	25,066	25,599
Employment by Industry:					
Agriculture, Forestry and Fishing	6.6	6.4	6.2	6.1	5.7
Mining and Manufacturing	17.0	16.9	16.7	16.8	17.0
S.O.C & Services	76.5	76.7	77.1	77.2	77.4
Electricity, Transport, Communication and Finance	11.9	12.2	12.1	12.2	11.9
Business, Private & Public Service and Other Services	34.2	34.6	35.1	35.5	35.5
Construction	7.4	7.2	7.2	7.0	7.0
Wholesale & Retail Trade, Hotels and Restaurants	23.0	22.7	22.7	22.5	23.0
Total Employed	100.0	100.0	100.0	100.0	100.0
Employment by Gender:					
Male	58.4	58.4	58.3	58.1	58.0
Female	41.6	41.6	41.7	41.9	42.0
Total Employed	100.0	100.0	100.0	100.0	100.0

Source: The Bank of Korea

As of July 1, 2004, the Republic adopted a five-day workweek for large corporations with over 1,000 employees, publicly-owned (state-run) companies, banks and insurance companies, reducing working hours from 44 to 40 hours a week. The adoption of the five-day workweek has been extended to companies with over 300 employees and to government employees as of July 1, 2005 and to companies with over 100 employees as of July 1, 2006. Companies with more than 50 employees adopted the five-day workweek as of July 1, 2007 and those with over 20 adopted the five-day workweek as of July 1, 2008. Companies with less than 20 employees also adopted the five-day workweek on July 1, 2011.

Approximately 10.3% of the Republic's workers were unionized as of December 31, 2013. Labor unrest in connection with demands by unionized workers for better wages and working conditions and greater job security occur from time to time in the Republic. Some of the significant incidents in recent years include the following:

- In December 2010, unionized workers at Hanjin Heavy Industries went on strike when the company laid-off workers. While the company reached an agreement with the majority of workers in June 2011, one worker continued her protest by occupying a shipyard crane until November 2011.
- In July 2011, unionized employees at Standard Chartered Korea (formerly, SC First Bank) engaged in a two-month strike, the longest in the Republic's banking sector, demanding that the bank scrap performance-related pay reforms.

- In June 2012, unionized taxi drivers went on their first nationwide strike demanding fare increases and protesting against increased fuel costs.
- In August 2012, unionized workers of Hyundai Motor Company went on a series of partial strikes demanding a higher bonus increase and the end of overnight shifts.
- In August 2013, unionized workers at Hyundai Motor Company and Kia Motors Corporation went on partial strikes demanding higher wages.
- In December 2013, unionized workers at the state owned Korea Railroad Corporation ("Korail") went on strike against Korail's plan to establish a separate company to operate a new bullet train line fearing that such plan would eventually lead to privatization of Korail and layoffs of existing workers.
- In November 2014, unionized workers at Hyundai Heavy Industries went on a series of partial strikes demanding higher wages.

Actions such as these by labor unions may hinder implementation of the labor reform measures and disrupt the Government's plans to create a more flexible labor market. Although much effort is being expended to resolve labor disputes in a peaceful manner, there can be no assurance that further labor unrest will not occur in the future. Continued labor unrest in key industries of the Republic may have an adverse effect on the economy.

In 1997, the Korean Confederation of Trade Unions organized a political alliance, which led to the formation of the Democratic Labor Party in January 2000. The Democratic Labor Party merged with The New People's Participation Party and changed its name to The Unified Progressive Party ("UPP") in December 2011. In October 2012, the UPP split and seven UPP members of the National Assembly and their supporters formed a new party, the Progressive Justice Party, which changed its name to the Justice Party in July 2013. In December 2014, the Constitutional Court ordered the dissolution of the UPP and the removal of the party's five lawmakers for violating the Republic's Constitution after certain of UPP members were convicted of trying to instigate an armed rebellion and supporting North Korea.

The Financial System

Structure of the Financial Sector

The Republic's financial sector includes the following categories of financial institutions:

- The Bank of Korea;
- banking institutions;
- non-bank financial institutions; and
- other financial entities, including:
  - financial investment companies;
  - credit guarantee institutions;
  - venture capital companies; and
  - miscellaneous others.

To increase transparency in financial transactions and enhance the integrity and efficiency of the financial markets, Korean law requires that financial institutions confirm that their clients use their real names when transacting business. To ease the liquidity crisis, the Government altered the real-name financial transactions system during 1998, to allow the sale or deposit of foreign currencies through domestic financial institutions and the purchase of certain bonds, including Government bonds, without identification. The Government also strengthened confidentiality protection for private financial transactions.

In July 2007, the Korean National Assembly passed the Financial Investment Services and Capital Markets Act or FSCMA, under which various industry-based capital markets regulatory systems currently were consolidated into a single regulatory system. The FSCMA, which became effective in February 2009, expands the scope of permitted investment-related financial products and activities through expansive definitions of financial instruments and function-based regulations that allow financial investment companies to offer a wider range of financial services, as well as strengthening investor protection and disclosure requirements. The Enforcement Decree of the FSCMA classifies the financial investment companies into a total of 89 categories depending on the types of (i) financial investment services, (ii) financial investment products, and (iii) investors.

Prior to the effective date of the FSCMA, separate laws regulated various types of financial institutions depending on the type of the financial institution (for example, securities companies, futures companies, trust business companies and asset management companies) and subjected financial institutions to different licensing and ongoing regulatory requirements (for example, under the Securities and Exchange Act, the Futures Business Act and the Indirect Investment Asset Management Business Act). By applying one uniform set of rules to financial businesses having the same economic function, the FSCMA attempts to improve and address issues caused by the previous regulatory system under which the same economic function relating to capital markets-related business were governed by multiple regulations. To this end, the FSCMA categorizes capital markets-related businesses into six different functions, as follows:

- investment dealing (trading and underwriting of financial investment products);
- investment brokerage (brokerage of financial investment products);
- collective investment (establishment of collective investment schemes and the management thereof);
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, "Financial Investment Businesses").

Accordingly, all financial businesses relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of what type of financial institution it is. For example, under the FSCMA, derivative businesses conducted by securities companies and future companies will be subject to the same regulations under the FSCMA, at least in principle.

The banking business and the insurance business are not subject to the FSCMA and will continue to be regulated under separate laws; provided, however, that they are subject to the FSCMA if their activities involve any Financial Investment Businesses requiring a license based on the FSCMA.

Banking Industry

The banking industry comprises commercial banks and specialized banks. Commercial banks serve the general public and corporate sectors. They include nationwide banks, regional banks and branches of foreign banks. Regional banks provide services similar to nationwide banks, but operate in a geographically restricted region. Branches of foreign banks have operated in the Republic since 1967 but provide a relatively small proportion of the country's banking services. As of December 31, 2014, commercial banks consisted of seven nationwide banks, all of which have branch networks throughout the Republic, six regional banks and 45 branches of 39 foreign banks operating in the country. Nationwide and regional banks had, in the aggregate, 5,389 domestic branches and offices, 48 overseas branches, 23 overseas representative offices and 36 overseas subsidiaries as of December 31, 2014.

Specialized banks meet the needs of specific sectors of the economy in accordance with Government policy; they are organized under, or chartered by, special laws. Specialized banks include:

- The Korea Development Bank;
- The Export-Import Bank of Korea;
- The Industrial Bank of Korea;
- National Federation of Fisheries Cooperatives; and
- NH Bank (which was established by a spin-off of the credit and banking unit from the National Agricultural Cooperative Federation in March 2012).

The economic difficulties in 1997 and 1998 caused an increase in Korean banks' non-performing assets and a decline in capital adequacy ratios of Korean banks. From 1998 through 2002, the Financial Services Commission amended banking regulations several times to adopt more stringent criteria for non-performing assets that more closely followed international standards. Non-performing assets are assets classified as doubtful or estimated loss under Korean banking regulations.

The following table sets out the total loans (including loans in Won and loans in foreign currencies) and non-performing assets of Korean banks.

	Total Loans	Non-Performing Assets	Percentage of Total
	(trillions of won)		(%)
December 31, 2010	₩ 1,308.9	₩ 24.8	1.9
December 31, 2011	1,387.6	18.8	1.4
December 31, 2012	1,390.9	18.5	1.3
December 31, 2013	1,441.6	25.8	1.8
December 31, 2014	1,558.0	23.8	1.5

Source: Financial Supervisory Service.

As of December 31, 2013, loans denominated in Won held by these banks increased by 5.1% to ₩1,162.8 trillion from ₩1,106.4 trillion as of December 31, 2012, primarily due to (i) an increase in loans to small- and medium-enterprises by 6.0% to ₩489.0 trillion as of December 31, 2013 from ₩461.3 trillion as of December 31, 2012 and (ii) an increase in household loans by 3.1% to ₩479.0 trillion as of December 31, 2013 from ₩464.5 trillion as of December 31, 2012. Based on preliminary data, as of December 31, 2014, loans denominated in Won held by these banks increased by 8.0% to ₩1,255.8 trillion from ₩1,162.8 trillion as of December 31, 2013, primarily due to (i) an increase in household loans by 8.2% to ₩518.2 trillion as of December 31, 2014 from ₩479.0 trillion as of December 31, 2013, (ii) an increase in loans to small- and medium-enterprises by 6.8% to ₩522.4 trillion as of December 31, 2014 from ₩489.0 trillion as of December 31, 2013 and (iii) an increase in loans to large corporations by 10.5% to ₩183.5 trillion as of December 31, 2014 from ₩166.1 trillion as of December 31, 2013.

In 2010, these banks posted an aggregate net profit of ₩9.3 trillion, compared to an aggregate net profit of ₩6.9 trillion in 2009, primarily due to increased net interest income. In 2011, these banks posted an aggregate net profit of ₩11.8 trillion, compared to an aggregate net profit of ₩9.3 trillion in 2010, primarily due to decreased non-performing loans. In 2012, these banks posted an aggregate net profit of ₩8.7 trillion, compared to an aggregate net profit of ₩11.8 trillion in 2011, primarily due to a decrease in gain on sale of equity securities and an increase in impairment loss on available-for-sale securities. In 2013, these banks posted an aggregate net profit of ₩3.9 trillion, compared to an aggregate net profit of ₩8.7 trillion in 2012, primarily due to decreased net interest income and increased loan loss provisions. Based on preliminary data, in 2014, these banks posted an aggregate net profit of ₩6.2 trillion, compared to an aggregate net profit of ₩3.9 trillion in 2013, primarily due to decreased loan loss provisions.

Non-Bank Financial Institutions

Non-bank financial institutions include:

- savings institutions, including trust accounts of banks, mutual savings banks, credit unions, mutual credit facilities, community credit cooperatives and postal savings;
- life insurance institutions; and
- credit card companies.

The country had 79 mutual savings banks as of December 31, 2014, with assets totaling ₩37.9 trillion.

As of December 31, 2014, 14 domestic life insurance institutions, two joint venture life insurance institutions and nine wholly-owned subsidiaries of foreign life insurance companies, with assets totaling approximately ₩662.1 trillion as of December 31, 2014, were operating in the Republic.

As of December 31, 2014, eight credit card companies operated in the country with loans totaling approximately ₩85.2 trillion.

Money Markets

In the Republic, the money markets consist of the call market and markets for a wide range of other short-term financial instruments, including treasury bills, monetary stabilization bonds, negotiable certificates of deposits, repurchase agreements and commercial paper.

Securities Markets

On January 27, 2005, the Korea Exchange was established pursuant to the now repealed Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are four different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, the KRX KONEX Market and the KRX Derivatives Market. The trading floors for the KRX KOSPI Market, the KRX KOSDAQ Market and the KRX KONEX Market are located in Seoul, and the trading floor for the KRX Derivatives Market is located in Busan. The Korea Exchange is a joint stock company with limited liability, the shares of which are held by (i) financial investment companies that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members Korean financial investment companies and some Korean branches of foreign financial investment companies.

The Korea Exchange publishes the Korea Composite Stock Price Index every ten seconds, which is an index of all equity securities listed on the Korea Exchange. The Korea Composite Stock Price Index is computed using the aggregate value method, whereby the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

The following table shows the value of the Korea Composite Stock Price Index as of the dates indicated:

December 31, 2009	1,682.8
January 29, 2010	1,602.4
February 26, 2010	1,594.6
March 31, 2010	1,692.9
April 30, 2010	1,741.6
May 31, 2010	1,641.3
June 30, 2010	1,698.3
July 30, 2010	1,759.3
August 31, 2010	1,742.8
September 30, 2010	1,872.8
October 29, 2010	1,883.0
November 30, 2010	1,904.6
December 31, 2010	2,051.0
January 31, 2011	2,069.7
February 28, 2011	1,939.3
March 31, 2011	2,106.7
April 30, 2011	2,192.4
May 29, 2011	2,142.5
June 30, 2011	2,100.7
July 31, 2011	2,133.2
August 31, 2011	1,880.1
September 30, 2011	1,769.7
October 31, 2011	1,909.0
November 30, 2011	1,847.5
December 31, 2011	1,825.7
January 31, 2012	1,955.8
February 29, 2012	2,030.3
March 31, 2012	2,014.0
April 30, 2012	1,982.0
May 31, 2012	1,843.5
June 29, 2012	1,854.0
July 31, 2012	1,882.0
August 31, 2012	1,905.1
September 28, 2012	1,996.2
October 31, 2012	1,912.1
November 30, 2012	1,932.9
December 31, 2012	1,997.1
January 31, 2013	1,961.9
February 28, 2013	2,026.5
March 29, 2013	2,004.9
April 30, 2013	1,964.0
May 30, 2013	2,001.1
June 28, 2013	1,863.3
July 31, 2013	1,914.0

August 30, 2013	1,926.4
September 30, 2013	1,997.0
October 31, 2013	2,030.1
November 29, 2013	2,044.9
December 31, 2013	2,011.3
January 29, 2014	1,941.2
February 28, 2014	1,980.0
March 31, 2014	1,985.6
April 30, 2014	1,961.8
May 30, 2014	1,995.0
June 30, 2014	2,002.2
July 31, 2014	2,076.1
August 29, 2014	2,068.5
September 30, 2014	2,020.1
October 31, 2014	1,964.4
November 28, 2014	1,980.8
December 30, 2014	1,915.6
January 30, 2015	1,949.3
February 27, 2015	1,985.8
March 31, 2015	2,041.0
April 30, 2015	2,127.2
May 29, 2015	2,114.8
June 30, 2015	2,074.2
July 31, 2015	2,030.2
August 31, 2015	1,941.5
September 30, 2015	1,962.8
October 30, 2015	2,029.5

On December 27, 1997, the last day of trading in 1997, the index stood at 376.3, a sharp decline from 647.1 on September 30, 1997. The fall resulted from growing concerns about the Republic's weakening financial and corporate sectors, the Republic's falling foreign currency reserves, the sharp depreciation of the Won against the U.S. Dollar and other external factors, such as a sharp decline in stock prices in Hong Kong on October 24, 1997 and financial turmoil in Southeast Asian countries. The Korea Composite Stock Price Index recovered to reach 2,064.9 in late 2007 but since then the index declined. As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, there was a significant overall decline in the stock prices of Korean companies during the fourth quarter of 2008 and first half of 2009 and continuing volatility since then. The index was 2,009.4 on November 25, 2015.

Supervision System

The Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and all other financial sector regulatory bodies merged in January 1999 to form the Financial Services Commission. The Financial Services Commission acts as the executive body over the Financial Supervisory Service. The Financial Services Commission reports to, but operates independently of, the Prime Minister's office.

The Ministry of Strategy and Finance focuses on financial policy and foreign currency regulations. The Bank of Korea manages monetary policy focusing on price stabilization.

Deposit Insurance System

The Republic's deposit insurance system insures amounts on deposit with banks, non-bank financial institutions, securities companies and life insurance companies.

Since January 2001, deposits at any single financial institution are insured only up to ₩50 million per person regardless of the amount deposited.

The Government excluded certain deposits, such as repurchase agreements, from the insurance scheme, expanded the definition of unsound financial institutions to which the insurance scheme would apply and gradually increased the insurance premiums payable by insured financial institutions.

Monetary Policy

The Bank of Korea

The Bank of Korea was established in 1950 as Korea's central bank and the country's sole currency issuing bank. A seven-member Monetary Policy Committee, chaired by the Governor of The Bank of Korea, formulates and controls monetary and credit policies.

Inflation targeting is the basic system of operation for Korean monetary policy. The consumer price index is used as The Bank of Korea's target indicator. To achieve its established inflation target, the Monetary Policy Committee of The Bank of Korea determines and announces the "Bank of Korea Base Rate," the reference rate applied in transactions such as repurchase agreements between The Bank of Korea and its financial institution counterparts. The Bank of Korea uses open market operations as its primary instrument to keep the call rate in line with the Monetary Policy Committee's target rate. In addition, The Bank of Korea is able to establish policies regarding its lending to banks in Korea and their reserve requirements.

Interest Rates

On July 12, 2007, The Bank of Korea raised the policy rate to 4.75% from 4.5%, and raised it further to 5.0% on August 9, 2007. The rationale for this change was the concern that the ample market liquidity might put upside pressure on inflation in the medium to long term as the economic upswing continued. On August 7, 2008, The Bank of Korea raised the policy rate to 5.25% from 5.0%, taking the view that inflation in consumer prices had picked up its pace, due to the direct and indirect effects of high oil prices, at a time when domestic economic activity had slackened. On October 9, 2008, The Bank of Korea cut its policy rate to 5.0% from 5.25%, and continued to lower it further to 4.25% on October 27, 2008, 4.0% on November 7, 2008, 3.0% on December 11, 2008, 2.5% on January 9, 2009 and 2.0% on February 12, 2009, in order to address financial market instability and to help combat the slowdown of the domestic economy. On July 9, 2010, The Bank of Korea raised the policy rate to 2.25% from 2.0%, which was further raised to 2.5% on November 16, 2010, in response to signs of inflationary pressures and the continued growth of domestic economy. On January 13, 2011, The Bank of Korea raised the policy rate to 2.75%, which was further increased to 3.0% on March 10, 2011 and to 3.25% on June 10, 2011, in response to inflationary pressures driven mainly by rises in the prices of petroleum products and farm products. The Bank of Korea lowered its policy rate to 3.0% from 3.25% on July 12, 2012, which was further lowered to 2.75% on October 11, 2012, to 2.5% on May 9, 2013, to 2.25% on August 14, 2014, 2.0% on October 15, 2014, 1.75% on March 12, 2015 and 1.5% on June 11, 2015, in order to address the sluggishness of the global and domestic economy. The policy rate remained at 1.5% as of the date of this Offering Circular.

With the deregulation of interest rates on banks' demand deposits on February 2, 2004, The Bank of Korea completed the interest rate deregulation based upon the "Four-Stage Interest Rate Liberalization Plan" announced in 1991. The prohibition on the payment of interest on ordinary checking accounts was, however, maintained.

Money Supply

The following table shows the volume of the Republic's money supply:

	December 31,				
	2010	2011	2012	2013	2014
			(billions of Won)		
Money Supply (M1) (1)	₩ 427,791.6	₩ 442,077.5	₩ 470,010.6	₩ 515,643.4	₩ 585,822.6
Quasi-money (2)	1,232,738.4	1,309,380.9	1,365,631.0	1,405,151.6	1,491,411.4
Money Supply (M2) (3)	1,660,530.0	1,751,458.4	1,835,641.6	1,920,795.0	2,077,234.0
Percentage Increase Over Previous Year	6.0%	5.5%	4.8%	4.6%	8.1%

(1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.

(2) Includes time and installment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.

(3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: The Bank of Korea.

Exchange Controls

Authorized foreign exchange banks, as registered with the Ministry of Strategy and Finance, handle foreign exchange transactions. The ministry has designated other types of financial institutions to handle foreign exchange transactions on a limited basis.

Korean laws and regulations generally require a report to either the Ministry of Strategy and Finance, The Bank of Korea or authorized foreign exchange banks, as applicable, for issuances of international bonds and other instruments, overseas investments and certain other transactions involving foreign exchange payments.

In 1994 and 1995, the Government relaxed regulations of foreign exchange position ceilings and foreign exchange transaction documentation and created free Won accounts which may be opened by non-residents at Korean foreign exchange banks. The Won funds deposited into the free Won accounts may be converted into foreign currencies and remitted outside Korea without any governmental approval. In December 1996, after joining the OECD, the Republic freed the repatriation of investment funds, dividends and profits, as well as loan repayments and interest payments. The Government continues to reduce exchange controls in response to changes in the world economy, including the new trade regime under the WTO, anticipating that such foreign exchange reform will improve the Republic's competitiveness and encourage strategic alliances between domestic and foreign entities.

In September 1998, the National Assembly passed the Foreign Exchange Transactions Act, which became effective in April 1999 and has subsequently been amended numerous times. In principle, most currency and capital transactions, including, among others, the following transactions, have been liberalized:

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;

- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

To minimize the adverse effects from further opening of the Korean capital markets, the Ministry of Strategy and Finance is authorized to introduce a variable deposit requirement system to restrict the influx of short-term speculative funds.

The Government has also embarked on a second set of liberalization initiatives starting in January 2001, under which ceilings on international payments for Korean residents have been eliminated, including overseas travel expenses, overseas inheritance remittances and emigration expenses. Overseas deposits, trusts, acquisitions of foreign securities and other foreign capital transactions made by residents and the making of deposits in Korean currency by non-residents have also been liberalized. In line with the foregoing liberalization, measures will also be adopted to curb illegal foreign exchange transactions and to stabilize the foreign exchange market.

Effective as of January 1, 2006, the Government liberalized the regulations governing "capital transactions." The regulations provide that no regulatory approvals are required for any capital transactions. The capital transactions previously subject to approval requirements are now subject only to reporting requirements.

In January 2010, the Financial Supervisory Services released *FX Derivative Transactions Risk Management Guideline* to prevent over-hedging of foreign exchange risk by corporate investors. According to the guideline as amended in July 2010, if a corporate investor, which means a professional investor defined under the FSCMA (other than the Korean government, the Bank of Korea and certain financial institutions and public enterprises), wishes to enter into a foreign exchange forward, option or swap agreement with a bank, the bank is required to verify whether the corporate investor's assets, liabilities or contracts face foreign exchange risks that could be mitigated by a foreign exchange forward, option or swap agreement. In addition, the bank is required to ensure that the corporate investor's risk hedge ratio, which is the ratio of the aggregate notional amount to the aggregate amount of risk, does not exceed 100%.

Foreign Exchange

The following table shows the exchange rate between the Won and the U.S. Dollar (in Won per U.S. Dollar) as announced by the Seoul Money Brokerage Services, Ltd. as of the dates indicated:

	Won/U.S. Dollar Exchange Rate
December 31, 2009	1,167.6
January 29, 2010	1,156.5
February 26, 2010	1,158.4
March 31, 2010	1,130.8
April 30, 2010	1,115.5
May 31, 2010	1,200.2
June 30, 2010	1,210.3
July 30, 2010	1,187.2
August 31, 2010	1,189.1
September 30, 2010	1,142.0
October 29, 2010	1,126.6
November 30, 2010	1,157.3
December 31, 2010	1,138.9
January 31, 2011	1,114.3
February 28, 2011	1,127.9

	Won/U.S. Dollar Exchange Rate
March 31, 2011	1,107.2
April 30, 2011	1,072.3
May 31, 2011	1,080.6
June 30, 2011	1,078.1
July 30, 2011	1,052.6
August 31, 2011	1,071.7
September 30, 2011	1,179.5
October 31, 2011	1,104.9
November 30, 2011	1,150.3
December 31, 2011	1,153.3
January 31, 2012	1,125.0
February 29, 2012	1,126.5
March 31, 2012	1,137.8
April 30, 2012	1,134.2
May 31, 2012	1,177.8
June 29, 2012	1,153.8
July 31, 2012	1,136.2
August 31, 2012	1,134.6
September 28, 2012	1,118.6
October 31, 2012	1,094.1
November 30, 2012	1,084.7
December 31, 2012	1,071.1
January 31, 2013	1,082.7
February 28, 2013	1,085.4
March 29, 2013	1,112.1
April 30, 2013	1,108.1
May 30, 2013	1,128.3
June 28, 2013	1,149.7
July 31, 2013	1,113.6
August 31, 2013	1,110.9
September 30, 2013	1,075.6
October 31, 2013	1,061.4
November 29, 2013	1,062.1
December 31, 2013	1,055.3
January 29, 2014	1,079.2
February 28, 2014	1,067.7
March 31, 2014	1,068.8
April 30, 2014	1,031.7
May 30, 2014	1,021.6
June 30, 2014	1,014.4
July 31, 2014	1,024.3
August 29, 2014	1,013.6
September 30, 2014	1,059.6
October 31, 2014	1,054.0
November 28, 2014	1,101.1
December 31, 2014	1,099.2
January 30, 2015	1,090.8
February 27, 2015	1,099.2
March 31, 2015	1,105.0
April 30, 2015	1,068.1

	Won/U.S. Dollar Exchange Rate
May 29, 2015	1,108.0
June 30, 2015	1,124.1
July 31, 2015	1,166.3
August 31, 2015	1,176.3
September 30, 2015	1,194.5
October 30, 2015	1,142.3

Prior to November 1997, the Government had permitted exchange rates to float within a daily range of 2.25%. In response to the substantial downward pressures on the Won caused by the Republic's economic difficulties in late 1997, in November 1997, the Government expanded the range of permitted daily exchange rate fluctuations to 10%. The Government eliminated the daily exchange rate band in December 1997, and the Won now floats according to market forces. The value of the Won relative to the U.S. dollar depreciated from ₩888.1 to US$1.00 on June 30, 1997 to ₩1,964.8 to US$1.00 on December 24, 1997. Due to improved economic conditions and increases in trade surplus, the Won has generally appreciated against the U.S. dollar, although the trend reversed in March 2008. During the period from January 2, 2008 through April 16, 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by foreign investors of their investments in the Korean stock market. The market average exchange rate was ₩1,155.6 to US$1.00 on November 25, 2015.

Balance of Payments and Foreign Trade

Balance of Payments

Balance of payments figures measure the relative flow of goods, services and capital into and out of the country as represented in the current balance and the capital balance. The current balance tracks a country's trade in goods and services and transfer payments and measures whether a country is living within its income from trading and investments. The capital balance covers all transactions involving the transfer of capital into and out of the country, including loans and investments. The overall balance represents the sum of the current and capital balances. An overall balance surplus indicates a net inflow of foreign currencies, thereby increasing demand for and strengthening the local currency. An overall balance deficit indicates a net outflow of foreign currencies, thereby decreasing demand for and weakening the local currency. The financial account mirrors the overall balance. If the overall balance is positive, the surplus, which represents the nation's savings, finances the overall deficit of the country's trading partners. Accordingly, the financial account will indicate cash outflows equal to the overall surplus. If, however, the overall balance is negative, the nation has an international deficit which must be financed. Accordingly, the financial account will indicate cash inflows equal to the overall deficit.

The following table sets out certain information with respect to the Republic's balance of payments:

Balance of Payments(1)

Classification	2010	2011	2012	2013	2014 (4)
			(millions of dollars)		
Current Account	28,850.4	18,655.8	50,835.0	81,148.2	89,220.1
Goods	47,915.4	29,089.9	49,406.0	82,781.0	92,687.6
Exports (2)	463,769.6	587,099.7	603,509.2	618,156.9	621,298.9
Imports (2)	415,854.2	558,009.8	554,103.2	535,375.9	528,611.3
Services	(14,238.4)	(12,279.1)	(5,213.6)	(6,499.2)	(8,163.4)
Income	489.9	6,560.6	12,116.7	9,055.7	10,197.7
Current Transfers	(5,316.5)	(4,715.6)	(5,474.1)	(4,189.3)	(5,501.8)
Capital and Financial Account	(23,253.2)	(24,427.8)	(51,624.1)	(80,131.6)	(90,392.3)
Capital Account	(63.2)	(112.0)	(41.7)	(27.0)	(9.0)
Financial Account (3)	(23,190.0)	(24,315.8)	(51,582.4)	(80,104.6)	(90,383.3)
Net Errors and Omissions	(5,597.2)	5,772.0	789.1	(1,016.6)	1,172.2

(1) Figures are prepared based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013.
(2) These entries are derived from trade statistics and are valued on a free on board basis, meaning that the insurance and freight costs are not included.
(3) Includes borrowings from the IMF, syndicated bank loans and short-term borrowings.
(4) Preliminary.
Source: The Bank of Korea.

The Republic recorded a current account surplus of approximately US$81.1 billion in 2013. The current account surplus in 2013 increased from the current account surplus of US$50.8 billion in 2012, primarily due to an increase in surplus from the goods account.

Based on preliminary data, the Republic recorded a current account surplus of approximately US$89.4 billion in 2014. The current account surplus in 2014 increased from the current account surplus of US$81.1 billion in 2013, primarily due to an increase in surplus from the goods account.

Based on preliminary data, the Republic recorded a current account surplus of approximately US$80.6 billion in the first nine months of 2015. The current account surplus in the first nine months of 2015 increased from the current account surplus of US$62.0 billion in the corresponding period of 2014, primarily due to an increase in surplus from the goods account which more than offset an increase in deficit from the services account.

Foreign Direct Investment

Since 1960, the Government has adopted a broad range of related laws, administrative rules and regulations, providing a framework for the conduct and regulation of foreign investment activities. In September 1998, the Government promulgated the Foreign Investment Promotion Act, or the FIPA, which replaced previous foreign direct investment related laws, rules and regulations, to promote inbound foreign investments by providing incentives to, and facilitating investment activities in the Republic by, foreign nationals. The FIPA prescribes, among others, procedural requirements for inbound foreign investments, incentives for foreign investments such as tax reductions, and requirements relating to designation and development of foreign investment target regions. The Government believes that providing a stable and receptive environment for foreign direct investment will accelerate the inflow of foreign capital, technology and management techniques.

The following table sets forth information regarding annual foreign direct investment in the Republic for the periods indicated.

Foreign Direct Investment

	2010	2011	2012	2013	2014
			(billions of dollars)		
Contracted and Reported Investment					
Greenfield Investment(1)	11.1	11.7	12.5	9.6	11.0
Merger & Acquisition	2.0	2.0	3.8	5.0	8.0
Total	13.1	13.7	16.3	14.5	19.0
Actual Investment	5.4	6.6	10.7	9.8	11.8

(1) Includes building new factories and operational facilities.
Source: Ministry of Trade, Industry and Energy

In 2014, the contracted and reported amount of foreign direct investment in the Republic increased to US$19.0 billion from US$14.5 billion in 2013, primarily due to an increase in foreign investment in the manufacturing sector to US$7.6 billion in 2014 from US$4.6 billion in 2013.

The following table sets forth information regarding the source of foreign direct investment by region and country for the periods indicated:

Foreign Direct Investment by Region and Country

	2010	2011	2012	2013	2014
			(billions of dollars)		
North America					
U.S.A	2.0	2.4	3.7	3.5	3.6
Others	0.7	1.3	0.7	1.1	1.4
	2.7	3.7	4.4	4.6	5.0
Asia					
Japan	2.1	2.3	4.5	2.7	2.5
Hong Kong	0.1	0.6	1.7	1.0	1.1
Singapore	0.8	0.6	1.4	0.4	1.7
China	0.4	0.7	0.7	0.5	1.2
Others	3.5	0.2	0.5	0.4	0.3
	6.9	4.4	8.8	5.0	6.8
European Union					
England	0.6	0.9	0.4	0.1	0.4
Netherlands	1.2	1.0	0.6	0.6	2.4
Germany	0.3	1.5	0.4	0.4	0.2
France	0.2	0.2	0.2	0.5	0.2
Luxembourg	0.1	0.1	0.2	0.7	1.9
Others	0.9	1.7	1.2	2.6	1.6
	3.3	5.4	3.0	4.9	6.7
Others regions and countries	0.2	0.2	0.1	0.0	0.5
Total	13.1	13.7	16.3	14.5	19.0

Source: Ministry of Trade, Industry and Energy

Trade Balance

Trade balance figures measure the difference between a country's exports and imports. If exports exceed imports the country has a trade balance surplus while if imports exceed exports the country has a deficit. A deficit, indicating that a country's receipts from abroad fall short of its payments to foreigners, must be financed, rendering the country a debtor nation. A surplus, indicating that a country's receipts exceed its payments to foreigners, allows the country to finance its trading partners' net deficit to the extent of the surplus, rendering the country a creditor nation.

The following table summarizes the Republic's trade balance for the periods indicated:

Trade Balance

	Exports(1)	As % of GDP(2)	Imports(3)	As % of GDP(2)	Balance of Trade	Exports as % of Imports
	(billions of dollars, except percentages)					
2010	466.4	42.6%	425.2	38.9%	41.2	109.6
2011	555.2	46.9%	524.4	44.3%	30.8	105.8
2012	547.9	46.0%	519.6	43.6%	28.3	105.4
2013	559.6	44.4%	515.6	40.9%	44.0	108.5
2014(4)	572.7	44.1%	525.5	40.5%	47.2	109.0

(1) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
(2) At chained 2010 year prices.
(3) These entries are derived from customs clearance statistics on a C.I.F. basis, meaning that the price of goods include insurance and freight cost.
(4) Preliminary.
Source: The Bank of Korea; Korea Customs Service.

The Republic, due to its lack of natural resources, relies on extensive trading activity for growth. The country meets virtually all domestic requirements for petroleum, wood and rubber with imports, as well as much of its coal and iron needs. Exports consistently represent a high percentage of GDP and, accordingly, the international economic environment is of crucial importance to the Republic's economy.

The following tables give information regarding the Republic's exports and imports by major commodity groups:

Exports by Major Commodity Groups (C.I.F.)(1)

	2010	As % of 2010 Total	2011	As % of 2011 Total	2012	As % of 2012 Total	2013	As % of 2013 Total	2014(2)	As % of 2014 Total(2)
	(billions of dollars, except percentages)									
Foods & Consumer Goods	5.3	1.2	6.5	1.2	6.8	1.2	6.7	1.1	7.0	1.2
Raw Materials and Fuels	38.5	8.3	61.7	11.1	65.4	11.9	61.2	10.9	59.2	10.3
Petroleum & Derivatives	31.9	6.8	52.0	9.4	56.6	10.3	53.2	9.5	51.2	8.9
Others	6.6	1.4	9.7	1.7	8.8	1.6	8.0	1.4	8.0	1.4
Light Industrial Products	32.7	7.0	38.9	7.0	40.5	7.4	39.0	6.9	38.6	6.7
Heavy & Chemical Industrial Products	389.9	83.6	448.0	80.7	435.2	79.3	452.8	77.8	467.9	81.7
Electronic & Electronic Products	154.2	33.1	156.9	28.3	156.0	28.5	171.2	30.6	174.4	30.5
Chemicals & Chemical Products	47.5	10.2	59.1	10.6	59.6	10.9	64.4	11.5	65.6	11.5

	2010	As % of 2010 Total	2011	As % of 2011 Total	2012	As % of 2012 Total	2013	As % of 2013 Total	2014(2)	As % of 2014 Total(2)
	(billions of dollars, except percentages)									
Metal Goods	37.7	8.1	48.6	8.8	47.2	8.6	43.6	7.8	47.5	8.3
Machinery & Precision Equipment	44.0	9.4	54.5	9.8	55.7	10.2	55.3	9.9	57.9	10.1
Transport Equipment	103.4	22.2	124.7	22.5	112.1	20.5	113.1	20.2	116.5	20.3
Passenger Cars	31.8	6.8	40.9	7.4	42.4	7.7	44.3	7.9	44.8	7.8
Ship & Boat	47.1	10.1	54.6	9.8	38.2	7.0	36.2	6.5	38.7	6.8
Others	3.1	0.7	4.2	0.8	4.6	0.8	5.2	0.9	6.0	1.0
Total	466.4	100.0	555.2	100.0	547.9	100.0	559.6	100.0	572.7	100.0

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.
(2) Preliminary.
Source: The Bank of Korea; Korea Customs Service.

Imports by Major Commodity Groups (C.I.F.)(1)

	2010	As % of 2010 Total	2011	As % of 2011 Total	2012	As % of 2012 Total	2013	As % of 2013 Total	2014(2)	As % of 2014 Total(2)
	(billions of dollars, except percentages)									
Industrial Materials and Fuels	247.2	58.1	324.8	61.9	325.1	62.6	313.8	60.9	311.2	59.2
Crude Petroleum	68.7	16.2	100.8	19.2	108.3	20.8	99.4	19.3	94.9	18.1
Mineral	21.4	5.0	31.1	5.9	28.3	5.4	24.7	4.8	24.6	4.7
Chemicals	37.7	8.9	44.2	8.4	43.8	8.4	43.2	8.4	43.9	8.4
Iron & Steel Products	27.3	6.4	30.4	5.8	26.4	5.1	24.6	4.8	27.0	5.1
Non-ferrous Metal	12.6	3.0	15.1	2.9	12.6	2.4	12.5	2.4	12.8	2.4
Others	79.5	18.7	103.2	19.7	105.7	20.3	109.4	21.2	108.0	20.5
Capital Goods	135.7	31.9	146.5	27.9	140.3	27.0	144.2	28.0	149.0	28.3
Machinery & Precision Equipment	47.7	11.2	50.5	9.6	49.8	9.6	50.1	9.7	50.8	9.7
Electric & Electronic Machines	73.3	17.2	80.1	15.3	76.3	14.7	80.9	15.7	84.5	16.1
Transport Equipment	12.9	3.0	13.9	2.7	12.1	2.3	11.3	2.2	11.6	2.2
Others	1.8	0.4	2.0	0.4	2.1	0.4	1.9	0.4	2.1	0.4
Consumer Goods	42.3	9.9	53.1	10.1	54.2	10.4	58.2	11.3	65.3	12.4
Cereals	5.9	1.4	7.5	1.4	7.9	1.5	8.5	1.6	7.9	1.5
Goods for Direct Consumption	11.0	2.6	15.0	2.9	14.3	2.8	14.5	2.8	16.7	3.2
Consumer Durable Goods	16.2	3.8	18.6	3.5	19.4	3.7	21.0	4.1	24.7	4.7
Consumer Nondurable Goods	9.2	2.2	12.1	2.3	12.6	2.4	14.3	2.8	16.0	3.0
Total	425.2	100.0	524.4	100.0	519.6	100.0	515.6	100.0	525.5	100.0

(1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.
(2) Preliminary.
Source: The Bank of Korea; Korea Customs Service.

In 2010, the Republic recorded a trade surplus of US$41.2 billion. Exports increased by 28.3% to US$466.4 billion in 2010 from US$363.5 billion in 2009, primarily due to increased demand for electronics products and automobiles from China and the emerging markets. Imports increased by 31.6% to US$425.2 billion from US$323.1 billion in 2009, primarily due to increases in domestic consumption and oil and raw material prices.

In 2011, the Republic recorded a trade surplus of US$30.8 billion. Exports increased by 19.0% to US$555.2 billion in 2011 from US$466.4 billion in 2010, primarily due to increased demand for mobile phones, consumer electronics products and automobiles from China and the emerging markets. Imports increased by 23.3% to US$524.4 billion in 2011 from US$425.2 billion in 2010, primarily due to an increase in oil and raw material prices.

In 2012, the Republic recorded a trade surplus of US$28.3 billion. Exports decreased by 1.3% to US$547.9 billion in 2012 from US$555.2 billion in 2011, primarily due to adverse economic conditions in European countries. Imports decreased by 0.9% to US$519.6 billion in 2012 from US$524.4 billion in 2011, primarily due to decreased investment spending.

In 2013, the Republic recorded a trade surplus of US$44.1 billion. Exports increased by 2.1% to US$559.7 billion in 2013 from US$547.9 billion in 2012, primarily due to increased demand for wireless communication devices, semiconductors and other information technology related products from the United States, China and the Southeast Asian nations. Imports decreased by 0.8% to US$515.6 billion in 2013 from US$519.6 billion in 2012, primarily due to decreased imports of oil, iron and steel.

Based on preliminary data, the Republic recorded a trade surplus of US$47.2 billion in 2014. Exports increased by 2.3% to US$572.7 billion in 2014 from US$559.6 billion in 2013, primarily due to increased demand for semiconductors, wireless communication devices, iron and steel from the United States, the EU and the Southeast Asian nations. Imports increased by 1.9% to US$525.5 billion in 2014 from US$515.6 billion in 2013, primarily due to increased imports of cars, components for wireless communication devices and beef.

Based on preliminary data, the Republic recorded a trade surplus of US$66.1 billion in the first nine months of 2015. Exports decreased by 6.6% to US$396.9 billion and imports decreased by 16.5% to US$330.8 billion from US$425.0 billion of exports and US$396.2 billion of imports, respectively, in the corresponding period of 2014.

The following table sets forth the Republic's exports trading partners:

Exports

	2010	As % of 2010 Total	2011	As % of 2011 Total	2012	As % of 2012 Total	2013	As % of 2013 Total	2014[1]	As % of 2014 Total[1]
	(millions of dollars, except percentages)									
China	116,837.8	25.1	134,185.0	24.2	134,322.6	24.5	145,869.5	26.1	145,287.7	25.4
United States	49,816.1	10.7	56,207.7	10.1	58,524.6	10.7	62,052.5	11.1	70,284.9	12.3
Japan	28,176.3	6.0	39,679.7	7.1	38,796.1	7.1	34,662.3	6.2	32,183.8	5.6
Hong Kong	25,294.3	5.4	30,968.4	5.6	32,606.2	6.0	27,756.3	5.0	27,256.4	4.8
Singapore	15,244.2	3.3	20,839.0	3.8	22,887.9	4.2	22,289.0	4.0	23,749.9	4.1
Vietnam	9,652.1	2.1	13,464.9	2.4	15,946.0	2.9	21,087.6	3.8	22,351.7	3.9
Taiwan	14,830.5	3.2	18,206.0	3.3	14,814.9	2.7	15,699.1	2.8	15,077.4	2.6
India	11,434.6	2.5	12,654.1	2.3	11,922.0	2.2	11,375.8	2.0	12,782.5	2.2
Indonesia	8,897.3	1.9	13,564.5	2.4	13,955.0	2.5	11,568.2	2.1	11,360.7	2.0
Mexico	8,845.5	1.9	9,729.1	1.8	9,042.4	1.7	9,727.4	1.7	10,846.0	1.9
Australia	6,641.6	1.4	8,163.8	1.5	9,250.5	1.7	9,563.1	1.7	10,282.5	1.8
Russia	7,759.8	1.7	10,304.9	1.9	11,097.1	2.0	11,149.1	2.0	10,129.2	1.8
Germany	10,702.2	2.3	9,500.9	1.7	7,509.7	1.4	7,907.9	1.4	7,570.9	1.3
Others[2]	152,251.5	32.6	177,745.7	32.0	167,194.8	30.5	168,924.6	30.2	173,501.0	30.3
Total	466,383.8	100.0	555,213.7	100.0	547,869.8	100.0	559,632.4	100.0	572,664.6	100.0

(1) Preliminary.
(2) Includes more than 200 countries and regions.
Source: The Bank of Korea; Korea Customs Service.

The following table sets forth the Republic's imports trading partners:

Imports

	2010	As % of 2010 Total	2011	As % of 2011 Total	2012	As % of 2012 Total	2013	As % of 2013 Total	2014(1)	As % of 2014 Total(1)
	(millions of dollars, except percentages)									
China	71,573.6	16.8	86,432.2	16.5	80,784.6	15.5	83,052.9	16.1	90,082.2	17.1
Japan	64,296.1	15.1	68,320.2	13.0	64,363.1	12.4	60,029.4	11.6	53,768.3	10.2
United States	40,402.7	9.5	44,569.0	8.5	43,341.0	8.3	41,511.9	8.1	45,283.3	8.6
Saudi Arabia	26,820.0	6.3	36,972.6	7.1	39,707.1	7.6	37,665.2	7.3	36,694.5	7.0
Qatar	11,915.5	2.8	20,749.4	4.0	25,504.7	4.9	25,873.8	5.0	25,723.1	4.9
Australia	20,456.2	4.8	26,316.3	5.0	22,987.9	4.4	20,784.6	4.0	20,413.0	3.9
Germany	14,304.9	3.4	16,962.6	3.2	17,645.4	3.4	19,336.0	3.8	21,298.8	4.0
Kuwait	10,850.1	2.6	16,959.6	3.2	18,297.1	3.5	18,725.1	3.6	16,892.0	3.2
Taiwan	13,647.1	3.2	14,693.6	2.8	14,012.0	2.7	14,632.6	2.8	15,689.8	3.0
United Arab Emirates	12,170.1	2.9	14,759.4	2.8	15,115.3	2.9	18,122.9	3.5	16,194.3	3.1
Indonesia	13,985.8	3.3	17,216.4	3.3	15,676.3	3.0	13,190.0	2.6	12,266.3	2.3
Malaysia	9,531.0	2.2	10,467.8	2.0	9,796.4	1.9	11,095.8	2.2	11,097.9	2.1
Others (2)	115,259.1	27.1	149,994.0	28.6	152,353.6	29.3	151,565.3	29.4	160,111.0	30.5
Total	425,212.2	100.0	524,413.1	100.0	519,584.5	100.0	515,585.5	100.0	525,514.5	100.0

(1) Preliminary.
(2) Includes more than 200 countries and regions.
Source: The Bank of Korea; Korea Customs Service.

In 2003, the outbreak of severe acute respiratory syndrome, or SARS, and the avian influenza in Asia (including China) and other parts of the world increased uncertainty about prospects for international trade and economic growth for affected countries, as well as world economic prospects in general. The avian influenza carried by migrating wild birds spread to several Asian countries, Russia, Romania and Turkey. In response to these outbreaks of avian influenza, the Government issued an advisory on disease prevention as of October 14, 2005 and conducted special monitoring of poultry farms. In May 2015, an outbreak of MERS resulted in the death of over 30 people and the quarantine of thousands. The Government continues to cooperate with regional and international efforts to develop and implement additional measures to contain and prevent SARS, the avian influenza, MERS and other diseases. Another outbreak of SARS, the avian influenza, MERS or similar incidents in the future may have an adverse effect on Korean and world economies and on international trade.

In recent years, the value of the Won relative to the U.S. dollar and Japanese Yen has fluctuated widely. An appreciation of the Won against the U.S. dollar and Japanese Yen increases the Won value of the Republic's export sales and diminishes the price-competitiveness of export goods in foreign markets in U.S. dollar and Japanese Yen terms, respectively. However, it also decreases the cost of imported raw materials in Won terms and the cost in Won of servicing the Republic's U.S. dollar and Japanese Yen denominated debt. In general, when the Won appreciates, export dependent sectors of the Korean economy, including automobiles, electronics and shipbuilding, suffer from the resulting pressure on the price-competitiveness of export goods, which may lead to reduced profit margins and loss in market share, more than offsetting a decrease in the cost of imported raw materials. If the Won continues to appreciate, the export dependent sectors of the Korean economy may suffer reduced profit margins or a net loss, which could result in a material adverse effect on the Korean economy.

Since the Government announced its plans to pursue free trade agreements, or FTAs, in 2003, the Republic has signed FTAs with key trading partners. The Republic has had bilateral FTAs in effect with Chile since 2004, Singapore since 2006, Peru since 2011, the United States since 2012, Turkey since 2013, Australia since 2014 and Canada since January 2015. The Republic has also signed bilateral FTAs with Columbia, China, New Zealand and Vietnam, which have yet to come into effect, and is currently in negotiations with a number of other key trading partners including Indonesia. In addition, the Republic has had regional FTAs in effect with the European Free Trade Association since 2006, Association of Southeast Asian Nations since 2009 and the European Union since 2011.

Non-Commodities Trade Balance

The non-commodities trade deficit was US$19.1 billion in 2010 and US$10.4 billion in 2011. The Republic had a non-commodities trade surplus of US$1.4 billion in 2012 and a non-commodities trade deficit of US$1.6 billion in 2013. Based on preliminary data, the Republic had a non-commodities trade deficit of US$3.5 billion in 2014.

Foreign Currency Reserves

The foreign currency reserves are external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs and for other related purposes. The following table shows the Republic's total official foreign currency reserves:

Total Official Reserves

	December 31,				
	2010	2011	2012	2013	2014
	(millions of dollars)				
Gold (1)	$ 79.6	$ 2,166.6	$ 3,761.4	$ 4,794.5	$ 4,794.7
Foreign Exchange (2)	286,926.4	298,232.9	316,897.7	335,647.5	353,600.5
Total Gold and Foreign Exchange	287,006.0	300,399.5	320,659.1	340,442.0	358,395.2
Reserve Position at IMF	1,024.7	2,556.2	2,783.6	2,527.7	1,917.1
Special Drawing Rights	3,539.9	3,446.7	3,525.6	3,489.9	3,280.5
Total Official Reserves	$291,570.7	$306,402.5	$326,968.4	$346,459.6	$363,592.7

(1) For this purpose, domestically-owned gold is valued at US$42.22 per troy ounce (31.1035 grams) and gold deposited overseas is calculated at cost of purchase.

(2) More than 95% of the Republic's foreign currency reserves are comprised of convertible foreign currencies.

Source: The Bank of Korea; International Monetary Fund

The Government's foreign currency reserves increased to US$262.2 billion as of December 31, 2007 from US$8.9 billion as of December 31, 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to US$201.2 billion as of December 31, 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions. The Government's foreign currency reserves increased to US$270.0 billion as of December 31, 2009, US$291.6 billion as of December 31, 2010, US$306.4 billion as of December 31, 2011, US$327.0 billion as of December 31, 2012, US$346.5 billion as of December 31, 2013 and US$363.6 billion as of December 31, 2014, primarily due to continued trade surpluses and capital inflows. The amount of the Government's foreign currency reserve was US$369.6 billion as of October 31, 2015.

Government Finance

The Ministry of Strategy and Finance prepares the Government budget and administers the Government's finances.

The Government's fiscal year commences on January 1. The Government must submit the budget, which is drafted by the Minister of Strategy and Finance and approved by the President of the Republic, to the National Assembly not later than 90 days prior to the start of the fiscal year and may submit supplementary budgets revising the original budget at any time during the fiscal year.

2014 budgeted revenues increased by 3.7% to ₩338.9 trillion from ₩326.9 trillion in 2013, led by an increase in budgeted tax revenues (including revenues from income tax and value added tax). 2014 budgeted expenditures and net lending increased by 3.3% to ₩325.4 trillion from ₩315.1 trillion in 2013, led by increases in budgeted expenditures on social security, public assistance, childcare and welfare services for senior citizens. The 2014 budget anticipated a ₩13.5 billion budget surplus.

2015 budgeted revenues increased by 3.6% to ₩351.1 trillion from ₩338.9 trillion in 2014, led by an increase in budgeted tax revenues (including revenues from income tax, value added tax and social security contributions). 2015 budgeted expenditures and net lending increased by 5.8% to ₩344.2 trillion from ₩325.4 trillion in 2014, led by increases in budgeted expenditures on economic growth, social security, public assistance, military services and welfare services for senior citizens, unemployed people and temporary workers. The 2015 budget anticipated a ₩6.9 billion budget surplus.

The following table shows consolidated Government revenues and expenditures:

Consolidated Central Government Revenues and Expenditures

	Actual					Budget		
	2010	2011	2012	2013	2014	2013	2014	2015
				(billions of Won)				
Total Revenues	270,923	292,323	311,456	314,438	320,895	326,910	338,867	351,139
Current Revenues	268,540	289,797	307,754	311,136	318,185	321,898	334,653	346,636
Total Tax Revenues	213,319	231,273	246,918	248,046	255,313	256,765	268,415	276,583
Taxes on income, profits and capital gains	74,730	87,161	91,699	91,674	95,976	95,742	100,400	103,378
Social security contributions	35,601	38,892	43,904	46,140	49,793	46,367	51,962	55,441
Tax on property	7,772	8,713	8,832	8,591	9,054	10,367	9,754	10,134
Taxes on goods and services	71,035	71,519	77,811	77,642	79,055	78,498	80,924	83,272
Taxes on international trade and transaction	10,666	10,990	9,816	10,562	8,721	10,269	10,551	9,882
Other tax	13,514	13,998	14,857	13,438	12,715	15,522	14,824	14,477
Non-Tax Revenues	55,221	58,524	60,836	63,089	62,872	65,133	66,238	70,053
Operating surpluses of departmental enterprise sales and property income	23,173	24,675	25,242	24,591	23,112	25,282	23,999	23,816
Administration fees & charges and non-industrial sales	6,345	6,973	7,364	8,537	7,997	8,130	8,437	10,403
Fines and forfeits	15,730	17,180	17,488	18,164	19,556	19,822	20,769	21,962
Contributions to government employee pension fund	7,213	7,303	8,134	8,776	9,915	9,067	10,034	10,458
Current revenue of non-financial public enterprises	2,760	2,393	2,608	3,021	2,292	2,254	2,999	3,415
Capital Revenues	2,383	2,527	3,702	3,302	2,710	5,012	4,214	4,502

	Actual					Budget		
	2010	2011	2012	2013	2014	2013	2014	2015
	(billions of Won)							
Total Expenditures and Net Lending	254,231	273,694	292,977	300,238	312,394	315,116	325,378	344,174
Total Expenditures	251,146	269,768	286,921	302,036	311,507	311,231	320,075	335,397
Current Expenditures	216,937	235,458	252,620	268,019	280,466	275,757	287,226	300,963
Expenditure on goods and service	49,821	52,989	55,384	57,769	59,616	63,675	64,470	68,865
Interest payment	13,387	14,566	14,239	13,386	14,057	13,660	14,439	14,293
Subsidies and other current transfers	151,030	165,233	179,433	193,451	203,649	195,048	204,638	214,125
Current expenditure of non-financial public enterprises	2,699	2,670	3,564	3,414	3,143	3,373	3,679	3,681
Capital Expenditures	34,209	34,310	34,301	34,017	31,041	35,474	32,850	34,433
Net Lending	3,084	3,926	6,056	(1,798)	888	3,885	5,303	8,778

Source: Ministry of Strategy and Finance; The Bank of Korea; Korea National Statistical Office

The consolidated Government account consists of a General Account, Special Accounts (including a non-financial public enterprise special account) and Public Funds. The Government segregates the accounts of certain functions of the Government into Special Accounts and Public Funds for more effective administration and fiscal control. The Special Accounts and Public Funds relate to business type activities, such as economic development, road and railway construction and maintenance, monopolies, and communications developments and the administration of loans received from official international financial organizations and foreign governments.

Revenues derive mainly from national taxes and non-tax revenues. Taxes in Korea can be roughly classified into the following types:

- income tax and capital gains tax;
- property tax;
- value-added tax;
- customs duty tax; and
- other taxes.

Income tax and capital gains tax are imposed on income derived from labor, business operation and ownership of assets and profits derived from capital appreciation. Income tax and capital gains tax, depending on the type of taxpayer, can be further classified into corporate income tax and individual income tax. Property tax is imposed on exchange or ownership of property and includes inheritance tax and gift tax. Value-added tax is imposed on value added to goods and services. Customs duty tax is imposed on imported goods. Other taxes include tax on certain securities transactions and a stamp tax for certain documents.

Expenditures include general administration, national defense, community service, education, health, social security, certain annuities and pensions and local finance, which involves the transfer of tax revenues to local governments.

For 2010, the Republic recorded total revenues of ₩270.9 trillion and total expenditures and net lending of ₩254.2 trillion. The Republic had a fiscal surplus of ₩16.7 trillion in 2010.

For 2011, the Republic recorded total revenues of ₩292.3 trillion and total expenditures and net lending of ₩273.7 trillion. The Republic had a fiscal surplus of ₩18.6 trillion in 2011.

For 2012, the Republic recorded total revenues of ₩311.5 trillion and total expenditures and net lending of ₩293.0 trillion. The Republic had a fiscal surplus of ₩18.5 trillion in 2012.

For 2013, the Republic recorded total revenues of ₩314.4 trillion and total expenditures and net lending of ₩300.2 trillion. The Republic had a fiscal surplus of ₩14.2 trillion in 2013.

Based on preliminary data, the Republic recorded total revenues of ₩320.9 trillion and total expenditures and net lending of ₩312.4 trillion in 2014. The Republic had a fiscal surplus of ₩8.5 trillion in 2014.

Debt

The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2013 amounted to approximately ₩497.0 trillion, an increase of 8.5% over the previous year. The Government estimates that the total outstanding debt of the Government (including guarantees by the Government) as of December 31, 2014 amounted to approximately ₩532.2 trillion, an increase of 7.1% over the previous year. The Ministry of Strategy and Finance administers the national debt of the Republic.

External and Internal Debt of the Government

The following table sets out, by currency and the equivalent amount in U.S. Dollars, the estimated outstanding direct external debt of the Government as of December 31, 2014:

Direct External Debt of the Government

	Amount in Original Currency	Equivalent Amount in U.S. Dollars(1)
	(millions)	
US$	US$ 4,443.7	US$ 4,443.7
Japanese Yen (¥)	¥ 461.7	3.9
Euro (EUR)	EUR 1,625.1	1,976.0
Total		US$ 6,423.6

(1) Amounts expressed in currencies other than US$ are converted to US$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2014.

The following table summarizes, as of December 31 of the years indicated, the outstanding direct internal debt of the Republic:

Direct Internal Debt of the Government

	(billions of Won)
2010	₩ 360,804.5
2011	390,249.4
2012	414,213.5
2013	453,674.0
2014	493,584.9

The following table sets out all guarantees by the Government of indebtedness of others:

Guarantees by the Government

	December 31,				
	2010	2011	2012	2013	2014
			(billions of Won)		
Domestic	₩33,291.7	₩33,799.1	₩32,783.6	₩32,978.5	₩29,158.4
External (1)	1,508.3	1,258.6	—	—	—
Total	₩34,800.0	₩35,057.7	₩32,783.6	₩32,978.5	₩29,158.4

(1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on December 31 of each year.

External Liabilities

The following tables set out certain information regarding the Republic's external liabilities calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013. Under BPM6, in particular, prepayments received in connection with the construction of ships are excluded from the external debt.

	December 31,				
	2010	2011	2012	2013	2014
	(billions of dollars)				
Long-term Debt	219.5	260.3	281.0	311.7	310.1
General Government	50.5	59.8	60.8	63.0	65.2
Monetary Authorities	18.4	14.2	21.2	29.2	25.9
Banks	71.0	93.4	97.8	102.2	104.1
Other Sectors	79.6	92.9	101.2	117.4	114.9
Short-term Debt	136.5	139.8	128.0	111.8	115.3
General Government	0.2	0.5	0.0	0.0	0.0
Monetary Authorities	10.3	8.9	14.9	10.8	12.2
Banks	101.9	102.9	85.4	77.9	81.9
Other Sectors	24.0	27.5	27.7	23.0	21.2
Total External Liabilities	355.9	400.0	408.9	423.5	425.4

Debt Record

The Government has always paid when due the full amount of principal of, interest on, and amortization of sinking fund requirements of, all of its indebtedness.

TAXATION

Luxembourg Taxation

The following is a summary of certain material Luxembourg tax consequences of purchasing, owning and disposing of the Securities. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or sell the Securities. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. This summary does not allow any conclusion to be drawn with respect to issues not specifically addressed. The following description of Luxembourg tax law is based on the Luxembourg law and regulations in effect and as interpreted by the Luxembourg tax authorities on the date of this Offering Circular. These laws and interpretations are subject to change that may occur after such date, even with retroactive or retrospective effect.

Prospective purchasers of the Securities should consult their own tax advisers as to the particular tax consequences of subscribing, purchasing, holding and disposing of the Securities, including the application and effect of any federal, state or local taxes under the tax laws of Luxembourg and each country of which they are residents or citizens.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax generally encompasses corporate income tax (impôt sur le revenu des collectivités), municipal business tax (impôt commercial communal), a solidarity surcharge (contribution au fonds pour l'emploi), personal income tax (impôt sur le revenu des personnes physiques) as well as a temporary equalization tax (impôt d'équilibrage budgétaire temporaire). Corporate taxpayers may further be subject to net wealth tax (impôt sur la fortune), as well as other duties, levies and taxes. Corporate income tax, municipal business tax and the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax, solidarity surcharge and temporary equalization tax. Under certain circumstances, where individual taxpayers act in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Tax Residency

A holder of Securities will not become resident, nor be deemed to be resident, in Luxembourg solely by virtue of holding and/or disposing of Securities or the execution, performance, delivery and/or enforcement of his/her rights thereunder.

Withholding Tax

Resident Holders of Securities

Under the Luxembourg law dated December 23, 2005, as amended (the "Law"), a 10% Luxembourg withholding tax is levied as of January 1, 2006 on interest or similar income payments (accrued since July 1, 2005) made by Luxembourg paying agents to or for the immediate benefit of an individual beneficial owner who is resident in Luxembourg. This withholding tax also applies on accrued interest received upon disposal, redemption or repurchase of the Securities. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of tax in application of the Law is assumed by the Luxembourg paying agent within the meaning of the Law.

Further, Luxembourg resident individuals acting in the course of the management of their private wealth, who are the beneficial owners of interest payments and other similar income made as from January 1, 2008 by a paying agent established outside Luxembourg in a Member State of the European Union or the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the Council Directive 2003/48/EC on taxation of savings income (the "Savings Directive") in the form of interest payments, as amended, or any superseding European Union or Luxembourg domestic regulation with similar provisions, may opt for a final 10% levy. In such case, the 10% levy is calculated on the basis of the same amounts as for the payments made by Luxembourg paying agents. The option of the 10% final levy must cover all interest payments made by paying agents to the beneficial owner over the full civil year. The Luxembourg resident individual who is the beneficial owner of interest is responsible for the declaration and the payment of the 10% final levy.

Non-resident Holders of Securities

Under the Luxembourg tax law currently in effect, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to a Luxembourg non-resident holder of Securities. There is also no Luxembourg withholding tax upon repayment of the principal, sale, refund or redemption of the Securities.

Income Tax

Resident Holders of Securities

Luxembourg resident individuals. An individual holder of Securities, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts under the Securities, except if a final withholding tax has been levied on such payments in accordance with the Law.

Under Luxembourg domestic tax law, gains realized upon the sale, disposal or redemption of the Securities by an individual holder of Securities, who is a resident of Luxembourg for tax purposes and who acts in the course of the management of his/her private wealth, are not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the acquisition of the Securities and the Securities do not constitute zero coupon notes.

An individual holder of Securities, who acts in the course of the management of his/her private wealth and who is a resident of Luxembourg for tax purposes, must further include the portion of the gain corresponding to accrued but unpaid interest income in respect of the Securities in his/her taxable income, insofar as the accrued but unpaid interest is indicated separately in the agreement, except if a final withholding tax or levy has been levied in accordance with the Law.

Luxembourg resident individual holders of Securities acting in the course of the management of a professional or business undertaking to which the Securities are attributable, must include any interest received or accrued, as well as any gain realized on the sale or disposal of the Securities, in any form whatsoever, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are defined as the difference between the sale, repurchase or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Securities sold or redeemed.

Luxembourg resident companies. Luxembourg corporate holders of Securities must include any interest received or accrued, as well as any gain realized on the sale or disposal of the Securities, in their taxable income for Luxembourg income tax assessment purposes. Taxable gains are defined as the difference between the sale, repurchase or redemption price (including but unpaid interest) and the lower of the cost or book value of the Securities sold or redeemed.

Luxembourg resident companies benefiting from a special tax regime. Luxembourg holders of Securities who benefit from a special tax regime, such as, for example, undertakings for collective investment subject to the amended law of December 17, 2010, specialized investment funds governed by the amended law of February 13, 2007 or family wealth management companies governed by the amended law of May 11, 2007 are exempt from income taxes in Luxembourg and thus income derived from the Securities, as well as gains realized thereon, are not subject to income taxes.

Non-resident holders of Securities

Holders of Securities who are non-residents of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the Securities are attributable are not liable to pay any Luxembourg income tax, irrespective of whether they receive payments of principal or interest (including accrued but unpaid interest) or realize capital gains upon redemption, repurchase, sale, disposal or exchange, in any form whatsoever, of any Securities.

Holders of Securities who are non-residents of Luxembourg and who have a permanent establishment or a permanent representative in Luxembourg to which or whom the Securities are attributable are liable to pay Luxembourg income tax on any interest received or accrued, as well as any reimbursement premium received at maturity and any capital gain realized on the sale or disposal, in any form whatsoever, of the Securities and must include this income in their taxable income for Luxembourg income tax assessment purposes.

Net Wealth Tax

Luxembourg resident holders of Securities and non-resident holders of Securities who have a permanent establishment or a permanent representative in Luxembourg to which or whom the Securities are attributable, are subject to Luxembourg net wealth tax on such Securities, except if the holder of Securities is (i) an individual, (ii) an undertaking for collective investment subject to the amended law of December 17, 2010, (iii), a securitization company governed by the amended law of March 22, 2004, (iv) a company governed by the amended law of June 15, 2004 on venture capital vehicles, (v) a specialized investment fund governed by the amended law of February 13, 2007 or (vi) a family wealth management company governed by the amended law of May 11, 2007.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the holders of Securities as a consequence of the issuance of the Securities, nor will any of these taxes be payable as a consequence of a subsequent transfer, redemption or repurchase of the Securities (except in case of voluntary registration in Luxembourg).

Under Luxembourg tax law, where an individual holder of Securities is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the Securities are included in his/her taxable base for inheritance tax purposes. On the contrary, no estate or inheritance taxes are levied on the transfer of the Securities upon death of a holder of Securities in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes at the time of his/her death. Luxembourg gift tax may be due on a gift or donation of the Securities if the gift is recorded in a deed executed before a Luxembourg notary or otherwise registered in Luxembourg.

UK Taxation

The comments below are of a general nature and are based on current UK tax law (as applied in England) and published practice of HM Revenue & Customs ("HMRC"), the UK tax authorities. Such law may be repealed, revoked or modified and such practice may not bind HMRC and/or may change (in each case, possibly with retrospective effect), resulting in UK tax consequences different from those discussed below. The comments apply only to persons who are the absolute beneficial owners of the

Securities and may not apply to certain classes of person such as dealers or certain professional investors and persons connected with the Issuer and, save as specifically mentioned, apply only to Holders who are resident and (in the case of individuals) ordinarily resident and domiciled in the UK for tax purposes. The comments below deal only with UK withholding tax and rules relating to information that may need to be provided to HMRC in connection with the Securities. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Securities. Prospective Holders who may be subject to tax in a jurisdiction other than the UK or who are unsure as to their tax position should seek advice from an independent tax adviser.

Withholding Tax on Interest on the Securities

Payments of interest on the Securities may be made without deduction of or withholding on account of UK income tax if the Securities are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The SGX-ST is a recognised stock exchange for these purposes. Provided that the Securities are and remain admitted to trading on the SGX-ST and are officially listed on the Bond Market of the SGX-ST, interest on the Securities will be payable without deduction of or withholding on account of UK income tax.

If the Securities cease to be so listed at any time, interest will generally be paid by the Issuer under deduction of UK income tax at the basic rate (currently 20%), subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double tax treaty and subject to any other exemption that may be available to particular Holders.

Payments by the Guarantor

If the Guarantor makes any payments in respect of interest on the Securities it is possible that such payments may be subject to deduction of UK income tax at the basic rate (currently 20%), subject to any claim which could be made under an applicable double taxation treaty or any other exemption which may apply. Such payments by the Guarantor may not be eligible for the quoted Eurobonds exemption described above.

Provision of Information Requirements

HMRC has powers to obtain information relating to the Securities in certain circumstances. This may include details of the beneficial owners of the Securities (or the persons for whom the Securities are held), details of the persons to whom payments derived from the Securities are or may be paid and information and documents in connection with transactions relating to the Securities. Information may be required to be provided by, amongst others, the holders of the Securities, persons by or through whom payments derived from the Securities are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Securities on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

Korean Taxation

The following summary of Korean tax considerations applies to non-Korean resident individuals and corporations ("Non-Residents") having no permanent establishment in Korea to which the relevant income is attributable or with which such income is effectively connected. Non-Residents with such a permanent establishment are taxed under different rules.

All payments in respect of the Securities, other than the payment of the principal amount of the Securities under the Guarantee, by the Guarantor to a Non-Resident Securities holder may be subject to a withholding tax at the rate of 22% (including local income tax) or such lower rate as is applicable under the tax treaty between Korea and the country of tax residence of the Non-Resident Securities holder. It is not clear under Korean tax law whether the payment of any interest on the Securities under the Guarantee by the Guarantor to a Non-Resident Securities holder will be subject to the withholding tax. In a ruling by the Korean tax authorities (Jaekukjo-223, May 20, 2011), it was interpreted that the payment of such interest will not be subject to the withholding tax on the basis that the payment of such interest does not fall under the definition of "Korean-source income" under Korean tax law. However, in an administrative appeal case (Joshim 2011Seo1493, December 16, 2011) and a court case by the Seoul High Court (2012Nu30068, April 24, 2013), it was held that the payment of such interest would be subject to the withholding tax since such payment does fall under the definition of "Korean-source income" under Korean tax law. These interpretations and decisions are in conflict with each other. In the event that the Guarantor is required by Korean law to withhold or deduct any taxes with respect to the payments made by the Guarantor under the Guarantee, the amount of the payment due from the Guarantor shall be increased to an amount which (after making any deduction or withholding) leaves an amount equal to the payment which would have been due if no deduction or withholding had been required.

EU Savings Directive

Under the Savings Directive, each Member State of the European Union is required to provide to the tax authorities of another such Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. The Savings Directive will, however, be repealed with effect from January 1, 2016 in the case of Member States other than Austria and from January 1, 2017 in the case of Austria.

Austria will, until January 1, 2017 (unless during such period it elects otherwise), operate a withholding system in relation to such payments instead of an information reporting system. The rate of withholding is 35%. However, the beneficial owner of the interest (or similar income) payment may elect that certain provision of information procedures should be applied instead of withholding, provided that certain conditions are met.

The repeal of the Savings Directive is to prevent overlap with the new mandatory automatic exchange of financial account information to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU) (the "DAC"). The repeal will also be subject to on-going requirements to fulfill administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before the effective dates of the repeal.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures to the Savings Directive. Those measures in some or all of those countries and territories may be revised to be aligned with the DAC.

If a payment under the Securities were to be made and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer, nor the Guarantor, nor any other person would be obliged to pay additional amounts under the terms of such Securities as a result of the imposition of such withholding tax.

Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transactions Tax

The European Commission has published a proposal (the "Commission's Proposal") for a Directive for a common financial transactions tax ("FTT") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the "participating Member States").

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of the Securities should, however, be exempt.

Under the Commission's Proposal, the 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 the Securities 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 remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Joint statements issued by several participating Member States indicate an intention to implement the FTT by January 1, 2016.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (the "Managers") have, pursuant to a Subscription Agreement (the "Subscription Agreement") dated November 30, 2015, agreed to subscribe and pay for, or to procure subscriptions and payment for, the principal amount of the Securities subject to certain conditions contained therein.

The Issuer will also reimburse the Managers in respect of certain of their expenses, and the Issuer and the Guarantor have agreed to indemnify the Managers against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue and sale of the Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

The initial issue price is set forth on the cover of this Offering Circular. After the Securities are released for sale, the Managers may change the issue price and other selling terms. The offering of the Securities by the Managers is subject to receipt and acceptance and subject to the Managers' right to reject any order in whole or in part.

The Managers and certain of their affiliates have, from time to time, performed, and may in the future perform, certain investment banking, commercial banking and advisory services for the Issuer, the Guarantor and/or their respective affiliates for which they have received or will receive customary fees and expenses.

The Managers and their 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. In the ordinary course of their various business activities, the Managers and their affiliates may 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 investments and securities activities may involve securities and instruments of the Issuer and the Guarantor and their respective subsidiaries, affiliates, jointly controlled entities or associated companies, including the Securities. Such investments and securities may be purchased by or be allocated to any Manager or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

The Managers or their affiliates may subscribe the Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be subscribers of the Securities).

Selling Restrictions

General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Securities or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Manager shall have any responsibility therefor.

If a jurisdiction requires that any offering of Securities be made by a licensed broker or dealer and any Manager or any affiliate of a Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such dealer or such affiliate on behalf of the Issuer in such jurisdiction.

Unites States

The Securities and the Guarantee 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 this paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities and the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities and the Guarantee, an offer or sale of Securities and the Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Luxembourg

The Securities are not offered to the public in or from Luxembourg and each Manager has represented and agreed that it will not offer the Securities or cause the offering of the Securities or contribute to the offering of the Securities to the public in or from Luxembourg, unless all the relevant legal and regulatory requirements concerning a public offer in or from Luxembourg have been complied with. In particular, this offer has not been and may not be announced to the public and offering materials may not be made available to the public in Luxembourg.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong 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 Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities 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 Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities 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 organized under the laws of Japan) or to others for re-offering or re-sale, 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 Act and other relevant laws and regulations of Japan.

Singapore

Each Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each Manager has represented and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities 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 Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, 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.

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Securities may not be circulated or distributed, nor may any Securities 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 Securities 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 after that corporation or that trust has acquired the Securities 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.

Korea

Each Manager has represented and agreed that a registration statement for the offering and sale of the Securities has not been filed with the Financial Services Commission of Korea (the "FSC") and that under the current laws and regulations of Korea, subject to certain exceptions, the Securities may not be transferred or sold to any resident of Korea (as defined under the Foreign Exchange Transaction Law) unless a registration statement for the offering and sale of the Securities has been filed with the FSC. Accordingly, each Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, the Securities, directly or indirectly, in Korea or to any resident of Korea (as defined under the Foreign Exchange Transaction Law) or to others for reoffering or resale, directly or indirectly in Korea or for the account or benefit of any resident of Korea (as defined under the Foreign Exchange Transaction Law), except as otherwise permitted by applicable Korean laws and regulations.

Transfer Restrictions

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any offer, resale, pledge or other transfers of the Securities.

Transfer Restrictions under Korean Law

Each purchaser of the Securities, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

(a) the Issuer has not filed a registration with the Financial Services Commission in Korea and the Securities may not be sold, transferred or assigned to any Korean resident (which term has the meaning given to it by the Foreign Exchange Transaction Law of Korea) within one year after the issuance date of the Securities. Accordingly, it will not sell, transfer, assign or otherwise dispose of any of the Securities that it acquires to any Korean resident during the one year period from the issuance date of the Securities; and

(b) the Securities will bear legends to the effect described in paragraph (a) above.

Other Transfer Restrictions Applicable to the Securities

The Securities and the Guarantee have not been and will not be registered under the Securities Act. The Securities and the Guarantee may not be offered or sold to any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Except in certain limited circumstances, interests in the Securities may only be held through interests in the Global Certificates. Such interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and their respective direct and indirect participants. See "*Terms and Conditions of the Securities*."

Each purchaser of the Securities, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

(a) The Securities and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or any other jurisdiction and are subject to significant restrictions on transfer.

(b) Until forty (40) days after the commencement of offering of the Securities, an offer or sale of Securities and the Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(c) Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Securities or the Guarantee except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(d) The Securities will bear legends to the following effect, unless the Issuer determines otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THE SECURITIES EVIDENCED HEREBY (THE "SECURITIES") OF DOOSAN POWER SYSTEMS S.A. (THE "ISSUER") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT").

PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE LATEST CLOSING DATE (THE "DISTRIBUTION COMPLIANCE PERIOD"), THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY U.S. PERSON OUTSIDE THE UNITED STATES OR ANY

PERSON IN THE UNITED STATES. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

THE FOREGOING PARAGRAPH WILL BE NO LONGER EFFECTIVE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD WITH RESPECT TO THE SECURITIES, AFTER WHICH THE SECURITIES EVIDENCED HEREBY WILL NO LONGER BE SUBJECT TO THE RESTRICTIONS SET FORTH THEREIN, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE SECURITIES EVIDENCED HEREBY WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE SECURITIES HAVE NOT BEEN AND WILL NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO OR FOR THE ACCOUNT OR BENEFIT OF ANY KOREAN RESIDENT (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS LAW OF KOREA) EXCEPT IN CIRCUMSTANCES SPECIFICALLY PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS OR WHERE THE RELEVANT KOREAN LAWS AND REGULATIONS DO NOT APPLY.

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Securities will be passed upon for the Issuer by Arendt & Medernach SA as to matters of Luxembourg law, for the Guarantor by Kim & Chang as to matters of Korean law, for the Issuer and the Guarantor by Cleary Gottlieb Steen & Hamilton LLP as to matters of New York law and for the Managers by Linklaters LLP as to matters of New York law. Kim & Chang may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP, and as to all matters of Luxembourg law on the opinion of Arendt & Medernach SA. Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP may rely as to all matters of Luxembourg law on the opinion of Arendt & Medernach SA, and as to all matters of Korean law on the opinion of Kim & Chang. Arendt & Medernach SA may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP, and as to all matters of Korean law on the opinion of Kim & Chang.

INDEPENDENT ACCOUNTANTS

The annual separate and consolidated financial statements of the Issuer as of and for the years ended December 31, 2013 and 2014 included in this Offering Circular have been audited by Deloitte Audit, independent auditor (*réviseur d'entreprises agréé*), as stated in its reports appearing herein.

The annual separate financial statements of the Guarantor as of and for the years ended December 31, 2013 and 2014 included in this Offering Circular have been audited by Deloitte Anjin LLC, independent accountants, as stated in its report appearing herein. The interim separate financial statements of the Guarantor as of and for the six-month periods ended June 30, 2014 and 2015 included in this Offering Circular have been reviewed by Deloitte Anjin LLC, as stated in its report appearing herein.

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Separate and Consolidated Financial Statements of the Issuer

Separate and Consolidated Financial Statements of the Issuer as of and for the Year ended December 31, 2014

Separate and Consolidated Financial Statements of the Issuer as of and for the Year ended December 31, 2013

Separate Financial Statements of the Guarantor

Report of the réviseur d’entreprises agréé

To the sole shareholder of Doosan Power Systems S.A.

Report on the Company and consolidated financial statements

We have audited the accompanying consolidated and Company financial statements of Doosan Power System S.A. (“the Company”), which comprise the consolidated and Company statement of profit or loss and other comprehensive income, the consolidated and Company statement of financial position as at December 31, 2014, the consolidated and Company statement of changes in equity, the consolidated and Company statement of cash flows and the related notes 1 to 30 for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the Company and consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these Company and consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of the Company and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d’entreprises agréé

Our responsibility is to express an opinion on these Company and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the Company and consolidated financial statements give a true and fair view of the financial position of Doosan Power System S.A. as of December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on other legal and regulatory requirements

The Company and consolidated management report, which is the responsibility of the Board of Directors, is consistent with the Company and consolidated financial statements.

For Deloitte Audit, *Cabinet de révision agréé*

/s/ Eddy R. Termaten

Eddy R. Termaten, *Réviseur d’entreprises agréé*
Partner

April 23, 2015

Group income statement

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Revenue	4	818,668	740,945
Cost of sales		(681,925)	(638,796)
Gross profit		136,743	102,149
Administrative expenses		(87,470)	(70,192)
Operating profit	5	49,273	31,957
Profit on disposal of property, plant and equipment		13	1,004
Finance income	7	10,445	6,680
Finance costs	7	(22,890)	(13,209)
Profit before tax		36,841	26,432
Taxation	8	(8,949)	(12,760)
Profit for the year		27,892	13,672

Group statement of other comprehensive income

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Profit for the year		27,892	13,672
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of land	10.1	-	1,413
Actuarial movement in retirement obligations	6.3/6.4	(32,164)	(26,361)
Income tax relating to items not reclassified	8.3	5,966	4,866
		(26,198)	(20,082)
Items that may be reclassified subsequently to profit or loss:			
Currency translation losses		(41,794)	(32,971)
Fair value movement of cash flow hedges	12.1b	4,857	(15,447)
Income tax relating to items that may be reclassified	8.3	7,428	8,723
		(29,509)	(39,695)
Other comprehensive expense for the year net of tax		(55,707)	(59,777)
Total comprehensive expense for the year		(27,815)	(46,105)

The notes on pages F-11 – F-59 form an integral part of the financial statements.

Company income statement

For the year ended 31 December 2014

	Notes	2014 £000	Restated 2013* £000
Revenue		1,224	-
Cost of sales		(1,224)	-
Gross result		-	-
Administrative expenses		(2,910)	(519)
Share of loss in partnership		(586)	(586)
Operating loss		(3,496)	(1,105)
Finance income	7	35,908	39,633
Finance costs	7	(29,694)	(39,402)
Profit / (Loss) before tax		2,718	(874)
Taxation		(2)	-
Profit /(Loss) for the year		2,716	(874)

* The prior year was restated to reflect the separate disclosure of the share of loss in partnership of £586k which was included within administrative expenses in 2013.

Company statement of other comprehensive income

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Profit / (loss) for the year		2,716	(874)
Total comprehensive income / (expense) for the year		2,716	(874)

The notes on pages F-11 – F-59 form an integral part of the financial statements.

Group statement of financial position

As at 31 December 2014

	Notes	2014 £000	2013 £000
Non-current assets			
Intangible assets – goodwill	9.1	363,364	385,680
– other	9.1	40,328	41,958
Property, plant and equipment	10.1	87,508	93,574
Investments in associates	11	-	167
Available-for-sale investments	11	785	785
Deferred tax assets	19	36,901	30,893
Derivative financial instruments	12.1b	4	25
		528,890	553,082
Current assets			
Inventories	13	18,428	21,084
Trade and other receivables	14	87,742	150,444
Amounts due from customers in respect of project work	27	65,033	82,062
Derivative financial instruments	12.1b	656	258
Investments	11	-	61,737
Current tax assets		3,753	536
Cash and cash equivalents		177,743	125,169
		353,355	441,290
Total assets		882,245	994,372
Current liabilities			
Trade and other payables	15	(157,557)	(209,207)
Amounts due to customers in respect of project work	27	(102,549)	(186,953)
Derivative financial instruments	12.1b	(18,064)	(12,871)
Borrowings	17	(118,080)	(102,863)
Current tax liabilities		(4,171)	(11,674)
		(400,421)	(523,568)
Net current liabilities		(47,066)	(82,278)
Non-current liabilities			
Trade and other payables	16	(127)	(69)
Derivative financial instruments	12.1b	(2,168)	(3,568)
Borrowings	17	(105,331)	(102,217)
Deferred tax liabilities	19	(5,110)	(4,992)
Provisions	18	(6,255)	(6,724)
Retirement benefit obligations	6.3/6.4	(102,635)	(65,568)
		(221,626)	(183,138)
Total liabilities		(622,047)	(706,706)
Net assets		260,198	287,666
Equity			
Called up share capital	20	118,074	118,074
Other reserves	22	(59,688)	(30,315)
Retained earnings	21	201,812	199,907
Total equity		260,198	287,666

The notes on pages F-11 – F-59 form an integral part of the financial statements.

These financial statements of Doosan Power Systems S.A. were approved and authorised for issue by the Board of Directors on 23 April 2015.

Signed on behalf of the Board of Directors.

/s/ Kwang Seob Jung

Kwang Seob Jung
Director
Registered no: B 125754

Company statement of financial position

As at 31 December 2014

	Notes	2014 £000	Restated 2013* £000
Non-current assets			
Property, plant and equipment	10.2	105	184
Investments in controlling stake in partnership	11	3,664	3,664
Investments in subsidiaries	11	808,471	808,471
		812,240	812,319
Current assets			
Trade and other receivables	14	56,654	12,926
Cash and cash equivalents		-	5,575
		56,654	18,501
Total assets		868,894	830,820
Current liabilities			
Trade and other payables	15	(17,639)	(5,506)
Amounts due to customers for project work	27	(504)	(26,388)
Borrowings	17	(669,395)	(615,968)
Derivative financial instruments	12.2b	(2,180)	(572)
Current tax liabilities		(1)	(1)
Cash and cash equivalents		(18,268)	-
		(707,987)	(648,435)
Net current liabilities		(651,333)	(629,934)
Non-current liabilities			
Borrowings	17	(78,023)	(102,217)
		(78,023)	(102,217)
Total liabilities		(786,010)	(750,652)
Net assets		82,884	80,168
Equity			
Called up share capital	20	118,074	118,074
Other reserves		215	79
Accumulated losses	21	(35,405)	(37,985)
Total equity		82,884	80,168

The notes on pages F-11 – F-59 form an integral part of the financial statements.

- The prior year was restated to reflect intercompany loans payable as borrowings rather than trade payables owing to the fact that there is interest payable on these balances.

These financial statements of Doosan Power Systems S.A. were approved and authorised for issue by the Board of Directors on 23 April 2015.

Signed on behalf of the Board of Directors.

/s/ Kwang Seob Jung

Kwang Seob Jung
Director
Registered no: B 125754

Group statement of changes in equity

For the year ended 31 December 2014

	Called up share capital £000	Translation reserve £000	Hedging reserve* £000	Statutory reserve** £000	Legal reserve*** £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 January 2013	118,074	(15,931)	-	21,675	79	-	209,874	333,771
Profit for the year	-	-	-	-	-	-	13,672	13,672
Other comprehensive (expense) / income for the year	-	(27,224)	(12,471)	-	-	1,413	(21,495)	(59,777)
Total comprehensive (expense) / income for the year	-	(27,224)	(12,471)	-	-	1,413	(7,823)	(46,105)
Statutory Reserve**	-	42	-	2,102	-	-	(2,144)	-
At 1 January 2014	118,074	(43,113)	(12,471)	23,777	79	1,413	199,907	287,666
Profit for the year	-	-	-	-	-	-	27,892	27,892
Other comprehensive (expense) / income for the year	-	(33,435)	3,926	-	-	-	(26,198)	(55,707)
Total comprehensive (expense) / income for the year	-	(33,435)	3,926	-	-	-	1,694	(27,815)
Legal Reserve***	-	-	-	-	136	-	(136)	-
Other Reserve movements	-	-	-	-	-	-	347	347
At 31 December 2014	118,074	(76,548)	(8,545)	23,777	215	1,413	201,812	260,198

The notes on pages F-11 – F-59 form an integral part of the financial statements.

* Gains on losses on fair value of foreign exchange hedges which are effective under IAS 39 are taken to the Hedging Reserve. These amounts will be released as and when the hedges mature.

** The Statutory Reserve is a legal requirement under Czech law. Each year it must be increased by at least 5% of profit after tax until such time as the reserve represents 10% of the share capital of Doosan Skoda s.r.o. This amount is non-distributable.

*** The Legal Reserve is a legal requirement under Luxembourg law. Each year it must be increased by at least 5% of profit after tax until such time as the reserve represents 10% of the share capital of Doosan Power Systems S.A. This amount is non-distributable.

Company statement of changes in equity

For the year ended 31 December 2014

	Called up share capital £000	Legal reserve £000	Accumulated losses £000	Total £000
At 1 January 2013	118,074	79	(37,111)	81,042
Loss for the year	-	-	(874)	(874)
Total comprehensive expense for the year	-	-	(874)	(874)
At 1 January 2014	118,074	79	(37,985)	80,168
Profit for the year	-	-	2,716	2,716
Legal reserve	-	136	(136)	-
Total comprehensive income for the year	-	136	2,580	2,716
At 31 December 2014	118,074	215	(35,405)	82,884

The notes on pages F-11 – F-59 form an integral part of the financial statements.

Group and company statement of cash flows

For the year ended 31 December 2014

		Company		Group	
	Notes	2014 £000	2013 £000	2014 £000	2013 £000
Cash flows generated (used in) / from operations	23	(15,931)	15,117	20,681	11,304
Income tax paid		-	-	(22,180)	(4,983)
Net cash generated (used in) / from operations		(15,931)	15,117	(1,499)	6,321
Cash flows from investing activities					
Interest received		-	-	5,665	1,667
Purchase of property, plant and equipment		-	-	(14,038)	(12,874)
Purchase of intangible assets		(180)	-	(6,547)	(15,643)
Disposal of property, plant and equipment		-	-	44	1,542
Investment in joint venture		-	-	167	(167)
Investment in short term securities		-	-	61,737	(65,959)
Dividend received from group undertaking		29,670	-	-	-
Net cash generated from / (used in) investing activities		29,490	-	47,028	(91,434)
Cash flows from financing activities					
Interest paid		(4,094)	(1,530)	(11,131)	(10,408)
Repayment of loans from Group undertakings		(29,107)	(102,780)	-	-
Repayment of other borrowings		(32,267)	(65,013)	(9,085)	(54,411)
Loans received		-	83,011	38,637	82,158
Loans from Group undertakings		30,362	75,543	-	-
Net cash (used in) / generated from financing activities		(35,106)	(10,769)	18,421	17,339
Net (decrease) / increase in cash and cash equivalents		(21,547)	4,348	63,950	(67,774)
Effects of exchange rate changes		(2,296)	1,215	(11,376)	(5,048)
Cash and cash equivalents at the beginning of the year		5,575	12	125,169	197,991
Cash and cash equivalents at the end of the year		(18,268)	5,575	177,743	125,169

The notes on pages F-11 – F-59 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2014

1. General information

Doosan Power Systems S.A. (the “Company”, the “Group”) is a company incorporated in the Grand Duchy of Luxembourg. The address of the registered office is given on page 5. These financial statements are presented in Pounds Sterling. The functional and presentational currency is determined as per notes 2.5 and 2.6. Foreign operations are included in accordance with the policies set out in note 2.19d.

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and property. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

2.2. Going concern

The Group’s business activities are associated with providing high value-added energy services, innovative technology-led business solutions and new build power plant to the power generation industry and associated markets.

The Group delivered solid trading performance in 2014 against a backdrop of continued economic uncertainty. The Group secured order intake of £670,239,000, down 25% on 2013. The Group secured significant and exceptional multi-year contracts in 2013 that did not, and were not expected to, recur in 2014. Group revenues for the year were £818,668,000 compared to £740,945,000 in 2013 led by increased volumes from the UK services business.

Operating profit was £49,273,000 with a 6% operating margin. This was more than the 2013 performance of £31,957,000 (4% operating margin), reflecting strong underlying performance in the core business, supported by sustainable operational excellence activities. Profit after tax was £27,892,000 per income statement compared to £13,672,000 in 2013.

Closer collaboration with the Parent company (see note 30) will realise further synergies and increase access to global markets. This will provide growth opportunities in boiler retrofit and upgrade, CFB boilers, air pollution control systems, waste to energy and steam turbines, as well as for our through-life support and life extension services to the oil and gas, petrochemical, process and power generation sectors. Service activities in the UK will continue to offer strong growth potential, fuelled by increased demand from the nuclear sector. We expect our solid performance to continue which, supported by our on-going investments in product development, manufacturing facilities and sales offices, will further build on our strong position in the market. The Directors take the management of risk very seriously and as such all activities are conducted within a framework of policies and guidelines authorised by the Board.

Managing risk is seen as a key attribute of the Group, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective fields.

The major uncertainties in terms of trading in the current market are the fluctuations in raw material and supplier costs, especially on key contracts. Reflecting this situation where a position is particularly volatile, the Group will seek to agree appropriate escalation formulae or cost plus agreements with customers to help mitigate this. The other significant trading uncertainty is the timing of major new build projects. Particularly in western markets we are currently seeing delays and uncertainty over when projects will be released due to the continued fragility of the

2. Accounting policies (continued)

2.2. Going concern (continued)

global economy and environmental issues. The Group addresses this by having a portfolio of large projects being bid at any time; additionally we are protected by the balance of our business with both service and projects workload.

In respect of foreign currencies, the Group's policy is to hedge all significant exposure to movements in exchange rates primarily through the use of the forward market. No trading or speculation in financial instruments is undertaken.

With regard to the recognition of the pension scheme position, the Group is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Group has taken a number of actions over the previous years including closing the scheme to new entrants and increasing contributions. In April 2014 the UK defined benefit scheme was closed for future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

In addition, note 12 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk

The Company provides key corporate services to its group and this is funded by charging for these services to its subsidiary undertakings. The continued operation of the Company is therefore driven by and contingent on, the same factors as the Group as a whole. The Company does have significant loans due to two of its subsidiaries, but there is no intention of either of these subsidiaries, both of which are fully controlled by the Company and its board, to call in payment for these loans

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will meet the scheduled repayments and will be able to operate within the limits of the banking covenants for a period of at least 12 months from the date of signing these financial statements.

The Directors have a strong expectation based on the strong cash position, size of the current order book and the business projections that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic climate. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

2. Accounting policies (continued)

2.3. Basis of consolidation (continued)

- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company losses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group'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 are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss 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), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement, when applicable, the costs on initial recognition of an investment in an associate or a joint venture.

Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.4. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given,

2. Accounting policies (continued)

2.4. Business combinations (continued)
liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at its acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date, and is subject to a maximum of one year.

2.5 Functional currency
The Directors assessed the functional currency of the Company to be Pound Sterling in accordance with IAS 21.

2.6 Presentational currency
The Directors continue to elect the presentational currency of the Group and Company to be Pound Sterling.

2.7. Investment in associates

Associates
An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment

Notes to the financial statements (continued)
For the year ended 31 December 2014

2. Accounting policies (continued)

2.7. Investment in associates (continued)

Associates (continued)
(including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2.8. Goodwill
Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of the impairment review, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually at the year-end, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.9. Intangible assets
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as technology which can be used in a product);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software is treated as an intangible asset.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

The expected amortisation rates are:

Goodwill	nil (note 2.8)
Development costs	20% to 50%
Software	20% to 33⅓%
Patents	Lifetime of the patent

Notes to the financial statements (continued)

For the year ended 31 December 2014

2. Accounting policies (continued)

2.9. Intangible assets (continued)

Amortisation of intangible assets is charged to operating profit in the income statement.

2.10. Property, plant and equipment

Freehold buildings, plant, machinery and equipment are stated at cost less accumulated depreciation and impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or scrap of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The Company chooses to perform a regular independent review every 5 years of the value of land assets in order to assess whether an upward revaluation is required. This ensures that the carrying amount of these assets does not differ materially from their fair value.

Depreciation is charged on cost on a straight-line basis at rates appropriate to the expected useful lives of the assets concerned. Freehold land and assets in the course of construction are not depreciated.

The expected depreciation rates are:

Land and buildings	
Freehold and leasehold buildings	2% to 12½%
Plant and equipment	
Heavy production	3% to 10%
Other plant and machinery	3% to 33⅓%
Motor vehicles	12.5% to 25%
Office equipment and furniture	8% to 33⅓%
Computers	20% to 33⅓%

2.11. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Capital-based government grants are credited to the assets to which they relate, with the net amount then being released to the income statement as depreciation.

Grants and funding of a revenue nature are netted against the expenses to which they relate. Recognition of the funding income is realised at the same rate as expenditure with any advance receipts of such funding being kept as deferred income. If the development to which this relates meets the criteria for capitalisation then the net cost is capitalised.

2.12. Inventory

Inventories are stated at the lower of cost and net realisable value.

Costs comprise direct materials, and in the case of work-in-progress, direct labour and overheads, including depreciation, but excludes selling and administration costs.

Raw materials and consumables are stated using the weighted average cost method.

2.13. Leasing and hire purchase commitments

Hire charges paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

2. Accounting policies (continued)

2.14. Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

2.15. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax ('VAT') and other sales-related taxes.

2.15a Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised in the income statement immediately.

Where the amounts recognised in revenue exceed the amounts invoiced to the customer, the balance is included within 'amounts due from customers for project work within the statement of financial position.

Where the amounts recognised in revenue are less than the amounts invoiced to the customer, the balance is included within 'amounts due to customers for contract work within the statement of financial position.

2.15b Sales (other than project sales) of goods and services at invoiced value

The revenue is recognised at the point at which the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and services.

2.15c Fees for technical aid and other services rendered

Fees for technical aid provided to third parties and the Parent company are recognised at the point at which the knowledge is transferred to the recipient. In the case of aid provided to the Parent company, this happens at the point at which the contract to which the aid relates is awarded to the Parent company. At this point any further support provided by the Group to the Parent is minimal and therefore revenue is recognised on the basis that the

2. Accounting policies (continued)

2.15. Revenue recognition (continued)

2.15c Fees for technical aid and other services rendered (continued)
Group has substantially performed its obligated service to the Parent company. In the case of third parties, continuing support usually needs to be provided and so the revenue is instead recognised over the life of the project for which the aid has been provided.

2.16. Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also reflected in equity. Current tax is based on the result for the year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for, the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.17. Pension costs

Defined benefit scheme
The Group operates pension schemes providing benefits based on final pensionable pay. The assets of the UK scheme are held separately from those of the Group. Contributions are based on periodic actuarial calculations and are charged so as to spread the cost of the pensions over the expected service lives of the employees who are members of the scheme. The ‘Doosan Power Systems Limited’ scheme in the UK was closed to new members on 31 March 2001. The ‘Doosan Lentjes GmbH’ scheme in Germany was closed to new members on 31 October 2011. In April 2014 the UK defined benefit scheme was closed for future accruals.

Pension scheme assets are measured using fair value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised when any plan amendment or curtailment occurs to the extent that the benefits are already vested or is otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

The cost of the Group’s defined benefit plans is determined in accordance with IAS 19 (revised): “Employee benefits” with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK and annually in Germany.

2. Accounting policies (continued)

2.17. Pension costs (continued)

Defined contribution scheme
The Group also operates defined contribution pension schemes. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amounts charged against profit represent the contributions payable to the scheme in respect of the accounting period.

2.18. Group operating profit

Group operating profit is stated after charging restructuring costs, the share of results of associates and impairments but before gains on the disposal of investments, property, plant and equipment and finance costs.

2.19. Financial instruments

2.19a Derivatives
The Group uses derivative financial instruments to manage interest rate risk and hedge exposures to fluctuations in foreign currencies in accordance with its risk management policies. Commodity risk is managed through escalation clauses in customer contracts. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in note 12.

Derivatives are initially recognised in the statement of financial position at fair value on the date the derivative transaction is entered into and are subsequently remeasured at fair value.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Changes in fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of the asset or liability.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in equity. Changes in the fair value of the ineffective portion of net investment hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement upon disposal of the foreign operation. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting discontinues when the hedging instrument expires or is sold, terminates, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

2.19b Financial assets
All financial assets are recognised and derecognised on a 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 timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories, financial assets, 'available-for-sale' (AFS) financial assets, cash and cash equivalents or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale ('AFS') financial assets
Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an

2. Accounting policies (continued)

2.19. Financial instruments (continued)

2.19b Financial assets (continued)

Available-for-sale ('AFS') financial assets (continued)
active market but that are classified as AFS financial assets and stated at fair value as the Directors consider that fair value can be reliably measured. Fair value is determined in the manner described in note 2.20. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment's revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss 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 reporting date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Liquid resources and cash
Liquid resources comprise short-term treasury deposits which have maturity dates of up to one year, government securities and money market funds. Cash and cash equivalents comprises cash in hand and overnight deposits less, for the purpose of the cash flow statement only, overdrafts.

Loans and receivables
Trade receivables, loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. Loans will be tested for impairment at each period end to determine if any impairment exists.

Derecognition of financial assets
The Group derecognises 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.19c Financial liabilities
Financial Liabilities within the scope of IAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All Financial liabilities are recognised initially at fair value and in the case of borrowings, carried at amortised cost. This includes directly attributable transaction costs.

2. Accounting policies (continued)

2.19. Financial instruments (continued)

2.19c Financial liabilities (continued)
The Groups financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables
Trade payables are not interest bearing and are stated at their fair value. Amounts due to customers for project work relate to advances received from customers on project which are in progress.

2.19d Foreign currencies
The individual financial statements of each group company are presented in its functional currency, being the currency of the primary economic environment in which it operates, which is the Pound Sterling for the most significant subsidiary. For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in Pound Sterling.

In preparing the financial statements of the individual companies within the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rate prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement 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 to hedge certain foreign currency risks (see note 2.19a above under financial instruments/hedge accounting); 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 recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rate prevailing on the reporting date. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of the transaction is used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (disposal of the 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 Group are reclassified to the income statement.

2. Accounting policies (continued)

2.19. Financial instruments (continued)

2.19d Foreign currencies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate prevailing at the reporting date.

2.20. Fair value estimation

The fair value at initial cost of financial instruments traded in active markets (such as publicly traded derivatives or trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for traded financial assets held by the Group is the current bid price. The appropriate quoted market price for traded financial liabilities is the current offer price. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods which include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models which reflect the specific instrument.

Where market values are not available, fair values are based on valuation methodologies which require inputs and forecasts to be made. Judgement is required in determining the appropriate assumptions underlying those inputs and forecasts.

The nominal value of receivables (less estimated impairments) and payables are assumed to approximate their fair values. The fair value of financial liabilities measured at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Discounted cash flows are used to determine the fair value for the majority of remaining financial instruments.

2.21. Adoption of new and revised standards

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) and endorsed in the European Union that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27* (as revised in 2011) *Separate Financial Statements and IAS 28* (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

2. Accounting policies (continued)

2.21. Adoption of new and revised standards (continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (continued)

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation — Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

There are two entities in the group which are 49% owned, but which the Group exercises full control over through board membership and employment of key personnel within these companies. Therefore under the adoption of IFRS10 these companies were reclassified to be subsidiaries. This is the only case where adoption of IFRS10 has affected the Group's accounting treatment.

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 *Interests in Joint Ventures,* and the guidance contained in a related interpretation, SIC-13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers,* has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements — joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements — jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

Impact of the **application of IFRS 12**

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the financial statements

2.21. Adoption of new and revised standards (continued)

***Impact of the* application of IFRS 12 (continued)**

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted in the EU):

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 and IAS 41 (amendments) Agriculture: Bearer Plants
- IAS 19 (amendments) Defined Benefit Plans: Employee Contributions
- IAS 27 (amendments) Equity Method in Separate Financial Statements
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRSs: 2010-2012
- Annual Improvements to IFRSs: 2011-2013
- Annual Improvements to IFRSs: 2012-2014
- Disclosure Initiative (Amendments to IAS 1)

(*) Not yet endorsed for use in the European Union

The directors of the Company do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements except for IFRS 15, which in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until our group parent performs a detailed review.

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

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other 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 recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.1. Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in note 2.15 are central to how the Group values the work it has carried out in the financial year. These policies require forecasts to be made of the outcomes of long-term construction services which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities, potential liquidated damages and changes in costs.

Notes to the financial statements (continued)
For the year ended 31 December 2014

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

3.2. Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the value in use. The carrying value of goodwill at 31 December 2014 was £363,364,000 (2013: £385,680,000).

3.3. Retirement benefit obligations
Details of the Group's defined benefit schemes are set out in notes 6.3 and 6.4, including a table showing the sensitivity of the pension scheme obligations and the prospective 2015 charge to the income statement to different actuarial assumptions. At 31 December 2014 the defined benefit liability recognised on the Group's statement of financial position was £102.6m (2013: £65.6m). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the scheme's assets are classified as actuarial gains and losses. During 2014 the Group recognised net actuarial losses of £32.2m (2013: £26.3m) in equity. A sensitivity analysis in respect of these is set out in note 6.3.

3.4. Taxation
The Group is subject to tax in a number of jurisdictions and judgement is sometimes required in determining the worldwide provision for income taxes.

The Group provides for liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures. The Group also recognises assets where a reduction in future tax or a future receipt of tax may crystallise, when it is deemed prudent to recognise such an asset based on management's assessment of such events.

4. Revenue

	2014 £000	2013 £000
Revenue from construction contracts and related services	818,668	740,945

Turnover shown by origin of the entity which has generated it	2014 £000	2013 £000
United Kingdom	489,453	421,147
Czech Republic	257,305	273,219
Germany	41,531	28,031
Poland	25,846	17,788
China	392	633
North America	3,449	127
Middle East	692	-
	818,668	740,945

5. Group operating profit

5.1. Group operating profit is stated after charging / (crediting)

	2014 £000	2013 £000
Property, plant and equipment:		
Depreciation of owned assets	15,020	16,984
Intangible assets:		
Deferred development expenditure	698	870
Amortisation of software	4,936	1,886
Amortisation of patents	1,160	1,222
Rentals under operating leases:		
Land and buildings	7,027	5,167
Hire of plant and machinery	2,315	2,499
Research and development:		
Revenue expenditure	12,064	9,014
Grants received to fund revenue expenditure	(6,403)	(5,223)
Contractual allocation to Pension Scheme	(810)	(810)
Exchange losses	8,883	2,152

5.2. Auditor's remuneration

The fees paid to various network affiliates of the Company's auditor are split as follows:	2014 £000	2013 £000
Audit of these financial statements	242	248
Audit of Company's subsidiaries, pursuant to legislation	158	72
Other services pursuant to such legislation	110	88
Services relating to taxation	136	193
Other	159	15
Total non-audit fees	405	296

6. Employees and directors

6.1. Employee numbers and staff costs

	2014	2013	2014	2013
Average monthly number of persons employed during the year (including directors employed within the Group):	Company	Company	Group	Group
Production	-	-	4,951	4,750
Sales and administration	56	66	1,586	1,720
Research and development	-	-	192	187
			6,729	6,657

The average monthly number of persons employed reflects staff levels of the Company and subsidiary undertakings during the year.

6. Employees and directors (continued)

6.1. Employee numbers and staff costs (continued)

	2014 £000	2013 £000
Staff costs during the year (including directors employed within the Group):		
Wages and salaries	257,459	251,493
Social security costs	36,717	34,300
Other pension costs	10,207	9,624
	304,383	295,417

6.2. Remuneration of key management

	2014 £000	2013 £000
Directors' emoluments:		
Current pay and benefits	1,172	1,013
Post-employment benefits	26	26
Social security costs	42	31
	1,240	1,070

The aggregate emoluments of the highest paid Director were £399,083 (2013: £432,786).

Since the Directors of the Company are also the key management personnel of the Group no additional information is required to be disclosed by IAS 24 in addition to the information already disclosed above.

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK)

The Group operates two defined contribution schemes, a Company Personal Pension Plan and a Stakeholder Plan. The charge for the year in respect of these schemes was £3,532,000 (2013: £1,727,930).

The Group operates a defined benefit pension scheme (the 'scheme'), providing benefits based on final pensionable pay. The Scheme was closed to future benefit accrual with effect from 1 April 2014, with active members becoming deferred with a preserved pension in the Scheme based on their Pensionable Service and Final Pensionable Salary as at this date. As a result of the closure, a curtailment loss of £5.2m has been recognised in the reporting period ending 31 December 2014. This reflects the value of the expected increase in the past service benefit entitlement for active members as a result of moving from salary linkage (capped at 2.5% p.a. for the majority of members) to deferred revaluation increases (which are linked to RPI) in the period to retirement. The curtailment has been calculated at the effective date of the closure, based on financial market conditions at the time when a contractual obligation for the Company to close the Scheme to future accrual arose.

The assets of the scheme are invested by an independent trustee.

The scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the scheme has appointed trustees who are independent of the Group. Although the Group bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all time.

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

The main risks to which the Group is exposed in relation to the funded pension scheme are:

- Mortality risk - the assumptions adopted by the Group make allowance for the future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in higher payments from the scheme and consequently increases the scheme's liabilities. The Group and the scheme's trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate mortality assumption.

- Investment risk - the scheme invests its assets in a portfolio of asset classes including diversified growth funds, corporate bonds and government bonds. There is the possibility that the returns generated by the portfolio of assets falls below the assumed rates of return.

- Yield risk - a fall in bond yields will increase both the scheme's liabilities, and to a lesser extent, the scheme's assets. As the scheme's liabilities (on the funding basis used to calculate the Group's contributions to the scheme) are greater than its assets until the deficit is made good, during that time the liabilities may grow by more in monetary terms, thus increasing the deficit in the scheme.

- Inflation risk - Benefits in the scheme accrued increase in line with inflation (subject to the relevant caps and floors), and so if inflation is greater than expected, the liabilities will increase.

The results of the actuarial valuation of the scheme at 1 April 2013 have been updated to 31 December 2014 by a qualified actuary, using a set of assumptions consistent with those required under IAS 19 (revised). The effect of the scheme's investment policy is not fully reflected in the accounting figures as the assumptions used for the purpose of the valuation under IAS 19 (revised) are different from those used for the funding valuation.

The major assumptions used by the actuary were:

	2014	2013
Financial assumptions:		
Discount rate	3.65%	4.55%
Rate of increase in pensionable salaries	N/A	2.50% – 4.35%
Rate of increase in pensions in payment (post-May 2002 service)	2.90%	3.20%
Rate of increase in pensions in payment (pre-May 2002 service)	3.60%	3.75%
Inflation assumption (and increases to pension in deferment)	3.0%	3.35%
Demographic assumptions:		
Pre-retirement mortality (male/female)	99%/109% S1NA/S1NFA, CMI 2014 +1.25% MI	105% S1NA/S1NFA, CMI 2013 +1% MI
Post-retirement mortality for non-pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2014 +1.25% MI	105% S1NA/S1NFA, CMI 2013 +1% MI
Post-retirement mortality for pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2014 +1.25% MI	105% S1NA/S1NFA, CMI 2013 +1% MI

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

The rates used have been chosen from a range of possible amounts determined using actuarial assumptions that due to the timescale covered may not necessarily be borne out in practice. The assets in the scheme and the expected rates of return were:

	2014		2013	
	%	£000	%	£000
Diversified growth fund	49.6	172,961	51.4	164,957
Bonds	49.5	172,421	48.1	154,340
Property	-	-	-	-
Cash	0.9	3,264	0.5	1,782
Total market value of assets		348,646		321,079
Present value of liabilities		(435,493)		(372,665)
Deficit in scheme		(86,847)		(51,586)
Related deferred tax asset		15,169		7,961
Net pension liability		(71,678)		(43,625)

Sensitivity analysis

Inflation rate and discount rate are considered by the Directors to be the significant assumptions within the scheme, and as such, effects of changes to these have been disclosed below. A movement of +/- 100 bps on the discount rate and inflation assumptions reflects a realistic shift in market conditions over the short-term, whilst providing sufficient information about the sensitivity of the value of the Scheme's liabilities to these assumptions. The duration of the scheme is approximately 17 years.

Effect on the deficit in the scheme of the following changes:	£m
1% increase in the discount rate	-68.8
1% decrease in the discount rate	+88.5
1% increase in the inflation rate	+45.3
1% decrease in the inflation rate	-38.9

Reconciliation of present value of plan liabilities and assets:

	2014 £000	2013 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	372,665	339,605
Service cost	1,531	5,941
Interest cost	17,115	14,995
Employees' contributions	6	36
Actuarial losses	54,329	25,048
Benefits paid	(15,352)	(12,960)
Curtailment	5,199	-
Closing defined benefit obligation	435,493	372,665

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

	2014 £000	2013 £000
Change in the fair value of plan assets:		
Opening fair value of plan assets	321,079	312,071
Interest income	14,360	13,925
Actuarial gains	24,497	645
Contributions by employer	5,038	8,378
Contributions by plan participants	6	36
Benefits paid	(15,352)	(12,960)
Other expenses	(982)	(1,016)
Closing fair value of plan assets	348,646	321,079
Net change in the present value of plan liabilities and assets:		
Opening deficit	51,586	27,534
Service cost	1,531	5,941
Net interest cost	2,755	1,070
Net actuarial losses	29,832	24,403
Contributions by employer	(5,038)	(8,378)
Curtailment and other expenses	6,181	1,016
Closing deficit	86,847	51,586

The plan holds a £12,900,000 (2013: £11,000,000) investment in Doosan Power Systems (Scotland) Limited Partnership; this has been included in these consolidated financial statements in accordance with IFRS 10. As such, the building the partnership holds is included in the statement of financial position of the consolidated financial statements, and thus the investment held in the plan assets has been removed.

The expected contributions in 2015 are £5,000,000 (2014: £8,146,000).

Analysis of other comprehensive income:

	2014 £000	2013 £000
Actual return less expected return on scheme assets	24,497	645
Experience losses arising on the scheme liabilities	-	(6,885)
Changes in assumptions underlying the scheme liabilities	(54,329)	(18,163)
Net actuarial loss recognised in the year	(29,832)	(24,403)
Deferred tax	5,966	4,866
Actuarial loss net of tax	(23,866)	(19,537)
Net cumulative actuarial losses before tax	(105,431)	(75,599)

Notes to the financial statements (continued)
For the year ended 31 December 2014

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

Expense recognised in the income statement:

	2014 £000	2013 £000
Current service cost	1,531	5,941
Net interest expense	2,755	1,070
Other expenses	6,181	1,016
Total	10,467	8,027

All of the following items were recognised in administrative expenses and finance costs in the income statement

	2014 £000	2013 £000
Service cost	1,531	5,941
Interest expense	17,115	14,995
Expected return	(14,360)	(13,930)
Other expenses	6,181	-
Total	10,467	7,006

The history of experience gains and losses is as follows;

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Defined benefit obligation	(435.4)	(372.7)	(339.6)	(310.7)	(282.3)
Plan assets	348.6	321.1	312.1	295.5	280.0
Deficit	(86.8)	(51.6)	(27.5)	(15.2)	(2.3)
Difference between the expected and the actual return on scheme assets					
Amount	24.5	0.6	1.0	9.4	10.0
Percentage of scheme assets	7%	0%	0%	3%	4%
Experience losses on scheme assets					
Amount	-	(6.9)	-	-	(4.6)
Percentage of present value scheme liabilities	0%	(2%)	0%	0%	(2%)
Total losses recognised in statement of comprehensive income					
Amount	(29.8)	(24.4)	(17.8)	(10.5)	(8.7)
Percentage of present value of scheme liabilities	(7%)	(7%)	(5%)	(3%)	(3%)

6. Employees and directors (continued)

6.4 Post-retirement benefits – Group – Doosan Lentjes GmbH (Germany)

AE&E Lentjes GmbH operates a defined benefit pension scheme. The Company was acquired at the end of 2011. There are no plan assets and the obligations on the scheme are met by the Company. This scheme was closed to new entrants on 31 October 2011. The assumptions which have the most effect on the valuation and the contributions paid are as follows:

	2014	2013
Financial assumptions:		
Discount rate	2.50%	3.50%
Rate of increase in pensionable salaries	2.50%	2.50%
Average fluctuation	2.00%	2.00%
Inflation rate	2.00%	2.00%
Expected income from plan assets	n.a.	n.a.
Demographic assumptions:		
Statistical assumptions	Richttafel 2005G	Richttafel 2005G
Retirement age	RVAGAnpG 2007	RVAGAnpG 2007
Post-retirement mortality for pensioner members (male/ female)	Heubeck Tabellen Richttafel 2005G	Heubeck Tabellen Richttafel 2005G

Reconciliation of present value of plan liabilities:

	2014 £000	2013 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	13,981	11,326
Service cost	221	232
Interest cost	466	483
Employees' contributions	57	63
Actuarial losses	2,332	1,920
Benefits paid	(307)	(295)
Exchange differences on foreign scheme	(962)	252
Closing defined benefit obligation	15,788	13,981

The defined benefit obligation at the end of 2014 in respect of this plan was £15,530,000 (2013: £13,727,000). In addition to this there is a medical scheme with a net obligation of £258,000 (2013: £254,000).

6.5. Post-retirement benefits – Other

All pension schemes in the remainder of the Group are defined contribution in nature and the cost for the year amounted to £228,000 (2013: £725,000).

Notes to the financial statements (continued)
For the year ended 31 December 2014

7. Finance income and costs

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Interest receivable and similar income	859	653	5,394	1,364
Amortisation of gain on loan purchased at below fair value (note 29.2)	5,051	5,316	5,051	5,316
Exchange gains	914	-	-	-
Dividend received	29,084	33,664	-	-
Total finance income	35,908	39,633	10,445	6,680
Interest payable	(29,694)	(29,954)	(11,131)	(10,408)
Unwinding of discounting	-	-	(620)	(649)
Net finance cost on defined benefit scheme	-	-	(2,256)	-
Exchange losses	-	(9,448)	(8,883)	(2,152)
Total finance costs	(29,694)	(39,402)	(22,890)	(13,209)
Net finance income / (costs)	6,214	231	(12,445)	(6,529)

8. Taxation

8.1. Taxation charge

The Management has elected to present the reconciliation between the tax expense and product of account profit multiplied by the tax rate applicable within the UK, UK being the primary location of operation of the group, the Management consider this information as more pertinent

	2014 £000	2013 £000
Current tax:		
UK Corporation tax at 21.5% (2013: 23.25%)	(977)	(14)
Adjustments in respect of prior years	-	(324)
	(977)	(338)
Taxation outside the UK	11,810	16,887
Total current tax	10,833	16,549
Deferred tax:		
Adjustments in respect of prior years	(1,327)	(6)
Origination and reversal of temporary differences	529	(4,340)
Deferred tax on pension charge	(1,086)	557
Total deferred tax (note 19)	(1,884)	(3,789)
Total tax charge for the year	8,949	12,760

The tax charge for the year is based on the effective United Kingdom statutory rate of corporation tax for the year of 21.5% (2013: 23.25%).

8. Taxation (continued)

8.2. Factors affecting tax charge for the year

The tax assessed for the year is higher (2013: higher) than the standard rate of corporation tax in the UK (21.5%) (2013: 23.25%). The differences are explained below:

	2014 £000	2013 £000
Profit before tax	36,841	26,432
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	7,921	6,145
Net items not deductible for tax purposes	(959)	384
Tax effect of utilisation of tax losses not previously recognised	(1,237)	-
Difference between rate applied and deferred tax rate	208	2,707
Losses not recognised	4,997	7,075
Enhanced relief on research and development expenditure	(188)	(816)
Difference in rates of overseas tax	(1,277)	(2,405)
Withholding taxes	811	-
Adjustment in respect of prior years *	(1,327)	(330)
Tax charge for year	8,949	12,760

This adjustment has arisen from prudent calculations made of deferred tax assets in the previous year, which subsequently increased the deferred tax asset when the final computation was completed.

Factors that may affect future tax charges

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax of 21.5% (2013: 23.25%).

The Finance Act 2013, which was substantively enacted on 2 July 2013, provided for reductions in the main rate of corporation tax from 21% to 20% effective from 1 April 2015. This reduced rate of 20% has been reflected in the calculation of deferred tax at the reporting date.

The Group has US tax losses with a potential tax value of approximately £38m (2013: £29m), unprovided UK tax losses of approximately £13m (2013: £11m), and unprovided German tax losses within Doosan Lentjes GmbH of £28m (2013: £6m), which may reduce future tax payments; however no deferred tax assets have been recognised in respect of these losses due to the uncertainty over the availability of suitable taxable profits.

8.3. Tax recognised in other comprehensive income

	Before tax £000	Tax (charge)/credit £000	After tax £000
2014			
Revaluation of financial instruments treated as cash flow hedges	4,857	(931)	3,926
Relating to actuarial movement in retirement benefit obligations	(32,164)	5,966	(26,198)
Translation of foreign operations (see note 22)	(41,794)	8,359	(33,435)
Total income recognised in other comprehensive income	(69,101)	13,394	(55,707)
2013			
Revaluation of financial instruments treated as cash flow hedges	(15,447)	2,976	(12,471)
Relating to actuarial movement in retirement benefit obligations	(26,361)	4,866	(21,495)
Translation of foreign operations	(32,971)	5,747	(27,224)
Total income recognised in other comprehensive income	(74,779)	13,589	(61,190)

Notes to the financial statements (continued)
For the year ended 31 December 2014

9. Intangible fixed assets

9.1. Group

	Goodwill £000	Patents £000	Development costs £000	Software * £000	Total £000
Cost					
At 1 January 2013	413,463	5,885	16,554	20,712	456,614
Foreign exchange translation difference	(14,610)	132	(994)	(588)	(16,060)
Additions	-	-	14,748	895	15,643
Reclassifications from property, plant and equipment **	-	-	5,027	701	5,728
Reclassifications	-	-	(14,944)	14,944	-
Disposals	-	-	(692)	(43)	(735)
At 31 December 2013	398,853	6,017	19,699	36,621	461,190
Foreign exchange translation difference	(22,316)	(377)	(1,087)	(809)	(24,589)
Additions	-	-	4,432	2,115	6,547
Disposals	-	-	-	(473)	(473)
At 31 December 2014	376,537	5,640	23,044	37,454	442,675
Amortisation					
At 1 January 2013	13,142	1,118	2,590	14,055	30,905
Foreign exchange translation difference	31	-	(67)	(500)	(536)
Charge for the year	-	1,222	870	1,886	3,978
Reclassifications	-	-	(747)	747	-
Disposals	-	-	(753)	(42)	(795)
At 31 December 2013	13,173	2,340	1,893	16,146	33,552
Foreign exchange translation difference	-	28	(219)	(710)	(901)
Charge for the year	-	1,160	698	4,936	6,794
Disposals	-	-	-	(462)	(462)
At 31 December 2014	13,173	3,528	2,372	19,910	38,983
Net book value at					
31 December 2013	385,680	3,677	17,806	20,475	427,638
31 December 2014	363,364	2,112	20,672	17,544	403,692

* Included within software is the cost of setting up the new enterprise, resource and planning system, Oracle, which went live in 2013. This had a cost of £22,132,000 and net book value of £16,609,000 at the end of the year.

** The Group policy is to treat software as intangible assets; software previously treated as tangible assets has been reclassified to intangible assets.

The charge for amortisation of intangible fixed assets is included within administrative expenses on the income statement.

Goodwill acquired in a business combination is maintained separately for each business. All acquisitions made consisted of single cash-generating units (CGUs) and the goodwill has not been split any further. The split between these businesses is shown below. The Group tests goodwill annually for impairment or more frequently if there are indicators that the goodwill might be impaired.

9. Intangible fixed assets (continued)

9.1. Group (continued)

The recoverable amounts from these CGUs are determined from value-in-use calculations. They are based on detailed business plans stretching over the next five years which are derived from expected ongoing work from existing customers and new potential contracts when they are likely to be won. These projections are approved by the Board.

The cash flows have been discounted using a pre-tax discount rate of 8.5% calculated by applying updated market inputs to the capital asset pricing model.

Cash flow projections beyond the five year period have been extrapolated on the basis of a 2% growth rate. Such a growth rate does not exceed the long-term average growth rate of the sector.

The Doosan Lentjes GmbH goodwill is sensitive to the pipeline of future business. Goodwill in respect of Doosan Lentjes GmbH is £59.1m (2013: £63.4m), with headroom above this level of £147.6m (2013: £181.0m), suggested by the value-in-use model. The growth rate of 2% could also reduce to nil with no resulting impairment. If orders and hence gross margin were to reduce by 10% this would still leave headroom of £106.5m.

The Doosan Babcock Limited Boiler business goodwill is also sensitive to the pipeline of future business. Goodwill in respect of the Boiler business is £41.6m (2013: £41.6m), with headroom above this level of £160.4m (2013: £89.8m), suggested by the value-in-use model. The growth rate of 2% could also reduce to 1% at the same time as this reduction in business with no resulting impairment.

To date no impairment has been recognised on the goodwill held by the remaining CGUs in the Group. Sensitivity analysis demonstrates that reasonable changes in the key assumptions would not cause the carrying value of the CGUs to become impaired.

	2014 £000	Impact of foreign exchange during the year £000	2013 £000
Doosan Skoda s.r.o.	216,447	(18,043)	234,490
Nuclear decommissioning (Doosan Power Systems Limited)	546	-	546
Doosan Lentjes GmbH	59,143	(4,273)	63,416
Doosan Babcock Limited			
Services business	45,659	-	45,659
Boiler business	41,569	-	41,569
	363,364	(22,316)	385,680

Notes to the financial statements (continued)
For the year ended 31 December 2014

10. Property, plant and equipment

10.1. Group

	Land and buildings £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2013	61,923	154,001	8,681	224,605
Foreign exchange translation difference	(2,812)	(5,051)	(191)	(8,054)
Additions	415	4,704	7,755	12,874
Disposals	(956)	(4,857)	(61)	(5,874)
Revaluation	1,413	-	2	1,415
Reclassification	1,420	6,029	(7,449)	-
Reclassification to intangible assets (note 9.1)	-	-	(5,768)	(5,768)
At 31 December 2013	61,403	154,826	2,969	219,198
Foreign exchange translation difference	(3,331)	(5,057)	(267)	(8,655)
Additions	314	6,249	7,475	14,038
Disposals	-	(8,969)	-	(8,969)
Reclassification	1,167	3,612	(4,349)	430
At 31 December 2014	59,553	150,661	5,828	216,042
Depreciation				
At 1 January 2013	11,131	106,328	-	117,459
Foreign exchange translation difference	(348)	(3,157)	-	(3,505)
Charge for the year	2,267	14,717	-	16,984
Disposals	(587)	(4,687)	-	(5,274)
Reclassification to intangible assets (note 9.1)	-	(40)	-	(40)
At 31 December 2013	12,463	113,161	-	125,624
Foreign exchange translation difference	(525)	(3,111)	34	(3,602)
Charge for the year	2,143	12,877	-	15,020
Disposals	-	(8,938)	-	(8,938)
Reclassification	(13)	443	-	430
At 31 December 2014	14,068	114,432	34	128,534
Net book value at				
31 December 2013	48,940	41,665	2,969	93,574
31 December 2014	45,485	36,229	5,794	87,508

Included in the net book value of land and buildings is land at a value of £10,127,000 (2013: £10,127,000) which is not depreciated.

In November 2013 a revaluation of land assets was performed by an independent valuer Jones Lang Lasalle. This was done in order to comply with the change in accounting policy adopted by the parent group to reflect a more appropriate valuation of land in the group and follow the treatment allowed by IAS16. This resulted in an increase in value of £1,413,000. Had the revaluation not been performed the carrying value of the land would have been £8,714,000.

Capital grants to the value of £135,000 (2013: £516,000) have been received to fund construction of equipment used in research and development and net against the assets to which they relate. The net cost of the equipment is then depreciated over five years and charged to the projects which it is being used for.

10. Property, plant and equipment (continued)

10.1. Group (continued)

The net book value of land and buildings comprises:

	2014 £000	2013 £000
Freehold	44,166	47,051
Leasehold – short	1,319	1,889
	45,485	48,940

There are no restrictions on title given to banks of any fixed assets held by the Group.

10.2. Company

	Land and Buildings £000	Plant and equipment £000	Total £000
Cost			
At 31 December 2013	-	198	198
Additions	85	96	181
At 31 December 2014	85	294	379
Depreciation			
At 31 December 2013	-	14	14
Charge for the year	-	260	260
At 31 December 2014	-	274	274
Net book value at			
31 December 2013	-	184	184
31 December 2014	85	20	105

11. Subsidiaries, associates and investments

	Partnership £000	Subsidiaries £000	Total £000
Company – shares in subsidiary undertakings and partnerships			
Cost			
At 1 January 2013	3,664	843,504	847,168
At 31 December 2013	3,664	843,504	847,168
At 31 December 2014	3,664	843,504	847,168
Impairment			
At 1 January 2013	-	(35,033)	(35,033)
At 31 December 2013	-	(35,033)	(35,033)
At 31 December 2014	-	(35,033)	(35,033)
Net book value at 31 December 2013	3,664	808,471	812,135
31 December 2014	3,664	808,471	812,135

Notes to the financial statements (continued)
For the year ended 31 December 2014

11. Subsidiaries, associates and investments (continued)

	Bonds £000	Investment in associates £000	Available-for-sale investments £000	Total £000
Group				
Cost				
At 1 January 2013	-	-	785	785
Additions	61,737	167	-	61,904
At 31 December 2013	61,737	167	785	62,689
Disposals	(61,737)	-	-	(61,737)
Reclassification to subsidiaries	-	(167)	-	(167)
At 31 December 2014	-	-	785	785

On 31 December 2014 the bonds were redeemed for cash. See note 12, for further details.

The available-for-sale investment relates to a 7.35% holding in HTC Purenergy Inc., 0.5% holding in Doosan Power Systems India Private Limited (DPSIPL) and a 5% holding in Guangzhou Skoda-Jinma Turbine Limited Company.

The reclassification to subsidiaries arose from the adoption of IFRS10 in respect of a 49% holding which this standard prescribes should be treated as a subsidiary. See note 2.22.

All 100% owned unless otherwise stated:	Notes		Registered Office
Principal subsidiary undertakings:			
Doosan Babcock Limited		A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Babcock Energy Services (Overseas) Limited	2	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Babcock Energy Technologies (Shanghai) Limited	1	A	12F, No. 1088 Fangdian Road, Zizhu International Building, Pudong New Area,Shanghai 201204, China
Doosan Power Systems Americas LLC	2	A	1050 Crown Pointe Parkway, Suite 1200, Atlanta, GA 30338, USA
Doosan Babcock Energy Polska Sp. z.o.o. (98.90%)	1	A	Podmiejska 7, Rybnik, Poland
Doosan Babcock Energy Germany GmbH	3	A	Droßiger Weg 56, D-06188 Landsberg OT Hohenthurm, Germany
Doosan Škoda Power s.r.o. (formerly Škoda Power s.r.o.)		A	Tylova 1/57, Plzen, 301 28, Czech Republic
Doosan Lentjes GmbH (99.04%)	3	A	Daniel Goldbach Str.19, Ratingen 4880, Germany
Other subsidiary undertakings:			
Doosan Power Systems Overseas Investments Limited	2	B	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Pension Trustee Company Limited	2	C	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Holdings Limited		B	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Europe GmbH	1	A	Daniel Goldbach Str.19, Ratingen 40880, Germany
Doosan Power Systems Czech Investments a.s.	6	B	Tylova 1/57, Plzen, 301 28, Czech Republic
Skoda Power Private Limited	4	A	Tower B, DLF Building No 8, DLF Cyber City, Gurgaon, Haryana, India
Doosan Lentjes UK Limited (formerly AE&E Lentjes UK Limited)	5	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Lentjes Czech s.r.o. (formerly AE & E Lentjes Praha s.r.o.)	5	A	Sokolovská 668/136d, 18600 Praha 8, Czech Republic
Doosan Lentjes Belgium N.V. (formerly AE & E Lentjes Belgie N.V.)	5	A	Brasschaat, 292, 2930 , Kapelsesteenweg, Belgium
Doosan Power Systems (Scotland) Limited Partnership (31.25%)		E	Porterfield Road, Renfrew, UK, PA4 8DJ
Doosan Babcock W.L.L (49%)	2	A	Office 1449, Al Fardan Office Tower, 14th Floor, PO Box 31316, Doha Qatar
Doosan Babcock General Maint Services L.L.C. (49%).	2	A	21st Floor Tamouh Tower Al Reem Island Abu Dhabi UAE PO Box 31234
Available-for-sale investment:			
HTC Purenergy Inc. (7.35%)	1	D	002 2305 Victoria Avenue, Regina, Saskatchewan, S4P OS7, Canada
Doosan Power Systems India Private Limited (0.5%)	1	A	DLF Square Building, DLF Phase 2, Gurgaon, Haryana, India
Guangzhou Skoda-Jinma Turbine Limited Company (5%)	4	A	33 Chang Gang Zhong Road, Guangzhou, China

11. Subsidiaries, associates and investments (continued)

Doosan Power Systems UK investment Limited was dissolved on 7 October 2014.

Doosan Power Systems Brasil Ltda was dissolved on 30 June 2014.

Notes on holdings

1 Indirectly held through Doosan Power Systems Overseas Investments Limited

2 Indirectly held through Doosan Babcock Limited

3 Indirectly held through Doosan Power Systems Europe GmbH

4 Indirectly held through Skoda Power s.r.o.

5 Indirectly held through Doosan Lentjes GmbH

6 Indirectly held through Doosan Babcock Limited. This company was liquidated on 27th March 2015

Notes on nature of business

A Providing high value-added energy services and innovative technology led business solutions to the power generation industry and associated markets

B Holding company

C Dormant company

D Research and development of innovative technology for the power generation industry

E Partnership providing for the pension scheme

12. Financial instruments

Accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are set out in note 2.19.

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain its optimal capital structure. The capital structure of the Group consists of equity, loans and retained earnings ultimately attributable to Doosan Heavy Industries & Construction Co., Ltd, a Company based and registered in South Korea.

The Group manages its capital with the clear goal of optimising revenues, costs and assets of its individual operations, ensuring sufficient liquidity at all times. This ensures that all Group companies can operate on a going concern basis.

The Group's capital structure consists of common stock, capital reserves and retained earnings.

12. Financial instruments (continued)

12.1. Group

12.1a Categories of financial instruments

	Receivables/(Payables) receivables cash and cash equivalents £000	Financial assets/ (liabilities) at amortised cost £000	Available-for-sale financial assets £000	Hedged derivatives £000	Total £000
2014					
Financial assets					
Cash and cash equivalents	177,743	-	-	-	177,743
Trade and other receivables	146,459	-	-	-	146,459
Derivatives	-	-	-	660	660
Available-for-sale investments	-	-	785	-	785
Total	324,202	-	785	660	325,647
Financial liabilities					
Trade and other payables	(123,140)	-	-	-	(123,140)
Derivatives	-	-	-	(20,232)	(20,232)
Borrowings	-	(223,411)	-	-	(223,411)
Total	(123,140)	(223,411)	-	(20,232)	(366,783)

	Receivables/(Payables) cash and cash equivalents £000	Financial assets/ (liabilities) at amortised cost £000	Available-for-sale financial assets £000	Hedged derivatives £000	Total £000
2013					
Financial assets					
Cash and cash equivalents	125,169	-	-	-	125,169
Trade and other receivables	224,959	-	-	-	224,959
Derivatives	-	-	-	283	283
Bonds (Note 11 & 29.1)	-	61,737	-	-	61,737
Available-for-sale investments	-	-	785	-	785
Total	350,128	61,737	785	283	412,933
Financial liabilities					
Trade and other payables	(158,979)	-	-	-	(158,979)
Derivatives	-	-	-	(16,439)	(16,439)
Borrowings	-	(205,081)	-	-	(205,081)
Total	(158,979)	(205,081)	-	(16,439)	(380,499)

In the opinion of the Directors, the carrying amount of financial assets and liabilities are a reasonable approximation of fair value.

Aside from derivatives, substantially all financial assets and liabilities of the Group are due within one year.

12.1b Derivatives – Financial Instruments
All derivative assets and liabilities on the statement of financial position relate to foreign exchange hedges against cash flows and fair value movements.

12. Financial instruments (continued)

12.1. Group (continued)

12.1b Derivatives – Financial Instruments (continued)

The cash flow hedges were in place in order to mitigate the effect of movements in exchange rates on income received on long-term contracts, expenses paid in relation to contracts which do not occur in the currency of the entity and to mitigate the effect of movements in exchange rates and interest rates on the repayment of bank loans. These hedges protected against movements in Pound Sterling in the Company, the Czech Koruna in the subsidiary Doosan Skoda s.r.o. and the Euro value of the bank loans. Certain forward currency contracts were not designated for hedge accounting. These cash flow hedges were terminated prior to the end of the period.

In order to improve on low returns that Doosan Skoda Power ('DSPW') was achieving on its cash deposits in the Czech inter-bank market, in 2013 DSPW took advantage of the opportunity to purchase fully secured asset-backed short-term bonds ('ABSTBs') in South Korea.

ABSTBs are market traded products, monitored by the Financial Supervisory Service ('FSS') under the Asset-Backed Securitization Act in South Korea. The bonds were issued by a special purpose company, Yongin Samga Liquidity First Co., Ltd., with a Korean credit rating of A3+ and guaranteed by an affiliate company, Doosan Engineering & Construction Co., Ltd., in the form of asset-backed loan receivables.

On 13 November 2013, DSPW purchased ASTBs with a nominal value of KRW 100bn for a price of KRW 97.9bn. These ASTBs matured on February 13, 2014 and did not bearing interest. These bonds have been recorded at amortized cost using the effective interest method at a rate of 8.29%.

The ABSTBs are tradable securities, however the whole tranches have been purchased by DSPW and therefore there are no observable market transaction. The Board of Directors of Doosan Power Systems S.A. has determined that the amortised cost is the best estimate of fair value.

On 13 February 2014, KRW 100bn of ABSTBs matured and were reinvested in new ABSTBs with a value of KRW 100bn, discounted to 13 May 2014 at a rate of 8.20%, to a purchase price of KRW 98.0bn.

On 13 May 2014, KRW 100bn of ABSTBs matured and were reinvested in new ABSTB with a value of KRW 100bn, discounted to 30 June 2014 at a rate of 8.20%, to a purchase price of KRW 98.9bn.

On 30 June 2014, KRW 100bn of ABSTBs matured and were reinvested in new ABSTB with a value of KRW 100bn, discounted to 30 September 2014 at a rate of 8.20%, to a purchase price of KRW 98.0bn.

On 30 September 2014, KRW 100bn of ABSTBs matured and were reinvested in new ABSTB with a value of KRW 100bn, discounted to 30 December 2014 at a rate of 8.20%, to a purchase price of KRW 98.0bn.

No further re-investment took place after this date and the cash received from the bonds on 30 December 2014 by DSPW was converted to USD. Of this KRW 105.9 bn was converted using a forward hedge on 5 January 2015 at a rate of 52.93 to return CZK 2,001m to DSPW.

During the year £4,857,000 (2013: £15,447,000 credited) was charged to the hedging reserve and was recognised in the statement of other comprehensive income in respect of hedges which were effective. £6,043,000 (2013: £173,000 credited) was charged to the income statement in respect of the cash flow hedges which were deemed to be ineffective under IFRS rules. £6,027,000 (2013: £871,000) was released from equity into the income statement in respect of hedges which had matured or expired.

12. Financial instruments (continued)

12.1. Group (continued)

12.1b Derivatives – Financial Instruments (continued)

	Current assets £000	Non-current assets £000	Total £000	Current liabilities £000	Non-current liabilities £000	Total £000
2014						
At fair value through profit or loss	643	-	643	(6,960)	(97)	(7,057)
Designated as cash flow hedges	13	4	17	(11,104)	(2,071)	(13,175)
Total	656	4	660	(18,064)	(2,168)	(20,232)
2013						
At fair value through profit or loss	176	-	176	(5,339)	118	(5,221)
Designated as cash flow hedges	82	25	107	(7,532)	(3,686)	(11,218)
Total	258	25	283	(12,871)	(3,568)	(16,439)

The table below shows the maturity profile of derivatives and hence when the effect of their exercise will be seen as cash flow:

	2014 Receivable £000	2014 Payable £000	2014 Total £000	2013 Receivable £000	2013 Payable £000	2013 Total £000
Maturing within:						
One year	405,065	(422,495)	(17,430)	436,970	(449,584)	(12,614)
One to two years	41,101	(42,948)	(1,847)	90,295	(92,923)	(2,628)
Two to five years	8,601	(8,896)	(295)	17,018	(17,932)	(914)
Total	454,767	(474,339)	(19,572)	544,283	(560,439)	(16,156)

12.1c Fair value estimation

The Group holds certain financial instruments on the statement of financial position at their fair value. The following table provides an analysis of those that are measured subsequent to initial recognition at fair value through profit or loss, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

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

12. Financial instruments (continued)

12.1. Group (continued)

12.1c Fair value estimation (continued)

There have been no transfers between these categories in the current or preceding year.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
2014				
Available-for-sale investment	-	-	785	785
Financial assets – foreign currency contracts	-	660	-	660
Total assets measured at fair value	-	660	785	1,445
Financial liabilities – foreign currency contracts	-	(20,232)	-	(20,232)
Total liabilities measured at fair value	-	(20,232)	-	(20,232)
2013				
Available-for-sale investment	-	-	785	785
Bonds (Note 11 & 12.1b)	-	-	61,737	61,737
Financial assets – foreign currency contracts	-	283	-	283
Total assets measured at fair value	-	283	62,522	62,805
Financial liabilities – foreign currency contracts	-	(16,439)	-	(16,439)
Total liabilities measured at fair value	-	(16,439)	-	(16,439)

12.1d Financial risk factors

The Group's activities expose it to a variety of risk factors: market risk, liquidity risk, exchange rate risk, credit risk and interest rate risk. The Group's risk management strategy seeks to minimise the potential adverse effects of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group treasury under policies approved by the Board. Group treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Group uses derivative financial instruments to hedge risk exposures. The Group does not trade in financial instruments for speculative purposes.

a) Market risk

The only market risk that the group is exposed to arises in the defined benefit pension scheme. The Group is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Group has taken a number of actions over the previous years including closing the scheme to future new entrants and increasing contributions. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets. Asset selection is undertaken to match the future liabilities of the scheme, a large proportion of the assets are held in fixed income investments, so that movements in asset and liabilities are correlated to mitigate market risk.

b) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities in its subsidiary company Doosan Babcock Ltd, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group policy is to maintain a fixed percentage of surplus cash on instant access bank accounts and money market funds in order to cover any unexpected shortfall in cash.

c) Exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US Dollars, Euros and Czech Koruna whilst the functional currency of the Company is in

12. Financial instruments (continued)

12.1. Group (continued)

12.1d Financial risk factors (continued)

c) Exchange risk (continued)
Pound Sterling as are the operations of its primary subsidiary company Doosan Babcock Ltd. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Group treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange transaction risk above pre-set materiality levels determined by the Chief Financial Officer whenever a current or future foreign currency exposure is identified with sufficient reliability.

Hedge accounting is applied to these transactions above a predetermined materiality level.

The Group's investments in foreign operations are exposed to foreign currency translation risk which is managed by matching significant net assets denominated in currencies other than sterling principally with liabilities (through borrowings) in the same currency.

The Group is also exposed to tender exchange rate risk, which is the risk of financial loss as a result of adverse exchange rate movements during the tender period. The Group manages this risk by agreeing price adjustment formulae with the customer where possible and also by including an appropriate level of contingency in the tender exchange rates used.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transaction exposures are set out in note 12.1b above.

The notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied is £252m (2013: £214m). The period during which the cash flows are expected to occur is up to three years.

d) Commodity risk
The Group is exposed to commodity price risk in its normal operations. This risk is managed by agreeing escalation formulae in commercial contracts with customers that enables the Group to recover any losses incurred as a result of an increase in the price of a commodity.

e) Credit risk
Credit risk is the risk that the counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group also has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments the Group has a policy of depositing funds only with independently rated counterparties with a minimum Fitch short and long-term credit rating of F1/A. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. Where deemed necessary, the Group will insist upon a bank guarantee or parent company guarantee before entering into a contract with counterparty.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Notes to the financial statements (continued)
For the year ended 31 December 2014

12. Financial instruments (continued)

12.1. Group (continued)

12.1d Financial risk factors (continued)

f) Interest rate risk
Interest rate risk is currently considered to be low due to market conditions and as a result all interest is paid on a variable rate basis. This is constantly under review by Group Treasury and should the risk increase loans may be switched to a fixed rate basis.

Loans outstanding at the end of 2014:

- Loan with Korea Exchange Bank of £8.8m (2013: £8.8m) is in Sterling. There are no hedges against the interest rate of 3m LIBOR + 2.1%.
- Loan with Export Import Bank of Korea (Kexim) of €105m (£81.9m) (2013: €99.0m (£82.8m)) is in Euros. Of this €70m (£54.6m) has an interest rate of 3m EURIBOR + 1.9% and the remaining €35m has an interest rate of 3m EURIBOR + 1.95%. There are no hedges against these interest rates.
- Loan with Korea Development Bank of €100m (£78m) (2013: €100m (£83.7m)) is in Euros. There are no hedges against the interest rate of 3m EURIBOR + 2.75%.
- Loan with Woori Bank of £25m (2013: £25m) is in Pound Sterling. There are no hedges against the interest rate of 3m LIBOR + 1.8%.
- Revolving Credit Facility with KBC Bank (as an agent) of £30m (2013: Nil). The final maturity of the facility is 14 April 2017. The interest on this loan is variable depending on the election notice and will vary from LIBOR 1 month, 2 months, 3 months, 6 months or any other period agreed between the company and the agent. The current rate of interest at 31 December 2014 for the £5m and £15m loans is 3m LIBOR + 2.75% and the rate of interest for the £10m loan is 1m LIBOR +2.75%. The loan denominated in GBP and held by Doosan Babcock Limited, a subsidiary company and is classed as current.

A 1% increase in interest rates would have resulted in an additional £2,234,000 (2013: £1,555,367) of interest payable. A 1% reduction in interest rates would have resulted in a reduction in interest payable of £2,234,000 (2013: £1,555,367). This is calculated by adding up the net of all interest paid and received during the year on all loans that are not fixed interest and taking 1% of that amount. All the loans are based on Libor or Euribor and so are unlikely to be subject to large fluctuations in interest rates, therefore 1% is considered a reasonable movement on which to base the calculation.

12.1e Summary of financial instruments in currencies
The below figures are all stated as GBP equivalents.

	GBP £000	CZK £000	USD £000	EUR £000	KRW £000	Other £000	Total £000
2014							
Cash, cash equivalents and other financial assets	14,860	57,531	61,946	30,345	-	13,061	177,743
Financial derivatives	644	16	-	-	-	-	660
Trade and other receivables	78,029	25,131	5,283	20,751	-	17,265	146,459
Total	93,533	82,678	67,229	51,096	-	30,326	324,862
Financial derivatives	(7,058)	(13,174)	-	-	-	-	(20,232)
Trade and other payables	(65,476)	(18,155)	(2,485)	(19,052)	295	(18,267)	(123,140)
Borrowings	(61,508)	-	-	(161,903)	-	-	(223,411)
Total	(134,042)	(31,329)	(2,485)	(180,955)	295	(18,267)	(366,783)
Net total	(40,509)	51,349	64,744	(129,859)	295	12,059	(41,921)

12. Financial instruments (continued)

12.1. Group (continued)

12.1e Summary of financial instruments in currencies (continued)

	GBP £000	CZK £000	USD £000	EUR £000	KRW £000	Other £000	Total £000
2013							
Cash, cash equivalents and other financial assets	9,125	54,229	2,311	51,876	-	7,628	125,169
Financial derivatives	164	107	-	12	-	-	283
Trade and other receivables	116,011	69,747	8,919	25,254	-	5,028	224,959
Investments	-	-	-	-	61,737	-	61,737
Total	125,300	124,083	11,230	77,142	61,737	12,656	412,148
Financial derivatives	(5,223)	(9,833)	(1,383)	-	-	-	(16,439)
Trade and other payables	(64,829)	(16,368)	(49,254)	(25,756)	-	(2,772)	(158,979)
Borrowings	(39,799)	-	-	(165,281)	-	-	(205,080)
Total	(109,851)	(26,201)	(50,637)	(191,037)	-	(2,772)	(380,498)
Net total	15,449	97,882	(39,407)	(113,895)	61,737	9,884	31,650

The Group has assets and liabilities in foreign currencies, principally US Dollars, Euros and Czech Koruna. The effect on the income statement of a 20% movement in the rates would be £3.9m each way.

This was calculated by adding up the value of all assets and liabilities held in all companies in the Group which were not in their local currency and converting the amounts into Pound Sterling. The risk is then assumed to be 20% of this amount. It was assumed there would be no exposure arising from assets and liabilities held in the local currency of each entity in the group, but that all of other assets and liabilities would be affected.

Given the fluctuations in our principal foreign currencies, which are noted above, against the Pound Sterling during and after the year-end, the directors have determined that 20% fluctuations from the year-end rates are a reasonable possibility and have therefore used this percentage as a basis for their assessment.

12.2. Company

12.2a Categories of financial instruments

	(Payables)/receivables at amortised cost, cash and cash equivalents £000	Financial assets/(liabilities) at amortised cost £000	Available for sale financial assets £000	Hedged derivatives £000	Total £000
2014					
Financial assets					
Trade and other receivables	1,192	-	-	-	1,192
Loans to group undertakings	52,623	-	-	-	52,623
Investments	-	-	812,136	-	812,136
Total	53,815	-	812,136	-	865,951
Financial liabilities					
Cash and cash equivalents	(18,268)	-	-	-	(18,268)
Trade and other payables	(14,899)	-	-	-	(14,899)
Derivatives	-	-	-	(2,180)	(2,180)
Bank loans	-	(111,820)	-	-	(111,820)
Loans from Group undertakings	-	(636,771)	-	-	(636,771)
Total	(33,167)	(748,591)	-	(2,180)	(783,938)

Notes to the financial statements (continued)
For the year ended 31 December 2014

12. Financial instruments (continued)

12.2. Company (continued)

12.2a Categories of financial instruments (continued)

	(Payables)/receivables at amortised cost, cash and cash equivalents £000	Financial assets/(liabilities) at amortised cost £000	Available for sale financial assets £000	Hedged derivatives £000	Total £000
2013					
Financial assets					
Cash and cash equivalents	5,575	-	-	-	5,575
Trade and other receivables	9,598	-	-	-	9,598
Investments	-	-	812,136	-	812,136
Total	15,173	-	812,136	-	827,309
Financial liabilities					
Trade and other payables	(4,068)	-	-	-	(4,068)
Derivatives	-	-	-	(572)	(572)
Bank loans	-	(146,517)	-	-	(146,517)
Loans from Group undertakings	-	(572,255)	-	-	(572,255)
Total	(4,068)	(718,772)	-	(572)	(723,412)

12.2b Derivatives – Financial instruments

	Current assets £000	Non-current assets £000	Total £000	Current liabilities £000	Non-current liabilities £000	Total £000
2014						
At fair value through profit or loss	-	-	-	(2,180)	-	(2,180)
Total	-	-	-	(2,180)	-	(2,180)
2013						
At fair value through profit or loss	-	-	-	(572)	-	(572)
Total	-	-	-	(572)	-	(572)

The table below shows the maturity of the derivatives and hence when the effect of their exercise will be seen as cash flow:

	2014 Receivable £000	2014 Payable £000	2014 Total £000	2013 Receivable £000	2013 Payable £000	2013 Total £000
Maturing within:						
One year	78,023	(80,203)	(2,180)	50,866	(51,438)	(572)
One to two years	-	-	-	-	-	-
Two to five years	-	-	-	-	-	-
Total	78,023	(80,203)	(2,180)	50,866	(51,438)	(572)

12.2c Fair value estimation
The Company figures for fair value estimation are the same as those for the Group set out in note 12.1c.

12. Financial instruments (continued)

12.2. Company (continued)

12.2d Financial risk factors

a) Market risk
Market risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company may arise from open positions in foreign currencies and fluctuation of interest rates.

b) Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities and deposits with banks and financial institutions.

c) Interest rate risk
The Company's interest rate risk is the same as that of the Group as set out in note 12.1d.

d) Liquidity rate risk
The Company manages liquidity risk by maintaining adequate cash balances and banking facilities, loans granted by the Group, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

12.2e Summary of financial instruments by currency

The below figures are stated as GBP equivalents.

	GBP £000	EUR £000	Total £000
2014			
Trade and other receivables	1,192	-	1,192
Loans to Group undertakings	52,623	-	52,623
Total	53,815	-	53,815
Cash and cash equivalents	(18,268)	-	(18,268)
Trade and other payables	(14,899)	-	(14,899)
Derivatives	(2,180)	-	(2,180)
Loans from Group undertakings	(636,771)	-	(636,771)
Bank loans	(31,842)	(79,978)	(111,820)
Total	(703,960)	(79,978)	(783,938)
Net total	(650,145)	(79,978)	(730,123)
2013			
Cash, cash equivalents and other financial assets	5,575	-	5,575
Trade and other receivables	9,598	-	9,598
Loans to Group undertakings	-	-	-
Total	15,173	-	15,173
Trade and other payables	(3,495)	(573)	(4,068)
Derivatives	(572)	-	(572)
Loans from Group undertakings	(572,255)	-	(572,255)
Bank loans	(39,799)	(106,718)	(146,517)
Total	(616,121)	(107,291)	(723,412)
Net total	(600,948)	(107,291)	(708,239)

Notes to the financial statements (continued)
For the year ended 31 December 2014

13. Inventories

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Raw materials and consumables	-	-	17,185	21,719
Inventory allowance	-	-	(3,580)	(3,936)
Work-in-progress	-	-	4,823	3,301
	-	-	18,428	21,084

14. Trade and other receivables

14.1. Trade and other receivables

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Current:				
Trade receivables	-	-	69,192	128,061
Loss provision for impairment of receivables	-	-	(22,623)	(23,810)
Amounts owed by parent undertakings	-	-	11,922	18,207
Amounts owed by Group undertakings	55,057	10,053	-	-
Other receivables	309	1,173	22,938	20,437
Prepayments and accrued income	1,288	1,700	6,313	7,549
	56,654	12,926	87,742	150,444

14.2. Allowance for impairment of receivables

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. It is Group policy to hedge against net cash inflows in foreign currencies, which may not necessarily equal the revenues received from invoicing trade receivables.

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in respect of trade receivables.

	Company		Group	
Movement in provision	2014 £000	2013 £000	2014 £000	2013 £000
Opening balance	-	-	(23,810)	(22,456)
Currency translation difference	-	-	1,866	848
Utilised in year	-	-	1,841	1,531
Charged to the income statement:				
Additional provisions	-	-	(3,161)	(7,545)
Unused amounts reversed	-	-	641	3,812
	-	-	(22,623)	(23,810)

14. Trade and other receivables (continued)

14.2. Allowance for impairment of receivables (continued)

The provision for impairment of trade receivables is based on a review of financial circumstances of individual customers. The ageing of the impaired receivables based on due date is as follows:

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Up to 1 month	-	-	-	-
1 to 2 months	-	-	-	48
2 to 6 months	-	-	1,417	-
6 to 24 months	-	-	712	8,603
Over 24 months	-	-	20,494	15,159
	-	-	22,623	23,810

The trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and we have strong relationships with most of our customers. The Group does not hold any collateral or other credit enhancements over these balances, nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

At 31 December 2014 trade and other receivables in the group of £11,588,000 (2013: of £28,202,000) were past due, but not impaired. The figure for the Company was £nil (2013: £nil). These relate to a number of customers for which there is no reason to believe that their debt is not recoverable. The ageing analysis of these receivables is as follows:

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Up to 1 month	-	-	3,088	11,766
1 to 2 months	-	-	2,062	2,605
2 to 6 months	-	-	4,030	4,674
6 to 24 months	-	-	143	3,856
Over 24 months	-	-	2,265	5,301
	-	-	11,588	28,202

15. Trade and other payables – current

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade payables	1,074	1,194	38,652	40,581
Amounts owed to parent undertakings	1,298	-	6,581	6,249
Amounts owed to Group undertakings	12,277	1,045	-	-
Other payables including taxation and social security	263	18	51,650	64,708
Accruals and deferred income	2,727	3,249	60,674	97,669
	17,639	5,506	157,557	209,207

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2013: 35 days). For most suppliers no interest is

15. Trade and other payables – current (continued)

charged on overdue invoices. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

16. Trade and other payables – non-current

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Trade payables	-	-	127	69
	-	-	127	69

17. Borrowings

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Current	33,797	44,300	118,080	102,863
Intercompany - Current	635,598	571,668	-	-
Non-current	78,023	102,217	105,331	102,217
	747,418	718,185	223,411	205,080

Included in borrowings at 31 December 2014 are the following:

- Loan with Export Import Bank of Korea (Kexim) of £27.31m (€35m) (2013: £24.7m (€29.0m)) denominated in Euros and held by Doosan Babcock Limited, a subsidiary company, at an interest rate of 3m EURIBOR + 1.95%. The loan matures on 30 April 2016 and is classed as non-current.
- Loan with Export Import Bank of Korea (Kexim) of £54.62m (€70m) (2013: £58.1m (€70.0m)) denominated in Euros and held by Doosan Babcock Limited, a subsidiary company, at an interest rate of 3m EURIBOR + 1.90%. The loan matures on 27 December 2015 and is classed as current.
- Loan with Korea Development Bank of £78.02m (€100m) (2013: £83.7m (€100m)) is denominated in Euros. The interest rate is 3m EURIBOR + 2.75%. The loan is repayable over 3 equal instalments on 14 January 2016, 14 January 2017 and 14 January 2018 and is classed as non-current. The loan is held by the Company.
- Loan with Korea Exchange Bank of £8.8m (2013: £8.8m). The loan matures on 10 December 2015 and is classed as current. The interest payable on this loan is 3m LIBOR + 2.1%. The loan is held by the Company.
- Loan with Woori Bank of £25m (2013: £25m). The final repayment of this loan is scheduled for 30 November 2015. The interest rate on this loan is 3m LIBOR + 1.8%. This loan matures in 2015 and is classed as current. The loan is held by the Company
- Revolving Credit Facility with KBC Bank (as an agent) of £30m (2013: Nil). The final maturity of the facility is 14 April 2017. The interest on this loan is variable depending on the election notice and will vary from LIBOR 1 month, 2 months, 3 months, 6 months or any other period agreed between the company and the agent. The current rate of interest at 31 December 2014 for the £5m and £15m loans is 3m LIBOR + 2.75% and the rate of interest for the £10m loan is 1m LIBOR +2.75%. The loan denominated in GBP and held by Doosan Babcock Limited, a subsidiary company and is classed as current.

17. Borrowings (continued)

Intercompany Loans

Representing the Intercompany balance noted above are the following loans from subsidiaries of the Company:

- Loan with Doosan Babcock Limited for £474.1m (2013: £460.3m) This loan is for a period of 12 months from 5th December 2014 and will be renewed automatically for a further period of 12 months from the expiry date and any further expiry date thereof until either party gives at least 30 days written notice prior to such an expiry date to terminate this agreement. The interest rate on this loan is 12m LIBOR + 2%. This loan matures in 2015 and is classed as current.
- Loan with Doosan Babcock Limited for £25.7m (€31.1m) (2013: £29.4m (€20.0m)) This loan is renewed automatically every year for a period of 12 months until either party gives at least 30 days written notice prior to such an expiry date to terminate this agreement. The interest rate on this loan is 12m EURIBOR + 2.5%. This loan matures in 2015 and is classed as current.
- Loan with Doosan Power Systems Holdings Limited for £135.7m (2013: £127.9m) This loan is renewed automatically every year for a period of 12 months until either party gives at least 30 days written notice prior to such an expiry date to terminate this agreement. The interest rate on this loan is 12m LIBOR + 4.5%. This loan matures in 2015 and is classed as current.

18. Provisions

	Onerous leases £000	Other £000	Total non-current £000	Restructuring £000	Total current £000	Total £000
Group						
Balance at 1 January 2013	1,280	7,756	9,036	1,600	1,600	10,636
Income statement charge	96	(298)	(202)	-	-	(202)
Unwinding of discounting	(45)	620	575	-	-	575
Applied in the year	-	(2,685)	(2,685)	-	-	(2,685)
Unused amounts reversed	-	-	-	(1,600)	(1,600)	(1,600)
Balance at 31 December 2013	1,331	5,393	6,724	-	-	6,724
Income statement charge	(12)	753	741	-	-	741
Unwinding of discounting	-	620	620	-	-	620
Applied in the year	-	(1,073)	(1,073)	-	-	(1,073)
Unused amounts reversed	(919)	162	(757)	-	-	(757)
Balance at 31 December 2014	400	5,855	6,255	-	-	6,255

There are no provisions in the accounts of the Company.

The onerous lease provision includes amounts set aside in respect of lease obligations relating to the manufacturing premises, which are partially vacant. This provision will be utilised over the next year to meet the obligations under the lease.

Other provisions also include an amount of £5.6m (2013: £5.3m) relating to potential claims for which the Group may be liable together with related legal costs. Due to the nature of these claims, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that, in the majority of cases, it would be in the medium-term.

19. Deferred tax

	Accelerated tax depreciation £000	Revaluation of financial assets £000	Retirement based obligations £000	Recognition of profit method £000	Provisions and other payables £000	Losses £000	Other £000	Total £000
Group								
At 1 January 2013	(1,119)	338	3,645	(5,248)	7,347	6,014	3,062	14,039
Exchange differences	233	(231)	-	(28)	(284)	-	(54)	(364)
Credited / (charged) to income statement	1,201	-	(665)	5,502	(42)	(197)	(2,010)	3,789
Credited to other comprehensive income	-	3,456	4,981	-	-	-	-	8,437
At 31 December 2013	315	3,563	7,961	226	7,021	5,817	998	25,901
Exchange differences	190	(194)	(1)	(153)	(467)	-	(404)	(1,029)
(Charged) / credited to income statement	(362)	-	1,087	3,654	(1,698)	336	(1,133)	1,884
(Charged) / credited to other comprehensive income	-	(931)	5,966	-	-	-	-	5,035
Credited / (charged) direct to equity	-	-	156	-	-	-	(156)	-
At 31 December 2014	143	2,438	15,169	3,727	4,856	6,153	(695)	31,791
At 31 December 2013								
Deferred tax assets	3,748	3,563	7,961	226	7,021	5,817	2,557	30,893
Deferred tax liabilities	(3,433)	-	-	-	-	-	(1,559)	(4,992)
	315	3,563	7,961	226	7,021	5,817	998	25,901
At 31 December 2014								
Deferred tax assets	3,391	2,438	15,169	3,727	4,856	6,153	1,167	36,901
Deferred tax liabilities	(3,248)	-	-	-	-	-	(1,862)	(5,110)
	143	2,438	15,169	3,727	4,856	6,153	(695)	31,791

Deferred tax assets have been recognised only to the extent that there are expected to be future taxable profits against which the asset will be utilised.

20. Called up share capital

	Ordinary Share capital £000	Class A shares	Class B shares	Class C shares	Total
Subscribed capital – 31 December 2013	118,074	2,508,555	-	3,263,821	5,772,376
Subscribed capital – 31 December 2014	118,074	2,508,555	-	3,263,821	5,772,376

All ordinary shares issued are fully paid, ordinary shares carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company. There is no specified authorised capital.

Each class of share has the same rights and obligations as set out above.

All shares are classed as equity.

Notes to the financial statements (continued)
For the year ended 31 December 2014

21. Retained earnings

	Company £000	Group £000
Balance at 1 January 2013	(37,111)	209,874
(Loss) / profit for the year	(874)	13,672
Transfer to statutory reserve	-	(2,144)
Actuarial loss on post-employment obligations	-	(26,361)
Deferred tax credit thereon	-	4,866
Balance at 31 December 2013	(37,985)	199,907
Profit for the year	2,716	27,892
Actuarial loss on post-employment obligations	-	(32,164)
Deferred tax credit thereon	-	5,966
Transfer to Legal reserve	(136)	(136)
Adoption of new accounting standards	-	347
Balance at 31 December 2014	(35,405)	201,812

22. Other reserves

	Hedging reserve £000	Translation £000	Statutory reserve £000	Legal reserve £000	Revaluation reserve £000	Total £000
Group						
At 1 January 2013	-	(15,931)	21,675	79	-	5,823
Cash flow hedges						
Fair value gains in the year	(15,447)	(2,817)	-	-	-	(18,264)
Tax on fair value gains	2,976	495	-	-	-	3,471
Currency translation difference						
Group	-	(24,869)	-	-	-	(24,869)
Associates	-	9	-	-	-	9
Transfer from retained earnings	-	-	2,102	-	-	2,102
Revaluation of retained land and buildings	-	-	-	-	1,413	1,413
At 31 December 2013	(12,471)	(43,113)	23,777	79	1,413	(30,315)
Cash flow hedges						
Fair value losses in the year	4,857	-	-	-	-	4,857
Tax on fair value losses	(931)	-	-	-	-	(931)
Currency translation difference						
Group (see note 8.3)	-	(33,435)	-	-	-	(33,435)
Transfer from retained earnings	-	-	-	136	-	136
At 31 December 2014	(8,545)	(76,548)	23,777	215	1,413	(59,688)

Notes to the financial statements (continued)
For the year ended 31 December 2014

23. Notes to the statement of cash flows

Cash generated (used in) / from operations comprises:	Company 2014 £000	Company Restated 2013* £000	Group 2014 £000	Group 2013 £000
Operating (loss) / profit	(3,496)	(1,105)	49,273	31,957
Non-cash pension adjustment	-	-	2,647	347
Amortisation of other intangible assets	-	-	6,794	3,959
Depreciation of property, plant and equipment	260	14	15,020	16,984
Value adjustment on investment in subsidiaries	586	586	-	-
Fair value of forward exchange contracts	-	-	(10,621)	(3,170)
Revaluation of loans	-	-	1,886	1,357
Operating cash flow before movements in working capital	(2,650)	(505)	64,999	51,434
Decrease in inventories	-	-	1,430	7,883
(Increase) / decrease in receivables	(396)	(3,744)	75,638	(113,909)
(Decrease) / increase in payables	(12,885)	19,366	(121,386)	65,896
Cash generated (used in) / from operations	(15,931)	15,117	20,681	11,304
Cash and cash equivalents comprise:				
Cash and bank balances	-	5,575	177,743	125,169
Bank overdrafts	(18,268)	-	-	-

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of less than three months.

* The prior year was restated by £586k to reflect the share of loss in partnership which was included within changes in payables in 2013.

24. Capital commitments

	Company 2014 £000	Company 2013 £000	Group 2014 £000	Group 2013 £000
Contracted but not provided	-	-	8,198	5,147

25. Contingent liabilities

In the ordinary course of business the Group has guarantees and counter indemnities in respect of bonds relating to performance under contracts. The Group also enters into forward exchange contracts to reduce its risk and exposure to fluctuations in exchange rates, which accrue in the ordinary course of business.

Notes to the financial statements (continued)

For the year ended 31 December 2014

26. Leasing

The Company has no material obligations under finance leases.

Operating leases

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group	
	2014 £000	2013 £000
Leases on land and buildings expiring:		
within one year	4,795	5,654
between one and five years	16,523	6,954
after five years	17,983	7,091
Leases on other assets expiring:		
within one year	1,841	1,823
between one and five years	3,615	3,088
after five years	-	-
Total	44,757	24,610

Future payments on operating leases relate primarily to motor vehicles and office premises. The leases have a variety of expiry dates mainly falling within three years for the smaller leases. The majority of the liability relates to office premises in Poland and the U.K. where the group is committed to leases beyond 2020. The majority of lease agreements are renewable at the end of the lease period at market rate. The lease expenditure charged to the income statement during the year is disclosed in note 5.

27. Construction projects in progress

	Company		Group	
	2014 £000	2013 £000	2014 £000	2013 £000
Amounts due from contract customers in respect to project work				
–Billed	-	-	69,190	128,061
–Unbilled	-	-	65,033	82,062
Amounts due to contract customers in respect to project work	(504)	(26,388)	(102,549)	(186,953)
	(504)	(26,388)	31,674	23,170

The aggregate amount of costs incurred, plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the reporting date was £3,637m (2013: £2,818m).

28. Subsequent events

There have been no subsequent events which need to be disclosed at the date these financial statements were authorised.

Notes to the financial statements (continued)

For the year ended 31 December 2014

29. Related party transactions

29.1. Group

During the year the Group made purchases incurred costs and received income from other members of the Doosan Group including its parent company Doosan Heavy Industries & Construction Co., Ltd., which can be summarised as follows:

	Doosan Information and Communications Europe Limited		Doosan Power Systems India Private Limited		Doosan Industrial Vehicles Ltd		Doosan Corporation Co., Ltd		Doosan Heavy Industries and Construction Co. Ltd	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Receivable as at 31 December	-	-	1,335	-	-	892	21	54	10,553	16,902
Payable as at 31 December	1,816	-	205	-	-	149	-	874	4,560	1,618
Closing accrued income	-	-	-	-	-	-	-	-	1,044	11,110
Closing accruals/advances	-	-	60	-	-	-	-	-	1,038	-
Purchases	7,281	-	168	-	-	223	582	918	2,076	677
Income	625	-	2,051	-	-	2,034	10	27	24,548	40,262

None of the amounts included within receivables above have been provided against.

During the year the Group made payments to the Doosan Babcock Energy Pension Trustees Ltd to the value of £5,038,000 (2013: £8,378,000).

During the year the Group received services from another subsidiary of Doosan Heavy Industries & Construction Co., Ltd, Doosan IMGB S.A. to the value of £1,456,000 (2013: £1,100,000). There was £nil payable or receivable at the year-end (2013: £nil).

29.2. Company

During the year, the Company incurred costs and received income from the companies listed below, all of which are subsidiaries of the Company.

Receivables and payables

	Company	
	2014 £000	2013 £000
Amounts due from Doosan Power Systems Europe GmbH	51,688	39,858
Amounts due from Doosan Skoda s.r.o.	2,433	-
Amounts due from Doosan Power Systems Europe GmbH	936	-
Total Receivables	55,057	39,858
Amounts due to Doosan Babcock Limited	510,720	473,603
Amounts due to Doosan Power Systems (Scotland) Limited Partnership	1,173	586
Amounts due to Doosan Power Systems Holdings Limited	135,730	127,870
Amounts due to Doosan Power Systems Americas LLC	252	-
Amounts due to Doosan Heavy Industries and Construction Co. Ltd	1,298	-
Total Payables	649,173	602,059

29. Related party transactions (continued)

29.2. Company (continued)

Income and costs

	Company	
	2014 £000	2013 £000
Interest received from Doosan Babcock Limited	-	62
Cash received from Doosan Babcock Limited	3,636	30,889
Interest received from Doosan Lentjes GmbH	837	638
Interest received from Doosan Power Systems (Scotland) Limited Partnership	-	-
Cash received from Doosan Skoda s.r.o.	1,418	-
Cash received from Doosan Power Systems Americas LLC	251	-
Total Income	6,142	31,589
Interest paid to Doosan Power Systems (Scotland) Limited Partnership	586	-
Interest paid to Doosan Babcock Limited	14,242	9,709
Interest paid to Doosan Power Systems Holdings	7,141	8,040
Professional fees paid by Doosan Babcock Limited on behalf of the Company	11,751	989
Cash paid to Doosan Skoda s.r.o.	18,261	-
Cash paid to Doosan Lentjes	936	-
Total costs	52,917	18,738

On 21 November 2011 the Company acquired a loan from AE&E Germany GmbH for €15,000,000 (£12,882,000) when the fair value was €33,359,000 (£28,649,000). AE&E Germany GmbH is a third party (former parent of Doosan Lentjes GmbH) and as such this was not a related party transaction.

The difference between the purchase price and the fair value of the loan was amortised over the life of the loan. £5,051,000 (2013: £5,316,000) was recognised in the income statement during the year.

30. Ultimate parent company and controlling party

The Company is a subsidiary undertaking of Doosan Corporation Co., Ltd registered in the Republic of Korea which the Directors consider to be the Company's ultimate parent company. This is the largest Group in which the results of the Company are consolidated. The smallest such Group is that headed by Doosan Heavy Industries & Construction Co., Ltd which is registered in the Republic of Korea. Doosan Heavy Industries & Construction Co. is the parent of the Company.

The consolidated financial statements of Doosan Corporation Co., Ltd are available to the public and may be obtained from Euljiro 6-ga, Jung-gu, Seoul, the Republic of Korea, 100-730.

The consolidated financial statements of Doosan Heavy Industries & Construction Co., Ltd are available to the public and may be obtained from 555, Gwigok-dong, Changwon, Gyeongsangnam-do 641-792, the Republic of Korea.

Report of the réviseur d'entreprises agréé

To the sole member of Doosan Power Systems S.A.

Report on the Company and consolidated financial statements

We have audited the accompanying standalone and consolidated financial statements of Doosan Power System S.A., which comprise the Company and consolidated balance sheet as at December 31, 2013, and the Company and consolidated income statement, the Company and consolidated statement of changes in shareholders' interest and the Company and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the Company and consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these Company and consolidated financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of the Company and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these Company and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the standalone and consolidated financial statements give a true and fair view of the financial position of Doosan Power System S.A. as of December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on other legal and regulatory requirements

The Company and consolidated management report, which is the responsibility of the Board of Directors, is consistent with the Company and consolidated financial statements.

For Deloitte Audit, *Cabinet de révision agréé*

/s/ Eddy R. Termaten

Eddy R. Termaten, *Réviseur d'entreprises agréé*

Partner

June 19, 2014

Group income statement

For the year ended 31 December 2013

	Notes	2013 £000	Restated * 2012 £000
Revenue	4	740,945	816,612
Cost of sales		(638,796)	(692,237)
Gross profit		102,149	124,375
Administrative expenses		(70,192)	(94,834)
Operating profit	5	31,957	29,541
Gain on sale of investment	31	-	5,950
Profit on disposal of property, plant and equipment		1,004	362
Finance income	7	6,680	5,773
Finance costs	7	(13,209)	(21,960)
Profit before tax		26,432	19,666
Taxation	8.2	(12,760)	(8,633)
Profit for the year		13,672	11,033

* The prior year was restated to reflect a change in IAS19 in respect of accounting for defined benefit pension schemes. See note 6.3.

The notes on pages F-69 – F-119 form part of the financial statements.

All revenue and profits arose from continuing operations.

Group statement of other comprehensive income

For the year ended 31 December 2013

	Notes	2013 £000	Restated * 2012 £000
Profit for the year		13,672	11,033
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of land	10.1	1,413	-
Actuarial movement in retirement obligations	6.3 and 6.4	(26,361)	(13,649)
Income tax relating to items not reclassified	8.3	4,866	3,139
		(20,082)	(10,510)
Items that may be reclassified subsequently to profit or loss:			
Currency translation losses		(32,971)	(6,679)
Fair value movement of cash flow hedges	12.1b	(15,447)	5,502
Income tax relating to items that may be reclassified	8.3	8,723	1,568
		(39,695)	391
Other comprehensive expense for the year net of tax		(59,777)	(10,119)
Total comprehensive (expense) / income for the year		(46,105)	914

* The prior year was restated to reflect a change in IAS19 in respect of accounting for defined benefit pension schemes. See note 6.3.

Company income statement

For the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(1,105)	(1,734)
Share of loss in partnership	11	-	(604)
Impairment of investment	11	-	(35,033)
Operating loss		(1,105)	(37,371)
Gain on sale of investment	30	-	18,699
Finance income	7	39,633	3,839
Finance costs	7	(39,402)	(217)
Loss before tax		(874)	(15,050)
Taxation		-	12
Loss for the year		(874)	(15,038)

All losses derive from continuing operations.

The notes on pages F-69 – F-119 form part of the financial statements.

Company statement of other comprehensive income

For the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Loss for the year		(874)	(15,038)
Items that may be reclassified subsequently to profit or loss:			
Currency translation gains		-	4,985
		-	4,985
Other comprehensive income for the year net of tax		-	4,985
Total comprehensive expense for the year		(874)	(10,053)

Group statement of financial position

As at 31 December 2013

	Notes	2013 £000	2012 £000
Non-current assets			
Intangible assets – goodwill	9.1	385,680	400,321
– other	9.1	41,958	25,388
Property, plant and equipment	10.1	93,574	107,146
Investments in associates	11	167	-
Available-for-sale investments	11	785	785
Deferred tax assets	19	30,893	22,732
Derivative financial instruments	12.1b	25	186
		553,082	556,558
Current assets			
Inventories	13	21,084	30,130
Trade and other receivables	14	150,444	107,283
Amounts due from customers in respect of project work	27	82,062	15,999
Derivative financial instruments	12.1b	258	1,922
Investments	11	61,737	-
Current tax assets		536	1,977
Cash and cash equivalents		125,169	197,991
		441,290	355,302
Total assets		994,372	911,860
Current liabilities			
Trade and other payables	15	(209,207)	(208,183)
Amounts due to customers in respect of project work	27	(186,953)	(130,229)
Derivative financial instruments	12.1b	(12,871)	(3,203)
Borrowings	17	(102,863)	(68,812)
Provisions	18	-	(1,600)
Current tax liabilities		(11,674)	(2,191)
		(523,568)	(414,218)

	Notes	2013 £000	2012 £000
Non-current liabilities			
Trade and other payables	16	(69)	(146)
Derivative financial instruments	12.1b	(3,568)	(1,680)
Borrowings	17	(102,217)	(105,456)
Deferred tax liabilities	19	(4,992)	(8,693)
Provisions	18	(6,724)	(9,036)
Retirement benefit obligations	6.3/6.4	(65,568)	(38,860)
		(183,138)	(163,871)
Total liabilities		(706,706)	(578,089)
Net assets		287,666	333,771
Equity			
Called up share capital	20	118,074	118,074
Other reserves	22	(30,315)	5,823
Retained earnings	21	199,907	209,874
Total equity		287,666	333,771

The notes on pages F-69 – F-119 form part of the financial statements.

These financial statements of Doosan Power Systems S.A. were approved and authorised for issue by the Board of Directors on 19 June 2014.

Signed on behalf of the Board of Directors.

Company income statement

For the year ended 31 December 2013

/s/ Kwang Seob Jung

Kwang Seob Jung
Director

Company statement of financial position

As at 31 December 2013

	Notes	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	10.2	184	-
Investments in controlling stake in partnership	11	3,664	3,664
Investments in subsidiaries	11	808,471	808,471
		812,319	812,135
Current assets			
Trade and other receivables	14	12,926	27,188
Cash and cash equivalents		5,575	12
		18,501	27,200
Total assets		830,820	839,335
Current liabilities			
Trade and other payables	15	(577,174)	(632,990)
Amounts due to customers for project work	27	(26,388)	-
Borrowings	17	(44,300)	(44,300)
Derivative financial instruments	12.2b	(572)	-
Current tax liabilities		(1)	(1)
		(648,435)	(677,291)
Non-current liabilities			
Borrowings	17	(102,217)	(81,002)
		(102,217)	(81,002)
Total liabilities		(750,652)	(758,293)
Net assets		80,168	81,042
Equity			
Called up share capital	20	118,074	118,074
Other reserves		79	79
Accumulated losses	21	(37,985)	(37,111)
Total equity		80,168	81,042

The notes on pages F-69 – F-119 form part of the financial statements.

These financial statements of Doosan Power Systems S.A. were approved and authorised for issue by the Board of Directors on 19 June 2014.

Signed on behalf of the Board of Directors.

/s/ Kwang Seob Jung

Kwang Seob Jung
Director

Company statement of changes in equity

For the year ended 31 December 2013

	Called up share capital £000	Translation reserve £000	Hedging reserve* £000	Statutory reserve £000	Legal reserve *** £000	Technological reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 January 2012	143,453	(12,251)	(4,071)	15,561	84	348	-	214,481	357,605
Profit for the year (restated ****)	-	-	-	-	-	-	-	11,033	11,033
Other comprehensive (expense) / income for the year (Restated ****)	-	(3,680)	4,071	-	-	-	-	(10,510)	(10,119)
Total comprehensive (expense) / income for the year	-	(3,680)	4,071	-	-	-	-	523	914
Issue of Ordinary Shares	113	-	-	-	-	-	-	-	113
Change in functional currency of the parent	1,340	-	-	-	(5)	-	-	984	2,319
Capital reduction (note 20)	(26,832)	-	-	-	-	(348)	-	-	(27,180)
Statutory Reserve**	-	-	-	6,114	-	-	-	(6,114)	-
At 1 January 2013	118,074	(15,931)	-	21,675	79	-	-	209,874	333,771
Profit for the year	-	-	-	-	-	-	-	13,672	13,672
Other comprehensive (expense) / income for the year	-	(27,224)	(12,471)	-	-	-	1,413	(21,495)	(59,777)
Total comprehensive (expense) / income for the year	-	(27,224)	(12,471)	-	-	-	1,413	(7,823)	(46,105)
Statutory Reserve **	-	42	-	2,102	-	-	-	(2,144)	-
At 31 December 2013	118,074	(43,113)	(12,471)	23,777	79	-	1,413	199,907	287,666

* Gains on losses on fair value of foreign exchange hedges which are effective under IAS 39 are taken to the Hedging Reserve. These amounts will be released as and when the hedges mature.

** The Statutory Reserve is a legal requirement under Czech law. Each year it must be increased by at least 5% of profit after tax until such time as the reserve represents 10% of the share capital of Doosan Skoda s.r.o. This amount is non-distributable

*** The Legal Reserve is a legal requirement under Luxembourg law. Each year it must be increased by at least 5% of profit after tax until such time as the reserve represents 10% of the share capital of Doosan Power Systems S.A. This amount is non-distributable

**** The prior year was restated to reflect a change in IAS19 in respect of accounting for defined benefit pension schemes. See note 6.3.

Group statement of changes in equity

For the year ended 31 December 2013

	Called up share capital £000	Translation reserve £000	Legal reserve £000	Accumulated losses £000	Total £000
At 1 January 2012	143,453	(4,985)	84	(23,057)	115,495
Loss for the year	-	-	-	(15,038)	(15,038)
Other comprehensive income for the year	-	4,985	-	-	4,985
Total comprehensive income / (expense) for the year	-	4,985	-	(15,038)	(10,053)
Issue of ordinary shares	113	-	-	-	113
Capital reduction (note 20)	(26,832)	-	-	-	(26,832)
Change in functional currency	1,340	-	(5)	984	2,319
At 1 January 2013	118,074	-	79	(37,111)	81,042
Loss for the year	-	-	-	(874)	(874)
Total comprehensive expense for the year	-	-	-	(874)	(874)
At 31 December 2013	118,074	-	79	(37,985)	80,168

Group and company statement of cash flows

For the year ended 31 December 2013

		Company		Group	
	Notes	2013 £000	2012 £000	2013 £000	2012 £000
Cash flows generated from / (used in) operations	23	15,117	(127)	11,304	31,781
Income tax paid		-	-	(4,983)	(2,510)
Net cash generated from / (used in) operations		15,117	(127)	6,321	29,271
Cash flows from investing activities					
Interest received		-	-	1,667	1,336
Purchase of property, plant and equipment		-	-	(12,874)	(16,526)
Purchase of intangible assets		-	-	(15,643)	(8,925)
Disposal of property, plant and equipment		-	-	1,542	1,030
Cash disposed with Doosan IMGB S.A. (note 30.2)		-	-	-	(2,506)
Investment in joint venture		-	-	(167)	-
Investment in short term securities		-	-	(65,959)	-
Net cash used in investing activities		-	-	(91,434)	(25,591)
Cash flows from financing activities					
Interest paid		(1,530)	-	(10,408)	(15,214)
Repayment of loans from Group undertakings		(102,780)	-	-	-
Repayment of other borrowings		(65,013)	-	(54,411)	(30,408)
Capital Increase		-	113	-	-
Loan received (note 17)		83,011	-	82,158	25,000
Loans from Group undertakings		75,543	-	-	-
Net cash (used in) / generated from financing activities		(10,769)	113	17,339	(20,622)
Net increase / (decrease) in cash and cash equivalents		4,348	(14)	(67,774)	(16,942)
Effects of exchange rate changes		1,215	-	(5,048)	(36)
Cash and cash equivalents at the beginning of the year		12	26	197,991	214,969
Cash and cash equivalents at the end of the year		5,575	12	125,169	197,991

Notes to the financial statements

1. General information

Doosan Power Systems S.A. is a Company incorporated in the Grand Duchy of Luxembourg. The address of the registered office is given on page 5. These financial statements are presented in Pounds Sterling. The functional and presentational currency is determined as per note 2.5 and 2.6. Foreign operations are included in accordance with the policies set out in note 2.19d.

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and property. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

2.2. Going concern

The Group's business activities are associated with providing high value-added energy services, innovative technology-led business solutions and new build power plant to the power generation industry and associated markets.

The Group delivered solid trading performance in 2013 against a backdrop of continued economic uncertainty. The Group secured order intake of £890,372,000 up 21% on 2012. Group revenues for the year were £740,945,000 compared to £816,612,000 in 2012 reflecting the lower order intake in 2012, and the sale of Doosan IMGB S.A. on 28 June 2012.

Operating profit was £31,957,000 with a 4% operating margin. This was more than the 2012 performance of £29,541,000 (restated) (4% operating margin) due to some one-off costs to complete two legacy projects despite strong underlying performance from the turbine and services businesses. Profit after tax was £13,672,000 per income statement compared to £11,033,000 (restated) in 2012.

The Group's year end cash position of £125,169,000 remains strong. The balance decreased in the year by £72,905,000 reflecting the increased legacy project costs offsetting the strong performances from the core businesses.

Closer collaboration with the parent company (see note 30) will realise further synergies and increase access to global markets. This will provide growth opportunities in boiler retrofit and upgrade, CFB boilers, air pollution control systems, waste to energy and steam turbines, as well as for our through-life support and life extension services to the oil and gas, petrochemical, process and power generation sectors. Service activities in the UK will continue to offer strong growth potential, fuelled by increased demand from the nuclear sector. We expect our solid performance to continue which, supported by our on-going investments in product development, manufacturing facilities and sales offices, will further build on our strong position in the market. The Directors take the management of risk very seriously and as such all activities are conducted within a framework of policies and guidelines authorised by the Board.

Managing risk is seen as a key attribute of the Group, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective fields.

The major uncertainties in terms of trading in the current market are the fluctuations in raw material and supplier costs, especially on key contracts. Reflecting this situation where a position is particularly volatile, the Group will seek to agree appropriate escalation formulae or cost plus agreements with customers to help mitigate this. The

2. Accounting policies (continued)

2.2. Going concern (continued)

other significant trading uncertainty is the timing of major new build projects. Particularly in western markets we are currently seeing delays and uncertainty over when projects will be released due to the economic crisis and environmental issues. The Group addresses this by having a portfolio of large projects being bid at any time; additionally we are protected by the balance of our business with both service and projects workload.

In respect of foreign currencies, the Group's policy is to hedge all significant exposure to movements in exchange rates primarily through the use of the forward market. No trading or speculation in financial instruments is undertaken.

With regard to the recognition of the pension scheme position, the Group is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Group has taken a number of actions over the previous years including closing the scheme to new entrants and increasing contributions. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

In addition, note 12 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As highlighted in note 17 to the financial statements, the Group has a number of bank loans, primarily in relation to the Doosan Lentjes GmbH and Doosan Skoda s.r.o. acquisitions. In January 2013 the Group entered into a new loan with the Korean Development Bank for €100,000,000 and used €60,000,000 (equivalent £82,200,000 and £49,000,000 respectively) of the proceeds to repay the remaining balance on the Lloyds Bank plc syndicate loan.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will meet the scheduled repayments and will be able to operate within the limits of the banking covenants for a period of at least 12 months from the date of signing these financial statements.

The Directors have a strong expectation based on the strong cash position, size of the current order book and the business projections that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic climate. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. Accounting policies (continued)

2.3. Basis of consolidation (continued)

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group'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 are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group 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), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

2.4. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its fair value at its acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. .

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date, and is subject to a maximum of one year.

2.5 Functional currency

Following the reorganisation in 2012, the Directors assessed the functional currency of the Group and Company to be Pound Sterling in accordance with IAS 21.

Consolidated accounts were prepared by the Company for the first time at 31 December 2012. Prior to that, consolidated accounts were prepared by its subsidiary company Doosan Babcock Limited in Pound Sterling. On 31 December 2012 the functional currency of the Company was changed from Euros to Pound Sterling. Consequently all assets, liabilities, issued capital and other components of equity and income statement items were translated into Pound Sterling at the exchange rate on that date. As a result the cumulative currency differences which had arisen up to the date of the change in functional currency were reallocated to other components within equity. Exchange gains and losses also arose on this date in relation to this change.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.6 Presentation currency

2012 was the first year consolidated financial statements were being prepared by Doosan Power Systems S.A. (the Company); previously the presentation currency was the Euro. Due to the change in functional currency as per note 2.5, the Directors elected to change the presentation currency from Euros to Pound Sterling. As a result the 2011 and 2012 financial comparatives and 2013 financial statements have been presented in Pound Sterling.

2.7. Subsidiaries, associates and partnerships

Subsidiaries

Subsidiaries are entities over which the Group has control, which is defined as being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or sold in the year are consolidated from the effective date of acquisition to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the income statement in the period of acquisition. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the fair value of the assets and liabilities recognised.

Any acquisition or disposal which does not result in a change in control is accounted for as a transaction between equity holders. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the fair value of the consideration paid or received and the amount by which the non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2. Accounting policies (continued)

2.7. Subsidiaries, associates and partnerships (continued)

Partnerships

The Group applies SIC 12 Consolidation – Special Purpose Entities (SPEs).

Partnerships are consolidated when the substance of the relationship between the Group and the entity indicates control. The control assessment for special purpose entities includes an assessment of the Group's exposure to the risks and benefits of the entity. The consolidation of SPEs is considered at inception, based on the arrangements in place and the assessed risk exposures at that time. The initial consolidation analysis is revisited at a later date if:

- the Group acquires additional interests in the entity;
- the contractual arrangements of the entity are amended such that the relative exposures to risks and rewards change; and
- the Group acquires control over the main operating and financial decisions of the entity.

Intra-group transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

2.8. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of the impairment review, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.9. Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as technology which can be used in a product);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software is treated as an intangible asset.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.9. Intangible assets (continued)

The expected depreciation rates are:

Goodwill	nil (note 2.8)
Development costs	20% to 50%
Software	20% to 33⅓%
Patents	Lifetime of the patent

Amortisation of intangible assets is charged to operating profit in the income statement.

2.10. Property, plant and equipment

Freehold buildings, plant, machinery and equipment are stated at cost less accumulated depreciation and impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

The Company chooses to perform a regular independent review of the value of land assets in order to assess whether an upward revaluation is required. This ensures that the carrying amount of these assets does not differ materially from their fair value.

Depreciation is charged on cost on a straight-line basis at rates appropriate to the expected useful lives of the assets concerned. Land and assets in the course of construction are not depreciated.

The expected depreciation rates are:

Land and buildings	
Freehold land	Not depreciated
Freehold and leasehold buildings	1⅔% to 12½%
Plant and machinery	
Heavy production	3% to 10%
Other plant and machinery	3% to 33⅓%
Motor vehicles	12.5% to 25%
Office equipment and furniture	8% to 33⅓%
Computers	20% to 33⅓%

2.11. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Capital-based government grants are credited to the assets to which they relate, with the net amount then being released to the income statement as depreciation.

Grants and funding of a revenue nature are netted against the expenses to which they relate. Recognition of the funding income is realised at the same rate as expenditure with any advance receipts of such funding being kept as deferred income. If the development to which this relates meets the criteria for capitalisation then the net cost is capitalised.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.12. Inventory

Inventories are stated at the lower of cost and net realisable value.

Costs comprise direct materials, and in the case of work-in-progress, direct labour and overheads, including depreciation, but excludes selling and administration costs.

Raw materials and consumables are stated using the weighted average cost method.

2.13. Leasing and hire purchase commitments

Hire charges paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

2.14. Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's obligation.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

2.15. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

2.15a Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised in the income statement immediately.

Where the amounts recognised in revenue exceed the amounts invoiced to the customer, the balance is included within amounts due from customers for project work within the statement of financial position.

Where the amounts recognised in revenue are less than the amounts invoiced to the customer, the balance is included within 'amounts due to customers for contract work within the statement of financial position.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.15. Revenue recognition (continued)

2.15b Sales (other than project sales) of goods and services at invoiced value

The revenue is recognised at the point at which the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and services.

2.15c Fees for technical aid and other services rendered

These are recognised at the point at which the knowledge is transferred to the recipient.

2.16. Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also reflected in equity. Current tax is based on the result for the year.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for, the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.17. Pension costs

Defined benefit scheme

The Group operates pension schemes providing benefits based on final pensionable pay. The assets of the UK scheme are held separately from those of the Group. Contributions are based on periodic actuarial calculations and are charged so as to spread the cost of the pensions over the expected service lives of the employees who are members of the scheme. The ‘Doosan Power Systems Ltd.’ scheme was closed to new members on 31 March 2001. The ‘Doosan Lentjes GmbH’ scheme was closed to new members on 31 October 2011.

Pension scheme assets are measured using market rates. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested or is otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

The Group has elected to include the expected return on assets and interest cost on liabilities within operating profit in the income statement.

The cost of the Group’s defined benefit plans is determined in accordance with IAS 19 (revised): “Employee benefits” with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.17. Pension costs (continued)

Defined contribution scheme
The Group also operates defined contribution pension schemes. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amounts charged against profit represent the contributions payable to the scheme in respect of the accounting period.

2.18. Group operating profit

Group operating profit is stated after charging restructuring costs, the share of results of associates and impairments but before gains on the disposal of investments, property, plant and equipment and finance costs.

2.19. Financial instruments

2.19a Derivatives
The Group uses derivative financial instruments to manage interest rate risk and hedge exposures to fluctuations in foreign currencies in accordance with its risk management policies. Commodity risk is managed through escalation clauses in customer contracts. A description of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in note 12.

Derivatives are initially recognised in the statement of financial position at fair value on the date the derivative transaction is entered into and are subsequently remeasured at fair value.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in equity. Changes in fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of the asset or liability.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in equity. Changes in the fair value of the ineffective portion of net investment hedges are recognised in the income statement. Amounts accumulated in equity are transferred to the income statement upon disposal of the foreign operation.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting discontinues when the hedging instrument expires or is sold, terminates, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

2.19b Financial assets
All financial assets are recognised and derecognised on a 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 timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories, financial assets, 'available-for-sale' (AFS) financial assets, cash and cash equivalents or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2. Accounting policies (continued)

2.19. Financial instruments (continued)

2.19b Financial assets (continued)

Available-for-sale ('AFS') financial assets
Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are classified as AFS financial assets and stated at fair value as the Directors consider that fair value can be reliably measured. Fair value is determined in the manner described in note 2.20. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investment's revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss 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 reporting date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Liquid resources and cash
Liquid resources comprise short-term treasury deposits which have maturity dates of up to one year, government securities and money market funds. Cash and cash equivalents comprises cash in hand and overnight deposits less, for the purpose of the cash flow statement only, overdrafts.

Loans and receivables
Trade receivables, loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. Loans will be tested for impairment at each period end to determine if any impairment exists.

Derecognition of financial assets
The Group derecognises 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.19c Financial liabilities

Financial Liabilities within the scope of IAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.19. Financial instruments (continued)

2.19c Financial liabilities (continued)
All Financial liabilities are recognised initially at fair value and in the case of borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Groups financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables
Trade payables are not interest bearing and are stated at their fair value. Amounts due to customers for project work relate to advances received from customers on project which are in progress.

2.19d Foreign currencies
The individual financial statements of each group company are presented in its functional currency, being the currency of the primary economic environment in which it operates. For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pound sterling. In 2011 the functional currency of the Company was the Euro, this was changed during 2012 to pounds sterling as detailed in note 2.5. The presentation currency for the consolidated financial statements is Pound Sterling as detailed in note 2.6.

In preparing the financial statements of the individual companies within the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rate prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement 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 to hedge certain foreign currency risks (see note 2.19a below under financial instruments/hedge accounting); 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 recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the exchange rate prevailing on the reporting date. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of the transaction is used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (disposal of the 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

2. Accounting policies (continued)

2.19. Financial instruments (continued)

2.19d Foreign currencies (continued)
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 Group are reclassified to the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate prevailing at the reporting date.

2.20. Fair value estimation

The fair value at initial cost of financial instruments traded in active markets (such as publicly traded derivatives or trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for traded financial assets held by the Group is the current bid price. The appropriate quoted market price for traded financial liabilities is the current offer price. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods which include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models which reflect the specific instrument.

Where market values are not available, fair values are based on valuation methodologies which require inputs and forecasts to be made. Judgement is required in determining the appropriate assumptions underlying those inputs and forecasts.

The nominal value of receivables (less estimated impairments) and payables are assumed to approximate their fair values. The fair value of financial liabilities measured at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Discounted cash flows are used to determine the fair value for the majority of remaining financial instruments.

2.21. Impairment of available for sale investments

At each reporting date, the Group reviews the carrying amounts of its available for sale investments to determine whether there is any indication that the carrying amount of those assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is reviewed in order to determine the amount of the impairment, if any.

2.22. Adoption of new and revised standards

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IAS 32 (amended): Offsetting financial assets and financial liabilities
IAS 27 (revised): Separate financial statements
IAS 28 (revised): Investments in associates and joint ventures
IFRS 10, IFRS 12 and IAS 27 (amended): Investment entities
IFRS 9: Financial instruments
IFRS 10: Consolidated financial statements
IFRS 11: Joint arrangements
IFRS 12: Disclosure of interest in other entities
IFRS 14: Regulatory Deferral Accounts
IFRS 15: Revenue from Contracts with Customers

Notes to the financial statements (continued)

2. Accounting policies (continued)

2.22. Adoption of new and revised standards (continued)

Transition guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
IAS 36 (amended): Recoverable amount disclosures for non-financial assets
IAS 39 (amended): Novation of derivatives and continuation of hedge accounting
IAS 19 (amended): Employee contributions (*)
IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Annual Improvements to IFRSs: 2010-12 Cycle (*)
Annual Improvements to IFRSs: 2011-13 Cycle (*)
IFRIC 21: Levies

(*) Not yet endorsed by the European Union

The Company is uncertain as to whether the adoption of IFRS 15 would have a material impact on the financial statements. However, due to the timing of the release of IFRS 15 in comparison with the approval of these financial statements the Company has been unable to perform a thorough assessment of the significance of this impact. Given that IFRS 15 does not become effective until 1 January 2017, being three years from the reporting date, the issuance of this standard has no impact on these financial statements and the Company will perform a thorough assessment of the potential impact that the standard may have in due course and sufficiently in advance of the date on which it becomes effective.

The Company has undertaken an initial review of the likely impact of the adoption of the remaining above standards and interpretations and, based on that initial review, do not consider that there will be any material impact.

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

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other 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 recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.1. Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in note 2.15 are central to how the Group values the work it has carried out in the financial year. These policies require forecasts to be made of the outcomes of long-term construction services which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities, potential liquidated damages and changes in costs.

3.2. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the cash-generating unit and the application of a suitable discount rate in order to calculate the present value. The discount rate used is based on the Group's weighted average cost of capital. The carrying value of goodwill at 31 December 2013 was £385,680,000 (2012: £400,321,000).

Notes to the financial statements (continued)

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

3.3. Retirement benefit obligations

Details of the Group’s defined benefit schemes are set out in notes 6.3 and 6.4, including a table showing the sensitivity of the pension scheme obligations and the prospective 2014 charge to the income statement to different actuarial assumptions. At 31 December 2013 the defined benefit liability recognised on the Group’s statement of financial position was £65.6m (2012: £38.9m). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the scheme’s assets are classified as actuarial gains and losses. During 2013 the Group recognised net actuarial losses of £26.4m (2012: £13.6m restated) in equity. A sensitivity analysis in respect of these is set out in note 6.3.

3.4. Taxation

The Group is subject to tax in a number of jurisdictions and judgement is sometimes required in determining the worldwide provision for income taxes.

The Group provides for liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management’s assessment of exposures. The Group also recognises assets where a reduction in future tax or a future receipt of tax may crystallise, when it is deemed prudent to recognise such an asset based on management’s assessment of such events.

3.5. Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. There are material items of income or expense that have been shown separately due to the significance of their nature or amount.

4. Revenue

	2013 £000	2012 £000
Revenue from construction contracts and related services	740,945	816,612

Turnover by origin	2013 £000	2012 £000
United Kingdom	421,147	478,682
Czech Republic	273,219	261,467
Germany	28,031	20,647
Poland	17,788	16,358
China	633	674
North America	127	995
Romania	-	37,789
	740,945	816,612

Notes to the financial statements (continued)

5. Group operating profit

5.1. Group operating profit is stated after charging / (crediting)

	2013 £000	2012 £000
Property, plant and equipment:		
Depreciation of owned assets	16,984	17,999
Intangible assets:		
Deferred development expenditure	870	119
Amortisation of software	1,886	1,294
Amortisation of patents	1,222	1,118
Rentals under operating leases:		
Land and buildings	5,167	4,631
Hire of plant and machinery	2,499	2,654
Research and development:		
Revenue expenditure	9,014	9,649
Grants received to fund revenue expenditure	(5,223)	(4,646)
Release of provision following restatement	-	(2,184)
Contractual allocation to Pension Scheme	(810)	(812)
Exchange losses	2,152	5,480

5.2. Auditor's remuneration

	2013 £000	2012 £000
Audit of these financial statements	320	296
Other services pursuant to such legislation	88	5
Services relating to taxation	193	469
Other	15	16
Total non-audit fees	296	485

6. Employees and directors

6.1. Employee numbers and staff costs

	2013	2012
Average monthly number of persons employed during the year (including directors employed within the Group):		
Production	4,750	4,588
Sales and administration	1,720	1,469
Research and development	187	179
	6,657	6,236

The average monthly number of persons employed reflects staff levels of the Company and subsidiary undertakings during the year.

Notes to the financial statements (continued)

6. Employees and directors (continued)

6.1. Employee numbers and staff costs (continued)

	2013 £000	2012 £000
Staff costs during the year (including directors employed within the Group):		
Wages and salaries	251,493	201,803
Social security costs	34,300	29,080
Other pension costs	9,624	9,636
	295,417	240,519

6.2. Remuneration of key management

	2013 £000	2012 £000
Directors' emoluments:		
Current pay and benefits	1,013	2,110
Post-employment benefits	26	66
Social security costs	31	217
	1,070	2,393

The aggregate emoluments of the highest paid Director were £432,786 (2012: £1,080,351).

Since the Directors of the Company are also the key management personnel of the Group no additional information is required to be disclosed by IAS 24 in addition to the information already disclosed above.

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK)

The Group operates two defined contribution schemes, a Company Personal Pension Plan and a Stakeholder Plan. The charge for the year in respect of these schemes was £1,727,930 (2012: £1,769,799) at the year-end.

The Group operates a defined benefit pension scheme (the 'scheme'), providing benefits based on final pensionable pay. The scheme is closed to new entrants but some current employees continue to accrue benefits in the scheme. The assets of the scheme are invested by an independent trustee.

The scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the scheme has appointed trustees who are independent of the Group. Although the Group bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all time.

The main risks to which the Group is exposed in relation to the funded pension scheme are:

• Mortality risk - the assumptions adopted by the Group make allowance for the future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in higher payments from the scheme and consequently increases the scheme's liabilities. The Group and the scheme's trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate mortality assumption.

• Investment risk - the scheme invests its assets in a portfolio of asset classes including diversified growth funds, corporate bonds and government bonds. There is the possibility that the returns generated by the portfolio of assets falls below the assumed rates of return.

Notes to the financial statements (continued)

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

• Yield risk - a fall in bond yields will increase both the scheme's liabilities, and to a lesser extent, the scheme's assets. As the scheme's liabilities (on the funding basis used to calculate the Group's contributions to the scheme) are greater than its assets until the deficit is made good, during that time the liabilities may grow by more in monetary terms, thus increasing the deficit in the scheme.

• Inflation risk - Benefits in the scheme accrued increase in line with inflation (subject to the relevant caps and floors), and so if inflation is greater than expected, the liabilities will increase.

The preliminary results of the actuarial valuation of the scheme at 1 April 2013 have been updated to 31 December 2013 by a qualified actuary, using a set of assumptions consistent with those required under IAS 19. The effect of the scheme's investment policy is not fully reflected in the accounting figures as the assumptions used for the purpose of the valuation under IAS 19 are different from those used for the funding valuation.

The major assumptions used by the actuary were:

	2013	2012
Financial assumptions:		
Discount rate	4.55%	4.50%
Rate of increase in pensionable salaries	2.50% – 4.35%	2.50% – 4.00%
Rate of increase in pensions in payment (post-May 2002 service)	3.20%	2.95%
Rate of increase in pensions in payment (pre-May 2002 service)	3.75%	3.45%
Inflation assumption (and increases to pension in deferment)	3.35%	3.00%
Demographic assumptions:		
Pre-retirement mortality (male/female)	105% S1NA/S1NFA, CMI 2013 +1% MI	120% S1NA/S1NFA, CMI 2009 +1% MI
Post-retirement mortality for non-pensioner members (male/female)	105% S1NA/S1NFA, CMI 2013 +1% MI	120% S1NA/S1NFA, CMI 2009 +1% MI
Post-retirement mortality for pensioner members (male/female)	105% S1NA/S1NFA, CMI 2013 +1% MI	120% S1NA/S1NFA, CMI 2009 +1% MI

The rates used have been chosen from a range of possible amounts determined using actuarial assumptions that due to the timescale covered may not necessarily be borne out in practice. The assets in the scheme and the expected rates of return were:

	2013		2012	
	%	£000	%	£000
Diversified growth fund	51.4	164,957	46.3	149,648
Bonds	48.1	154,340	47.7	154,168
Property	-	-	5.6	6,979
Cash	0.5	1,782	0.4	1,276
Total market value of assets		321,079		312,071
Present value of liabilities		(372,665)		(339,605)
Deficit in scheme		(51,586)		(27,534)
Related deferred tax asset		7,961		3,645
Net pension liability		(43,625)		(23,889)

Sensitivity analysis

Inflation rate and discount rate are considered by the Directors to be the significant assumptions within the scheme, and as such, effects of changes to these have been disclosed below. A movement of +/- 25 bps on the discount rate and inflation assumptions reflects a realistic shift in market conditions over the short-term, whilst providing sufficient information about the sensitivity of the value of the Scheme's liabilities to these assumptions. The duration of the scheme is approximately 17 years.

Notes to the financial statements (continued)

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

Effect on the deficit in the scheme of the following changes:	£m
0.25% increase in the discount rate	-15.8
0.25% decrease in the discount rate	+16.8
0.25% increase in the inflation rate	+7.0
0.25% decrease in the inflation rate	-7.2

Reconciliation of present value of plan liabilities and assets:

	2013 £000	Restated 2012 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	339,605	310,667
Service cost	5,941	6,041
Interest cost	14,995	14,942
Employees' contributions	36	34
Actuarial losses	25,048	19,567
Benefits paid	(12,960)	(11,646)
Closing defined benefit obligation	372,665	339,605
Change in the fair value of plan assets:		
Opening fair value of plan assets	312,071	295,483
Interest income	13,925	14,395
Actuarial gains	645	5,917
Contributions by employer	8,378	9,288
Contributions by plan participants	36	34
Benefits paid	(12,960)	(11,646)
Other expenses	(1,016)	(1,400)
Closing fair value of plan assets	321,079	312,071
Net change in the present value of plan liabilities and assets:		
Opening deficit	27,534	15,184
Service cost	5,941	6,041
Net interest cost / (income)	1,070	547
Net actuarial losses	24,403	13,650
Contributions by employer	(8,378)	(9,288)
Other expenses	1,016	1,400
Closing deficit	51,586	27,534

The plan holds an £11,000,000 investment in Doosan Power Systems (Scotland) Limited Partnership; this has been included in these consolidated financial statements in accordance with SIC-12. As such, the building the partnership holds is included in the statement of financial position of the consolidated financial statements, and thus the investment held in the plan assets should be removed.

The expected contributions in 2014 are £8,146,000 (2013: £9,059,000).

Notes to the financial statements (continued)

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

Analysis of other comprehensive income:

	2013 £000	Restated 2012 £000
Actual return less expected return on scheme assets	645	5,918
Experience losses arising on the scheme liabilities	(6,885)	-
Changes in assumptions underlying the scheme liabilities	(18,163)	(19,567)
Net actuarial loss recognised in the period	(24,403)	(13,649)
Deferred tax	4,866	3,139
Actuarial loss net of tax	(19,537)	(10,510)
Net cumulative actuarial losses before tax	(75,599)	(51,191)

Expense recognised in the income statement:

	2013 £000	Restated 2012 £000
Current service cost	5,941	6,041
Net interest expense	1,065	548
Other expenses	1,016	1,400
Total	8,022	7,989

The amendments to IAS 19 which came into effect for companies reporting on or after 1 January 2013 and were endorsed by the EU on 5 June 2012 have been adopted by the Company. As a consequence of the revision to the standard, the basis of the calculation of the income statement expense has changed, with the expected rate of return on assets aligned with the discount rate applied to the scheme's liabilities.

The effect of this is to increase the net expense for the year ending 31 December 2013 from £3.3 million to £8.0 million. In line with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) all changes have been applied retrospectively leading to a restatement of the net benefit cost for the year ending 31 December 2012 from £3.8 million to £8.0 million. In addition, there have been amendments made to the disclosure requirements which have been implemented in this note.

All of the following items were recognised in administrative expenses in the income statement

	2013 £000	Restated 2012 £000
Service cost	5,941	6,041
Interest expense	14,995	15,084
Expected return	(13,930)	(16,618)
Total	7,006	4,507

Notes to the financial statements (continued)

6. Employees and directors (continued)

6.3. Post-retirement benefits – Group – Doosan Power Systems Limited (UK) (continued)

The history of experience gains and losses is as follows;

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Defined benefit obligation	(372.7)	(339.6)	(310.7)	(282.3)	(253.9)
Plan assets	321.1	312.1	295.5	280.0	251.1
Deficit	(51.6)	(27.5)	(15.2)	(2.3)	(2.8)
Difference between the expected and the actual return on scheme assets					
Amount	0.6	1.0	9.4	10.0	20.2
Percentage of scheme assets	0%	0%	3%	4%	8%
Experience losses on scheme assets					
Amount	(6.9)	-	-	(4.6)	(3.2)
Percentage of present value scheme liabilities	(2%)	0%	0%	(2%)	(1%)
Total losses recognised in statement of comprehensive income					
Amount	(24.4)	(17.8)	(10.5)	(8.7)	(15.0)
Percentage of present value of scheme liabilities	(7%)	(5%)	(3%)	(3%)	(6%)

6.4 Post-retirement benefits – Group – Doosan Lentjes GmbH (Germany)

AE&E Lentjes GmbH operates a defined benefit pension scheme. The Company was acquired at the end of 2011. There are no plan assets and the obligations on the scheme are met by the Company. This scheme was closed to new entrants on 31 October 2011. The assumptions which have the most effect on the valuation and the contributions paid are as follows:

	2013	2012
Financial assumptions:		
Discount rate	3.50%	3.60%
Rate of increase in pensionable salaries	2.50%	2.50%
Average fluctuation	2.00%	2.00%
Inflation rate	2.00%	2.00%
Expected income from plan assets	n.a.	n.a.
Demographic assumptions:		
Statistical assumptions	Richttafel 2005G	Richttafel 2005G
Retirement age	RVAGAnpG 2007	RVAGAnpG 2007
Post-retirement mortality for pensioner members (male/ female)	Heubeck Tabellen Richttafel 2005G	Heubeck Tabellen Richttafel 2005G

6. Employees and directors (continued)

6.4 Post-retirement benefits – Group – Doosan Lentjes GmbH (Germany) (continued)

Reconciliation of present value of plan liabilities:

	2013 £000	2012 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	11,326	11,066
Service cost	232	410
Interest cost	483	261
Employees' contributions	63	76
Actuarial losses	1,920	-
Benefits paid	(295)	(263)
Exchange differences on foreign scheme	252	(224)
Closing defined benefit obligation	13,981	11,326

The defined benefit obligation at the end of 2013 in respect of this plan was £13,727,000 (2012: £10,965,000). In addition to this there is a medical scheme with a net obligation of £254,000 (2012: £361,000).

6.5. Post-retirement benefits – Other

All pension schemes in the remainder of the Group are defined contribution in nature and the cost for the year amounted to £725,000 (2012: £399,000).

7. Finance income and costs

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Interest receivable and similar income	653	251	1,364	2,185
Amortisation of gain on loan purchased at below fair value (note 29.2)	5,316	3,588	5,316	3,588
Dividend received	33,664		-	-
Total finance income	39,633	3,839	6,680	5,773
Interest payable	(29,954)	(217)	(10,408)	(14,440)
Unwinding of discounting	-	-	(649)	(873)
Loss on revaluation of hedges	(9,448)	-	-	(3,701)
Exchange losses	-	-	(2,152)	(2,946)
Total finance costs	(39,402)	(217)	(13,209)	(21,960)
Net finance income / (costs)	231	3,622	(6,529)	(16,187)

Notes to the financial statements (continued)

8. Taxation

8.1. Taxation charge

	2013 £000	Restated 2012 £000
Current tax:		
UK Corporation tax at 23.25% (2012: 24.5%)	(14)	37
Adjustments in respect of prior periods	(324)	(2,476)
	(338)	(2,439)
Overseas taxation	16,887	15,887
Total current tax	16,549	13,448
Deferred tax:		
Origination and reversal of temporary differences	(4,346)	(5,356)
Deferred tax on pension charge	557	541
Total deferred tax (note 19)	(3,789)	(4,815)
Total tax charge for the year	12,760	8,633

The tax charge for the year is based on the effective United Kingdom statutory rate of corporation tax for the period of 23.25% (2012: 24.5%).

8.2. Factors affecting tax charge for the year

The current tax assessed for the period is higher (2012: higher) than the standard rate of corporation tax in the UK (23.25%) (2012: 24.5%). The differences are explained below:

	2013 £000	2012 £000
Profit before tax	26,432	19,666
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	6,145	4,818
Net items not deductible for tax purposes	384	4,354
Difference between rate applied and deferred tax rate	2,707	-
Losses not recognised	7,075	6,829
Enhanced relief on research and development expenditure	(816)	(1,623)
Difference in rates of overseas tax	(2,405)	(3,269)
Adjustment in respect of prior periods	(330)	(2,476)
Tax charge for year	12,760	8,633

Factors that may affect future tax charges

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax of 23.25% (2012: 24.5%).

The Finance Act 2013, which provides for a reduction in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to further reduce from 21% to 20% from 1 April 2015, was substantively enacted on 2 July 2013. This rate reduction has been reflected in the calculation of deferred tax at the reporting date.

The Group has US tax losses with a potential tax value of approximately £29m (2012: £24m), unprovided UK tax losses of approximately £11m (2012: £5m), and unprovided German tax losses within Doosan Lentjes GmbH of £6m (2012: £4m), which may reduce future tax payments; however no deferred tax assets have been recognised in respect of these losses due to the uncertainty over the availability of suitable taxable profits.

8. Taxation (continued)

8.3. Tax recognised in other comprehensive income

	Before tax £000	Tax (charge)/credit £000	After tax £000
2013			
Revaluation of financial instruments treated as cash flow hedges	(15,447)	2,976	(12,471)
Relating to actuarial movement in retirement benefit obligations	(26,361)	4,866	(21,495)
Translation of foreign operations	(32,971)	5,747	(27,224)
Total income recognised in other comprehensive income	(74,779)	13,589	(61,190)
2012			
Revaluation of financial instruments treated as cash flow hedges	5,502	(1,431)	4,071
Relating to actuarial movement in retirement benefit obligations	(13,649)	3,139	(10,510)
Translation of foreign operations	(6,679)	2,999	(3,680)
Total income recognised in other comprehensive income	(14,826)	4,707	(10,119)

Notes to the financial statements (continued)

9. Intangible fixed assets

9.1. Group

	Positive goodwill £000	Patents £000	Deferred development expenditure £000	Software * £000	Total £000
Cost					
At 1 January 2012	415,364	6,008	7,786	18,972	448,130
Foreign exchange translation difference	(1,901)	(123)	(35)	1,045	(1,014)
Additions	-	-	8,803	122	8,925
Reclassifications from property, plant and equipment **	-	-	-	1,540	1,540
Disposed with subsidiary (note 30.2)	-	-	-	(931)	(931)
Disposals	-	-	-	(36)	(36)
At 31 December 2012	413,463	5,885	16,554	20,712	456,614
Foreign exchange translation difference	(14,610)	132	(994)	(588)	(16,060)
Additions	-	-	14,748	895	15,643
Reclassifications from property, plant and equipment **	-	-	5,027	701	5,728
Reclassifications	-	-	(14,944)	14,944	-
Disposals	-	-	(692)	(43)	(735)
At 31 December 2013	398,853	6,017	19,699	36,621	461,190
Amortisation					
At 1 January 2012	13,142	-	2,506	11,942	27,590
Foreign exchange translation difference	-	-	(35)	1,227	1,192
Charge for the year	-	1,118	119	1,294	2,531
Disposed with subsidiary (note 30.2)	-	-	-	(372)	(372)
Disposals	-	-	-	(36)	(36)
At 31 December 2012	13,142	1,118	2,590	14,055	30,905
Foreign exchange translation difference	31	-	(67)	(500)	(536)
Charge for the year	-	1,222	870	1,886	3,978
Reclassifications	-	-	(747)	747	-
Disposals	-	-	(753)	(42)	(795)
At 31 December 2013	13,173	2,340	1,893	16,146	33,552
Net book value at					
31 December 2012	400,321	4,767	13,964	6,657	425,709
31 December 2013	385,680	3,677	17,806	20,475	427,638

* Included within software is the cost of setting up the new enterprise, resource and planning system, Oracle, which went live in 2013. This had a cost of £19,474,000 and net book value of £18,164,000 at the end of the year.

** The Group policy is to treat software as intangible assets; software treated as tangible assets has been reclassified to intangible assets.

The charge for amortisation of intangible fixed assets is included within administrative expenses on the income statement.

Goodwill acquired in a business combination is maintained separately for each business. All acquisitions made consisted of single cash-generating units (CGUs) and the goodwill has not been split any further. The split

Notes to the financial statements (continued)

9. Intangible fixed assets (continued)

9.1. Group (continued)

between these businesses is shown below. The Group tests goodwill annually for impairment or more frequently if there are indicators that the goodwill might be impaired.

The recoverable amounts from these CGUs are determined from value-in-use calculations. They are based on detailed business plans stretching over the next five years which are derived from contracts the relevant CGUs expect to win. These projections are approved by the Board.

The cash flows have been discounted using a post-tax discount rate of 8% calculated by applying updated market inputs to the capital asset pricing model.

Cash flow projections beyond the five year period have been extrapolated on the basis of a 2% growth rate. Such a growth rate does not exceed the long-term average growth rate of the sector.

The Doosan Lentjes GmbH goodwill is sensitive to the pipeline of future business. Goodwill in respect of Doosan Lentjes GmbH is £63.4m (2012: £62.0m), with headroom above this level of £181.0m (2012: £235.3m), suggested by the value-in-use model. The growth rate of 2% could also reduce to nil with no resulting impairment. If orders and hence gross margin were to reduce by 10% this would still leave headroom of £157.7m.

The Doosan Babcock Limited Boiler business goodwill is also sensitive to the pipeline of future business. Goodwill in respect of the Boiler business is £41.6m (2012: £41.6m), with headroom above this level of £89.8m (2012: £13.8m), suggested by the value-in-use model. The growth rate of 2% could also reduce to 1% at the same time as this reduction in business with no resulting impairment.

To date no impairment has been recognised on the goodwill held by the remaining CGUs in the Group. Sensitivity analysis demonstrates that reasonable changes in the key assumptions would not cause the carrying value of the CGUs to become impaired.

	2013 £000	Impact of foreign exchange during the year £000	2012 £000
Doosan Skoda s.r.o.	234,490	(16,036)	250,526
Nuclear decommissioning (Doosan Power Systems Limited)	546	-	546
Doosan Lentjes GmbH	63,416	1,395	62,021
Doosan Babcock Limited			
Services business	45,659	-	45,659
Boiler business	41,569	-	41,569
	385,680	(14,641)	400,321

Notes to the financial statements (continued)

10. Property, plant and equipment

10.1. Group

	Land and buildings £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2012	137,044	197,838	10,209	345,091
Foreign exchange translation difference	(5,489)	(4,702)	(612)	(10,803)
Additions	19	4,430	12,077	16,526
Disposals	(38)	(2,318)	-	(2,356)
Disposed with subsidiary (note 30.2)	(72,073)	(46,932)	(3,308)	(122,313)
Reclassification	2,460	5,685	(8,145)	-
Reclassification to intangible assets	-	-	(1,540)	(1,540)
At 31 December 2012	61,923	154,001	8,681	224,605
Foreign exchange translation difference	(2,812)	(5,051)	(191)	(8,054)
Additions	415	4,704	7,757	12,876
Disposals	(956)	(4,857)	(61)	(5,874)
Revaluation	1,413	-	-	1,413
Reclassification	1,420	6,029	(7,449)	-
Reclassification to intangible assets	-	-	(5,768)	(5,768)
At 31 December 2013	61,403	154,826	2,969	219,198
Depreciation				
At 1 January 2012	13,107	121,268	-	134,375
Foreign exchange translation difference	(156)	(1,949)	-	(2,105)
Charge for the year	2,694	15,305	-	17,999
Disposals	(11)	(1,677)	-	(1,688)
Disposal with subsidiary (note 30.2)	(4,503)	(26,619)	-	(31,122)
At 31 December 2012	11,131	106,328	-	117,459
Foreign exchange translation difference	(348)	(3,157)	-	(3,505)
Charge for the year	2,267	14,717	-	16,984
Disposals	(587)	(4,687)	-	(5,274)
Reclassification to intangible assets	-	(40)	-	(40)
At 31 December 2013	12,463	113,161	-	125,624
Net book value at				
31 December 2012	50,792	47,673	8,681	107,146
31 December 2013	48,940	41,665	2,969	93,574

Included in the net book value of land and buildings is land at a value of £10,127,000 (2012: £9,386,000) which is not depreciated.

In November 2013 a revaluation of land assets was performed by an independent valuer. This was done in order to comply with the change in accounting policy adopted by the parent group to reflect a fairer valuation of land in the group and follow the treatment allowed by IAS16. This resulted in an increase in value of £1,413,000. Had the revaluation not been performed the carrying value of the land would have been £8,714,000.

10. Property, plant and equipment (continued)

10.1. Group (continued)

Capital grants to the value of £516,000 (2012: £533,000) have been received to fund construction of equipment used in research and development and net against the assets to which they relate. The net cost of the equipment is then depreciated over five years and charged to the projects which it is being used for.

The net book value of land and buildings comprises:

	2013 £000	2012 £000
Freehold	47,051	48,415
Leasehold – short	1,889	2,377
	48,940	50,792

There are no contractual obligations to fund any future tangible assets.

There are no restrictions on title given to banks of any fixed assets held by the Group.

10.2. Company

	Plant and equipment £000
Cost	
At 31 December 2012	-
Transfers	198
At 31 December 2013	198
Depreciation	
At 31 December 2012	-
Charge for the year	14
At 31 December 2013	14
Net book value at	
31 December 2012	-
31 December 2013	184

Notes to the financial statements (continued)

11. Subsidiaries, associates and investments

	Partnership £000	Subsidiaries £000	Total £000
Company – shares in subsidiary undertakings and partnerships			
Cost			
At 1 January 2012	4,322	108,273	112,595
Share of loss in partnership	(604)	-	(604)
Change in functional currency	(54)	6,765	6,711
Acquisition of subsidiary undertakings	-	735,949	735,949
Disposal of subsidiary undertaking	-	(7,483)	(7,483)
At 31 December 2012	3,664	843,504	847,168
At 31 December 2013	3,664	843,504	847,168
Impairment			
At 1 January 2012	-	-	-
Charge for the year	-	(35,033)	(35,033)
At 31 December 2012	-	(35,033)	(35,033)
At 31 December 2013	-	(35,033)	(35,033)
Net book value at			
31 December 2012	3,664	808,471	812,135
31 December 2013	3,664	808,471	812,135

	Bonds £000	Share of net assets in associates £000	Available-for-sale investments £000	Total £000
Group				
Cost				
At 31 December 2011			785	785
At 31 December 2012	-	-	785	785
Additions (Note 29,1)	61,737	167	-	61,904
At 31 December 2013	61,737	167	785	62,689

As at 31 December 2013 the Group held short-term securities in Yongin Samga Liquidity First/KRZS15013001 and short-term deposit Flexible Contract RP/RKRW200 (2012: none). These securities were acquired through security broker Woori Investment Securities in South Korea and purchased at a value of USD 100 million and held at a value of £61,737,000 (2012: £nil). Please refer to note 29.1 for details.

The share of net assets in associates relates to a 49% holding in Doosan Babcock WLL, a company incorporated in Qatar, being an investment of 1,000,000 Qatari Riyal made into the company during the year. To date there has been no activity in this company and the cash which was invested is the only asset this company holds.

The available-for-sale investment relates to a 7.35% holding in HTC Purenergy Inc. and a 0.72% holding in Doosan Power Systems India Private Limited (DPSIPL).

11. Subsidiaries, associates and investments (continued)

All 100% owned unless otherwise stated:	Notes		Registered Office
Principal subsidiary undertakings:			
Doosan Babcock Limited		A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Babcock Energy Services (Overseas) Limited	2	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Babcock Energy Technologies (Shanghai) Limited	1	A	Zizhu International Building, 1088 Fang Dian Road, Pudong New Area, Shanghai, China
Doosan Power Systems Americas LLC	2	A	1050 Crown Pointe Parkway, Suite 1200, Atlanta, GA 30338, USA
Doosan Babcock Energy Polska Sp. z.o.o. (98.90%)	1	A	Podmiejska 7, Rybnik, Poland
Doosan Babcock Energy Germany GmbH	3	A	Drobiger Weg 56, 06188 Landsberg/Halle, Germany
Doosan Skoda s.r.o. (formerly Skoda Power s.r.o.)		A	Tylova 1/57, Plzen, 301 28, Czech Republic
Doosan Lentjes GmbH (99.04%)	3	A	Daniel Goldbach Str.19, Ratingen 4880, Germany
Other subsidiary undertakings:			
Doosan Power Systems Overseas Investments Limited	2	B	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Babcock Energy Limited	2	C	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Babcock Welding Products Limited	2	C	Porterfield Road, Renfrew, UK, PA4 8DJ
Doosan Power Systems Pension Trustee Company Limited	2	C	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Babcock Energy Scotland Limited	2	C	Porterfield Road, Renfrew, UK, PA4 8DJ
Doosan Power Systems UK Investment Limited	6	C	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Holdings Limited		B	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Europe GmbH	1	A	Friedrichstr 46, 45128 Essen, Nordrhein-Westfalen, Germany
Doosan Power Systems Czech Investments a.s.	2	B	Tylova 1/57, Plzen, 301 28, Czech Republic
Skoda Power Private Limited	4	A	Tower B, DLF Building No 8, DLF Cyber City, Gurgaon, Haryana, India
Doosan Lentjes UK Limited	5	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Lentjes Czech s.r.o. (formerly AE & E Lentjes Praha s.r.o.)	5	A	Modranska 307/98, 147 01 Praha, Czech Republic
AE & E Lentjes Belgie N.V.	5	A	Brasschaat, 2930, Kapelsesteenweg 292, Belgium
Joint ventures and associates:			
Doosan Power Systems (Scotland) Limited Partnership (31.25%)		E	Porterfield Road, Renfrew, UK, PA4 8DJ
Doosan Babcock WLL (50%)	2	A	Level 22, Tornado Tower, West Bay, Doha, Qatar, PO BOX 27774
VMB Energy Services BV (50%)	1	C	Lossersestraat 2, Oldenzaal, Overijssel, Netherlands
Available-for-sale investment:			
HTC Purenergy Inc. (7.35%)	1	D	002 2305 Victoria Avenue, Regina, Saskatchewan, S4P OS7, Canada
Doosan Power Systems India Private Limited (0.72%)	1	A	DLF Square Building, DLF Phase 2, Gurgaon, Haryana, India
Guangzhou Skoda-Jinma Turbine Limited Company (5%)	4	A	33 Chang Gang Zhong Road, Guangzhou, China

Clean Energy Solutions LLC was liquidated on 17 October 2013.

Babcock Energy Limited was liquidated on 11 February 2014. Babcock Welding Products Limited and Doosan Babcock Energy Scotland Limited were liquidated on 21 February 2014.

Notes on holdings

1 Indirectly held through Doosan Power Systems Overseas Investments Limited

2 Indirectly held through Doosan Babcock Limited

3 Indirectly held through Doosan Power Systems Europe GmbH

4 Indirectly held through Skoda Power s.r.o.

5 Indirectly held through Doosan Lentjes GmbH

6 Indirectly held through Doosan Power Systems Holdings Limited

11. Subsidiaries, associates and investments (continued)

Notes on nature of business

A Providing high value-added energy services and innovative technology led business solutions to the power generation industry and associated markets

B Holding company

C Dormant company

D Research and development of innovative technology for the power generation industry

E Partnership providing for the pension scheme

12. Financial instruments

Accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are set out in note 2.19.

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain its optimal capital structure. The capital structure of the Group consists of equity, loans and retained earnings ultimately attributable to Doosan Heavy Industries & Construction Co., Ltd, a Company based and registered in South Korea.

The Group manages its capital with the clear goal of optimising revenues, costs and assets of its individual operations, ensuring sufficient liquidity at all times. This ensures that all Group companies can operate on a going concern basis.

The Group’s capital structure consists of common stock, capital reserves and retained earnings.

12. Financial instruments (continued)

12.1. Group

12.1a Categories of financial instruments

	(Payables)/receivables cash and cash equivalents £000	Financial assets/ (liabilities) at amortised cost £000	Available-for-sale financial assets £000	Hedged derivatives £000	Total £000
2013					
Financial assets					
Cash and cash equivalents	125,169	-	-	-	125,169
Trade and other receivables	224,959	-	-	-	224,959
Derivatives	-	-	-	283	283
Bonds (Note 11 & 29.1)	-	61,737	-	-	61,737
Available-for-sale investments	-	-	952	-	952
Total	350,128	61,737	952	283	413,100
Financial liabilities					
Trade and other payables	(158,979)	-	-	-	(158,979)
Derivatives	-	-	-	(16,439)	(16,439)
Borrowings	-	(205,081)	-	-	(205,081)
Total	(158,979)	(205,081)	-	(16,439)	(380,499)

	(Payables)/receivables cash and cash equivalents £000	Financial assets/ (liabilities) at amortised cost £000	Available-for-sale financial assets £000	Hedged derivatives £000	Total £000
2012					
Financial assets					
Cash and cash equivalents	197,991	-	-	-	197,991
Trade and other receivables	113,682	-	-	-	113,682
Derivatives	-	-	-	2,108	2,108
Available-for-sale investments	-	-	785	-	785
Total	311,673	-	785	2,108	314,566
Financial liabilities					
Trade and other payables	(148,824)	-	-	-	(148,824)
Derivatives	-	-	-	(4,883)	(4,883)
Borrowings	-	(174,268)	-	-	(174,268)
Total	(148,824)	(174,268)	-	(4,883)	(327,975)

In the opinion of the Directors, the carrying amount of financial assets and liabilities are a reasonable approximation of fair value.

Aside from derivatives, substantially all financial assets and liabilities of the Group are due within one year.

12.1b Derivatives

All derivative assets and liabilities on the statement of financial position relate to foreign exchange hedges against cash flows.

The cash flow hedges were in place in order to mitigate the effect of movements in exchange rates on income received on long-term contracts, expenses paid in relation to contracts which do not occur in the currency of the

12. Financial instruments (continued)

12.1. Group (continued)

12.1b Derivatives (continued)

entity and to mitigate the effect of movements in exchange rates and interest rates on the repayment of bank loans. These hedges protected against movements in Pound Sterling in the Company, the Czech Koruna in the subsidiary Doosan Skoda s.r.o. and the Euro value of the bank loans. Certain forward currency contracts were not designated for hedge accounting. These cash flow hedges were terminated prior to the end of the period.

As detailed further in note 29.1, in order to improve on low returns that Doosan Skoda Power ('DSPW') was achieving on its cash deposits in the Czech inter-bank market, DSPW took advantage of the opportunity to invest $100m USD to purchase fully secured asset-backed short-term bonds ('ABSTBs') denominated in Korean Won ('KRW').

For this reason there are instruments in place to hedge against the movement in the KRW:USD and USD:CZK exchange rates, to convert the KRW received back to CZK, being the functional currency of DSPW. These hedges are as follows:

Maturity Date	Sell	Currency	Rate	Buy	Currency	Value at 31 Dec 13
30/06/2014	54,400,000,000	KRW	1,088	50,000,000	USD	(691,244)
03/07/2014	50,000,000	USD	20.015	1,000,750,000	CZK	4,583
31/12/2014	54,765,000,000	KRW	1,088	50,000,000	USD	(692,232)
05/01/2015	50,000,000	USD	20.015	996,000,000	CZK	(84,160)

These hedges can be rolled forward if the maturity date of the ABSTBs is deferred.

During the year £12,471,000 (2012: £1,831,000 charge) was credited to the hedging reserve and was recognised in the statement of other comprehensive income in respect of hedges which were effective. £173,000 (2012: £1,167,000 debit) was credited to the income statement in respect of the cash flow hedges which were deemed to be ineffective under IFRS rules. £871,000 (2012: £2,904,000) was released from equity into the income statement in respect of hedges which had matured or expired.

	Current assets £000	Non-current assets £000	Total £000	Current liabilities £000	Non-current liabilities £000	Total £000
2013						
At fair value through profit or loss	176	-	176	(5,339)	118	(5,221)
Designated as cash flow hedges	82	25	107	(7,532)	(3,686)	(11,218)
Total	258	25	283	(12,871)	(3,568)	(16,439)
2012						
At fair value through profit or loss	56	6	62	(258)	-	(258)
Designated as cash flow hedges	1,866	180	2,046	(2,945)	(1,680)	(4,625)
Total	1,922	186	2,108	(3,203)	(1,680)	(4,883)

The table below shows the maturity profile of derivatives and hence when the effect of their exercise will be seen as cash flow:

	2013 Receivable £000	2013 Payable £000	2013 Total £000	2012 Receivable £000	2012 Payable £000	2012 Total £000
Maturing within:						
One year	436,970	(449,584)	(12,614)	201,742	(203,025)	(1,283)
One to two years	90,295	(92,923)	(2,628)	56,303	(57,552)	(1,249)
Two to five years	17,018	(17,932)	(914)	12,659	(12,902)	(243)
Total	544,283	(560,439)	(16,156)	270,704	(273,479)	(2,775)

Notes to the financial statements (continued)

12. Financial instruments (continued)

12.1. Group (continued)

12.1c Fair value estimation

The Group holds certain financial instruments on the statement of financial position at their fair value. The following table provides an analysis of those that are measured subsequent to initial recognition at fair value through profit or loss, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

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

There have been no transfers between these categories in the current or preceding year.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
2013				
Available-for-sale investment	-	-	785	785
Bonds (Note 11 & 29.1)	-	-	61,737	61,737
Financial assets – foreign currency contracts	-	283	-	283
Total assets measured at fair value	-	283	62,522	62,805
Financial liabilities – foreign currency contracts	-	(16,439)	-	(16,439)
Total liabilities measured at fair value	-	(16,439)	-	(16,439)
2012				
Available-for-sale investment	-	-	785	785
Financial assets – foreign currency contracts	-	2,108	-	2,108
Total assets measured at fair value	-	2,108	785	2,893
Financial liabilities – foreign currency contracts	-	(4,883)	-	(4,883)
Total liabilities measured at fair value	-	(4,883)	-	(4,883)

12.1d Financial risk factors

The Group's activities expose it to a variety of risk factors: market risk, liquidity risk, exchange rate risk, credit risk and interest rate risk. The Group's risk management strategy seeks to minimise the potential adverse effects of these risks on the Group's financial performance.

Financial risk management is carried out centrally by Group treasury under policies approved by the Board. Group treasury liaises with the Group's operating companies to identify, evaluate and hedge financial risks. The Group uses derivative financial instruments to hedge risk exposures. The Group does not trade in financial instruments for speculative purposes.

a) Market risk

The only market risk that the group is exposed to arises in the defined benefit pension scheme. The Group is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Group has taken a number of actions over the previous years including closing the scheme to future new entrants and increasing contributions. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets. Asset selection is undertaken to match the future liabilities of the scheme, a large proportion of the assets are held in fixed income investments, so that movements in asset and liabilities are correlated to mitigate market risk.

12. Financial instruments (continued)

12.1. Group (continued)

12.1d Financial risk factors (continued)

b) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash balances and banking facilities in its subsidiary company Doosan Babcock Ltd, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group policy is to maintain a fixed percentage of surplus cash on instant access bank accounts and money market funds in order to cover any unexpected shortfall in cash.

c) Exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US Dollars, Euros, Hong Kong Dollars and Czech Koruna whilst the functional currency of the Company is in Pound Sterling as are the operations of its primary subsidiary company Doosan Babcock Ltd. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Group policy requires operating companies to manage their transactional foreign exchange risk against their functional currency. Group treasury enters into forward contracts on behalf of operating companies to cover 100% of foreign exchange transaction risk above pre-set materiality levels determined by the Chief Financial Officer whenever a current or future foreign currency exposure is identified with sufficient reliability.

Hedge accounting is applied to these transactions above a predetermined materiality level.

The Group’s investments in foreign operations are exposed to foreign currency translation risk which is managed by matching significant net assets denominated in currencies other than sterling principally with liabilities (through borrowings) in the same currency.

The Group is also exposed to tender exchange rate risk, which is the risk of financial loss as a result of adverse exchange rate movements during the tender period. The Group manages this risk by agreeing price adjustment formulae with the customer where possible and also by including an appropriate level of contingency in the tender exchange rates used.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transaction exposures are set out in note 12.1b above.

The notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied is £214m (2012: £134m). The period during which the cash flows are expected to occur is up to three years.

d) Commodity risk

The Group is exposed to commodity price risk in its normal operations. This risk is managed by agreeing escalation formulae in commercial contracts with customers that enables the Group to recover any losses incurred as a result of an increase in the price of a commodity.

e) Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Group also has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments the Group has a policy of depositing funds only with independently rated counterparties with a minimum Fitch short and long-term credit rating of F1/A. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer’s credit quality based on its financial position, past experience and other factors. Where deemed necessary, the Group will insist upon a bank guarantee or parent company guarantee before entering into a contract with counterparty.

Notes to the financial statements (continued)

12. Financial instruments (continued)

12.1. Group (continued)

12.1d Financial risk factors (continued)

e) Credit risk (continued)
The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

f) Interest rate risk
Interest rate risk is currently considered to be low due to market conditions and as a result all interest is paid on a variable rate basis. This is constantly under review by Group Treasury and should the risk increase loans may be switched to a fixed rate basis.

Loans outstanding at the end of 2013:

- Loan with Shinhan Bank of £6m (2012: £6m) is in Pound Sterling. There are no hedges against the interest rate of 3m LIBOR + 2.1%.
- Loan with Korea Exchange Bank of £8.8m (2012: £8.8m) is in Sterling. There are no hedges against the interest rate of 3m LIBOR + 2.1%.
- Loan with Export Import Bank of Korea (Kexim) of €99.0m (2012: €104.5m) is in Euros. Of this €29.0m has an interest rate of 6m EURIBOR + 4.15% and the remaining €70.0m has an interest rate of 3m EURIBOR + 1.61%. There are no hedges against these interest rates.
- Loan with Lloyds Syndicate which was in Euros was repaid in January 2013 (2012: €60.3m).
- Loan with Korea Development Bank of €100m (2012: €nil) is in Euros. There are no hedges against the interest rate of 3m EURIBOR + 2.75%.
- Loan with Woori Bank of £25m (2012: £25m) is in Pound Sterling. There are no hedges against the interest rate of 3m EURIBOR + 1.8%.

A 1% increase in interest rates would have resulted in an additional £1,555,367 (2012: £1,742,670) of interest payable. A 1% reduction in interest rates would have resulted in a reduction in interest payable of £1,555,367 (2012: £1,742,670). This calculated by adding up the net of all interest paid and received during the year on all loans that are not fixed interest and taking 1% of that amount. All the loans are based on Libor or Euribor and so are unlikely to be subject to large fluctuations in interest rates, therefore 1% is considered a reasonable movement on which to base the calculation.

Notes to the financial statements (continued)

12. Financial instruments (continued)

12.1. Group (continued)

12.1e Summary of financial instruments in currencies
The below figures are all stated as GBP equivalents.

	GBP £000	CZK £000	USD £000	EUR £000	KRW £000	Other £000	Total £000
2013							
Cash, cash equivalents and other financial assets	9,125	54,229	2,311	51,876	-	7,628	125,169
Financial derivatives	164	107	-	12	-	-	283
Trade and other receivables	116,011	69,747	8,919	25,254	-	5,028	224,959
Investments	-	-	-	-	61,737	-	61,737
Total	125,300	124,083	11,230	77,142	61,737	12,656	412,148
Financial derivatives	(5,223)	(9,833)	(1,383)	-	-	-	(16,439)
Trade and other payables	(64,829)	(16,368)	(49,254)	(25,756)	-	(2,772)	(158,979)
Borrowings	(39,799)	-	-	(165,281)	-	-	(205,080)
Total	(109,851)	(26,201)	(50,637)	(191,037)	-	(2,772)	(380,498)
Net total	15,449	97,882	(39,407)	(113,895)	61,737	9,884	31,650
2012							
Cash, cash equivalents and other financial assets	58,411	113,276	(5,007)	26,165	-	5,146	197,991
Financial derivatives	1	2,046	28	7	-	26	2,108
Trade and other receivables	70,818	7,182	7,953	19,976	-	7,753	113,682
Assets held for sale	785	-	-	-	-	-	785
Total	130,015	122,504	2,974	46,148	-	12,925	314,566
Financial derivatives	-	(4,807)	(13)	(63)	-	-	(4,883)
Trade and other payables	(49,204)	(31,374)	(31,064)	(31,674)	-	(5,508)	(148,824)
Borrowings	(39,800)	-	-	(134,468)	-	-	(174,268)
Total	(89,004)	(36,181)	(31,077)	(166,205)	-	(5,508)	(327,975)
Net total	41,011	86,323	(28,103)	(120,057)	-	7,417	(13,409)

The Group has assets and liabilities in foreign currencies, principally US Dollars, Euros and Czech Koruna. The effect on the income statement of a 10% movement in the rates would be £8.8m each way.

This was calculated by adding up the value of all assets and liabilities held in all companies in the Group which were not in their local currency and converting the amounts into Pound Sterling. The risk is then assumed to be 10% of this amount. It was assumed there would be no exposure arising from assets and liabilities held in the local currency of each entity in the group, but that all of other assets and liabilities would be affected. 10% was chosen as an appropriate proportion by which the currency could fluctuate, since most of the foreign currency amounts are in strong, stable currencies, such as USD and EUR, which are unlikely to fluctuate significantly.

Notes to the financial statements (continued)

12. Financial instruments (continued)

12.2. Company

12.2a Categories of financial instruments

	(Payables)/ receivables at amortised cost, cash and cash equivalents £000	Financial assets/(liabilities) at amortised cost £000	Available for sale financial assets £000	Hedged derivatives £000	Total £000
2013					
Financial assets					
Cash and cash equivalents	5,575	-	-	-	5,575
Trade and other receivables	9,598	-	-	-	9,598
Investments	-	-	812,136	-	812,136
Total	15,173	-	812,136	-	827,309
Financial liabilities					
Trade and other payables	(4,068)	-	-	-	(4,068)
Derivatives	-	-	-	(572)	(572)
Bank loans	-	(146,517)	-	-	(146,517)
Loans from Group undertakings	-	(572,255)	-	-	(572,255)
Total	(4,068)	(718,772)	-	(572)	(723,412)
2012					
Financial assets					
Cash and cash equivalents	12	-	-	-	12
Trade and other receivables	7	-	-	-	7
Investment	-	-	812,136	-	812,136
Loans to Group undertakings	25,176	-	-	-	25,176
Total	25,195	-	812,136	-	837,331
Financial liabilities					
Trade and other payables	(1,875)	-	-	-	(1,875)
Bank Loans	-	(125,302)	-	-	(125,302)
Loans from Group undertakings	-	(630,714)	-	-	(630,714)
Total	(1,875)	(756,016)	-	-	(757,891)

12.2b Derivatives

	Current assets £000	Non-current assets £000	Total £000	Current liabilities £000	Non-current liabilities £000	Total £000
2013						
At fair value through profit or loss	-	-	-	(572)	-	(572)
Total	-	-	-	(572)	-	(572)
2012						
At fair value through profit or loss	-	-	-	-	-	-
Total	-	-	-	-	-	-

Notes to the financial statements (continued)

12. Financial instruments (continued)

12.2. Company (continued)

12.2b Derivatives (continued)

The table below shows the maturity of the derivatives and hence when the effect of their exercise will be seen as cash flow:

	2013 Receivable £000	2013 Payable £000	2013 Total £000	2012 Receivable £000	2012 Payable £000	2012 Total £000
Maturing within:						
One year	50,866	(51,438)	(572)	-	-	-
One to two years	-	-	-	-	-	-
Two to five years	-	-	-	-	-	-
Total	50,866	(51,438)	(572)	-	-	-

12.2c Fair value estimation
The Company figures for fair value estimation are the same as those for the Group set out in note 12.1c.

12.2d Financial risk factors

a) Market risk
Market risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company may arise from open positions in foreign currencies and fluctuation of interest rates.

b) Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities and deposits with banks and financial institutions.

The Company holds a cash account in Luxembourg which is guaranteed by the “Association pour la garantie des depots” (AGDL) up to EUR 100,000.

c) Interest rate risk
The Company’s interest rate risk is the same as that of the Group as set out in note 12.1d.

d) Liquidity rate risk
The Company manages liquidity risk by maintaining adequate cash balances and banking facilities, loans granted by the Group, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the financial statements (continued)

12. Financial instruments (continued)

12.2. Company (continued)

12.2e Summary of financial instruments by currency
The below figures are stated as GBP equivalents.

	GBP £000	EUR £000	CZK £000	Total £000
2013				
Cash, cash equivalents and other financial assets	5,575	-	-	5,575
Trade and other receivables	9,598	-	-	9,598
Loans to Group undertakings	-	-	-	-
Total	15,173	-	-	15,173
Trade and other payables	(3,495)	(573)	-	(4,068)
Derivatives	(572)	-	-	(572)
Loans from Group undertakings	(572,255)	-	-	(572,255)
Bank loans	(39,799)	(106,718)	-	(146,517)
Total	(616,121)	(107,291)	-	(723,412)
Net total	(600,948)	(107,291)	-	(708,239)
2012				
Cash, cash equivalents and other financial assets	-	12	-	12
Trade and other receivables	-	7	-	7
Loans to Group undertakings	-	25,046	130	25,176
Total	-	25,065	130	25,195
Trade and other payables	(1,875)	-	-	(1,875)
Loans from Group undertakings	(171,890)	(18,465)	(440,359)	(630,714)
Bank loans	(39,800)	(85,502)	-	(125,302)
Total	(213,565)	(103,967)	(440,359)	(757,891)
Net total	(213,565)	(78,902)	(440,229)	(732,696)

13. Inventory

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Raw materials and consumables	-	-	21,719	26,499
Inventory allowance	-	-	(3,936)	(3,942)
Work-in-progress	-	-	3,301	7,573
	-	-	21,084	30,130

Notes to the financial statements (continued)

14. Trade and other receivables

14.1. Trade and other receivables

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Current:				
Trade receivables	-	-	126,580	92,807
Retentions	-	-	1,481	1,638
Loss provision for impairment of receivables	-	-	(23,810)	(22,456)
Amounts owed by parent undertakings	-	-	18,207	5,101
Amounts owed by Group undertakings	10,053	25,176	-	-
Other receivables	1,173	7	20,437	21,973
Prepayments and accrued income	1,700	2,005	7,549	8,220
	12,926	27,188	150,444	107,283

14.2. Allowance for impairment of receivables

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. It is Group policy to hedge against net cash inflows in foreign currencies, which may not necessarily equal the revenues received from invoicing trade receivables.

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in respect of trade receivables.

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Movement in provision				
Opening balance	-	-	(22,456)	(21,598)
Disposal of Doosan IMGB S.A.	-	-	-	656
Currency translation difference	-	-	848	-
Charged to the income statement:				
Additional provisions	-	-	(6,014)	(2,014)
Unused amounts reversed	-	-	3,812	500
	-	-	(23,810)	(22,456)

The provision for impairment of trade receivables is based on a review of financial circumstances of individual customers. The ageing of the impaired receivables based on due date is as follows:

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Up to 1 month	-	-	-	515
1 to 2 months	-	-	48	-
2 to 6 months	-	-	-	1,694
6 to 24 months	-	-	8,603	3,386
Over 24 months	-	-	15,159	16,861
	-	-	23,810	22,456

Notes to the financial statements (continued)

14. Trade and other receivables (continued)

14.2. Allowance for impairment of receivables (continued)

The trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and we have strong relationships with most of our customers. The Group does not hold any collateral or other credit enhancements over these balances, nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

At 31 December 2013 trade receivables in the Group of £28,202,000 (2012: £22,339,000) were past due, but not impaired. The figure for the Company was £nil (2012: £nil). These relate to a number of customers for which there is no reason to believe that their debt is not recoverable. The ageing analysis of these receivables is as follows:

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Up to 1 month	-	-	11,766	8,588
1 to 2 months	-	-	2,605	1,269
2 to 6 months	-	-	4,674	1,056
6 to 24 months	-	-	3,856	8,947
Over 24 months	-	-	5,301	2,479
	-	-	28,202	22,339

15. Trade and other payables – current

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade payables	1,194	-	40,581	33,014
Amounts owed to parent undertakings	-	-	6,249	1,443
Amounts owed to Group undertakings	572,713	630,714	-	-
Other payables including taxation and social security	18	102	64,708	66,946
Accruals and deferred income	3,249	2,174	97,669	106,780
	577,174	632,990	209,207	208,183

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2012: 20 days). For most suppliers no interest is charged on overdue invoices. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

Amounts owed to Group undertakings by the Company comprise balances that have arisen as result of the restructuring of the Group (see note 28.2).

16. Trade and other payables – non-current

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade payables	-	-	69	146
	-	-	69	146

Notes to the financial statements (continued)

17. Borrowings

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Current	44,300	44,300	102,863	68,812
Non-current	102,217	81,002	102,217	105,456
	146,517	125,302	205,080	174,268

Included in borrowings at 31 December 2013 are the following:

- Loan with Export Import Bank of Korea (Kexim) of £24.6m (€29.0m) (2012: £85.5m (€104.5m)) denominated in Euros and held by the Company at an interest rate of 6m EURIBOR + 4.15%. £4.5m (€5.5m) of this loan matures in 2014 and is classed as current. The remaining £20.1m (€23.5m) matures in 2015 and is classed as non-current. The full amount of the loan was subsequently repaid in April 2014, including early repayment of the €23.5m which had not matured at that time.
- Loan with Export Import Bank of Korea (Kexim) of £58.1m (€70.0m) (2012: £nil (€nil)) denominated in Euros and held by Doosan Babcock Limited, a subsidiary company, at an interest rate of 3m EURIBOR + 1.61%. The loan matures on 30 June 2014 and is classed as current.
- Loan with Lloyds Syndicate denominated in Euros was paid during the year (2012: £49.0m (€60.4m)). The loan was held by Doosan Power Systems Holdings Limited.
- Loan with Korea Development Bank of £82.2m (€100m) (2012: £nil (€nil)) is denominated in Euros. The interest rate is 3m EURIBOR + 2.75%. The loan is repayable over five years and the entire loan balance of £82.2m (€100m) matures after 2014 and is classed as non-current. The loan is held by the Company.
- Loan with Shinhan Bank of £6m (2012: £6m). The final repayment of this loan has been rescheduled from December 2013 to December 2014. The interest payable on this loan is LIBOR + 2.1%. This loan matures in 2014 and is classed as current. The loan is held by the Company.
- Loan with Korea Exchange Bank of £8.8m (2012: £8.8m). The final repayment of this loan has been rescheduled from December 2013 to December 2014. The interest payable on this loan is 3m LIBOR + 2.1%. This loan matures in 2014 and is classed as current. The loan is held by the Company.
- Loan with Woori Bank of £25m (2012: £25m). The final repayment of this loan is scheduled for November 2014. The interest rate on this loan is 3m LIBOR + 1.8%. This loan matures in 2014 and is classed as current. The loan is held by the Company.

Notes to the financial statements (continued)

18. Provisions for liabilities

	Onerous leases £000	Other £000	Total non-current £000	Restructuring £000	Total current £000	Total £000
Group						
Balance at 1 January 2012	2,393	9,551	11,944	-	-	11,944
Income statement charge	-	633	633	1,600	1,600	2,233
Unused amounts reversed	(546)	-	(546)	-	-	(546)
Unwinding of discounting	334	-	334	-	-	334
Applied in the year	(901)	(1,399)	(2,300)	-	-	(2,300)
Disposed of through subsidiary	-	(1,029)	(1,029)	-	-	(1,029)
Balance at 31 December 2012	1,280	7,756	9,036	1,600	1,600	10,636
Income statement charge	96	(298)	(202)	-	-	(202)
Unwinding of discounting	(45)	620	575	-	-	575
Applied in the year	-	(2,685)	(2,685)	-	-	(2,685)
Unused amounts reversed	-	-	-	(1,600)	(1,600)	(1,600)
Balance at 31 December 2013	1,331	5,393	6,724	-	-	6,724

There are no provisions in the accounts of the Company.

The onerous lease provision includes amounts set aside in respect of lease obligations relating to the manufacturing premises, which are partially vacant. This provision will be utilised over the next year to meet the obligations under the lease.

Other provisions also include an amount of £5.3m (2012: £6.3m) relating to potential claims for which the Group may be liable together with related legal costs. Due to the nature of these claims, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that, in the majority of cases, it would be in the medium-term.

Notes to the financial statements (continued)

19. Deferred tax

	Accelerated tax depreciation £000	Revaluation of financial assets £000	Retirement based obligations £000	Recognition of profit method £000	Provisions and other payables £000	Losses £000	Other £000	Total £000
Group								
At 1 January 2012	(17)	(1,230)	1,047	(3,836)	6,868	-	1,317	4,149
Exchange differences	2	-	-	14	(22)	-	39	33
(Charged)/credited to income statement	(1,104)	-	(1,521)	(1,426)	501	6,014	1,706	4,170
Credited to other comprehensive income	-	1,568	4,119	-	-	-	-	5,687
At 31 December 2012	(1,119)	338	3,645	(5,248)	7,347	6,014	3,062	14,039
Exchange differences	233	(231)	-	(28)	(284)	-	(54)	(364)
Credited / (charged) to income statement	1,201	-	(665)	5,502	(42)	(197)	(2,010)	3,789
Credited to other comprehensive income	-	3,456	4,981	-	-	-	-	8,437
At 31 December 2013	315	3,563	7,961	226	7,021	5,817	998	25,901
At 31 December 2012								
Deferred tax assets	2,326	338	3,645	-	7,347	6,014	3,062	22,732
Deferred tax liabilities	(3,445)	-	-	(5,248)	-	-	-	(8,693)
	(1,119)	338	3,645	(5,248)	7,347	6,014	3,062	14,039
At 31 December 2013								
Deferred tax assets	3,748	3,648	7,961	226	6,847	5,817	2,646	30,893
Deferred tax liabilities	(3,433)	-	-	-	-	-	(1,559)	(4,992)
	315	3,648	7,961	226	6,847	5,817	1,087	25,901

Deferred tax assets have been recognised only to the extent that there are expected to be future taxable profits against which the asset will be utilised.

20. Called up share capital

	Ordinary Share capital £000	Class A shares	Class B shares	Class C shares	Total
Subscribed capital – 1 January 2012	143,453	2,965,623	419,106	3,715,289	7,100,018
Subscriptions for the year	113	-	-	5,600	5,600
Cancellations during the year	(26,832)	(457,068)	(419,106)	(457,068)	(1,333,242)
Adjustment due to functional currency change	1,340	-	-	-	-
Subscribed capital – 31 December 2012	118,074	2,508,555	-	3,263,821	5,772,376
Subscribed capital – 31 December 2013	118,074	2,508,555	-	3,263,821	5,772,376

All ordinary shares issued are fully paid, ordinary shares carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company. There is no specified authorised capital.

Each class of share has the same rights and obligations as set out above.

All shares are classed as equity.

21. Retained earnings

	Company £000	Group £000
Balance at 1 January 2012	(23,057)	214,481
(Loss) / profit for the year	(15,038)	14,225
Change in functional currency of the parent	984	984
Transfer to statutory reserve	-	(6,114)
Actuarial loss on post-employment obligations	-	(17,821)
Deferred tax credit thereon	-	4,119
Balance at 31 December 2012	(37,111)	209,874
(Loss) / profit for the year	(874)	13,672
Transfer to statutory reserve	-	(2,144)
Actuarial loss on post-employment obligations	-	(26,361)
Deferred tax credit thereon	-	4,866
Balance at 31 December 2013	(37,985)	199,907

22. Other reserves

	Hedging reserve £000	Translation £000	Statutory reserve £000	Legal reserve £000	Technological reserve £000	Revaluation reserve £000	Total £000
Group							
At 1 January 2012	(4,071)	(12,251)	15,561	84	348	-	(329)
Change in functional currency of the parent	-	-	-	(5)	-	-	(5)
Cash flow hedges							
Fair value gains in the year	5,502	-	-	-	-	-	5,502
Tax on fair value gains	(1,431)	-	-	-	-	-	(1,431)
Net investment hedges							
Fair value gains in the year	-	(3,671)	-	-	-	-	(3,671)
Tax on fair value gains	-	2,999	-	-	-	-	2,999
Currency translation difference							
Group	-	(2,996)	-	-	-	-	(2,996)
Associates	-	(12)	-	-	-	-	(12)
Transfer from retained earnings	-	-	6,114	-	(348)	-	5,766
At 31 December 2012	-	(15,931)	21,675	79	-	-	5,823
Cash flow hedges							
Fair value losses in the year	(15,447)	(2,817)	-	-	-	-	(18,264)
Tax on fair value losses	2,976	495	-	-	-	-	3,471
Currency translation difference							
Group	-	(24,869)	-	-	-	-	(24,869)
Associates	-	9	-	-	-	-	9
Transfer from retained earnings	-	-	2,102	-	-	-	2,102
Revaluation of retained land and buildings	-	-	-	-	-	1,413	1,413
At 31 December 2013	(12,471)	(43,113)	23,777	79	-	1,413	(30,315)

Notes to the financial statements (continued)

23. Notes to the statements of cash flow

Cash generated from / (used in) operations comprises:	Company 2013 £000	Company 2012 £000	Group 2013 £000	Group 2012 £000
Operating (loss) / profit	(1,105)	(37,371)	31,957	33,713
Non-cash pension adjustment	-	-	347	(5,391)
Impairment of investment	-	35,033	-	-
Amortisation of other intangible assets	-	-	3,959	2,531
Depreciation of property, plant and equipment	14	-	16,984	17,999
Fair value of forward exchange contracts	-	-	(3,170)	724
Value adjustment on investment in subsidiaries	-	604	-	-
Losses / (gains) on foreign currency translation	-	16	-	(1,652)
Revaluation of loans	-	-	1,357	-
Operating cash flow before movements in working capital	(1,091)	(1,718)	51,434	47,924
Decrease in inventories	-	-	7,883	2,046
(Increase) / decrease in receivables	(3,744)	(2,006)	(113,909)	74,758
Increase / (decrease) in payables	19,952	3,597	65,896	(92,947)
Cash generated from / (used in) operations	15,117	(127)	11,304	31,781
Cash and cash equivalents comprise; Cash and deposits	5,575	12	125,169	197,991

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of less than three months.

24. Capital commitments

	Company 2013 £000	Company 2012 £000	Group 2013 £000	Group 2012 £000
Contracted but not provided	-	-	5,147	10,930

25. Contingent liabilities

In the ordinary course of business the Group has guarantees and counter indemnities in respect of bonds relating to performance under contracts. The Group also enters into forward exchange contracts to reduce its risk and exposure to fluctuations in exchange rates, which accrue in the ordinary course of business.

Notes to the financial statements (continued)

26. Leasing

The Company has no material obligations under finance leases.

Operating leases

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Leases on land and buildings expiring:				
within one year	-	-	5,654	4,807
between one and five years	-	-	6,954	10,144
after five years	-	-	7,091	530
Leases on other assets expiring:				
within one year	-	-	1,823	1,569
between one and five years	-	-	3,088	2,576
after five years	-	-	-	-
Total	-	-	24,610	19,626

Future payments on operating leases relate primarily to motor vehicles and office premises. The leases have a variety of expiry dates mainly falling within three years for the smaller leases. The majority of the liability relates to office premises in Poland where £9.3m is committed up to 2029. During the year total payments of £7.7m (2012: £7.3m) were made by the Group for operating leases.

27. Construction projects in progress

	Company		Group	
	2013 £000	2012 £000	2013 £000	2012 £000
Amounts due from contract customers				
– Billed	-	-	128,061	94,445
– Unbilled	-	-	82,062	15,999
Amounts due to contract customers This is amounts invoiced to customers ahead of turnover recognised	(26,388)	-	(186,953)	(130,229)
	(26,388)	-	23,170	(19,785)

The aggregate amount of costs incurred, plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the reporting date was £2,818m (2012: £2,834m).

28. Subsequent events

Subsequent to the reporting date and further to the completion of an employee consultation, the Doosan Power Systems Limited (UK) defined benefit scheme was closed for future accrual. From 1 April 2014 all active members in the scheme became deferred and were offered alternative pension benefits under the existing defined contribution scheme. This resulted in a one-off charge to the 2014 income statement of £5,199k, but no additional cash outflows were incurred.

Going forward, this change will remove the risk of funding deficits or surpluses on future benefits to be accrued, as future benefits for all employees on this scheme can only be earned through defined contribution. At £5m per year, the annual contribution which Doosan Babcock Limited now has to make to the scheme to cover existing benefits is much lower than it was before the change.

28. Subsequent events (continued)

In April 2014, Doosan Power Systems S.A. signed a new syndicated £40m Revolving Credit Facility (‘RCF’) with three banks led by KBC Bank in London. It is a three year facility and the nominated borrower of the facility is Doosan Babcock Limited. The new loan was taken out to fund the anticipated additional working capital requirements generated by the forecasted increase in revenue of the Services business unit.

29. Related party transactions

29.1. Group

During the year the Group made purchases incurred costs and received income from other members of the Doosan Group including its parent company Doosan Heavy Industries & Construction Co., Ltd., which can be summarised as follows:

	Doosan Industrial Vehicles Ltd.		Doosan Corporation Co., Ltd		Doosan Heavy Industries and Construction Co. Ltd	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Receivable as at 31 December	892	-	54	-	16,902	5,101
Payable as at 31 December	149	-	874	-	1,618	1,443
Closing accrued income	-	-	-	-	11,110	16,348
Purchases	223	-	918	-	677	173
Income	2,034	-	27	33	40,262	58,898

None of the amounts included within receivables above have been provided against.

During the year the Group made payments to the Doosan Babcock Energy Pension Trustees Ltd to the value of £8,378,000 (2012: £10,517,000).

During the year the Group received goods and services in the ordinary course of business with HTC Purenergy Inc. to the value of £nil (2012: £93,000). £nil is due to HTC Purenergy Inc. at the year-end (2012: £nil). A subsidiary of the Company owns 7.35% of the share capital of HTC Purenergy Inc.

During the year the Group received services from another subsidiary of Doosan Heavy Industries & Construction Co., Ltd, Doosan IMGB S.A. to the value of £1,100,000 (2012: £1,193,000). There was no payable or receivable at the year-end (2012: £nil).

Doosan Skoda Power’s USD $100m (£61.7m) investment in South Korean asset-backed short-term bonds

In order to improve on low returns that Doosan Skoda Power (‘DSPW’) was achieving on its cash deposits in the Czech inter-bank market, DSPW took advantage of the opportunity to purchase fully secured asset-backed short-term bonds (‘ABSTBs’) in South Korea.

ABSTBs are market traded products, monitored by the Financial Supervisory Service (‘FSS’) under the Asset-Backed Securitization Act in South Korea. The bonds were issued by a special purpose company, Yongin Samga Liquidity First Co., Ltd., with a Korean credit rating of A3+ and guaranteed by an affiliate company, Doosan Engineering & Construction Co., Ltd., in the form of asset-backed loan receivables.

On 13 November 2013, DSPW purchases ASTBs with a nominal value of KRW 100bn for a price of KRW 97.9bn. These ASTBs are maturing on February 13, 2014 and are not bearing interests. These bonds have been recording at amortized cost using the effective interest method at a rate of 8.29%.

The ABSTBs are tradable securities, however the whole tranches have been purchased by DSPW and therefore there are no observable market transaction. The Board of Directors of DPS S.A. has determined that the amortised cost is the best estimate of fair value.

Notes to the financial statements (continued)

29. Related party transactions (continued)

29.1. Group (continued)

As at 31 December 2013, the ASTBs are valued at £ 61.7m.

On 13 February 2014, KRW 100bn of ABSTBs matured and were reinvested in new ABSTBs with a value of KRW 100bn, discounted to 13 May 2014 at a rate of 8.20%, to a purchase price of KRW 98.0bn.

On 13 May 2014, KRW 100bn of ABSTBs matured and were reinvested in new ABSTB with a value of KRW 100bn, discounted to 30 June 2014 at a rate of 8.20%, to a purchase price of KRW 98.9bn.

It is expected that on 30 June and 30 September 2014 the ABTSB will mature and be reinvested in the same manner for three months periods, and that on 31 December 2014 all amounts redeemed will be returned to DSPW. The RPs are expected to be redeemed in full on 30 June 2014 and for all future surpluses to be returned to DSPW.

29.2. Company

During the year, the Company incurred costs and received income from the companies listed below, all of which are subsidiaries of the Company.

Receivables and payables

	Company	
	2013 £000	2012 £000
Amounts due from Doosan Power Systems Czech Investments a.s.	-	130
Amounts due from Doosan Power Systems Europe GmbH	39,858	25,046
Total Receivables	39,858	25,176
Amounts due to Doosan Babcock Limited	473,603	20,469
Amounts due to Doosan Power Systems Czech Investments a.s.	-	440,359
Amounts due to Doosan Power Systems (Scotland) Limited Partnership	586	-
Amounts due to Doosan Power Systems Holdings Limited	127,870	169,886
Total Payables	602,059	630,714

Income and costs

	Company	
	2013 £000	2012 £000
Interest received from Doosan Babcock Limited	62	-
Cash received from Doosan Babcock Limited	30,889	-
Interest received from Doosan Lentjes GmbH	638	575
Interest received from Doosan Power Systems (Scotland) Limited Partnership	-	17
Total Income	31,589	592
Interest paid to Doosan Babcock Limited	9,709	334
Interest paid to Doosan Power Systems Holdings	8,040	-
Professional fees paid by Doosan Babcock Limited on behalf of the Company	989	-
Total costs	18,738	334

In December 2012 the loan was novated from Doosan Lentjes GmbH to Doosan Power Systems Europe GmbH with a value of £16,865,000 being the initial value of the loan plus the amortisation to date. In December 2012 an additional loan was made from the Company to Doosan Power Systems Europe GmbH of £8,181,000 thus the total amount due to the Company from Doosan Power Systems Europe GmbH at year end was £25,046,000. The amortisation of the gain on the loan increased its value to £30,368,000.

Notes to the financial statements (continued)

29. Related party transactions (continued)

29.2. Company (continued)

On 21 November 2011 the Company acquired a loan from AE&E Germany GmbH for €15,000,000 (£12,882,000) when the fair value was €33,359,000 (£28,649,000). AE&E Germany GmbH is a third party (former parent of Doosan Lentjes GmbH) and as such this was not a related party transaction.

The difference between the purchase price and the fair value of the loan was amortised over the life of the loan, until maturity in 2014. £5,316,000 (2012: £3,588,000) was recognised in the income statement during the year.

In April 2013 the amount owed to Doosan Power Systems Czech Investments a.s. of £440,359,000 was transferred to its parent Doosan Babcock Limited through a share buy back.

30. Ultimate parent company and controlling party

The Company is a subsidiary undertaking of Doosan Corporation Co., Ltd registered in the Republic of Korea which the Directors consider to be the Company's ultimate parent company. This is the largest Group in which the results of the Company are consolidated. The smallest such Group is that headed by Doosan Heavy Industries & Construction Co., Ltd which is registered in the Republic of Korea. Doosan Heavy Industries & Construction Co. is the parent of the Company.

The consolidated financial statements of Doosan Corporation Co., Ltd are available to the public and may be obtained from Euljiro 6-ga, Jung-gu, Seoul, the Republic of Korea, 100-730.

The consolidated financial statements of Doosan Heavy Industries & Construction Co., Ltd are available to the public and may be obtained from 555, Gwigok-dong, Changwon, Gyeongsangnam-do 641-792, the Republic of Korea.

31. Business combinations

31.1. Current year disposals and acquisitions

There were no acquisitions or disposals during the current year.

31.2. Prior year disposals

Doosan IMGB S.A.

On 28 June 2012 all 99,130,219 of the shares held in Doosan IMGB S.A. held by the Group were transferred to Doosan Heavy Industries & Construction Co., Ltd. This was in exchange for a reduction to share capital by an amount of EUR 33,331,050 bringing the capital from EUR 144,309,400 by the cancellation of 457,068 A shares, 419,106 B shares and 457,068 C shares to EUR 110,978,350. There was no cash consideration.

31. Business combinations (continued)

31.2. Prior year disposals (continued)

The following table summarises the assets and liabilities which were transferred from the Group with this transaction on 28 June 2012.

As at 28 June 2012	£000
Cash	2,506
Investments	1
Property, plant and equipment	91,191
Intangible assets	559
Inventory	17,546
Trade and other receivables	9,816
Trade and other payables	(17,305)
Borrowings	(85,622)
Provisions	(762)
Total net assets	17,930

Gain on disposal – Company

Consideration: Value of share capital reduction (note 20)	26,832
Value of investment disposed	(7,483)
Exchange loss	(650)
Gain on sale of investment within Doosan Power Systems S.A.	18,699

Gain on disposal – Group

Consideration: Value of share capital reduction (note 20)	26,832
Net assets disposed	(17,930)
Exchange loss	(2,952)
Gain on sale on consolidation	5,950

Cash received	-
Cash and cash equivalent balances disposed	(2,506)
Net cash flow on disposal	(2,506)

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

English Translation of a Report Originally Issued in Korean

To the Shareholders and the Board of Directors of
The Export-Import Bank of Korea:

We have reviewed the accompanying separate financial statements of the Export-Import Bank of Korea (the "Bank"). The separate financial statements consist of the separate statement of financial position as of June 30, 2015, and the related separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows, all expressed in Korean won, for the six months ended June 30, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

The Bank's management is responsible for the preparation and fair presentation of the accompanying separate financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent accountants' responsibility

Our responsibility is to express a conclusion on the accompanying separate financial statements based on our review.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying separate financial statements of the Bank are not present fairly, in all material respects, in accordance with Korean International Financial Reporting Standards 1034, *Interim Financial Reporting*.

Others

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the separate statement of financial position of the Bank as of December 31, 2014, and the related separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended (not presented herein), and in our report dated March 5, 2015, we expressed an unqualified opinion on those separate financial statements. The accompanying separate statement of financial position as of December 31, 2014, which is comparatively presented, does not differ, in material respects, from such audited separate statement of financial position.

/s/ Deloitte Anjin LLC

August 19, 2015

Notice to Readers

This report is effective as of August 19, 2015, the independent accountants' review report date. Certain subsequent events or circumstances may have occurred between this independent accountants' review report date and the time the independent accountants' review report is read. Such events or circumstances could significantly affect the separate financial statements and may result in modifications to the independent accountants' review report.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015, AND DECEMBER 31, 2014

	Korean won	
	June 30, 2015	December 31, 2014
	(In millions)	
ASSETS:		
Cash and due from financial institutions (Notes 4, 5 and 7)	₩ 3,311,128	₩ 3,113,988
Financial assets at fair value through profit or loss ("FVTPL") (Notes 4, 5, 8 and 20)	1,286,713	1,197,499
Hedging derivative assets (Notes 4, 5 and 20)	268,078	288,424
Loans (Notes 4, 5, 10 and 37)	64,254,292	61,158,553
Financial investments (Notes 4, 5 and 9)	4,944,208	4,791,524
Investments in associates and subsidiaries (Note 11)	659,150	659,150
Tangible assets, net (Note 12)	270,905	273,539
Intangible assets, net (Note 13)	18,921	18,181
Deferred tax assets (Note 34)	732,578	744,460
Other assets (Notes 4, 5, 14 and 37)	876,414	828,397
	₩76,622,387	₩73,073,715
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Financial liabilities at FVTPL (Notes 4, 5 and 20)	₩ 635,604	₩ 489,069
Hedging derivative liabilities (Notes 4, 5 and 20)	2,199,566	1,983,456
Borrowings (Notes 4, 5 and 15)	11,198,922	10,018,281
Debentures (Notes 4, 5 and 16)	50,888,744	47,291,703
Provisions (Note 17)	272,984	295,177
Retirement benefit obligation, net (Note 18)	53,407	47,263
Current tax liabilities	—	253,549
Other liabilities (Notes 4, 5, 19 and 37)	1,429,661	2,815,065
	66,678,888	63,193,563
SHAREHOLDERS' EQUITY:		
Capital stock (Note 21)	7,788,055	7,748,055
Other components of equity (Notes 20 and 22)	113,846	111,002
Retained earnings (Note 23) (Regulatory reserve for bad loans as of December 31, 2015 and 2014: ₩572,420 million and ₩514,785 million, respectively) (Note 23)	2,041,598	2,021,095
	9,943,499	9,880,152
	₩76,622,387	₩73,073,715

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Korean won	
	Six months ended June 30, 2015	Six months ended June 30, 2014
	(In millions)	
OPERATING INCOME:		
Net interest income (Notes 24 and 37):		
Interest income	₩ 888,487	₩ 821,580
Interest expenses	(601,901)	(644,747)
	286,586	176,833
Net commission income (Notes 25 and 37):		
Commission income	177,107	176,809
Commission expenses	(3,276)	(1,785)
	173,831	175,024
Dividend income (Note 26)	15,229	10,442
Loss (gain) on financial assets at FVTPL (Note 27)	(236,582)	235,819
Loss (gain) on hedging derivative assets (Notes 20 and 28)	(695,970)	517,658
Loss on financial investments (Note 29)	(42,664)	(33,682)
Gain (loss) on foreign exchange transaction	921,506	(435,411)
Other operating income (expenses) (Note 30)	67,627	(234,433)
Impairment loss on credit (Note 31)	(329,466)	(212,206)
General and administrative expenses (Note 32)	(105,517)	(95,514)
Total operating income	54,580	104,530
NON-OPERATING INCOME (EXPENSES) (Note 33):		
Net gain (loss) on investments in associates and subsidiaries	8,057	4,662
Net other non-operating expenses	(2,677)	(1,247)
	5,380	3,415
INCOME BEFORE INCOME TAX	59,960	107,945
INCOME TAX EXPENSES (Note 34)	(24,267)	(30,890)
NET INCOME	35,693	77,055
(Adjusted income (loss) after reserve for bad loans for the six months ended June 30, 2015 and 2014: ₩2,126 million and ₩144,169 million, respectively) (Note 23)		
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD (Note 22)		
Items not reclassified subsequently to profit or loss:		
Remeasurements of net defined benefit liability	—	—
Income tax effect	—	—
	—	—
Items reclassified subsequently to profit or loss:		
Valuation on available-for-sale (“AFS”) securities	2,672	(190,104)
Cash flow hedging gains or losses	1,078	(365)
Income tax effect	(906)	46,093
	2,844	(144,376)
TOTAL COMPREHENSIVE INCOME (LOSS)	₩ 38,537	₩ (67,321)

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Capital stock	Other components of equity: Valuation on AFS securities	Other components of equity: Cash flow hedging gains or losses	Other components of equity: Remeasurement of net defined benefit liability	Retained earnings	Total
			(Korean won in millions)			
January 1, 2014	₩7,238,055	₩ 54,157	₩(1,227)	₩ 4,827	₩1,954,328	₩9,250,140
Increase in capital stock	130,000	—	—	—	—	130,000
Net income		—	—	—	77,055	77,055
Loss on valuation of AFS securities	—	(144,099)	—	—	—	(144,099)
Loss on valuation of cash flow hedge	—	—	(277)	—	—	(277)
June 30, 2014	₩7,368,055	₩ (89,942)	₩(1,504)	₩ 4,827	₩2,031,383	₩9,312,819
January 1, 2015	₩7,748,055	₩ 116,276	₩(2,062)	₩(3,212)	₩2,021,095	₩9,880,152
Dividends					(15,190)	(15,190)
Increase in capital stock	40,000	—	—	—	—	40,000
Net income	—	—	—	—	35,693	35,693
Gain on valuation of AFS securities, net of tax	—	2,026	—	—	—	2,026
Loss on valuation of cash flow hedge, net of tax	—	—	818	—	—	818
June 30, 2015	₩7,788,055	₩ 118,302	₩(1,244)	₩(3,212)	₩2,041,598	₩9,943,499

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Korean won	
	Six months June 30, 2015	Six months June 30, 2014
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 35,693	₩ 77,055
Adjustments to reconcile net income to net cash used in operating activities:		
Income tax expense	24,267	30,890
Interest income	(888,487)	(821,580)
Interest expenses	601,901	644,747
Dividend income	(23,285)	(10,442)
Loss on trading securities	277	—
Loss on AFS securities	50,549	33,685
Transfer to derivatives' credit risk provision	12,228	7,950
Loss on foreign exchange transactions	662,511	649,149
Impairment loss on credit	329,465	212,206
Impairment loss on equity securities by the equity method	—	9
Loss on fair value hedged items	95,699	310,486
Depreciation and amortization	5,504	3,697
Loss on disposals of tangible, intangible and other assets	2	1
Loss on valuation of derivative assets	1,083,988	80,210
Retirement benefits	6,563	5,191
Gain on trading securities	13,107	1,651
Gain on AFS securities	7,885	2
Reversal of derivatives' credit risk provision	10,091	13,317
Gain on foreign exchange transactions	1,584,018	213,738
Gain on fair value hedged items	167,106	71,859
Gain on valuation of derivative assets	180,054	722,935
Gain on disposals of tangible assets, intangible assets and other assets	32	49
Changes in assets and liabilities resulting from operations:		
Net increase (decrease) in due from financial institutions	(240,990)	623,049
Net increase (decrease) in financial assets at FVTPL	(17,273)	199,569
Net decrease in hedging derivative assets	23,937	60,013
Net increase in loans	(1,557,639)	(1,625,578)
Net increase in other assets	(43,800)	(171,412)
Net increase in provisions	70,609	36,052
Payment of retirement benefits	(419)	(467)
Net decrease (increase) in other liabilities	(1,452,891)	226,726
Net decrease in financial liabilities at fair value through profit or loss	(136,355)	(121,031)
Net decrease in hedging derivative liabilities	(465,527)	(377,127)
Payment of income tax	(268,262)	(117,417)
Interest income received	9,778	898,275
Interest expense paid	(602,075)	(644,747)
Dividend income received	23,285	10,442
Net cash used in operating activities	(4,623,040)	(803,950)

(Continued)

THE EXPORT-IMPORT BANK OF KOREA
SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Korean won	
	Six months June 30, 2015	Six months June 30, 2014
	(In millions)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposals of AFS securities and held-to-maturity securities	₩ 204,354	₩ 65,259
Receipt of state aid	17	—
Disposals of tangible assets	50	64
Increase in import guarantee deposits	50	—
Acquisitions of AFS securities and held-to-maturity securities	(366,446)	(149,605)
Acquisitions of tangible assets	(1,071)	(10,086)
Acquisitions of intangible assets	(2,576)	(657)
Net cash used in investing activities	(165,622)	(95,025)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in call money	30,000	331,400
Increase in borrowings	6,716,940	1,292,337
Increase in debentures	13,489,452	11,541,464
Increase in capital stock	40,000	130,000
Decrease in borrowings	(5,732,841)	(1,003,686)
Decrease in debentures	(9,811,231)	(11,086,916)
Payment of dividends	(15,189)	—
Net cash provided by financing activities	4,717,131	1,204,599
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(71,531)	305,624
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,336,284	1,432,027
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON DUE FROM FINANCIAL INSTITUTIONS	5,269	(177,282)
CASH AND CASH EQUIVALENTS, END OF THE PERIOD (Note 35)	₩ 1,270,022	₩ 1,560,369

(Concluded)

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA
NOTES TO THE SEPARATE FINANCIAL STATEMENTS
AS OF JUNE 30, 2015, AND DECEMBER 31, 2014,
AND FOR THE SIX MONTHS ENDED JUNE, 2015 AND 2014

1. GENERAL:

(1) Summary of The Export-Import Bank of Korea

The Export-Import Bank of Korea (the “Bank” or the “Company”) was established in 1976 as a special financial institution under The Export-Import Bank of Korea Act (the “EXIM Bank Act”) to grant financial facilities for overseas trade (i.e., export and import), investments and resources development activities. As of June 30, 2015, the Bank operates 10 domestic branches, three domestic offices, four overseas subsidiaries and 21 overseas offices.

The Bank’s authorized capital is ₩15,000,000 million, and through numerous capital increases since the establishment, its paid-in capital is ₩7,788,055 million as of June 30, 2015. The Government of the Republic of Korea (the “Government”), the Bank of Korea (“BOK”) and the Korea Development Bank hold 70.23%, 14.96% and 14.81%, respectively, of the ownership of the Bank as of June 30, 2015.

The Bank, as a trustee of the Government, has managed the Economic Development Cooperation Fund (EDCF) since June 1987 and the Inter-Korean Cooperation Fund (IKCF) since March 1991. These funds are accounted for separately and are not included in the Bank’s separate financial statements. The Bank receives fees from the Government for the trustee services.

(2) Summary of subsidiaries and associates

1) Subsidiaries of the Bank as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

JUNE 30, 2015

Subsidiaries	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
KEXIM Bank UK Limited	United Kingdom	GBP	20 mil.	Finance	20,000,000	100.00	June 30, 2015
KEXIM Vietnam Leasing Co. (*)	Vietnam	USD	13 mil.	Finance	—	100.00	June 30, 2015
PT. KOEXIM Mandiri Finance	Indonesia	IDR	52,000 mil.	Finance	442	85.00	June 30, 2015
KEXIM Asia Limited	Hong Kong	USD	30 mil.	Finance	30,000,000	100.00	June 30, 2015

(*) This entity does not issue share certificates.

DECEMBER 31, 2014

Subsidiaries	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
KEXIM Bank UK Limited	United Kingdom	GBP	20 mil.	Finance	20,000,000	100.00	Dec. 31, 2014
KEXIM Vietnam Leasing Co. (*)	Vietnam	USD	13 mil.	Finance	—	100.00	Dec. 31, 2014
PT. KOEXIM Mandiri Finance	Indonesia	IDR	52,000 mil.	Finance	442	85.00	Dec. 31, 2014
KEXIM Asia Limited	Hong Kong	USD	30 mil.	Finance	30,000,000	100.00	Dec. 31, 2014

(*) This entity does not issue share certificates.

2) Associates of the Bank as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

Associates	Location	Capital stock	Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
Korea Asset Management Corp.	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	June 30, 2015
Credit Guarantee and Investment Fund	Philippines	USD 700 mil.	Financial service	1,000	14.28	March 31, 2015
Korea Marine Guarantee Incorporated Company	Korea	KRW 60,000 mil.	Financial service	5,999,999	49.99	June 30, 2015
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	Korea	KRW1,319,150 mil.	Shipbuilding	93,294,100	70.71	March 31, 2015
DAESUN Shipbuilding & Engineering Co., Ltd.	Korea	KRW 7,730 mil.	Shipbuilding	1,040,000	67.27	June 30, 2015

(DECEMBER 31, 2014)

Associates	Location	Capital stock	Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
Korea Asset Management Corp.	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2014
Credit Guarantee and Investment Fund	Philippines	USD 700 mil.	Financial service	1,000	14.28	Sep. 30, 2014
Korea Marine Guarantee Incorporated Company	Korea	KRW 60,000 mil.	Financial service	5,999,999	49.99	Dec. 31, 2014
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	Korea	KRW 1,319,150 mil.	Shipbuilding	93,294,100	70.71	Sep. 30, 2014
DAESUN Shipbuilding & Engineering Co., Ltd.	Korea	KRW 7,730 mil.	Shipbuilding	1,040,000	67.27	Dec. 31, 2014

2. FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of condensed separate financial statement preparation

The Bank's condensed separate financial statements for the six months ended June 30, 2015 and 2014, are prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1034, *Interim Financial Reporting*, and K-IFRS 1027, *Separate Financial Statements*. It is necessary to use the annual separate financial statements for the year ended December 31, 2014, for the understanding of the accompanying interim separate financial statements.

The Bank's accounting policies applied for the accompanying condensed interim separate financial statements are the same as the policies applied for the preparation of separate financial statements as of and for the year ended December 31, 2014, except for the effects from the introduction of new and revised accounting standards or interpretations as described below.

1) Accounting standards and interpretations that were newly applied for the year ended June 30, 2015, and changes in the Bank's accounting policies are as follows:

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments permit the Bank to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The adoption of the amendment has no significant impact on the Bank's condensed separate financial statements.

Annual Improvements to K-IFRS 2010–2012 Cycle

The amendments to K-IFRS 1002 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definition for 'performance condition' and 'service condition' that were previously included within the definition of 'vesting condition.' The amendments to K-IFRS 1103 *Business Combinations* clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The adoption of the amendment has no significant impact on the Bank's condensed separate financial statements.

Annual Improvements to K-IFRS 2011–2013 Cycle

The amendments to K-IFRS 1103, *Share-based Payment* clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113, *Fair values Measurements* and K-IFRS 1040, *Investment Properties* exist and the adoption of the amendments has no significant impact on the Bank's condensed separate financial statements.

2) The Bank has not applied or adopted earlier the following new and revised K-IFRS that have been issued, but are not yet effective:

Amendments to K-IFRS 1016 – *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Bank from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets; this presumption can only be rebutted when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1027 – *Separate Financial Statements*

The amendments to K-IFRS 1027 allow the Bank to account for investments in subsidiaries, joint ventures, and associates either at cost, in accordance with K-IFRS 1028 *investments in* *associates and joint ventures* or K-IFRS 1039 *Financial Instruments: Recognition and Measurement* in the Bank's separate financial statements. The amendments are effective for the annual periods beginning on or after January 1, 2016.

(2) Functional Currency

Items included in the separate financial statements of each entity in the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

3. SIGNIFICANT ESTIMATES AND JUDGMENTS:

The preparation of separate financial statements requires the application of accounting policies, especially certain critical accounting estimates and assumptions that may have a significant impact on assets (liabilities) and income (expenses). The management's estimate of outcome may differ from an actual outcome if the management's estimate and assumption based on its best judgment at the reporting date are different from an actual environment.

Estimates and assumptions are continually evaluated and the change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both. Significant judgments are the same as the annual consolidated financial statements for the year ended December 31, 2014.

4. RISK MANAGEMENT:

4-1. Summary

(1) Overview of Risk Management Policy

The financial risks that the Bank is exposed to are credit risk, market risk, liquidity risk, operational risk, interest risk, credit concentration risk, strategy/reputational risk, outsourcing risk, settlement risk and others. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Bank's key risks.

The Bank's risk management system focuses on increasing transparency, developing risk management environment and preemptive response to risk due to rapid changes in financial environment to support the Bank's long-term strategy and business decision efficiently.

The note regarding financial risk management provides information about the risks that the Bank is exposed to, the objective, policies and process for managing the risk, the methods used to measure the risk and capital adequacy. Additional quantitative information is disclosed throughout the separate financial statements.

(2) Risk Management Group

1) Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the board of directors and determines the Bank's target risk appetite, approves significant risk matters and reviews the level of risks that the Bank is exposed to and the appropriateness of the Bank's risk management operations as an ultimate decision-making authority.

2) Risk Management Council

The Risk Management Council is a consultative group that reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Bank's risk management.

3) Risk Management Practices Committee

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work process relating to risk management plan, including targeted Bank for International Settlements (BIS) ratio, risk management strategy, risk measurement, risk analysis, economic capital limit and others.

4-2. Credit risk

(1) Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For the risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

(2) Credit Risk Management

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent the excessive risk concentration to specific industry and specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and receivables and present it in the separate financial statements through the use of an allowances account that is charged against the related financial assets.

(3) Maximum exposure to credit risk

The Bank's maximum exposure of financial instruments to credit risk as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Cash and due from financial institutions	₩ 3,311,128	₩ 3,113,988
Financial assets at FVTPL	166,136	56,780
Hedging derivative assets	268,078	288,424
Loans (*1)	66,189,041	62,875,314
Financial investments (*2)	649,981	485,263
Other financial assets	899,717	852,359
Acceptances and guarantee contracts	65,194,023	61,372,941
Commitments (*3)	27,073,534	28,415,294
	₩163,751,638	₩157,460,363

(*1) Loans exclude loans valuation adjustment related to evaluation of fair value hedging.
(*2) Financial investments exclude AFS securities valuation adjustment related to fair value hedging that is included in AFS securities in foreign currency in Note 9.
(*3) Commitments exclude commitments on purchase of beneficiary certificates (131,348 million Korean won) which are included in other commitments in Note 36.

(4) Credit risk of loans

The Bank maintains allowances for loan losses associated with credit risk on loans to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and present them in the separate financial statements through the use of an allowances account that is charged against the related financial assets.

The Bank writes off on non-profitable loans, non-recoverable loans, loans classified estimated loss by asset quality category, loans requested written off by Financial Supervisory Service (FSS) and others under approval of Loan Management Committee.

Loans are categorized as follows (Korean won in millions):

(JUNE 30, 2015)

	Individual assessment	Collective assessment	Total
Loans:			
Normal			
Not past due	₩ 271,484	₩62,536,395	₩62,807,879
Past due	—	158	158
Impairment	3,544,686	297,291	3,841,977
Subtotal	3,816,170	62,833,844	66,650,014
Net deferred origination fees and costs:			
Normal			
Not past due	(6)	(460,400)	(460,406)
Past due	—	—	—
Impairment	(374)	(193)	(567)
Subtotal	(380)	(460,593)	(460,973)
Carrying amounts before deducting allowances:			
Normal			
Not past due	271,478	62,075,995	62,347,473
Past due	—	158	158
Impairment	3,544,312	297,098	3,841,410
Subtotal	3,815,790	62,373,251	66,189,041
Allowances:			
Normal			
Not past due	(28,346)	(246,116)	(274,462)
Percentage (%)	10.44	0.39	0.44
Past due	—	(18)	(18)
Percentage (%)	—	11.39	11.39
Impairment	(1,526,797)	(218,785)	(1,745,582)
Percentage (%)	43.08	73.64	45.44
Subtotal	(1,555,143)	(464,919)	(2,020,062)
Percentage (%)	40.76	0.75	3.05
Carrying amounts:			
Normal			
Not past due	243,132	61,829,879	62,073,011
Past due	—	140	140
Impairment	2,017,515	78,313	2,095,828
Total	₩ 2,260,647	₩61,908,332	₩64,168,979

(DECEMBER 31, 2014)

	Individual assessment	Collective assessment	Total
Loans:			
Normal			
Not past due	₩ 336,607	₩59,765,067	₩60,101,674
Past due	—	9,117	9,117
Impairment	3,019,923	156,301	3,176,224
Subtotal	3,356,530	59,930,485	63,287,015
Net deferred origination fees and costs:			
Normal			
Not past due	(66)	(411,314)	(411,380)
Past due	—	—	—
Impairment	(533)	212	(321)
Subtotal	(599)	(411,102)	(411,701)
Carrying amounts before deducting allowances:			
Normal			
Not past due	336,541	59,353,753	59,690,294
Past due	—	9,117	9,117
Impairment	3,019,390	156,513	3,175,903
Subtotal	3,355,931	59,519,383	62,875,314
Allowances:			
Normal			
Not past due	(45,400)	(213,680)	(259,080)
Percentage (%)	13.49	0.36	0.43
Past due	—	(231)	(231)
Percentage (%)	—	2.53	2.53
Impairment	(1,427,631)	(126,691)	(1,554,322)
Percentage (%)	47.28	80.95	48.94
Subtotal	(1,473,031)	(340,602)	(1,813,633)
Percentage (%)	43.89	0.57	2.88
Carrying amounts:			
Normal			
Not past due	291,141	59,140,073	59,431,214
Past due	—	8,886	8,886
Impairment	1,591,759	29,822	1,621,581
Total	₩ 1,882,900	₩59,178,781	₩61,061,681

The above carrying amounts exclude loan valuation adjustment related to fair value hedging amounting to ₩85,313 million and ₩96,872 million as of June 30, 2015, and December 31, 2014, respectively.

1) Credit quality of loans that are neither past due nor impaired

Credit quality of loans that are neither past due nor impaired as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Best	₩ 79,612	₩ 5,684,960	₩ 910,534	₩ 6,675,106	₩ (22,255)	₩ (2,807)	₩ 6,650,044
Outstanding	5,836,220	34,639,520	2,998,847	43,474,587	(406,579)	(82,498)	42,985,510
Good	4,122,429	7,440,927	671,356	12,234,712	(29,450)	(142,057)	12,063,205
Below normal	191,440	232,034	—	423,474	(2,122)	(47,100)	374,252
	₩10,229,701	₩47,997,441	₩4,580,737	₩62,807,879	₩(460,406)	₩(274,462)	₩62,073,011

(DECEMBER 31, 2014)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Best	₩ 1,846,664	₩ 5,101,792	₩ 851,387	₩ 7,799,843	₩ (16,184)	₩ (3,970)	₩ 7,779,689
Outstanding	4,784,149	30,876,637	4,664,070	40,324,856	(363,821)	(71,738)	39,889,297
Good	3,484,579	7,305,159	843,888	11,633,626	(29,158)	(137,731)	11,466,737
Below normal	160,550	182,799	—	343,349	(2,217)	(45,641)	295,491
	₩10,275,942	₩43,466,387	₩6,359,345	₩60,101,674	₩(411,380)	₩(259,080)	₩59,431,214

2) Aging analysis of loans that are past due but not impaired

Aging analysis of loans that are past due but not impaired as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Within one month	₩158	₩—	₩—	₩158	₩—	₩(18)	₩140
Within two months	—	—	—	—	—	—	—
Within three months	—	—	—	—	—	—	—
More than three months	—	—	—	—	—	—	—
	₩158	₩—	₩—	₩158	₩—	₩(18)	₩140

(DECEMBER 31, 2014)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Within one month	₩—	₩—	₩ —	₩ —	₩—	₩ —	₩ —
Within two months	174	—	—	174	—	(6)	168
Within three months	—	—	—	—	—	—	—
More than three months	—	—	8,943	8,943	—	(225)	8,718
	₩174	₩—	₩8,943	₩9,117	₩—	₩(231)	₩8,886

3) Loans assessed for impairment on individual basis

Loans assessed for impairment on individual basis by country and industry of the Bank's counterparties, as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩3,261,610	₩38,995	₩3,300,605	₩(1,289,143)	₩(18,803)	₩(1,307,946)	39.52	48.22	39.63
Transportation	—	21,089	21,089	—	—	—	—	—	—
Construction	222,618	—	222,618	(218,851)	—	(218,851)	98.31	—	98.31
	₩3,484,228	₩60,084	₩3,544,312	₩(1,507,994)	₩(18,803)	₩(1,526,797)	43.28	31.29	43.08

(DECEMBER 31, 2014)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩2,711,444	₩19,055	₩2,730,499	₩(1,232,319)	₩(19,055)	₩(1,251,374)	45.45	100.00	45.83
Transportation	10,233	—	10,233	—	—	—	—	—	—
Construction	278,658	—	278,658	(176,257)	—	(176,257)	63.25	—	63.25
	₩3,000,335	₩19,055	₩3,019,390	₩(1,408,576)	₩(19,055)	₩(1,427,631)	46.95	100.00	47.28

(5) Credit quality of securities (debt securities)

1) Securities (debt securities) exposed to credit risk as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Securities that are neither past due nor impaired	₩715,459	₩485,263

2) Credit quality of securities (debt securities) that are neither past due nor impaired as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Credit quality (*1)					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
Financial assets at FVTPL	₩ 65,478	₩—	₩—	₩—	₩—	₩ 65,478
AFS financial assets	539,379	—	—	—	—	539,379
Held-to-maturity financial assets	110,602	—	—	—	—	110,602
	₩715,459	₩—	₩—	₩—	₩—	₩715,459

(DECEMBER 31, 2014)

	Credit quality (*1)					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
AFS financial assets	₩446,364	₩—	₩—	₩—	₩—	₩446,364
Held-to-maturity financial assets	38,899	—	—	—	—	38,899
	₩485,263	₩—	₩—	₩—	₩—	₩485,263

(*1) Credit quality is classified based on internal credit quality grade as below:

	Credit rating
Grade 1	AAA—BBB
Grade 2	BBB—BB
Grade 3	BB—B
Grade 4	B—C
Grade 5	D

(6) Concentration of credit risk

The amounts disclosed below exclude loan valuation adjustment related to fair value hedging amounting to ₩85,313 million and ₩96,872 million as of June 30, 2015, and December 31, 2014, respectively.

1) Loans by country where the credit risk belongs to as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,780,717	₩10,416,978	₩ 994,946	₩25,192,641	37.80	₩ (6,181)	₩(1,814,121)
China	7,239	2,731,268	593,143	3,331,650	5.00	(721)	(55,902)
Saudi Arabia	—	3,662,752	2,276	3,665,028	5.50	(64,292)	(8,312)
India	—	2,118,374	12,549	2,130,923	3.20	(45,225)	(2,939)
Iran	—	69,039	—	69,039	0.10	(2,807)	(366)
Indonesia	—	3,526,574	4,340	3,530,914	5.30	(87,629)	(12,168)
Vietnam	—	2,868,493	73,702	2,942,195	4.41	(26,892)	(16,134)
Others	—	6,880,944	2,146,189	9,027,133	13.55	(67,446)	(31,060)
	13,787,956	32,274,422	3,827,145	49,889,523	74.86	(301,193)	(1,941,002)
Europe:							
Russia	—	639,230	3,694	642,924	0.96	—	(15,065)
England	—	343,080	199,649	542,729	0.81	(1,005)	(519)
Belgium	—	27,868	—	27,868	0.04	(102)	—
France	—	317,324	3,734	321,058	0.48	(5,307)	(10)
Cyprus	—	210,906	—	210,906	0.32	(3,837)	—
Netherlands	—	94,842	119,460	214,302	0.32	(693)	(68)
Malta	—	185,757	—	185,757	0.28	(2,213)	—
Others	2,224	3,131,023	351,882	3,485,129	5.23	(44,059)	(24,163)
	2,224	4,950,030	678,419	5,630,673	8.44	(57,216)	(39,825)
America:							
Panama	—	1,967,205	—	1,967,205	2.95	(8,221)	(3,285)
United States	—	1,306,668	114,696	1,421,364	2.13	(18,523)	(6,006)
The British Virgin Islands	—	720,602	—	720,602	1.08	(3,040)	(632)
Mexico	—	618,235	—	618,235	0.93	(7,842)	(5,800)
Bermuda	—	752,691	—	752,691	1.13	(12,043)	(198)
Others	—	1,824,594	1,980	1,826,574	2.74	(13,183)	(4,093)
	—	7,189,995	116,676	7,306,671	10.96	(62,852)	(20,014)
Africa:							
Marshall Islands	—	2,524,720	—	2,524,720	3.79	(19,276)	(1,102)
Liberia	—	437,601	—	437,601	0.66	(3,757)	(15,104)
Madagascar	—	412,906	—	412,906	0.62	(2,539)	(1,420)
Others	—	447,842	78	447,920	0.67	(14,140)	(1,595)
	—	3,823,069	78	3,823,147	5.74	(39,712)	(19,221)
	₩13,790,180	₩48,237,516	₩4,622,318	₩66,650,014	100.00	₩(460,973)	₩(2,020,062)

(DECEMBER 31, 2014)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,175,790	₩10,175,702	₩ 834,636	₩24,186,128	38.22	₩ (420)	₩(1,633,497)
China	7,239	2,705,889	600,114	3,313,242	5.24	(932)	(38,754)
Saudi Arabia	—	2,981,097	146	2,981,243	4.71	(59,163)	(7,275)
India	—	1,841,568	22,608	1,864,176	2.95	(46,870)	(2,714)
Iran	—	84,287	8,943	93,230	0.15	(3,475)	(670)
Indonesia	—	2,900,654	4,966	2,905,620	4.59	(86,830)	(6,485)
Vietnam	—	2,347,637	13,215	2,360,852	3.73	(27,574)	(12,462)
Others	—	5,935,059	4,205,485	10,140,544	16.02	(42,376)	(27,432)
	13,183,029	28,971,893	5,690,113	47,845,035	75.61	(267,640)	(1,729,289)
Europe:							
Russia	—	1,092,912	98,635	1,191,547	1.88	—	(20,898)
England	—	382,877	430,336	813,213	1.28	(1,186)	(284)
Belgium	—	60,410	33,909	94,319	0.15	(182)	(933)
France	—	339,852	3,317	343,169	0.54	(5,902)	(24)
Cyprus	—	73,022	—	73,022	0.12	(4,007)	—
Netherlands	—	131,111	50,864	181,975	0.29	(1,419)	(221)
Malta	—	192,224	—	192,224	0.30	(2,442)	—
Others	2,224	2,993,275	66,428	3,061,927	4.84	(50,043)	(20,531)
	2,224	5,265,683	683,489	5,951,396	9.40	(65,181)	(42,891)
America:							
Panama	—	1,982,012	—	1,982,012	3.13	(8,430)	(3,712)
United States	—	1,144,175	107,281	1,251,456	1.98	(17,733)	(6,209)
The British Virgin Islands	—	657,521	—	657,521	1.04	(3,160)	(557)
Mexico	—	574,795	—	574,795	0.91	(8,208)	(5,577)
Bermuda	—	535,077	—	535,077	0.85	(10,509)	(75)
Others	—	957,904	5,221	963,125	1.50	(3,453)	(3,163)
	—	5,851,484	112,502	5,963,986	9.41	(51,493)	(19,293)
Africa:							
Marshall Islands	—	2,294,266	—	2,294,266	3.63	(6,394)	(436)
Liberia	—	377,121	—	377,121	0.60	(3,998)	(18,511)
Madagascar	—	426,191	—	426,191	0.67	(2,678)	(1,646)
Others	—	427,770	1,250	429,020	0.68	(14,317)	(1,567)
	—	3,525,348	1,250	3,526,598	5.58	(27,387)	(22,160)
	₩13,185,253	₩43,614,408	₩6,487,354	₩63,287,015	100.00	₩(411,701)	₩(1,813,633)

2) Loans by industry as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans					Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)		
Manufacturing	₩10,470,979	₩24,941,479	₩ 339,935	₩35,752,393	53.64	₩(177,930)	₩(1,681,999)
Transportation	210,980	7,560,189	1,033	7,772,202	11.66	(65,483)	(35,924)
Financial institutions	339,000	3,898,601	4,210,764	8,448,365	12.68	(7,065)	(22,093)
Wholesale and retail	563,043	1,651,128	34,381	2,248,552	3.37	(1,366)	(13,783)
Real estate	—	524,674	—	524,674	0.79	(2,520)	(454)
Construction	1,944,920	2,022,050	23,214	3,990,184	5.99	(4,704)	(233,044)
Public sector and others	261,258	7,639,395	12,991	7,913,644	11.87	(201,905)	(32,765)
	₩13,790,180	₩48,237,516	₩4,622,318	₩66,650,014	100.00	₩(460,973)	₩(2,020,062)

(DECEMBER 31, 2014)

	Loans					Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)		
Manufacturing	₩10,298,585	₩22,253,694	₩ 467,030	₩33,019,309	52.17	₩(144,237)	₩(1,520,018)
Transportation	189,080	7,196,184	—	7,385,264	11.67	(54,801)	(40,092)
Financial institutions	165,000	3,606,430	5,872,482	9,643,912	15.24	(7,657)	(21,648)
Wholesale and retail	679,773	1,365,503	60,475	2,105,751	3.33	2,888	(12,868)
Real estate	—	363,744	—	363,744	0.57	(2,313)	(386)
Construction	1,633,308	1,810,385	26,210	3,469,903	5.48	(5,092)	(189,163)
Public sector and others	219,507	7,018,468	61,157	7,299,132	11.54	(200,489)	(29,458)
	₩13,185,253	₩43,614,408	₩6,487,354	₩63,287,015	100.00	₩(411,701)	₩(1,813,633)

3) Concentration of credit risk of securities (debt securities) by industry as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015		December 31, 2014	
	Amount	Ratio (%)	Amount	Ratio (%)
Financial assets at FVTPL				
Government and government-sponsored institutions	₩ 35,228	53.80	₩ —	—
Banking and insurance	18,384	28.08	—	—
Others	11,866	18.12	—	—
Subtotal	65,478	100.00	—	—
AFS financial assets				
Government and government-sponsored institutions	₩106,997	19.84	₩ 82,952	18.58
Banking and insurance	315,465	58.49	311,862	69.87
Others	116,917	21.67	51,550	11.55
Subtotal	539,379	100.00	446,364	100.00
Held-to-maturity financial assets				
Government and government-sponsored institutions	19,408	17.55	11,016	28.32
Banking and insurance	71,734	64.86	27,883	71.68
Others	19,460	17.59	—	—
Subtotal	110,602	100.00	38,899	100.00
Total	₩715,459		₩485,263	

4) Concentration of credit risk of securities (debt securities) by country as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015		December 31, 2014	
	Amount	Ratio (%)	Amount	Ratio (%)
Financial assets at FVTPL				
Korea	₩ 35,228	53.80	₩ —	—
Others	30,250	46.20	—	—
Subtotal	65,478	100.00	—	—
AFS financial assets				
Korea	₩215,350	39.93	₩227,585	50.99
Others	324,029	60.07	218,779	49.01
Subtotal	539,379	100.00	446,364	100.00
Held-to-maturity financial assets				
Korea	28,479	25.75	—	—
Others	82,123	74.25	38,899	100.00
Subtotal	110,602	100.00	38,899	100.00
Total	₩715,459		₩485,263	

5) Credit enhancement and its financial effect as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total
Maximum exposure to credit risk	₩66,189,041	₩65,194,023	₩27,073,534	₩158,456,598
Credit enhancement:				
Deposits and savings	69,871	76,108	723	146,702
Export guarantee insurance	106,884	2,120,567	—	2,227,451
Guarantee	1,072,530	1,477,408	3,566,267	6,116,205
Securities	222,500	84,848	115,048	422,396
Real estate	1,104,486	51,531	30,109	1,186,126
Ships	790,401	223,466	16,540	1,030,407
Others	1,485,424	16,711	295,614	1,797,749
Subtotal	4,852,096	4,050,639	4,024,301	12,927,036
Exposure to credit risk after deducting credit enhancement	₩61,336,945	₩61,143,384	₩23,049,233	₩145,529,562

(*1) Loans exclude loans valuation adjustment related to evaluation of fair value hedging

(DECEMBER 31, 2014)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total
Maximum exposure to credit risk	₩62,875,314	₩61,372,941	₩28,415,294	₩152,663,549
Credit enhancement:				
Deposits and savings	75,700	86,025	—	161,725
Export guarantee insurance	117,296	2,309,306	—	2,426,602
Guarantee	984,943	1,389,185	844,169	3,218,297
Securities	212,006	189,280	19,172	420,458
Real estate	1,107,765	50,390	45,990	1,204,145
Ships	749,069	181,253	172,598	1,102,920
Others	785,911	—	351,198	1,137,109
Subtotal	4,032,690	4,205,439	1,433,127	9,671,256
Exposure to credit risk after deducting credit enhancement	₩58,842,624	₩57,167,502	₩26,982,167	₩142,992,293

(*1) Loans exclude loans valuation adjustment related to evaluation of fair value hedging

4-3. Liquidity risk

(1) Overview of liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they become due. The Bank discloses all financial asset, financial liabilities and off-balance-sheet items, such as loan commitments and analysis of the contractual maturity, which are related to liquidity risk, into seven categories. The cash flows disclosed in the maturity analysis are undiscounted contractual amounts, including principal and future interest, which resulted in disagreement with the discounted cash flows included in the separate statements of financial position. However, for derivatives, each discounted cash flow consisting of current fair value is presented.

(2) Principles of the liquidity risk management

① Liquidity risk is managed with integration. The Bank measures, reports and controls liquidity risk by quantification with reasonable method.

② Liquidity risk reflects financing plans and fund-using plans, and the Bank reports the liquidity risk with preciseness, timeliness and consistency.

③ The Bank establishes liquidity risk management strategy by analyzing liquidity maturity, liquidity gap structure and market environment.

(3) Liquidity risk management

Risk management department monitors changes by liquidity risk sources and compliance of risk limits. It notifies related departments to prepare countermeasures in case the measured liquidity risk is close to risk limits. Also, it analyzes crisis situations and effects of the crisis situations and reports to the Risk Management Committee on a regular basis. Each related department monitors changes of liquidity risk sources and compliance of risk limits by itself and if exposure to new risk is expected, it discusses the matter with the head of risk management department.

(4) Measurement of liquidity risk

The Bank measures liquidity ratio, liquidity gap ratio and others for local currency and foreign currency and simulates analysis reflecting market environment, product features and the Bank’s strategies.

(5) Analysis on remaining contractual maturity of financial assets and liabilities

Remaining contractual maturity and amount of financial assets and liabilities as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	On demand	Within one month	One to three months	Three to six Months	Six to 12 months	One year to five years	More than five years	Total
Financial assets:								
Cash and due from financial institutions	₩ 922,222	₩ 112,447	₩ 236,294	₩ 50,534	₩ 81,541	₩ 1,908,972	₩ —	₩ 3,312,010
Financial assets at FVTPL	1,286,713	—	—	—	—	—	—	1,286,713
Hedging derivative Assets	—	7,921	2,760	775	2,695	99,410	154,517	268,078
Loans	12,198	5,766,038	6,947,315	7,928,945	10,389,613	23,644,628	17,797,097	72,485,834
AFS financial assets	4,339,199	12,758	13,240	39,493	51,055	324,487	204,161	4,984,393
Held-to-maturity financial assets	—	131	446	17,831	1,255	82,373	20,292	122,328
Other financial assets	—	542,761	200	—	231,644	34,692	164,319	973,616
	₩ 6,560,332	₩6,442,056	₩7,200,255	₩8,037,578	₩10,757,803	₩26,094,562	₩18,340,386	₩83,432,972
Financial liabilities:								
Financial liabilities at FVTPL	₩ 635,604	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 635,604
Hedging derivative liabilities	—	141,151	50,643	35,138	478,207	1,180,514	313,913	2,199,566
Borrowings	—	993,656	1,802,066	2,161,966	1,379,117	3,186,884	1,948,680	11,472,369
Debentures	—	2,197,813	2,218,900	4,357,805	6,701,711	26,519,154	15,152,523	57,147,906
Other financial liabilities	—	614,555	—	281	664	25,730	543,159	1,184,389
	₩ 635,604	₩3,947,175	₩4,071,609	₩6,555,190	₩ 8,559,699	₩30,912,282	₩17,958,275	₩72,639,834
Off-balance-sheet items(*1):								
Commitments	₩27,073,534	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩27,073,534
Financial guarantee contracts	11,086,007	—	—	—	—	—	—	11,086,007
	₩38,159,541	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩38,159,541

(*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

(DECEMBER 31, 2014)

	On demand	Within one month	One to three months	Three to six months	Six to 12 months	One year to five years	More than five years	Total
Financial assets:								
Cash and due from financial institutions	₩ 830,674	₩ 279,906	₩ 231,044	₩ 60,485	₩ 52,005	₩ 1,661,796	₩ —	₩ 3,115,910
Financial assets at FVTPL	1,197,499	—	—	—	—	—	—	1,197,499
Hedging derivative assets	—	503	467	—	15,086	103,983	168,385	288,424
Loans	12,199	7,931,753	6,013,001	10,114,231	7,784,273	21,786,151	15,382,784	69,024,392
AFS financial assets	4,339,990	1,262	1,419	31,766	62,004	283,619	101,805	4,821,865
Held-to-maturity financial assets	—	—	22,527	392	16,879	—	—	39,789
Other financial assets	—	498,998	—	—	230,513	33,423	165,048	927,982
	₩ 6,380,362	₩8,712,422	₩6,268,458	₩10,206,874	₩8,160,760	₩23,868,972	₩15,818,022	₩79,415,870
Financial liabilities:								
Financial liabilities at FVTPL	₩ 489,069	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities	—	60,613	258,861	103,780	198,459	1,109,788	251,955	1,983,456
Borrowings	—	682,671	773,143	3,134,883	1,263,810	2,738,181	1,663,722	10,256,410
Debentures	—	2,560,097	3,638,227	3,078,023	6,964,062	22,161,849	14,326,752	52,729,010
Other financial liabilities	—	2,570,426	—	—	—	—	108	2,570,534
	₩ 489,069	₩5,873,807	₩4,670,231	₩ 6,316,686	₩8,426,331	₩26,009,818	₩16,242,537	₩68,028,479
Off-balance-sheet items(*1):								
Commitments	₩28,415,294	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩28,415,294
Financial guarantee contracts	8,830,564	—	—	—	—	—	—	8,830,564
	₩37,245,858	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩37,245,858

(*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

4-4. Market risk

(1) Overview of market risk

1) Definition of market risk

Market risk is the risk of possible losses that arise from the changes of market factors, such as interest rate, stock price, foreign exchange rate, commodity value and other market factors related to the fair value or future cash flows of the financial instruments. The Bank classifies exposures to market risk into either foreign exchange rate risk or interest rate risk. Foreign exchange risk means that possible losses on assets and liabilities denominated in foreign currency due to changes of foreign exchange rate. Interest rate risk means that possible losses on assets and liabilities due to changes of interest rate.

2) Market risk management group

The Bank operates the Risk Management Committee and the Risk Management Council for managing risks and risk limits. The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council for practical matters, such as managing adequate assets and liabilities by analyzing foreign exchange risk, interest rate risk, liquidity risk, money balance plan and effects by initiating new product. Market risk is managed by product and currency for minimizing segments exposed to changes of foreign exchange, interest rate and securities' price. Foreign exchange risk is measured by definite method and probabilistic method and definite method is used for limits management. Interest rate value at risk (VaR) and interest rate earning at risk (EaR) are measured by BIS standards, definite method and probabilistic method and definite method is used for limits management. Meanwhile, the Bank performs financial crisis analysis supposing exceptional, but possible events for evaluating latent weakness. The analysis is used for important decision making, such as risk mitigation, emergency plan development and limit setup. The results of the analysis are reported to the board of directors and management on a quarterly basis.

(2) Foreign exchange risk

1) Management of foreign exchange risk

Foreign exchange risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of foreign exchange risk by source and compliance of risk limits regularly. A finance division head also monitors changes of foreign exchange risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that foreign exchange risk exceeds risk limit. If foreign exchange risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of foreign exchange risk

Foreign exchange risk is managed by foreign exchange VaR and foreign exchange position. Foreign exchange VaR is measured on a monthly basis and foreign exchange position is measured on a daily basis. It is measured separately by currency for assets and liabilities denominated in foreign currency exceeding 5% of total assets and liabilities denominated in foreign currency.

3) Measurement method

① VaR

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal weighted-average method based on historical changes in market rates, prices and volatilities over the previous five years data and measures VaR at a 99% single tail confidence level. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different, depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of foreign exchange that has significant influent on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of foreign exchange VaR as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015				December 31, 2014			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Foreign exchange risk	₩29,332	₩17,257	₩42,271	₩42,271	₩124,101	₩52,367	₩193,054	₩122,907

(3) Interest rate risk

1) Management of interest rate risk

Interest rate risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of interest rate risk by source and compliance of risk limits regularly. A finance division head also monitors changes of interest rate risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that interest rate risk exceeds risk limit. If interest rate risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of interest rate risk

Interest rate risk is managed by measuring interest rate EaR and interest rate VaR and uses interest rate sensitivity gap and duration gap as supplementary index. Interest rate EaR and interest rate VaR are measured on a monthly basis, and interest rate sensitivity gap and duration gap are measured on a daily basis. The Bank simulates analysis reflecting market environment, product features and the Bank's strategies.

3) Measurement method

① VaR

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal weighted-average method based on historical changes in market rates, prices and volatilities over the previous five years data and measures VaR at a 99% single tail confidence level. This means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of interest rate that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of interest rate VaR as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015				December 31, 2014			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Interest rate risk	₩113,684	₩70,772	₩159,305	₩70,772	₩40,828	₩5,613	₩159,309	₩24,663

4-5. Capital risk

The Bank follows the standard of capital adequacy established by the Financial Services Commission. The standard is based on Basel III, which was established by Basel Committee on Banking Supervision in BIS. According to the standard, domestic banks should maintain at least 8% or above of BIS capital ratio for risk-weighted asset, and quarterly report BIS capital ratio to the FSS.

According to Korean Banking Supervision rules for operations, the Bank's capitals are mainly divided into two categories:

1) Tier 1 capital (basic capital): Basic capital is composed of capital stock-common and other basic capital. Capital stock-common includes common stock satisfied with qualifications, capital surplus,

retained earnings, accumulated other comprehensive income, other reserves and non-controlling interests among the common stock of consolidated subsidiaries. Other basic capital includes securities and capital surplus satisfied with qualifications.

2) Tier 2 capital (supplementary capital): Supplementary capital is composed of the securities and capital surplus satisfied with qualifications, non-controlling interests among the securities of consolidated subsidiaries and the amounts of less than below 1.25% of credit risk-weighted asset like allowance for credit losses in respect of credits classified as normal or precautionary.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Bank bears. The Bank computes the risk-weighted asset by risks (credit risk, market risk and operational risk) and uses it for calculation of BIS capital ratio.

BIS capital ratio of the Bank as of June 30, 2015, and December 31, 2014, is as follows:

(June 30, 2015)

	June 30, 2015	**December 31, 2014**
Basic capital	₩ 9,359,128	₩ 9,320,842
Supplementary capital	1,276,614	1,222,933
Total	10,635,742	10,543,775
Risk-weighted asset	104,967,356	100,444,378
BIS capital ratio (%)	10.13	10.50

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

5-1. Classification and fair value

(1) Carrying amounts and fair values of financial instruments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

		June 30, 2015		December 31, 2014	
	Classification	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Cash and due from financial institutions	Non-recurring	₩ 3,311,128	₩ 3,311,384	₩ 3,113,988	₩ 3,114,046
Financial assets at FVTPL	Recurring	1,286,713	1,286,713	1,197,499	1,197,499
Hedging derivative assets	Recurring	268,078	268,078	288,424	288,424
Loans	Non-recurring	64,254,292	66,368,411	61,158,553	62,154,900
AFS financial assets	Recurring	4,833,606	4,833,606	4,752,625	4,752,625
Held-to-maturity financial assets	Non-recurring	110,602	110,637	38,899	38,985
Other financial assets	Non-recurring	852,594	852,594	808,893	808,893
		₩74,917,013	₩77,031,423	₩71,358,881	₩72,355,372

	Classification	June 30, 2015 Carrying amount	June 30, 2015 Fair value	December 31, 2014 Carrying amount	December 31, 2014 Fair value
Financial liabilities:					
Financial liabilities at FVTPL	Recurring	₩ 635,604	₩ 635,604	₩ 489,069	₩ 489,069
Hedging derivative liabilities	Recurring	2,199,566	2,199,566	1,983,456	1,983,456
Borrowings	Non-recurring	11,198,922	11,249,910	10,018,281	10,064,196
Debentures	Non-recurring	50,888,744	51,818,038	47,291,703	48,661,241
Other financial liabilities	Non-recurring	1,184,389	1,184,389	2,570,535	2,570,535
		₩66,107,225	₩67,087,507	₩62,353,044	₩63,768,497

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For each class of financial assets and financial liabilities, the Bank discloses the fair value of that class of assets and liabilities in a way that permits them to be compared with their carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods for measuring fair value of financial instruments are as follows:

Financial instruments	Method of measuring fair value
Loans and receivables	As demand deposits and transferable deposits do not have maturity and are readily convertible to cash. Carrying amounts of these deposits are regarded as the nearest amounts of fair values. Fair values of other deposits are determined by discounted cash flow model (“DCF model”). DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows by contractual cash flows with prepayment rate taken into account by appropriate discount rate.
Investment securities	Trading financial assets and liabilities and AFS financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using valuation techniques.
Derivatives	For exchange-traded derivative, quoted price in active market is used to determine fair value and for over-the-counter (OTC) derivative, fair value is determined using valuation techniques. The Bank uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives including option, interest rate swap and currency swap based on observable market parameters. However, some complex financial instruments are valued using the results of independent pricing services, where part or all of the inputs are not observable in the market. The adjustment for credit risk is reflected in cash flow, and the Bank’s credit risk are considered in the discount rate

Financial instruments	Method of measuring fair value
Borrowings	Fair value is determined using DCF model discounting contractual future cash flows by appropriate discount rate. The adjustment for credit risk is reflected in cash flow and the Bank's credit risk is considered in the discount rate.
Debentures	Fair value of debentures denominated in local currency is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets. Fair value of debentures denominated in foreign currency is determined by DCF model. The adjustment for credit risk is reflected in cash flow and the Bank's credit risk is considered in the discount rate.

Fair values of financial assets and financial liabilities classified as fair value Level 3 of the fair value hierarchy are determined by using the valuation of independent third-party pricing services. Meanwhile, carrying amounts of other financial assets and financial liabilities are regarded as the nearest amounts of fair values.

(2) Fair value hierarchy

Fair value hierarchy of financial assets and liabilities, which are not measured at fair value as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

(June 30, 2015)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from financial institutions	₩—	₩ 3,311,384	₩ —	₩ 3,311,384
Loans	—	—	66,368,411	66,368,411
Held-to-maturity financial assets	—	110,637	—	110,637
Other financial assets	—	—	852,594	852,594
	₩—	₩ 3,422,021	₩67,221,005	₩70,643,026
Financial liabilities:				
Borrowings	₩—	₩11,249,910	₩ —	₩11,249,910
Debentures	—	51,818,038	—	51,818,038
Other financial liabilities	—	—	1,184,389	1,184,389
	₩—	₩63,067,948	₩ 1,184,389	₩64,252,337

(December 31, 2014)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from financial institutions	₩—	₩ 3,114,046	₩ —	₩ 3,114,046
Loans	—	—	62,154,900	62,154,900
Held-to-maturity financial assets	—	38,985	—	38,985
Other financial assets	—	—	808,893	808,893
	₩—	₩ 3,153,031	₩62,963,793	₩66,116,824
Financial liabilities:				
Borrowings	₩—	₩10,064,196	₩ —	₩10,064,196
Debentures	—	48,661,241	—	48,661,241
Other financial liabilities	—	—	2,570,535	2,570,535
	₩—	₩58,725,437	₩ 2,570,535	₩61,295,972

Fair value hierarchy of financial assets and liabilities measured at fair value as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

(June 30, 2015)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩1,186,055	₩ 100,658	₩ —	₩1,286,713
Hedging derivative assets	—	268,078	—	268,078
AFS financial assets	195,943	539,380	3,693,781	4,429,104
	₩1,381,998	₩ 908,116	₩3,693,781	₩5,983,895
Financial liabilities:				
Financial liabilities at FVTPL	₩ —	₩ 635,604	₩ —	₩ 635,604
Hedging derivative liabilities	—	2,199,566	—	2,199,566
	₩ —	₩2,835,170	₩ —	₩2,835,170

(December 31, 2014)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩1,140,719	₩ 56,780	₩ —	₩1,197,499
Hedging derivative assets	—	288,424	—	288,424
AFS financial assets	207,881	446,365	3,677,652	4,331,898
	₩1,348,600	₩ 791,569	₩3,677,652	₩5,817,821
Financial liabilities:				
Financial liabilities at FVTPL	₩ —	₩ 489,069	₩ —	₩ 489,069
Hedging derivative liabilities	—	1,983,456	—	1,983,456
	₩ —	₩2,472,525	₩ —	₩2,472,525

The Bank classifies financial instruments as three level of fair value hierarchy as below:

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value Level 1. This level includes listed equity securities, derivatives, and government bonds traded in an active exchange market.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as Level 2. This level includes the majority of debt and general OTC derivatives such as swap, futures and options.

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as Level 3. This level includes unlisted equity securities, structured bonds and OTC derivatives.

The best estimate of fair value of financial instruments is a quoted price from active markets when the financial instruments are traded in an active exchange market (Level 1). If a quoted price of a financial instrument is available readily and regularly through exchange markets, sellers, brokers, industry groups, pricing services, supervisory services and the quoted price is arm's-length transaction between knowledgeable, willing parties, the price of the financial instrument is regarded to be disclosed in an active market.

If there is not an active market, fair value of a financial instrument is determined by valuation techniques. The valuation techniques include using a recent transaction between knowledgeable, willing parties, fair value of the similar kind financial instrument, DCF model, option-pricing model and others. If a valuation technique is used by general market participants and it can provide reliable estimates of fair values, the valuation technique can be used. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. The valuation techniques include all the inputs considered by market participants for determining price. The Bank adjusts valuation techniques regularly and reviews the validity of the techniques based on observable current price of the same kind financial instruments observable market data. The Bank believes that used valuation techniques are appropriate and fair values in the separate statements of financial position are reasonable. However, the fair values in the separate statements of financial position can be changed when different valuation techniques or different assumptions are used. Also, it can be difficult to compare fair values of the Bank to those of other financial institution because various valuation techniques and several assumptions are used.

3) The valuation techniques and the input variables of Level 2 financial instruments

① The valuation techniques and the input variables of Level 2 financial instruments subsequently not measured at fair value as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions):

(June 30, 2015)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Cash and due from financial institutions	₩ 3,311,384	DCF	Discount rate
Held-to-maturity financial assets	110,637	DCF	Discount rate
Financial liabilities:			
Borrowings	₩11,249,910	DCF	Discount rate
Debentures	51,818,038	DCF	Discount rate

(December 31, 2014)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Cash and due from financial institutions	₩ 3,114,046	DCF	Discount rate
Held-to-maturity financial assets	38,985	DCF	Discount rate
Financial liabilities:			
Borrowings	₩10,064,196	DCF	Discount rate
Debentures	48,661,241	DCF	Discount rate

② The valuation techniques and the input variables of Level 2 financial instruments, measured at fair value after initial recognition, as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions):

(June 30, 2015)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Financial assets at FVTPL	₩ 100,658	DCF	Discount rate
Hedging derivative assets	268,078	DCF	Discount rate
AFS financial assets	539,380	DCF	Discount rate
		Net Asset Value Method	Price of underlying assets
Financial liabilities:			
Financial liabilities at FVTPL	₩ 635,604	DCF	Discount rate
Hedging derivative liabilities	2,199,566	DCF	Discount rate

(December 31, 2014)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Financial assets at FVTPL	₩ 56,780	DCF	Discount rate
Hedging derivative assets	288,424	DCF	Discount rate
AFS financial assets	446,365	DCF	Discount rate
		Net Asset Value Method	Price of underlying assets
Financial liabilities:			
Financial liabilities at FVTPL	₩ 489,069	DCF	Discount rate
Hedging derivative liabilities	1,983,456	DCF	Discount rate

4) The valuation techniques and inputs of Level 3 financial instruments

① The valuation techniques and significant unobservable inputs of Level 3 financial instruments subsequently not measured at fair value as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions):.

(June 30, 2015)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Loans	₩66,368,411	DCF	Discount rate
Other financial assets	852,594	DCF	Discount rate
Financial liabilities:			
Other financial liabilities	₩ 1,184,389	DCF	Discount rate

(December 31, 2014)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Loans	₩62,154,900	DCF	Discount rate
Other financial assets	808,893	DCF	Discount rate
Financial liabilities :			
Other financial liabilities	₩ 2,570,535	DCF	Discount rate

② The valuation techniques and significant unobservable inputs of Level 3 financial instruments, measured at fair value after initial recognition as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions except for stock price):

(June 30, 2015)

	Fair value	Valuation techniques	Input factor which is significant but unobservable	Scope	Relation between unobservable input factor and estimate of fair value
AFS financial assets					
Unlisted stock	3,693,781	Discounted cash flow	Discount rate	4.97%–16.49%	If discount rate is decreased (increased)/ if growth is increased (decrease), fair value is decreased (increased).
			Growth rate	—	
		Option-pricing model	Volatility	5.45%	If volatility of stock price is increased (decreased)/if stock price increased (decreased), fair value is increased (decreased)
			Stock price	2,043 won	

(December 31, 2014)

	Fair value	Valuation techniques	Input factor which is significant but unobservable	Scope	Relation between unobservable input factor and estimate of fair value
AFS financial assets					
Unlisted stock	3,677,652	Discounted cash flow	Discount rate	3.97%–19.93%	If discount rate is decreased (increased)/ if growth is increased (decrease), fair value is decreased (increased).
			Growth rate	—	
		Option-pricing model	Volatility	4.80%	If volatility of stock price is increased (decreased)/if stock price increased (decreased), fair value is increased (decreased)
			Stock price	494 won	

5) Changes in Level 3 financial assets that are measured at fair value for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Beginning balance	Profit (loss)	Other comprehensive income	Purchases/ issues	Sales/ settlements	Transfers into Level 3 / Transfers out of Level 3	Ending balance
Financial assets							
AFS financial assets	₩3,677,652	₩(4,602)	₩18,540	₩26,119	₩(839)	₩(23,089)	₩3,693,781

(2014)

	Beginning balance	Profit (loss)	Other comprehensive income	Purchases/ issues	Sales/ settlements	Transfers into Level 3 / Transfers out of Level 3	Ending balance
Financial assets							
AFS financial assets	₩3,596,430	₩(33,161)	₩85,950	₩1,415	₩(570)	₩27,588	₩3,677,652

6) In relation with changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period and total gains or losses for financial instruments held at the end of the reporting period in the separate statement of comprehensive income for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	2015	2014
Total losses for financial instruments held at the end of the reporting period	₩(4,602)	₩(29,485)
Total losses included in profit or loss for the period	₩(4,602)	₩(33,161)

7) The sensitivity of fair value analysis for the Level 3 financial instruments

The Bank performed the sensitivity analysis for the Level 3 financial instruments for which fair value would be measured differently upon reasonably possible alternative assumptions. The Bank classified the effect from changes upon the alternative assumptions into favorable effect and unfavorable effect and presented the most favorable effect or the most unfavorable effect in the table hereunder. Stocks are the financial instruments subject to sensitivity analysis, which are classified as Level 3 and of which changes in fair value are recognized as other comprehensive income. Meanwhile, equity instruments, which are recognized as cost among the financial instruments and are classified as Level 3 are excluded from the sensitivity analysis.

Sensitivity analysis details per market risk variable of each Level 3 financial instrument held and measured at fair value as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩3,555,691	₩(991,530)

(*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1% and discount rate or liquidation value from negative 1% to 1% and discount rate, which are unobservable inputs.

(December 31, 2014)

	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩5,435,680	₩(1,198,592)

(*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1% and discount rate or liquidation value from negative 1% to 1% and discount rate, which are unobservable inputs.

8) The table below provides the Bank's financial assets and financial liabilities that are carried at cost since the fair values of the financial instruments are not readily determinable in the separate statements of financial position as of June 30, 2015, and December 31, 2014. (Korean won in millions):

	June 30, 2015	December 31, 2014
AFS financial assets		
Unlisted securities (*)	₩385,745	₩385,845
Equity investments to unincorporated entities. (*)	18,757	34,882
	₩404,502	₩420,727

(*) AFS financial assets are unlisted equity securities and equity investments and recorded as at cost since they do not have quoted prices in an active market and the fair values are not measured with reliability.

5-2. Carrying amounts of financial instruments

Carrying amounts of financial instruments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

	Financial assets at FVTPL	Loans	AFS financial assets	Held-to-maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions	₩ —	₩ 3,311,128	₩ —	₩ —	₩ —	₩ 3,311,128
Financial assets at FVTPL	1,286,713	—	—	—	—	1,286,713
Hedging derivative assets	—	—	—	—	268,078	268,078
Loans	—	64,254,292	—	—	—	64,254,292
Financial investments	—	—	4,833,606	110,602	—	4,944,208
Other financial assets	—	852,594	—	—	—	852,594
Total	₩1,286,713	₩68,418,014	₩4,833,606	₩110,602	₩268,078	₩74,917,013

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩635,604	₩ —	₩ —	₩ 635,604
Hedging derivative liabilities	—	—	2,199,566	2,199,566
Borrowings	—	11,198,922	—	11,198,922
Debentures	—	50,888,744	—	50,888,744
Other financial liabilities	—	1,184,389	—	1,184,389
Total	₩635,604	₩63,272,055	₩2,199,566	₩66,107,225

(December 31, 2014)

	Financial assets at FVTPL	Loans	AFS financial assets	Held-to-maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions	₩ —	₩ 3,113,988	₩ —	₩ —	₩ —	₩ 3,113,988
Financial assets at FVTPL	1,197,499	—	—	—	—	1,197,499
Hedging derivative assets	—	—	—	—	288,424	288,424
Loans	—	61,158,553	—	—	—	61,158,553
Financial investments	—	—	4,752,625	38,899	—	4,791,524
Other financial assets	—	808,893	—	—	—	808,893
Total	₩1,197,499	₩65,081,434	₩4,752,625	₩38,899	₩288,424	₩71,358,881

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩489,069	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities	—	—	1,983,456	1,983,456
Borrowings	—	10,018,281	—	10,018,281
Debentures	—	47,291,703	—	47,291,703
Other financial liabilities	—	2,570,535	—	2,570,535
Total	₩489,069	₩59,880,519	₩1,983,456	₩62,353,044

5-3. Offset on financial assets and financial liabilities

The Bank has conditional rights of setoff that are enforceable and exercisable only in the events mentioned in agreements regardless of meeting some or all of the offsetting criteria in K-IFRS 1032 for derivative assets, derivative liabilities, receivable spot exchanges and payable spot exchanges. Cash collaterals do not meet the offsetting criteria in K-IFRS 1032 but they can be set off with net amount of derivative assets and derivatives liabilities and net amount of receivables spot exchanges and payable spot exchanges.

The effects of netting agreements as of June 30, 2015, and December 31, 2014, are as follow (Korean won in millions):

(June 30, 2015)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net Amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 368,735	₩—	₩ 368,735	₩(274,863)	₩ —	₩ 93,872
AFS financial assets	81,285	—	81,285	(74,861)	—	6,424
Held-to-maturity financial assets	40,836	—	40,836	(37,608)	—	3,228
	490,856	—	490,856	(387,332)	—	103,524
Financial liabilities:						
Derivatives	2,835,170	—	2,835,170	(274,863)	(1,908,971)	651,336
Repurchase agreement (RP)	112,469	—	112,469	(112,469)	—	—
Total	₩2,947,639	₩—	₩2,947,639	₩(387,332)	₩(1,908,971)	₩651,336

(December 31, 2014)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 345,204	₩—	₩ 345,204	₩(253,618)	₩ —	₩ 91,586
AFS financial assets	112,508	—	112,508	(101,282)	—	11,226
	457,712	—	457,712	(354,900)	—	102,812
Financial liabilities:						
Derivatives	2,472,524	—	2,472,524	(253,618)	(1,567,378)	651,528
RP	101,282	—	101,282	(101,282)	—	—
Total	₩2,573,806	₩—	₩2,573,806	₩(354,900)	₩(1,567,378)	₩651,528

6. OPERATING SEGMENT:

Though the Bank conducts business activities related to financial services, in accordance with relevant laws, such as the Export-Import Bank of Korea Act, it does not report separate segment information, as management considers the Bank to be operating under one core business.

7. CASH AND DUE FROM FINANCIAL INSTITUTIONS:

Restricted due from financial institutions as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

Detail	Financial Institution	June 30, 2015	December 31, 2014	Reason for restriction
Others	DEUTSCHE BANK TRUST COMPANY AMERICAS	₩2,135	₩908	Credit support annex for derivative transactions

8. FINANCIAL ASSETS AT FVTPL:

Details of financial assets at FVTPL as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Debt securities	₩ 65,478	₩ —
Equity securities		
Beneficiary certificates	1,120,577	1,140,719
Derivative assets		
Interest product	23,879	3,630
Currency product	76,779	53,150
Subtotal	100,658	56,780
Total	₩1,286,713	₩1,197,499

9. FINANCIAL INVESTMENTS:

Details of financial investments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
AFS securities in local currency		
Equity securities		
Marketable securities	₩ 199,453	₩ 217,250
Non-marketable securities	4,061,219	4,052,358
Equity investments to unincorporated entities	16,123	34,882
Others	13,009	1,771
Subtotal	4,289,804	4,306,261
AFS securities in foreign currency		
Debt securities		
Debt securities(*1)	539,379	446,364
Equity securities		
Equity securities	4,423	—
Subtotal	543,802	446,364
Held-to-maturity securities in foreign currency		
Debt securities		
Debt securities(*1)	110,602	38,899
Total	₩4,944,208	₩4,791,524

(*1) It includes debt securities, which are pledged as collateral amounting to ₩122,121 and ₩112,508 as of June 30, 2015, and December 31, 2014, respectively.

10. LOANS:

Loans as presented below exclude loan valuation adjustment related to fair value hedging amounting to ₩85,313 million and ₩96,872 million as of June 30, 2015, and December 31, 2014, respectively.

(1) Details of loans as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	Detail	June 30, 2015	December 31, 2014
Loans in local currency	Loans for export	₩ 9,196,671	₩ 9,271,874
	Loans for overseas investments	847,000	744,062
	Loans for import	1,142,037	1,088,873
	Troubled Debt Restructuring	2,280,679	1,776,744
	Others	323,793	303,700
	Subtotal	13,790,180	13,185,253
Loans in foreign currencies	Loans for export	23,806,095	20,590,839
	Loans for overseas investments	20,105,577	18,241,228
	Loans for rediscounted trading notes	539,568	439,680
	Loans for import	2,372,839	2,795,575
	Overseas funding loans	671,742	632,417
	Domestic usance bills	379,085	503,351
	Others	362,610	411,317
	Subtotal	48,237,516	43,614,407
Others	Foreign currency bills bought	1,062,386	1,353,180
	Advance for customers	40,640	32,033
	Call loans	2,361,470	4,803,319
	Interbank loans in foreign currency	1,157,822	298,823
	Subtotal	4,622,318	6,487,355
	Total loan	66,650,014	63,287,015
Net deferred origination fees and costs		(460,973)	(411,701)
Allowance for loan losses		(2,020,062)	(1,813,633)
Total		₩64,168,979	₩61,061,681

(2) Changes in allowance for loan losses for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Individual assessment	Collective assessment	Total
Beginning balance	₩1,473,030	₩340,603	₩1,813,633
Written-off	(116,635)	(3,951)	(120,586)
Collection of written-off loans	—	384	384
Loan-for-equity swap	(15,223)	(10,726)	(25,949)
Others	—	(544)	(544)
Unwinding effect	(13,904)	(947)	(14,851)
Foreign exchange translation	1,327	3,252	4,579
Provision for loan losses	194,240	169,156	363,396
Transfer	32,308	(32,308)	—
Ending balance	₩1,555,143	₩464,919	₩2,020,062

(2014)

	Individual assessment	Collective assessment	Total
Beginning balance	₩ 2,099,283	₩283,017	₩ 2,382,300
Written-off	(35,924)	(11,814)	(47,738)
Collection of written-off loans	—	387	387
Loan-for-equity swap	(1,048,877)	(7,549)	(1,056,426)
Others	—	253	253
Unwinding effect	(29,427)	(2,119)	(31,546)
Foreign exchange translation	1,787	3,466	5,253
Provision for loan losses	450,267	110,883	561,150
Transfer	35,922	(35,922)	—
Ending balance	₩ 1,473,031	₩340,602	₩ 1,813,633

11. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES:

(1) Details of investments in associates and subsidiaries as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Company	Detail	Location	Business	Year-end	Owner ship (%)	Net asset (*1)	Carrying amount
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Finance	December	100.00	₩ 45,101	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Finance	December	100.00	12,633	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Finance	December	85.00	23,515	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Finance	December	100.00	57,724	49,139
Korea Asset Management Corporation	Associate	Korea	Finance	December	25.86	407,255	380,520
Credit Guarantee and Investment Fund (*1)	Associate	Philippines	Finance	December	14.28	115,784	115,486
Korea Marine Guarantee Incorporated Company	Associate	Korea	Finance	December	49.99	29,711	30,000
SUNGDONG Shipbuilding & Marine Engineering Co, Ltd. (*1)	Associate	Korea	Shipbuilding	December	70.71	(900,250)	—
DAESUN Shipbuilding & Engineering Co, Ltd. (*1)	Associate	Korea	Shipbuilding	December	67.27	(243,017)	—
Total							₩659,150

(*1) Net assets for subsidiaries are shown after consideration of ownership.

(December 31, 2014)

Company	Detail	Location	Business	Year-end	Owner ship (%)	Net asset	Carrying amount
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Finance	December	100.00	₩ 41,274	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Finance	December	100.00	11,479	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Finance	December	85.00	23,032	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Finance	December	100.00	55,408	49,139
Korea Asset Management Corporation	Associate	Korea	Finance	December	25.86	407,868	380,520
Credit Guarantee and Investment Fund (*1)	Associate	Philippines	Finance	December	14.28	112,522	115,486
Korea Marine Guarantee Incorporated Company	Associate	Korea	Finance	December	49.99	30,000	30,000
SUNGDONG Shipbuilding & Marine Engineering Co, Ltd. (*2)	Associate	Korea	Shipbuilding	December	70.71	(680,342)	—
DAESUN Shipbuilding & Engineering Co, Ltd. (*2)	Associate	Korea	Shipbuilding	December	67.27	(239,738)	—
Total							₩659,150

(*1) As of June 30, 2015, and December 31, 2014, Credit Guarantee and Investment Fund are classified into an associate because the Bank has significant influence in the way of representation on the board of directors or equivalent governing body of the investee.

(*2) These companies are under the Creditor-led work out program. And the Bank should have at least 75% of the Total creditor's loans to have substantive control based on the creditor's agreement. As the Bank only has 70.71% and 60.27% for SUNGDONG Shipbuilding & Marine Engineering Co., Ltd. and DAESUN Shipbuilding & Engineering Co., Ltd., respectively, of the total creditor's loans, those are classified as associates.

(2) Changes in investments in associates and subsidiaries for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

Company	Detail	Beginning balance	Acquisition	Impairment loss	Ending balance
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩—	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	—	115,486
Korea Marine Guarantee Incorporated Company	Associate	30,000	—	—	30,000
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	Associate	—	—	—	—
DAESUN Shipbuilding & Engineering Co, Ltd.	Associate	—	—	—	—
Total		₩659,150	₩—	₩—	₩659,150

(2014)

Company	Detail	Beginning balance	Acquisition	Impairment loss	Ending balance
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩ —	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	—	115,486
Korea Marine Guarantee Incorporated Company	Associate	—	30,000		30,000
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	Associate	10	—	(10)	—
DAESUN Shipbuilding & Engineering Co, Ltd.	Associate	—	1	(1)	—
Total		₩629,160	30,001	(11)	₩659,150

(3) Summarized financial information of associates and subsidiaries as of and for the six months ended June 30, 2015, and for the year ended December 31, 2014, is as follows (Korean won in millions):

(2015)

Company	Assets	Liabilities	Operating income (loss)	Net income (loss)
KEXIM Bank UK Limited	₩ 511,553	₩ 466,452	₩ 2,840	₩ 2,306
KEXIM Vietnam Leasing Co.	159,491	146,858	1,068	874
PT.KOEXIM Mandiri Finance	166,801	143,286	2,277	2,278
KEXIM Asia Limited	384,535	326,811	1,746	1,464
Korea Asset Management Corporation	2,426,501	851,657	41,706	35,513
Credit Guarantee and Investment Fund	836,075	25,263	3,541	3,398
Korea Marine Guarantee Incorporated Company	60,028	605	(289)	(289)
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	1,990,444	3,263,602	(180,589)	(310,081)
DAESUN Shipbuilding & Engineering Co, Ltd.	404,434	765,690	(8,737)	(16,325)

(2014)

Company	Assets	Liabilities	Operating income (loss)	Net income (loss)
KEXIM Bank UK Limited	₩ 497,285	₩ 456,011	₩ 23,257	₩ (2,606)
KEXIM Vietnam Leasing Co.	148,664	137,185	4,374	1,169
PT.KOEXIM Mandiri Finance	163,332	140,300	7,482	3,546
KEXIM Asia Limited	386,051	330,643	11,956	3,308
Korea Asset Management Corporation	2,388,025	810,810	112,832	95,281
Credit Guarantee and Investment Fund	792,311	4,893	3,819	3,816
Korea Marine Guarantee Incorporated Company	60,000	—	—	—
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	2,062,669	3,024,827	(207,799)	(344,873)
DAESUN Shipbuilding & Engineering Co, Ltd.	406,464	762,845	(35,438)	19,667

12. TANGIBLE ASSETS:

Changes in tangible assets for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

Detail	Beginning balance	Acquisitions	Disposals	Depreciation	Others	Ending balance
Lands	₩191,306	₩ —	₩ —	₩ —	₩—	₩191,306
Buildings	72,676	—	—	(1,854)	(17)	70,805
Vehicles	1,378	131	(18)	(286)	—	1,205
Furniture and fixture	8,179	940	(2)	(1,528)	—	7,589
Total	₩273,539	₩1,071	₩ (20)	₩(3,668)	₩(17)	₩270,905

(2014)

Detail	Beginning balance	Acquisitions	Transfer	Disposals	Depreciation	Ending balance
Lands	₩189,585	₩ 1,721	₩ —	₩ —	₩ —	₩191,306
Buildings	21,727	13,317	39,855		(2,222)	72,677
Vehicles	938	883	—	(14)	(430)	1,377
Furniture and fixture	7,102	3,196	481	(21)	(2,579)	8,179
Construction in progress	17,167	23,169	(40,336)	—	—	—
Total	₩236,519	₩42,286	₩ —	₩ (35)	₩(5,231)	₩273,539

13. INTANGIBLE ASSETS:

Changes in intangible assets for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

Detail	Beginning Balance	Acquisitions	Disposals	Amortization	Impairment	Ending Balance
Computer software	₩ 4,725	₩ 140	₩—	₩ (677)	₩—	₩ 4,188
System development fees	8,785	2,436	—	(1,159)	—	10,062
Memberships	4,671	—	—	—	—	4,671
Total	₩18,181	₩2,576	₩—	₩(1,836)	₩—	₩18,921

(2014)

Detail	Beginning balance	Acquisitions	Disposals	Amortization	Impairment	Ending balance
Computer software	₩ 3,954	₩1,874	₩ —	₩(1,103)	₩—	₩ 4,725
System development fees	8,573	2,337	—	(2,125)	—	8,785
Memberships	4,901	—	(230)	—	—	4,671
Total	₩17,428	₩4,211	₩(230)	₩(3,228)	₩—	₩18,181

14. OTHER ASSETS:

(1) Details of other assets as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Other financial assets:		
Guarantee deposits	₩ 34,826	₩ 33,553
Accounts receivable	165,925	165,684
Accrued income	698,905	653,032
Receivable spot exchange	61	90
Allowances for loan losses on other assets	(47,123)	(43,466)
	852,594	808,893
Other assets:		
Prepaid expenses	6,475	5,103
Advance payments	12	—
Prepaid corporate tax	1,422	—
Sundry assets	15,911	14,401
	23,820	19,504
Total	₩876,414	₩828,397

(2) Changes in allowances for loan losses on other assets for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	2015	2014
Beginning balance	₩43,466	₩14,304
Bad debts written off	(56)	—
Collection of written-off loans	—	35
Transfers in	3,657	29,162
Others	56	(35)
Ending balance	₩47,123	₩43,466

15. BORROWINGS:

Details of borrowings as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail	Lender	Interest rate (%)	Amount
Borrowings in foreign currencies:			
Compulsory loan	MINISTRY OF STRATEGY AND FINANCE	LIBOR 3M+0.25–LIBOR 3M+0.78	₩ 3,395,850
Long-term borrowings from foreign financial institutions	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	LIBOR 3M+0.45–LIBOR 3M+1.10	3,035,070
Discount on borrowings		—	(8,100)
Commercial papers (CP)	CITIBANK N.A., HONG KONG and others	0.12–0.58	4,198,343
Offshore CP	CITIBANK N.A., HONG KONG	0.30	56,205
Others (Foreign banks)	DBS BANK TD, SINGAPORE BRANCH and others	0.70–1.10	379,085
			11,056,453
Call money in local currencies	Korea Development Bank	1.55	30,000
Securities sold under RP		0.44	112,469
			₩11,198,922

(December 31, 2014)

Detail	Lender	Interest rate (%)	Amount
Borrowings in foreign currencies:			
Compulsory loan	MINISTRY OF STRATEGY AND FINANCE	0.25–LIBOR 3M+0.78	₩ 3,359,507
Long term borrowings from foreign financial institutions	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	LIBOR 3M +0.35–LIBOR 3M + 1.10	2,790,601
Discount on borrowings		—	(9,025)
CP	CITIBANK N.A., HONG KONG and others	0.05–0.70	3,217,605
Offshore CP	BANK OF AMERICA NA and others	0.30	54,960
Others (Foreign banks)	DEUTSCHE BANK AG, LONDON BRANCH RBS(TOKYO) and others	0.46–1.95	503,351
			9,916,999
Securities sold under RP		0.40–0.45	101,282
			₩10,018,281

16. DEBENTURES:

Details of debentures as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Detail	June 30, 2015 Interest rate (%)	June 30, 2015 Amount	December 31, 2014 Interest rate (%)	December 31, 2014 Amount
Local currency:				
Floating rate	CD91-0.05 –CD91+0.22	₩ 360,000	2.65–3.76	₩ 440,000
Fixed rate	1.55–4.9	9,030,000	2.04–4.9	8,230,000
Balance		9,390,000		8,670,000
Gain on fair value of hedged items		(1,817)		
Discount on debentures:		(42,006)		(41,947)
Subtotal		9,346,177		8,628,053
Foreign currencies				
Floating rate	Libor+0.0– Libor+1.7	7,524,265	Libor+0.0 –Libor+1.8	6,578,872
Fixed rate	0.20–9.32	33,812,241	0.08–9.32	31,805,227
Balance		41,336,506		38,384,099
Gain on fair value of hedged items		361,981		440,212
Discount on debentures		(155,920)		(160,661)
Subtotal		41,542,567		38,663,650
Total		₩50,888,744		₩47,291,703

17. PROVISIONS:

(1) Details of provisions as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Provisions for acceptances and guarantees	₩167,379	₩119,183
Provisions for unused loan commitments	105,605	175,994
Total	₩272,984	₩295,177

(2) Changes in provisions for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Acceptances and guarantees				
Detail	Individual assessment	Collective assessment	Subtotal	Unused loan commitments	Total
Beginning balance	₩ 5,244	₩113,939	₩119,183	₩175,994	₩295,177
Foreign exchange translation	—	(22)	(22)	67	45
Additional Provisions (Reversal of provision)	47,098	1,120	48,218	(70,456)	(22,238)
Transfers in (out)	4,124	(4,124)	—	—	—
Ending balance	₩56,466	₩110,913	₩167,379	₩105,605	₩272,984

(2014)

Detail	Acceptances and guarantees: Individual assessment	Acceptances and guarantees: Collective assessment	Acceptances and guarantees: Subtotal	Unused loan commitments	Total
Beginning balance	₩ 88,434	₩ 67,178	₩155,612	₩ 89,742	₩245,354
Foreign exchange translation	—	61	61	465	526
Additional Provisions (Reversal of provision)	(82,803)	46,313	(36,490)	85,787	49,297
Transfers in (out)	(387)	387	—	—	—
Ending balance	₩ 5,244	₩113,939	₩119,183	₩175,994	₩295,177

18. RETIREMENT BENEFIT PLAN:

The Bank operates both defined benefit plan and defined contribution plan.

(1) Defined benefit plan

The Bank operates defined benefit plans, which have the following characteristics:

- The entity has the obligation to pay the agreed benefits to all its current and past employees.
- The entity is liable for actuarial risk (excess of actual payment against expected amount) and investment risk.

The present value of the defined benefit obligation recognized in the separate statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation method. The present value of the defined benefit obligation is calculated using the Projected Unit Credit method (the PUC). The data used in the PUC, such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data, which are annually updated.

Actuarial assumptions may differ from actual results due to change in the market, economic trend and mortality trend, which may affect defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income or loss.

(2) Details of defined benefit obligation as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Present value of defined benefit obligations	₩ 88,467	₩ 82,626
Fair value of plan assets	(35,060)	(35,363)
Defined benefit obligation, net	₩ 53,407	₩ 47,263

(3) Changes in net defined benefit obligations for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩82,626	₩(35,363)	₩47,263
Current service cost	5,609	—	5,609
Interest expense	1,674	—	1,674
Return on plan assets, excluding the interest income	—	(720)	(720)
Actuarial gains and losses arising from changes in financial assumptions	—	—	—
Actuarial gains and losses arising from empirical adjustment	—	—	—
Management fee on plan assets	—	—	—
Transfer in (out)	—	—	—
Benefits paid	(1,442)	1,023	(419)
Ending balance	₩88,467	₩(35,060)	₩53,407

(2014)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩62,179	₩(34,311)	₩27,868
Contributions from the employer	—	(1,000)	(1,000)
Current service cost	9,026	—	9,026
Interest expense	3,126	—	3,126
Return on plan assets, excluding the interest income	—	(1,737)	(1,737)
Actuarial gains and losses arising from changes in financial assumptions	10,364	733	11,097
Actuarial gains and losses arising from empirical adjustment	(490)	—	(490)
Management fee on plan assets	—	86	86
Transfer in (out)	620	(620)	—
Benefits paid	(2,199)	1,486	(713)
Ending balance	₩82,626	₩(35,363)	₩47,263

(4) Details of plan assets as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Cash and cash equivalent	₩10,752	₩13,199
Debt securities	2,451	4,541
Others	21,857	17,623
Total	₩35,060	₩35,363

(5) Actuarial assumptions used in retirement benefit obligation assessment as of June 30, 2015, and December 31, 2014, are as follows:

	June 30, 2015	December 31, 2014
Discount rate	4.07%	4.07%
Expected wage growth rate	3.04%	3.04%

(6) Retirement benefit cost incurred from the defined contribution plan for the six months ended June 30, 2015 and 2014, is as follows (Korean won in millions):

	2015	2014
Retirement benefit cost	₩117	₩119

19. OTHER LIABILITIES:

Details of other liabilities as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Other financial liabilities:		
Guarantee deposits	₩ 571,569	₩ 503,256
Foreign exchanges payable	97,193	148,452
Accounts payable	7,802	1,398,555
Accrued expenses	507,667	520,164
Guarantee deposit received	158	108
Subtotal	1,184,389	2,570,535
Other liabilities:		
Allowance for credit loss in derivatives	13,068	10,931
Unearned income	226,047	226,748
Sundry liabilities	6,157	6,851
Subtotal	245,272	244,530
Total	₩1,429,661	₩2,815,065

20. DERIVATIVES:

The Bank operates derivatives for trading and hedging instrument. Derivatives held for trading purpose are included in financial assets and liabilities at FVTPL.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. When applying fair value hedge, the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Any adjustment arising from the gain or loss on the hedged item attributable to the hedged risk to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

The Bank uses interest rate swaps for hedging changes of fair values in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of fair values in hedged items arising from changes in foreign exchange rates

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss. When applying cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

The Bank uses interest rate swaps for hedging changes of cash flows in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of cash flows in hedged items arising from changes in foreign exchange.

(3) Details of derivative assets and liabilities as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

		Derivative assets			
Detail	Notional	Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩19,239,555	₩218,329	₩—	₩ 23,879	₩242,208
Currency:					
Currency forwards	4,305,102	—	—	22,953	22,953
Currency swaps	16,594,679	49,749	—	53,826	103,575
Subtotal	20,899,781	49,749	—	76,779	126,528
Total	₩40,139,336	₩268,078	₩—	₩100,658	₩368,736

		Derivative liabilities			
Detail	Notional	Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩19,239,555	₩ 130,290	₩1,590	₩ 54,521	₩ 186,401
Currency:					
Currency forwards	4,305,102	—	—	67,703	67,703
Currency swaps	16,594,679	2,067,686	—	513,380	2,581,066
Subtotal	20,899,781	2,067,686	—	581,083	2,648,769
Total	₩40,139,336	₩2,197,976	₩1,590	₩635,604	₩2,835,170

(December 31, 2014)

Detail	Notional	Derivative assets: Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩13,806,343	₩258,295	₩—	₩ 3,630	₩261,925
Currency:					
Currency forwards	1,842,284	—	—	4,966	4,966
Currency swaps	15,528,234	30,129	—	48,184	78,313
Subtotal	17,370,518	30,129	—	53,150	83,279
Total	₩31,176,861	₩288,424	₩—	₩56,780	₩345,204

Detail	Notional	Derivative liabilities: Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩13,806,343	₩ 89,641	₩2,789	₩ 28,612	₩ 121,042
Currency:					
Currency forwards	1,842,284	—	—	47,857	47,857
Currency swaps	15,528,234	1,891,026	—	412,600	2,303,626
Subtotal	17,370,518	1,891,026	—	460,457	2,351,483
Total	₩31,176,861	₩1,980,667	₩2,789	₩489,069	₩2,472,525

(4) Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Fair value hedge – hedged items	₩ 71,407	₩(238,627)
Fair value hedge – hedging instruments	₩(696,011)	₩ 517,629

(5) The Bank recognized ₩1,078 million and ₩(365) million as other comprehensive income (losses) (not adjusting tax effect) and cash flow hedge ineffectiveness of ₩41 million and ₩27 million was recognized in earnings for the six months ended June 30, 2015 and 2014.

21. CAPITAL STOCK:

As of June 30, 2015, the authorized capital and paid-in capital of the Bank are ₩15,000,000 million and ₩7,788,055 million, respectively. The Bank does not issue share certificates.

Changes in capital stock for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	2015	2014
Beginning balance	₩7,748,055	₩7,238,055
Increase in capital and investment in kind	40,000	510,000
Ending balance	₩7,788,055	₩7,748,055

22. OTHER COMPONENTS OF EQUITY:

(1) Details of other components of equity as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Gain on valuation of AFS securities	₩118,302	₩116,276
Loss on valuation of cash flow hedge	(1,244)	(2,062)
Remeasurement elements of net defined benefit liability	(3,212)	(3,212)
Total	₩113,846	₩111,002

(2) Changes in other reserves for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Beginning balance	Increase	Tax effect	Ending balance
Gain (loss) on valuation of AFS securities	₩116,276	₩2,672	₩(646)	₩118,302
Loss on valuation of cash flow hedge	(2,062)	1,078	(260)	(1,244)
Remeasurement elements of net defined benefit liability	(3,212)	—	—	(3,212)
Total	₩111,002	₩3,750	₩(906)	₩113,846

(2014)

	Beginning balance	Increase (decrease)	Tax effect	Ending balance
Gain on valuation of AFS securities	₩54,157	₩ 81,950	₩(19,831)	₩116,276
Loss on valuation of cash flow hedge	(1,227)	(1,102)	267	(2,062)
Remeasurement elements of net defined benefit liability	4,827	(10,606)	2,567	(3,212)
Total	₩57,757	₩ 70,242	₩(16,997)	₩111,002

23. RETAINED EARNINGS:

(1) Details of retained earnings as of as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Legal reserve (*1)	₩ 326,660	₩ 319,984
Voluntary reserve (*2)	1,106,825	1,119,559
Reserve for bad loan	572,420	514,785
Unappropriated retained earnings	35,693	66,767
Total	₩2,041,598	₩2,021,095

(*1) Pursuant to the EXIM Bank Act, the Bank appropriates 10% of net income for each accounting period as legal reserve, until the accumulated reserve equals to its paid-in capital.

(*2) The Bank appropriates the remaining balance of net income, after the appropriation of legal reserve and declaration of dividends, to voluntary reserve.

(2) Changes in retained earnings for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	2015	2014
Beginning balance	₩2,021,095	₩1,954,328
Net income for the period	35,693	66,767
Dividends	(15,190)	—
Ending balance	₩2,041,598	₩2,021,095

(3) Reserve for bad loans

Reserve for bad loans is calculated and disclosed according to Article 29 (1) and (2), *Regulation on Supervision of Banking Business*. In accordance with Regulation on Supervision of Banking Business etc., if the estimated allowance for credit loss determined by K-IFRS for the accounting purpose is lower than those for the regulatory purpose required by Regulation on Supervision of Banking Business, the Bank should reserve such difference as the regulatory reserve for bad loans. Due to the fact that regulatory reserve for bad loans is a voluntary reserve, the amounts that exceed the existing reserve for bad loans over the compulsory reserve for bad loans at the period-end date are reversed in profit. In case of accumulated deficit, the Bank should recommence setting aside reserve for bad loans at the time when accumulated deficit is gone.

1) Reserve for bad loans

Details of reserve for bad loans as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Accumulated reserve for bad loans	₩572,420	₩514,785
Expected reserve for bad loans	33,567	57,635
Reserve for bad loans	₩605,987	₩572,420

2) Expected reserve for bad loans and net income after adjusting reserve for bad loans.

Details of expected reserve for bad loans and net income after adjusting the reserve for six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Net income for the period	₩ 35,693	₩ 77,055
Expected reserve for bad loans	(33,567)	67,114
Net profit after adjusting the reserve for bad loans (*1)	₩ 2,126	₩144,169

(*1) Adjusted profit (loss) considering reserves for bad debt as above is calculated by assuming that the provision in reserves for bad debt before income tax is reflected in net income.

(4) Details of dividends for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	2015	2014
The Government	₩10,644	₩—
BOK	2,284	—
Korea Development Bank	2,262	—
Total	₩15,190	₩—

24. NET INTEREST INCOME:

Net interest income is the amount after deduction of interest expenses from interest income, and the details are as follows:

(1) Details of interest income for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Interest of due from financial institutions:		
Due from financial institutions in local currency	₩ 1,786	₩ 4,470
Due from financial institutions in foreign currencies	2,318	2,177
	4,104	6,647
Interest of financial assets at FVTPL:		
Interest of trading securities	426	269
Interest of investments:		
Interest of AFS securities	4,482	1,284
Interest of held-to-maturity securities	766	396
	5,248	1,680
Interest of loans:		
Interest of loans in local currency	232,509	276,844
Interest of loans in foreign currencies	627,283	515,413
Interest of bills bought	4,295	12,022
Interest of advances for customers	36	70
Interest of call loans	7,388	7,212
Interest of interbank loans	1,341	181
	872,852	811,742
Interest of others	5,857	1,242
Total	₩888,487	₩821,580

Interest income accrued from impaired loan is ₩14,851 million and ₩16,775 million for the six months ended June 30, 2015 and 2014, respectively.

(2) Details of interest expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Interest of borrowings:		
Borrowings in foreign currencies	₩ 34,946	₩ 19,458
RP	229	95
Interest of call money	1,433	5,650
Interest of debentures:		
Interest of debentures in local currency	107,034	121,180
Interest of debentures in foreign currencies	454,799	496,102
Interest of others	3,460	2,262
Total	₩601,901	₩644,747

25. NET COMMISSION INCOME:

Net commission income is the amount after deduction of commission expenses from commission income, and the details are as follows.

(1) Details of commission income for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Commission income in local currency:		
Commissions income on management of EDCF	₩ 6,458	₩ 5,756
Commissions income on management of IKCF	1,407	1,391
	7,865	7,147
Commission income in foreign currency:		
Commissions income on letter of credit	1,458	1,460
Commissions income on confirmation on export letter of credit	385	417
Commissions income on loans commitment	38,126	42,772
Management fee	1	97
Arrangement fee	5,397	—
Advisory fee	1,178	15
Cancellation fee	3,066	2,817
Prepayment fee	1,856	21,355
Sundry commissions income on foreign exchange	267	73
Other commission income in foreign currency	378	—
	52,112	69,006
Others:		
Other commission income	835	136
Guarantee fees on foreign currency:		
Guarantee fees on foreign currency	93,838	86,722
Premium for guarantee	22,457	13,798
	116,295	100,520
Total	₩177,107	₩176,809

(2) Details of commission expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Commission expenses in local currency:		
Commissions expenses on borrowings	₩ —	₩ 132
Commissions expenses on domestic transaction	174	77
Other Commissions expenses on domestic transaction	27	—
	201	209
Commission expenses in foreign currency:		
Service fees paid to credit-rating agency	1,950	1,064
Sundry commission expenses on foreign exchange	594	228
Commission expenses on offshore borrowings	—	15
Sundry commissions expenses on offshore transaction	9	23
	2,553	1,330
Others:		
Other commissions expenses	522	245
Total	₩3,276	₩1,784

26. DIVIDEND INCOME:

Details of dividend income for six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
AFS securities	₩15,229	₩10,442

27. GAIN (LOSS) ON FINANCIAL ASSETS AT FVTPL:

Details of gain (loss) on financial assets at FVTPL for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Trading securities:		
Gain on valuation	₩ 5,975	₩ 1,652
Loss on valuation	(219)	—
Gain on disposal	7,133	4,890
Loss on disposal	(58)	(52)
	12,831	6,490
Trading derivatives		
Gain on valuation	100,573	164,626
Loss on valuation	(325,382)	(8,211)
Gain on transaction	157,769	145,055
Loss on transaction	(182,373)	(72,141)
	(249,413)	229,329
Total	₩(236,582)	₩235,819

28. GAIN (LOSS) ON HEDGING DERIVATIVES:

Details of gain (loss) on hedging derivatives for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Gain on hedging derivatives	₩ 96,354	₩ 640,258
Loss on hedging derivatives	(792,324)	(122,600)
Total	₩(695,970)	₩ 517,658

29. GAIN (LOSS) ON FINANCIAL INVESTMENTS:

(1) Details of gain (loss) on financial investments for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
AFS securities:		
Gain on disposals	₩ 7,885	₩ 2
Loss on disposals	(278)	—
Impairment loss	(50,271)	(33,684)
Total	₩(42,664)	₩(33,682)

(2) There is no gain or loss on held-to-maturity securities for the six months ended June 30, 2015 and 2014, respectively. In addition, details of interest income of held-to-maturity securities are stated in Note 24.

30. OTHER OPERATING INCOME (EXPENSES):

Details of other operating income (expenses) for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Other operating income:		
Gain on disposal of loans	₩ —	₩ 1
Gain on fair value hedged items	167,106	71,859
Others	12,315	14,883
	179,421	86,743
Other operating expenses:		
Loss on fair value hedged items	95,699	310,486
Contribution to Credit Guarantee Fund and Technology Credit Guarantee Fund	2,543	2,642
Others	13,552	8,048
	111,794	321,176
Total	₩ 67,627	₩(234,433)

31. (REVERSAL OF) IMPAIRMENT LOSS ON CREDIT:

Details of impairment loss (reversal) on credit for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Loans	₩363,396	₩147,844
Other financial assets	3,656	41,317
Guarantees	48,218	(33,758)
Unused loan commitments	(70,456)	55,293
Financial guarantee contract	(15,349)	1,510
Total	₩329,465	₩212,206

32. GENERAL AND ADMINISTRATIVE EXPENSES:

Details of general and administrative expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	Detail	2015	2014
General and administrative	Short-term salaries	₩ 48,608	₩45,724
Other expenses in financing department	Office expenses	26,868	22,076
	Subtotal	75,476	67,800
Office expenses of EDCF		845	811
General and administrative	Postemployment benefit (defined contributions)	117	119
Others	Postemployment benefit (defined benefits)	6,563	5,191
	Depreciation of tangible assets	3,668	2,119
	Amortization of intangible assets	1,836	1,578
	Taxes and duties	17,012	17,896
	Subtotal	29,196	26,903
	Total	₩105,517	₩95,514

33. NON-OPERATING INCOME (EXPENSES):

Details of non-operating income (expenses) for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	Detail	2015	2014
Gain (loss) on investments in associates and subsidiaries	Dividend income	₩8,057	₩4,662
Others income	Gain on disposals of tangible assets	32	49
	Rent income	78	32
	Interest on other loans	69	75
	Revenue on research project	27	275
	Other miscellaneous Income	233	428
	Subtotal	439	859
Others expenses	Loss on disposal of tangible assets	2	1
	Expenses for contribution	1,887	1,597
	Court cost	247	58
	Expenses on research project	896	407
	Other miscellaneous expenses	84	43
	Subtotal	3,116	2,106
	Total	₩5,380	₩3,415

34. INCOME TAX EXPENSE:

(1) Details of income tax expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Current income tax payable	₩ —	₩ —
Adjustment recognized in the period for current tax of prior periods	13,291	18,277
Changes in deferred income taxes due to temporary differences	11,883	(33,481)
Changes in deferred income taxes directly recognized in equity	(907)	46,094
Income tax expense	₩24,267	₩ 30,890

(2) Details of the reconciliation between net income before income tax and income tax expense for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Net income before income tax	₩59,960	₩107,945
Income tax calculated at statutory tax rate (*)	14,279	25,661
Adjustments:		
Effect on non-taxable income	(1,036)	(444)
Effect on non-deductible expense	540	213
Unrecognized temporary differences	—	2
Others	224	783
	(272)	554
Adjustment recognized in the period for current tax of prior periods	10,260	4,675
Income tax expense	₩24,267	₩ 30,890
Effective tax rate from operations	40.47%	28.62%

(*) The corporate tax rate is 11% up to ₩200 million, 22% over ₩200 million to ₩20 billion and 24.2% over ₩20 billion.

35. STATEMENTS OF CASH FLOWS:

(1) Details of cash and cash equivalents in the statements of cash flows as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions)

	2015	2014
Due from financial institutions in local currency	₩ 156,521	₩ 230,325
Due from financial institutions in foreign currencies	3,154,607	1,489,722
Subtotal	3,311,128	1,720,047
Restricted due from financial institutions	(2,135)	(378)
Due from financial institutions with original maturities of three months or less at acquisition date	(2,038,971)	(159,300)
Subtotal	(2,041,106)	(159,678)
Total	₩ 1,270,022	₩1,560,369

(2) Details of non-cash flow transactions for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Loan-for-equity swap	₩6,870	₩ 20,476
Gain (loss) on valuation of AFS securities	2,025	(144,099)

36. CONTINGENT LIABILITIES AND COMMITMENTS:

(1) Details of contingent liabilities and commitments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Detail		June 30, 2015	December 31, 2014
Guarantees	Confirmed	₩52,128,577	₩48,057,826
	Unconfirmed	13,065,446	13,315,115
	Subtotal	₩65,194,023	₩61,372,941
Loan commitments	Local currency, foreign currency loan commitments	₩26,496,198	₩28,054,430
	Others	708,683	401,767
	Subtotal	27,204,881	28,456,197
	Total	₩92,398,904	₩89,829,138

(2) Details of guarantees that have been provided for others as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Detail		June 30, 2015	December 31, 2014
Confirmed guarantees	Local currency:		
	Performance of contracts	₩ 115,175	₩ 109,551
	Repayment of advances	86,247	104,842
	Others	111,978	154,201
	Subtotal	313,400	368,594
	Foreign currency:		
	Performance of contracts	14,322,587	14,014,283
	Repayment of advances	21,794,700	20,466,526
	Acceptances of imported goods	5,512	18,478
	Acceptance of import letter of credit outstanding	173,569	182,686
	Foreign liabilities	8,326,714	6,631,195
	Others	7,192,095	6,376,064
	Subtotal	51,815,177	47,689,232
Unconfirmed guarantees	Foreign liabilities	2,707,484	2,290,655
	Repayment of advances	10,110,451	10,810,518
	Performance of contracts	242,533	128,093
	Underwriting of import credit	4,772	85,660
	Others	206	189
	Subtotal	13,065,446	13,315,115
	Total	₩65,194,023	₩61,372,941

(3) Details of guarantees classified by country as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail		Confirmed guarantees		Unconfirmed guarantees		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia	Korea	₩40,783,504	78.24	₩10,236,744	78.35	₩51,020,248	78.26
	India	273,370	0.52	348,116	2.66	621,486	0.95
	Vietnam	603,652	1.16	627,949	4.81	1,231,601	1.89
	Saudi Arabia	1,404,892	2.70	307,196	2.35	1,712,088	2.63
	Indonesia	1,086,091	2.08	62,684	0.48	1,148,775	1.76
	Australia	698,145	1.34	135,420	1.04	833,565	1.28
	Philippines	489,736	0.94	116,445	0.89	606,181	0.93
	Qatar	304,830	0.58	32,400	0.25	337,230	0.52
	Singapore	295,950	0.57	16,253	0.12	312,203	0.48
	Jordan	197,273	0.38	6,516	0.05	203,789	0.31
	Oman	177,299	0.34	151,762	1.16	329,061	0.50
	Others	249,947	0.48	13,263	0.10	263,210	0.40
		46,564,689	89.33	12,054,748	92.26	58,619,437	89.91
Europe	France	468,336	0.90	149	—	468,485	0.72
	United Kingdom	81,738	0.16	1,649	0.01	83,387	0.13
	Netherlands	11,241	0.02	—	—	11,241	0.02
	Russia	63,231	0.12	—	—	63,231	0.10
	Uzbekistan	258,531	0.50	126,249	0.97	384,780	0.59
	Turkey	19,884	0.04	13,839	0.11	33,723	0.05
	Turkmenistan	11,219	0.02	230,319	1.76	241,538	0.37
	Others	7,026	0.01	49,179	0.38	56,205	0.09
		921,206	1.77	421,384	3.23	1,342,590	2.07
America	U.S.A.	2,559,772	4.91	56,531	0.43	2,616,303	4.01
	Mexico	309,332	0.59	2,886	0.02	312,218	0.48
	Bermuda	126,461	0.24	—	—	126,461	0.19
	Brazil	397,857	0.76	190,169	1.46	588,026	0.90
	Peru	102,976	0.20	—	—	102,976	0.16
	Others	147,729	0.28	148,193	1.13	295,922	0.46
		3,644,127	6.98	397,779	3.04	4,041,906	6.20
Africa	Madagascar	176,960	0.34	—	—	176,960	0.27
	Marshall Islands	608,785	1.17	78,450	0.60	687,235	1.05
	Others	212,810	0.41	113,085	0.87	325,895	0.50
		998,555	1.92	191,535	1.47	1,190,090	1.82
		₩52,128,577	100.00	₩13,065,446	100.00	₩65,194,023	100.00

(December 31, 2014)

Detail		Confirmed guarantees		Unconfirmed guarantees		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia	Korea	₩38,752,119	80.64	₩10,464,393	78.59	₩49,216,512	80.19
	India	261,850	0.54	360,581	2.71	622,431	1.01
	Vietnam	451,926	0.94	752,422	5.65	1,204,348	1.96
	Saudi Arabia	956,198	1.99	138,281	1.04	1,094,479	1.78
	Indonesia	860,854	1.79	11,806	0.09	872,660	1.42
	Iran	3,234	0.01	—	—	3,234	0.01
	Others	2,396,262	4.99	811,310	6.09	3,207,572	5.23
		43,682,443	90.90	12,538,793	94.17	56,221,236	91.60
Europe	France	367,581	0.76	146	—	367,727	0.60
	United Kingdom	103,403	0.22	1,613	0.01	105,016	0.17
	Netherlands	10,992	0.02	—	—	10,992	0.02
	Russia	14,209	0.03	73,409	0.55	87,618	0.14
	Others	298,570	0.62	229,386	1.72	527,956	0.86
		794,755	1.65	304,554	2.28	1,099,309	1.79
America	U.S.A.	1,975,646	4.11	166,187	1.25	2,141,833	3.49
	Mexico	305,249	0.64	4,295	0.03	309,544	0.50
	Bermuda	129,156	0.27	—	—	129,156	0.21
	Others	459,612	0.96	177,192	1.33	636,804	1.04
		2,869,663	5.98	347,674	2.61	3,217,337	5.24
Africa	Madagascar	182,653	0.38	—	—	182,653	0.30
	Marshall Islands	318,195	0.66	—	—	318,195	0.52
	Others	210,117	0.43	124,094	0.94	334,211	0.55
		710,965	1.47	124,094	0.94	835,059	1.37
		₩48,057,826	100.00	₩13,315,115	100.00	₩61,372,941	100.00

(4) Details of guarantees classified by industry as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩25,270,650	48.48	₩11,160,237	85.42	₩36,430,887	55.88
Transportation	929,315	1.78	130,140	1.00	1,059,455	1.63
Finance	1,913,299	3.67	6,571	0.05	1,919,870	2.94
Wholesale and retail	2,162,581	4.15	52,512	0.40	2,215,093	3.40
Property related business	527,910	1.01	—	—	527,910	0.81
Construction	14,764,508	28.32	336,170	2.57	15,100,678	23.16
Public and others	6,560,314	12.59	1,379,816	10.56	7,940,130	12.18
Total	₩52,128,577	100.00	₩13,065,446	100.00	₩65,194,023	100.00

(December 31, 2014)

Detail	Confirmed guarantees Amount	Ratio (%)	Unconfirmed guarantees Amount	Ratio (%)	Total Amount	Ratio (%)
Manufacturing	₩22,685,432	47.20	₩12,128,222	91.09	₩34,813,654	56.72
Transportation	568,587	1.18	50,546	0.38	619,133	1.01
Finance	1,886,318	3.93	87,419	0.66	1,973,737	3.22
Wholesale and retail	1,626,267	3.38	65,645	0.49	1,691,912	2.76
Property related business	524,431	1.09	—	—	524,431	0.85
Construction	15,328,262	31.90	101,804	0.76	15,430,066	25.14
Public and others	5,438,529	11.32	881,479	6.62	6,320,008	10.30
Total	₩48,057,826	100.00	₩13,315,115	100.00	₩61,372,941	100.00

(5) Global Medium-Term Note Program and CP programs

The Bank has been establishing the following programs regarding the issue of foreign currency bonds and CPs:

1) Established on August 1, 1991, initially, and annually renewed, U.S. Shelf Registration to issue foreign bonds under the Securities and Exchange Commission rule of the United States of America with an issuance limit of USD 30 billion;

2) Established on May 14, 1997, and May 16, 1997, initially, and annually renewed, CP program to issue CPs with issuance limits of USD 4 billion and USD 2 billion, respectively;

3) Established on November 6, 1997, initially, and annually renewed, Euro Medium-Term Note Program to issue mid-to-long-term foreign currency bonds with an issuance limit of USD 25 billion;

4) Established on February 13, 2008, initially, and renewed every year, MYR MTN program to issue Malaysian Ringgit-denoted bonds with issuance limits of MYR 4 billion.

5) Established on June 20, 2008, initially, and annually renewed, Yen Shelf Registration to issue Samurai bond with an issuance limit of JPY 500 billion;

6) Established on May 31, 2010, Australian Domestic Debt Issuance Program to issue Kangaroo bond with limit of AUD 2 billion;

7) Established on January 17, 2011, and renewed every two years, Uridashi Shelf Registration to issue Uridashi bond with an issuance limit of JPY 500 billion.

(6) Litigations

As of June 30, 2015, nine lawsuits (aggregated litigation value: ₩1,153,038 million) were filed by the Bank and six pending litigations as a defendant were filed (aggregated litigation value: ₩: 113,454 million). The Bank's management expects that there is no significant impact on the financial statements due to these lawsuits, but it is possible to make additional loss to the Bank due to the results of future litigation.

(7) Written-off loans

The Bank manages written-off loans that have claims on debtors due to the limitation of statute, uncollected after write-off, etc. The written-off loans as of June 30, 2015, and December 31, 2014, are ₩726,361 million and ₩605,221 million, respectively.

(8) Ordinary wages

The Supreme Court had handed down sentences in ordinary wages during the previous year. The Bank reviewed the effect by the Supreme Court ruling on the Bank's financial statements. The Bank determined not to recognize provisions, because the Bank anticipates that the outflow of resources is unlikely to be realized. Effects to the financial statements of the Bank with regard to the judgment of the court for the lawsuit are not disclosed in the notes to the financial statements in accordance with the paragraph 92 of K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets

37. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

Related parties consist of entities related to the Bank, postemployment benefits, a key management personnel and a close member of that person's family, an entity controlled or jointly controlled and an entity influenced significantly.

(1) Details of related parties as of June 30, 2015, are as follows:

Detail	Relationship	Percentage
Parent:		
Korean government	Parent	68.53%
Subsidiaries and Associates:		
KEXIM Bank UK Limited	Subsidiary	100.00%
PT.KOEXIM Mandiri Finance	Subsidiary	85.00%
KEXIM Vietnam Leasing Co.	Subsidiary	100.00%
KEXIM Asia Limited	Subsidiary	100.00%
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	Associate	70.71%
DAESUN Shipbuilding & Engineering Co., Ltd.	Associate	67.27%
Korea Asset Management Corporation,	Associate	25.86%
Credit Guarantee and Investment Fund	Associate	14.28%
Korea Marine Guarantee Incorporated Company	Associate	49.99%

(2) Significant balances of receivables, payables and guarantees with the related parties Significant balances of receivables and payables with the related parties as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail	Receivables	Allowance	Payables
Subsidiaries:			
KEXIM Bank UK Limited,	₩ 175,623	₩ —	₩ 127
PT.KOEXIM Mandiri Finance	142,848	237	—
KEXIM Vietnam Leasing Co	144,290	223	—
KEXIM Asia Limited	128,579	—	48
Associate:			
SUNGDONG Shipbuilding & Marine Engineering Co., LTD.	₩1,087,225	₩299,250	₩1,213
DAESUN Shipbuilding & Engineering Co., Ltd.	373,501	205,164	96
Total	₩2,052,066	₩504,874	₩1,484

(December 31, 2014)

Detail	Receivables	Allowance	Payables
Subsidiaries:			
KEXIM Bank UK Limited,	₩ 157,598	₩ —	₩ 112
PT.KOEXIM Mandiri Finance	139,671	232	—
KEXIM Vietnam Leasing Co	134,986	213	—
KEXIM Asia Limited	126,373	—	80
Associate:			
SUNGDONG Shipbuilding & Marine Engineering Co., LTD.	₩ 867,781	₩235,776	₩ —
DAESUN Shipbuilding & Engineering Co., Ltd.	363,005	207,293	13,908
Total	₩1,789,414	₩443,514	₩14,100

Guarantees provided to the related parties as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail	Confirmed guarantees	Unconfirmed guarantees	Loans commitments	Other commitments
Subsidiaries:				
KEXIM Bank UK Limited,	₩ 78,687	₩ —	₩275,405	₩24,730
PT.KOEXIM Mandiri Finance	—	—	28,103	—
KEXIM Vietnam Leasing Co.	—	—	5,621	—
KEXIM Asia Limited	—	—	47,212	55,643
Associate:				
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	994,600	931,342	80,000	—
DAESUN Shipbuilding & Engineering Co., Ltd.	108,410	125,348	—	—
Total	₩1,181,697	₩1,056,690	₩436,341	₩80,373

(December 31, 2014)

Detail	Confirmed Guarantees	Unconfirmed guarantees	Loans commitments	Other commitments
Subsidiaries:				
KEXIM Bank UK Limited,	₩ 98,928	₩ —	₩183,566	₩15,389
PT.KOEXIM Mandiri Finance	—	—	27,480	—
KEXIM Vietnam Leasing Co.	—	—	10,992	—
KEXIM Asia Limited	54,960	—	46,166	48,914
Associate:				
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	876,778	1,267,322	—	—
DAESUN Shipbuilding & Engineering Co., Ltd.	78,848	150,898	10,551	—
Total	₩1,109,514	₩1,418,220	₩278,755	₩64,303

(3) Profit and loss transactions with related parties

Profit and loss transactions with related parties for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

		2015			2014		
Detail	Related party	Revenue	Bad debt expenses	Expenses	Revenue	Bad debt expenses	Expenses
Subsidiaries	KEXIM Bank UK Limited	₩ 1,527	₩ —	₩256	₩ 703	₩ —	₩ 729
	PT.KOEXIM Mandiri Finance	511	5	—	681	(12)	2
	KEXIM Vietnam Leasing Co.	544	10	—	589	11	3
	KEXIM Asia Limited	805	—	137	948	—	400
Associate	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	13,381	67,029	38	14,128	3,540	—
	DAESUN Shipbuilding & Engineering Co., Ltd	3,244	1,724	—	7,620	2,724	—
	Total	₩20,012	₩68,768	₩431	₩24,669	₩6,263	₩1,134

(4) Money dealing with related parties

Money dealing with related parties for six months ended June 30, 2015, and for the year ended December 31, 2014, is as follows (Korean won in millions):

		2015		2014	
		Financing transaction		Financing transaction	
Detail	Related party	Loan	Collection	Loan	Collection
Subsidiaries	KEXIM Bank UK Limited	₩136,302	₩149,562	₩ 363,481	₩ 346,534
	PT.KOEXIM Mandiri Finance	140,923	140,923	288,332	296,936
	KEXIM Vietnam Leasing Co.	—	—	242,128	225,199
	KEXIM Asia Limited	63,171	107,555	287,622	277,439
Associate	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	220,000	—	—	10,100
	DAESUN Shipbuilding & Engineering Co., Ltd.	10,551	—	55,525	5,486
	Total	₩570,947	₩398,040	₩1,237,088	₩1,161,694

(5) Details of compensation to key management for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

Detail	2015	2014
Salaries	₩1,869	₩2,005
Severance and retirement benefits	249	210
Total	₩2,118	₩2,215

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of
The Export-Import Bank of Korea:

Report on the Financial Statements

We have audited the accompanying separate financial statements of the Export-Import Bank of Korea (the "Bank" or the "Company"), which comprise the separate statements of financial position as of December 31, 2014 and December 31, 2013, respectively, and the 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, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Export-Import Bank of Korea as of December 31, 2014, and December 31, 2013, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Others

We conducted our audit of separate financial statements of the Export-Import Bank of Korea as of December 31, 2013 in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

/s/ Deloitte Anjin LLC

March 9, 2015

Notice to Readers

This report is effective as of March 5, 2015, 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 financial statements and may result in modifications to the auditor’s report.

THE EXPORT-IMPORT BANK OF KOREA

SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013

	Korean won	
	December 31, 2014	December 31, 2013
	(In millions)	
ASSETS:		
Cash and due from financial institutions (Notes 4, 5 and 7)	₩ 3,113,988	₩ 2,214,755
Financial assets at fair value through profit or loss ("FVTPL") (Notes 4, 5, 8 and 20)	1,197,499	855,248
Hedging derivative assets (Notes 4, 5 and 20)	288,424	378,324
Loans (Notes 4, 5, 10 and 37)	61,158,553	51,169,874
Financial investments (Notes 4, 5 and 9)	4,791,524	4,073,979
Investments in associates and subsidiaries (Note 11)	659,150	629,160
Tangible assets, net (Note 12)	273,539	236,519
Intangible assets, net (Note 13)	18,181	17,428
Deferred tax assets (Note 35)	744,460	511,601
Other assets (Notes 4, 5, 14 and 37)	828,397	846,350
	₩73,073,715	₩60,933,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Financial liabilities at FVTPL (Notes 4, 5 and 20)	₩ 489,069	₩ 212,888
Hedging derivative liabilities (Notes 4, 5 and 20)	1,983,456	1,799,713
Borrowings (Notes 4, 5 and 15)	10,018,281	5,488,545
Debentures (Notes 4, 5 and 16)	47,291,703	42,709,823
Provisions (Note 17)	295,177	245,355
Retirement benefit obligation, net (Note 18)	47,263	27,868
Current tax liabilities	253,549	99,139
Other liabilities (Notes 4, 5, 19 and 37)	2,815,065	1,099,767
	₩63,193,563	₩51,683,098
SHAREHOLDERS' EQUITY:		
Capital stock (Note 21)	₩ 7,748,055	₩ 7,238,055
Other components of equity (Notes 20 and 22)	111,002	57,757
Retained earnings (Note 23) (Regulatory reserve for bad loans as of December 31, 2014 and 2013: ₩514,785 million and ₩423,827 million) (Note 24)	2,021,095	1,954,328
	9,880,152	9,250,140
	₩73,073,715	₩60,933,238

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA

SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	Year ended December 31, 2014	Year ended December 31, 2013
	(In millions)	
OPERATING INCOME:		
Net interest income (Notes 25 and 38):		
Interest income	₩ 1,688,814	₩ 1,698,284
Interest expenses	(1,294,395)	(1,335,696)
	394,419	362,588
Net commission income (Notes 26 and 38):		
Commission income	357,421	342,622
Commission expenses	(4,934)	(3,086)
	352,487	339,536
Dividend income (Note 27)	10,471	13,977
Gain (loss) on financial assets at FVTPL (Note 28)	(343,832)	169,565
Loss on hedging derivative assets (Notes 20 and 29)	(623,173)	(1,859,253)
Loss on financial investments (Note 30)	(46,362)	(389)
Gain on foreign exchange transaction	1,609,932	1,189,110
Other net operating income (expenses) (Note 31)	(418,880)	659,072
Impairment loss on credit (Note 32)	(651,503)	(622,596)
General and administrative expenses (Note 33)	(190,250)	(179,920)
Total operating income	93,309	71,690
NON OPERATING INCOME (EXPENSES) (Note 34):		
Net gain (loss) on investments in associates and subsidiaries	4,661	8,018
Net other non-operating expenses)	(4,815)	(6,395)
	(154)	1,623
INCOME BEFORE INCOME TAX	93,155	73,313
INCOME TAX EXPENSES (Note 35)	(26,388)	(13,582)
NET INCOME	66,767	59,731
(Adjusted income (loss) after reserve for bad loans for the years ended December 31, 2014 and 2013: ₩9,132 million and (-)₩31,227 million) (Note 24)		
OTHER COMPREHENSIVE INCOME(LOSS) FOR THE PERIOD (Note 22)		
Items not reclassified subsequently to profit or loss:		
Remeasurements of net defined benefit liability	(10,606)	8,520
Income tax effect	2,567	(2,062)
	(8,039)	6,458
Items reclassified subsequently to profit or loss:		
Valuation on Available-For-Sale (“AFS”) securities	81,950	37,620
Cash flow hedging gains or losses	(1,102)	2,616
Income tax effect	(19,564)	(9,737)
	61,284	30,499
TOTAL COMPREHENSIVE INCOME	₩ 120,012	₩ 96,688

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA

SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Capital stock	Other components of equity: Valuation on AFS securities	Other components of equity: Cash flow Hedging gains or losses	Other components of equity: Remeasurement of net defined benefit liability	Retained earnings	Total
	(Korean won in millions)					
January 1, 2013	₩7,138,055	₩ 25,641	₩(3,210)	₩(1,631)	₩1,928,883	₩9,087,738
Dividends	—	—	—	—	(34,286)	(34,286)
Increase in capital stock	100,000	—	—	—	—	100,000
Net income	—	—	—	—	59,731	59,731
Gain on valuation of available-for-sale securities, net of tax	—	28,516	—	—	—	28,516
Gain on valuation of cash flow hedge, net of tax	—	—	1,983	—	—	1,983
Remeasurements of net defined benefit liability, net of tax	—	—	—	6,458	—	6,458
December 31, 2013	₩7,238,055	₩ 54,157	₩(1,227)	₩ 4,827	₩1,954,328	₩9,250,140
January 1, 2014	₩7,238,055	₩ 54,157	₩(1,227)	₩ 4,827	₩1,954,328	₩9,250,140
Increase in capital stock	510,000	—	—	—	—	510,000
Net income	—	—	—	—	66,767	66,767
Gain on valuation of AFS securities, net of tax	—	62,119	—	—	—	62,119
Loss on valuation of cash flow hedge, net of tax	—	—	(835)	—	—	(835)
Remeasurements of net defined benefit liability, net of tax	—	—	—	(8,039)	—	(8,039)
December 31, 2014	₩7,748,055	₩116,276	₩(2,062)	₩(3,212)	₩2,021,095	₩9,880,152

See accompanying notes to separate financial statements.

THE EXPORT-IMPORT BANK OF KOREA

SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	Year ended December 31, 2014	Year ended December 31, 2013
	(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 66,767	₩ 59,731
Adjustments to reconcile net income to net cash used in operating activities:		
Income tax expense	26,388	13,582
Interest income	(1,688,814)	(1,698,284)
Interest expenses	1,294,395	1,335,696
Dividend income	(10,471)	(13,977)
Dividend income on associates and subsidiaries	(4,671)	(8,018)
Loss on trading securities	1,380	118
Loss on AFS securities	52,095	22,397
Transfer to derivatives' credit risk provision	173	—
Loss on debenture redemption	40	13
Loss on foreign exchange transactions	720,132	797,244
Impairment loss on credit	651,503	622,596
Impairment loss on equity securities by the equity method	10	—
Loss on fair value hedged items	569,644	118,706
Depreciation and amortization	8,461	5,158
Loss on disposals of tangible, intangible and other assets	232	8
Impairment loss on tangible, intangible and other assets	—	786
Loss on valuation of derivative assets	1,394,573	1,944,354
Retirement benefits	10,501	10,325
Gain on trading securities	(20,354)	(7,065)
Gain on AFS securities	(5,733)	(22,008)
Net increase in reversal of derivatives' credit risk provision	—	(3,797)
Profit on redemption	(7)	—
Gain on foreign exchange transactions	(2,330,064)	(2,100,814)
Gain on fair value hedged items	(153,194)	(776,597)
Gain on valuation of derivative assets	(327,409)	(283,310)
Gain on disposals of tangible assets, intangible assets and other assets	(99)	(73)
Changes in assets and liabilities resulting from operations:		
Net decrease (increase) in due from financial institutions	(994,976)	286,404
Net increase in financial assets at fair value through profit or loss	(352,897)	(642,890)
Net decrease in hedging derivative assets	191,482	204,070
Net increase in loans	(9,022,430)	(6,837,028)
Net decrease (increase) in other assets	112,088	(129,749)
Net increase (decrease) in provisions	94,904	(5,144)
Payment of retirement benefits	(1,713)	(1,536)
Net decrease (increase) in other liabilities	1,533,496	(65,397)

(Continued)

THE EXPORT-IMPORT BANK OF KOREA

SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won	
	Year ended December 31, 2014	Year ended December 31, 2013
	(In millions)	
Net decrease (increase) in financial liabilities at fair value through profit or loss	(89,203)	23,114
Net decrease in hedging derivative liabilities	(591,103)	(498,713)
Payment of income tax	(121,838)	(121,369)
Interest income received	1,654,817	1,662,753
Interest expense paid	(1,092,513)	(1,335,698)
Dividend income received	15,142	21,995
Net cash used in operating activities	(8,409,266)	(7,422,417)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposals of AFS securities and held-to-maturity securities	₩ 129,183	₩ 115,197
Disposals of tangible assets	133	97
Disposals of intangible assets	—	204
Acquisitions of AFS securities and held-to-maturity securities	(389,050)	(221,551)
Acquisitions of equity securities by equity method	(30,000)	(10)
Acquisitions of tangible assets	(42,286)	(11,891)
Acquisitions of intangible assets	(4,211)	(4,885)
Net cash used in investing activities	(336,231)	(122,839)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in call money	—	2,368
Increase in borrowings	13,122,194	8,964,764
Increase in debentures	20,498,688	19,124,877
Increase in capital stock	130,000	100,000
Decrease in borrowings	(8,812,856)	(6,061,396)
Decrease in debentures	(16,359,559)	(14,003,712)
Payment of dividends	—	(34,286)
Net cash provided by financing activities	8,578,467	8,092,615
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(167,030)	547,359
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,432,027	848,451
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	71,287	36,217
CASH AND CASH EQUIVALENTS, END OF THE PERIOD (Note 7)	₩ 1,336,284	₩ 1,432,027

(Concluded)

See accompanying notes to separate financial statements.

1. GENERAL:

(1) Summary of the Export-Import Bank of Korea

The Export-Import Bank of Korea (the “Bank” or the “Company”) was established in 1976 as a special financial institution under the Export-Import Bank of Korea Act (the “EXIM Bank Act”) to grant financial facilities for overseas trade (i.e., export and import), investments and resources development activities. As of December 31, 2014, the Bank operates 10 domestic branches, 3 domestic offices, 4 overseas subsidiaries, and 18 overseas offices.

The Bank’s authorized capital is ₩15,000,000 million, and through numerous capital increases since the establishment, its paid-in capital is ₩7,748,055 million as of December 31, 2014. The Government of the Republic of Korea (the “Government”), the Bank of Korea (“BOK”), and the Korea Development Bank hold 70.08%, 15.04%, and 14.88%, respectively, of the ownership of the Bank as of December 31, 2014.

The Bank, as a trustee of the Government, has managed the Economic Development Cooperation Fund since June 1987 and the Inter-Korean Cooperation Fund since March 1991. The funds are accounted for separately and are not included in the Bank’s separate financial statements. The Bank receives fees from the Government for the trustee services.

(2) Summary of subsidiaries and associates

1) Subsidiaries of the Bank as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Subsidiaries	Location	Capital stock	Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
KEXIM Bank UK Limited	United Kingdom	GBP 20 mil.	Finance	20,000,000	100.00	Dec. 31, 2014
KEXIM Vietnam Leasing Co (*)	Vietnam	USD 13 mil.	Finance	—	100.00	Dec. 31, 2014
PT.KOEXIM Mandiri Finance	Indonesia	IDR 52,000 mil.	Finance	442	85.00	Dec. 31, 2014
KEXIM Asia Limited	Hong Kong	USD 20 mil.	Finance	30,000,000	100.00	Dec. 31, 2014

(*) This entity does not issue share certificates.

(Dec. 31, 2013)

Subsidiaries	Location	Capital stock	Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
KEXIM Bank UK Limited	United Kingdom	GBP 20 mil.	Finance	20,000,000	100.00	Dec. 31, 2013
KEXIM Vietnam Leasing Co (*)	Vietnam	USD 13 mil.	Finance	—	100.00	Dec. 31, 2013
PT.KOEXIM Mandiri Finance	Indonesia	IDR 52,000 mil.	Finance	442	85.00	Dec. 31, 2013
KEXIM Asia Limited	Hong Kong	USD 20 mil.	Finance	30,000,000	100.00	Dec. 31, 2013

(*) This entity does not issue share certificates.

2) Associates of the Bank as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Associates	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
Korea Asset Management Corp	Korea	KRW	860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2014
Credit Guarantee and Investment Fund	Philippines	USD	700 mil.	Financial service	100,000,000	14.28	Sep. 30, 2014
Korea Marine Guarantee Incorporated Company ...	Korea	KRW	60,000 mil.	Financial service	5,999,999	49.99	Dec. 31, 2014
SUNGDONG Shipbuilding & Marine Engineering Co, Ltd.	Korea	KRW	1,319,150 mil.	Shipbuilding	93,294,100	70.71	Sep. 30, 2014
DAESUN Shipbuilding & Engineering Co, Ltd.	Korea	KRW	7,730 mil	Shipbuilding	1,040,000	67.27	Dec. 31, 2014

(Dec. 31, 2013)

Associates	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
Korea Asset Management Corp	Korea	KRW	860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2013
Credit Guarantee and Investment Fund	Philippines	USD	700 mil.	Financial service	100,000,000	14.28	Sep. 30, 2013
SUNGDONG Shipbuilding & Marine Engineering Co, Ltd.	Korea	KRW	256,542 mil.	Shipbuilding	9,410,000	33.99	Sep. 30, 2013

2. FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Bank's financial statements are prepared under International Financial Reporting Standards as adopted by Republic of Korea ("K-IFRS").

The Company's financial statements are separate financial statements prepared in accordance with the requirements of K-IFRS 1027 Separate Financial Statements, in which a parent, or an investor with joint control of, or significant influence over, an investee accounts for the investments based on the cost method or valuation methods in accordance with K-IFRS 1039 Financial Instruments.

(1) Basis of Preparation

Major accounting policies used for the preparation of the separate financial statements are stated below. These accounting policies have been applied consistently to the separate financial statements for the current period and accompanying comparative period.

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. Historical cost is generally based on the fair value of the consideration given.

The Company maintains its official accounting records in Republic of Korean won ("Won") and prepares separate financial statements in accordance with K-IFRS, in the Korean language (Hangul).

1) Accounting standards and interpretations that were newly applied for the year ended December 31, 2014, and changes in the Bank's accounting policies are as follows:

Amendments to K-IFRS 1032—*Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities. That is, the right to offset must not be conditional on the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The adoption of the amendments has no significant impact on the Bank's separate financial statements.

Amendments to K-IFRS 1036—Impairment of Assets

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. The application of these amendments has no impact on the disclosure in the Bank's separate financial statements.

Amendments to K-IFRS 1039—*Financial Instruments: Recognition and Measurement*

The amendments allowed the Bank to use hedge accounting when, as a consequence of laws or regulations or the introduction of laws or regulations, the original counterparty to the hedging instrument is replaced by a central counterparty or an entity which is acting as counterparty in order to effect clearing by a central counterparty. The adoption of the amendments has no significant impact on the Bank's separate financial statements.

Enactment of K-IFRS 2121—*Levies*

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The enactment has no significant impact on the Bank's separate financial statements.

2) The Bank has not applied or adopted earlier the following new and revised K-IFRSs that have been issued, but are not yet effective:

Amendments to K-IFRS 1019—*Employee Benefits*

If the amount of the contributions is independent from the numbers of years of service, the Bank is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Amendments to K-IFRS 1016—*Property, plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Bank from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 *Intangible Assets*

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 38 do not allow presumption that revenue is not an appropriate basis for the amortization of an intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to K-IFRS 1111 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provides guidance on how to account for the acquisition of joint operation that constitutes a business as defined in K-IFRS 1103 Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1002 (i) changes the definitions of 'vesting condition' and 'market condition'; and (ii) add definition for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to K-IFRS 1103 clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 Fair values Measurements and K-IFRS 1040 Investment Properties exist and these amendments are effective to the annual periods beginning on or after July 1, 2014

Amendments to K-IFRS 1027 *Separate Financial Statements*

The amendments to K-IFRS 1027 allows the Bank to account for investments in subsidiaries, joint ventures, and associates either at cost, in accordance with K-IFRS 1028 investments in associates and joint ventures, or K-IFRS 1039 Financial Instruments: Recognition and Measurement in the Bank's separate financial statements. The amendments are effective for the annual periods beginning on or after January 1, 2016

The Bank does not anticipate that the application of these new and revised K-IFRSs that have been issued but are not yet effective will have any material impact on the Bank's separate financial statements and disclosures.

(2) Functional Currency

Items included in the separate financial statements of each entity in the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(3) Significant Estimates and Judgments

The preparation of separate financial statements requires the application of accounting policies, especially certain critical accounting estimates and assumptions that may have a significant impact on assets (liabilities) and income (expenses). The management's estimate of outcome may differ from an actual outcome if the management's estimate and assumption based on its best judgment at the reporting date are different from an actual environment.

Estimates and assumptions are continually evaluated and the change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

1) Significant Estimates and Assumptions

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

① Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Financial instruments, which are not actively traded in the market and with less transparent market price, will have less objective fair value and require broad judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks.

As described in the significant accounting policies 'Recognition and Measurement of Financial Instruments' diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model to internally developed valuation model that incorporates various types of assumptions and variables.

② Provision of credit losses (allowances for loan losses, provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments)

The Bank determines and recognizes allowances for loan losses through impairment testing and recognizes provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments. The amount of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

③ Defined benefit obligation

The present value of defined benefit obligations is measured by the independent actuaries using projected unit credit method. It is determined by actuarial assumptions and variables such as future increases in salaries, rate of retirement, discount rate and others.

2) Critical judgments in applying the accounting policies

Critical judgments in applying the accounting policies that have significant impact on the amount recognized in the separate financial statements are as follows:

Impairment of AFS equity investments

As described in the significant accounting policies in ‘Impairment of Financial Assets’, when there is significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that AFS equity investments are impaired.

Accordingly, the Bank considers the decline in the fair value of over 30% against the original cost as “significant decline” and a six-month continuous decline in the market price for marketable equity instrument as “prolonged decline”.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) General

The significant accounting policies applied in the preparation of these separate financial statements after transition to K-IFRS are set out below. These policies are consistently applied to previous periods presented, unless otherwise stated.

(2) Foreign Currency

1) Foreign currency transactions

In preparing the separate financial statements of the Bank, transactions in currencies other than the Bank’s functional currency (foreign currencies) are recorded by applying the rates of exchange at the dates of the transactions.

At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are recognized in profit or loss.

2) Foreign operations

The results and financial position of all foreign operations, whose functional currency differs from the Bank’s presentation currency, are translated into the Bank’s presentation currency using the following procedures;

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position. Income and expenses for statement of comprehensive income presented are translated at average exchange rates for the period.

Any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Bank reattributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Bank reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

(3) Recognition and Measurement of Financial Instruments

1) Initial recognition

The Bank recognizes a financial asset or a financial liability in its separate statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by market regulation or practice) is recognized using trade date accounting.

The Bank classifies the financial assets as financial assets at FVTPL, held-to-maturity investments, AFS financial assets, loans, receivables and financial liabilities as financial liabilities at FVTPL and other financial liabilities as the nature and holding purpose of financial instrument at initial recognition in the purpose of financial reporting.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received).

2) Subsequent measurement

After initial recognition, financial instruments are measured at one of the following based on classification at initial recognition.

① Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect minus the principal repayments, plus or minus the cumulative amortization using the effective interest method (as defined below) and minus any reduction (directly or through the use of an allowances account) for impairment or bad debt expenses.

② Fair value

The Bank primarily uses fair values for the measurement of financial instruments. Fair values are the published price quotations in an active market and are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Bank uses valuation models that are commonly used by market participants and customized for the Bank to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. However for these more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or the value measured by the independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to measure fair value on certain assumptions.

Also, the Bank classified measurements of fair value recognized in the financial statements into the following hierarchy.

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

The fair value measurement is categorized in its entirety in the level of the lowest-level input that is significant to the entire measurement. For this purpose, input that is significant is estimated by the entire measurement.

On the other hand, the fair value hierarchy of foreign currency financial instruments is not affected by fluctuation of foreign exchange rate.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for significant adjustments. In this situation, the measurement is regarded as Level 3.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Bank calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

3) Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the separate statement of financial position. The following is criteria for removal;

☐ Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred or the financial assets have been neither transferred nor retained substantially all the risks, rewards of ownership and control. Therefore, if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Bank continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

☐ Derecognition of financial liabilities

Financial liabilities are derecognized from the separate statement of financial position when the obligation specified in contract is discharged, cancelled or expires.

4) Offsetting

Financial assets and financial liabilities are offset and the net amounts are presented in the separate statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(4) Cash and cash equivalents

Cash and cash equivalents include cash on hand, foreign currency, and highly liquid short term investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

(5) Financial assets at FVTPL

This category comprises two sub-categories: financial assets classified as held for trading and financial assets designated by the Bank as at FVTPL upon initial recognition.

A non-derivative financial asset is classified as held for trading if either

- It is acquired for the purpose of selling it in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking

The Bank may designate certain financial assets, other than held for trading, upon initial recognition as at FVTPL when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank’s key management personnel.
- A contract contains one or more embedded derivatives may designate the entire hybrid (combined) contract as a financial asset at FVTPL if allowed according to K-IFRS No. 1039, Financial Instruments: Recognition and measurement.

After initial recognition, a financial asset at FVTPL is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at FVTPL are recognized in the statement of comprehensive income as net gains on financial instruments at FVTPL.

(6) Financial Investments

AFS and held-to-maturity financial assets are presented as financial investments.

☐ Available-For-Sale ("AFS") financial assets

Profit or loss of financial assets classified as AFS, except for impairment loss and foreign exchange gains and losses, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of financial asset and it is recognized as part of other operating profit or loss in the separate statements of comprehensive income.

However, interest income measured using effective interest rate is recognized in current profit or loss, and dividends of financial assets classified as AFS are recognized when the right to receive payment is established.

AFS financial assets denominated in foreign currencies are translated at the closing rate.

For such a financial asset, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For AFS equity instruments that are not monetary items for example, equity instruments, the gains or losses that are recognized in other comprehensive income includes any related foreign exchange component

☐ Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest rate.

(7) Loans

Non-derivative financial assets are classified as loans if these are not quoted in an active market and payments are fixed or determinable. After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

(8) Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss by category of financial assets.

1) Loans

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

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

☐ Individual assessment of impairment

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

☐ Collective assessment of impairment

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

2) Available-For-Sale ("AFS") financial assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

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

3) Held-to-maturity financial assets.

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

(9) Derivatives

The Bank enters into numerous numbers of derivatives such as currency forward, interest rate swaps, currency swaps and others for trading purpose or to manage its exposures to fluctuations in interest rates and currency exchange and others. These derivatives are presented as financial assets and liabilities at FVTPL and derivatives for hedging in accordance with purpose and subsequent measurement.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Bank designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or firm contracts (fair value hedge).

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

1) Derivative for trading

All derivatives, except for derivatives that are designated and qualify for hedge accounting are classified as financial instruments held for trading and measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains on financial instruments at FVTPL.

2) Derivative financial instruments for hedging

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the comprehensive income statement relating to the hedged item in the income statement.

Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is fully amortized to profit or loss by the maturity of the financial instrument in the separate statements of comprehensive income.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is recognized in the line of the separate statements of comprehensive income relating to the hedged item.

3) Embedded derivatives

An embedded derivative is 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 contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of embedded derivative separated from host contract are recognized in profit or loss as part of net gains on financial instruments at FVTPL.

4) Day one profit and loss

If the Bank uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is amortized by using straight-line method over the life of the financial instruments. If the fair value of the financial instruments is determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

(10) Tangible assets.

1) Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at their cost and subsequently carried at their cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred. If part of an item of an asset has a useful life different from that of the entire asset, it is recognized as a separate asset.

2) Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset’s future economic benefits are expected to be consumed by the Bank. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method is straight-line and estimated useful lives of the assets are as follows.

Property and equipment	Estimated useful lives
Buildings and structures	10–60 years
Vehicles	4 years
Tools, furniture and fixtures	4–20 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

(11) Intangible assets.

Intangible assets are measured initially at cost and subsequently carried at its cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method with no residual value over their estimated useful economic life since the assets are available for use.

Intangible assets	Estimated useful lives
Software	5 years
System development fees	5 years

The amortization period and the amortization method for intangible assets with a definite useful life are reviewed at least at each financial year-end. The useful life of an intangible asset that is not being amortized is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If there is any change, it is accounted for as a change in an accounting estimate.

(12) Impairment of non-financial assets.

The Bank assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for deferred tax assets, assets arising from employee benefits and non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Bank tests goodwill acquired in a business combination, an intangible asset with an indefinite useful life and an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and such impairment loss is recognized immediately in profit or loss.

(13) Financial liabilities at fair value through profit or loss ("FVTPL").

Financial liabilities at FVTPL include short-term financial liabilities and financial liabilities recognized as financial liabilities at FVTPL initially. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Otherwise, the expense related issue is recognized in current profit or loss.

(14) Provisions

A provision is recognized if the Bank has a present obligation (legal or constructive) as a result of the past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision, and where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit card and unused credit line of consumer and corporate loans are recognized using valuation model that applies the credit conversion factor, default rates, and loss given default. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

(15) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (the Bank) 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 instrument.

Financial guarantee contracts are initially recognized at fair value and are amortized over the life of the contract. After initial recognition, financial guarantee contracts are measured at the greater of:

- The amount determined in accordance with K-IFRS 1037 'Provisions, Contingent Liabilities and Contingent Assets' and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS 1018. 'Revenue'

(16) Equity and Reserve

Equity and Reserve are any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities

(17) Interest income and expenses

Interest income and expenses are recognized using the effective interest method. Effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(18) Fee and commission income

The Bank recognizes financial service fee in accordance with the accounting standard of the financial instrument related to the fees earned.

☐ Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost.

However, fees relating to the creation or acquisition of a financial asset at FVTPL are recognized as revenue immediately

☐ Fees earned as services are provided

Such fees are recognized as revenue as the services are provided.

☐ Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

(19) Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at FVTPL and financial investment is recognized in profit or loss as part of dividend income in the separate statements of comprehensive income.

(20) Employee compensation and benefits

1) Defined contribution plans

When employees render service related to defined contribution plans, contributions related to employees services are recognized in current profit or loss without contributions included in cost of assets. Contributions which are supposed to be paid are recognized in accrued expenses after deducting any amount already paid. Also, if contributions already paid exceed contributions which would be paid at the end of period, the amount of excess is recognized in prepaid expenses.

2) Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. Actuarial gains and losses recognized are immediately recognized in other comprehensive income (loss) and not reclassified to profit or loss in a subsequent period.

3) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits are recognized in current profit and loss when employees render the related service. Short-term employee benefits are not discounted.

(21) Income taxes

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

1) Current tax.

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. The difference between the taxable profit and accounting profit may arise when income or expenses are included in accounting profit in one period, but is included in taxable profit in a different period, and if there is revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Bank offsets current income tax assets and current income tax liabilities if, and only if, the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2) Deferred tax

Deferred tax is recognized, using the asset-liability method, on temporary differences arising between the tax base amount of assets and liabilities and their carrying amount in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred tax liabilities which the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, 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 deferred tax 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.

The Bank offsets deferred tax assets and deferred tax liabilities when the Bank has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entity which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4. RISK MANAGEMENT:

4-1. Summary

(1) Overview of Risk Management Policy

The financial risks that the Bank is exposed to are credit risk, market risk, liquidity risk, operational risk, interest risk, credit concentration risk, strategy/reputational risk, outsourcing risk, settlement risk and others. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Bank's key risks.

The Bank's risk management system focuses on increasing transparency, developing risk management environment, and preemptive response to risk due to rapid changes in financial environment to support the Bank's long-term strategy and business decision efficiently.

The Note regarding financial risk management provides information about the risks that the Bank is exposed to, the objective, policies and process for managing the risk, the methods used to measure the risk, and capital adequacy. Additional quantitative information is disclosed throughout the separate financial statements.

(2) Risk Management Group

1) Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Bank's target risk appetite, approves significant risk matters and reviews the level of risks that the Bank is exposed to and the appropriateness of the Bank's risk management operations as an ultimate decision-making authority.

2) Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committees and discusses the detailed issues relating to the Bank's risk management.

3) Risk Management Practices Committee

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work process relating to risk management plan, risk management strategy, risk measurement, risk analysis, economic capital limit and others.

4-2. Credit risk

(1) Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For the risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

(2) Credit Risk Management

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent the excessive risk concentration to specific industry and specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and receivables and present it in the separate financial statements through the use of an allowances account which is charged against the related financial assets.

(3) Maximum exposure to credit risk

The Bank's maximum exposure of financial instruments to credit risk as of December 31, 2014 and 2013 is as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Cash and due from financial institutions	₩ 3,113,988	₩ 2,214,755
Financial assets at FVTPL	56,780	154,847
Hedging derivative assets	288,424	378,324
Loans (*1)	62,875,314	53,400,754
Financial investments (*2)	485,263	202,457
Other financial assets	808,893	833,334
Acceptances and guarantee contracts	61,372,941	53,696,431
Commitments (*3)	28,415,294	26,689,629
	₩157,416,897	₩137,570,531

(*1) Loans exclude loans valuation adjusted related to evaluation of fair value hedging.
(*2) Financial investments exclude AFS securities valuation adjustment related to fair value hedging which is included in AFS securities in foreign currency in Note 9
(*3) Commitments exclude commitments on purchase of beneficiary certificates which are included in other commitments in Note 37.

(4) Credit risk of loans

The Bank maintains allowances for loan losses associated with credit risk on loans to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and present them in the separate financial statements through the use of an allowances account which is charged against the related financial assets.

The Bank writes off on non-profitable loans, non-recoverable loans, loans classified estimated loss by asset quality category, loans requested written off by Financial Supervisory Service (“FSS”) and others under approval of Loan Management Committee.

Loans are categorized as follows (Korean won in millions):

(Dec. 31, 2014)

	Individual assessment	Collective assessment	Total	Ratio (%)
Loans:				
Normal				
Not past due	₩ 336,607	₩59,765,067	₩60,101,674	94.97
Past due	—	9,117	9,117	0.01
Impairment	3,019,923	156,301	3,176,224	5.02
Subtotal	3,356,530	59,930,485	63,287,015	100.00
Net deferred origination fees and costs:				
Normal				
Not past due	(66)	(411,314)	(411,380)	99.92
Past due	—	—	—	—
Impairment	(533)	212	(321)	0.08
Subtotal	(599)	(411,102)	(411,701)	100.00
Carrying amounts before deducting allowances:				
Normal				
Not past due	336,541	59,353,753	59,690,294	94.94
Past due	—	9,117	9,117	0.01
Impairment	3,019,390	156,513	3,175,903	5.05
Subtotal	3,355,931	59,519,383	62,875,314	100.00
Allowances:				
Normal				
Not past due	(45,400)	(213,680)	(259,080)	14.29
Percentage (%)	13.49	0.36	0.43	
Past due	—	(231)	(231)	0.01
Percentage (%)	—	2.53	2.53	
Impairment	(1,427,631)	(126,691)	(1,554,322)	85.70
Percentage (%)	47.28	80.95	48.94	
Subtotal	(1,473,031)	(340,602)	(1,813,633)	100.00
Percentage (%)	43.89	0.57	2.88	
Carrying amounts:				
Normal				
Not past due	291,141	59,140,073	59,431,214	97.33
Past due	—	8,886	8,886	0.01
Impairment	1,591,759	29,822	1,621,581	2.66
Total	₩ 1,882,900	₩59,178,781	₩61,061,681	100.00

(Dec. 31, 2013)

	Individual assessment	Collective assessment	Total	Ratio (%)
Loans:				
Normal				
Not past due	₩ 238,849	₩49,760,718	₩49,999,567	92.92
Past due	—	178,125	178,125	0.33
Impairment	3,494,025	137,653	3,631,678	6.75
Subtotal	3,732,874	50,076,496	53,809,370	100.00
Net deferred origination fees and costs:				
Normal				
Not past due	(9)	(405,581)	(405,590)	99.26
Past due	—	(2,505)	(2,505)	0.61
Impairment	(736)	215	(521)	0.13
Subtotal	(745)	(407,871)	(408,616)	100.00
Carrying amounts before deducting allowances:				
Normal				
Not past due	238,840	49,355,137	49,593,977	92.87
Past due	—	175,620	175,620	0.33
Impairment	3,493,289	137,868	3,631,157	6.80
Subtotal	3,732,129	49,668,625	53,400,754	100.00
Allowances:				
Normal				
Not past due	(26,274)	(177,151)	(203,425)	8.54
Percentage (%)	11.00	0.36	0.41	
Past due	—	(6,858)	(6,858)	0.29
Percentage (%)	—	3.91	3.91	
Impairment	(2,073,009)	(99,008)	(2,172,017)	91.17
Percentage (%)	59.34	71.81	59.82	
Subtotal	(2,099,283)	(283,017)	(2,382,300)	100.00
Percentage (%)	56.25	0.57	4.46	
Carrying amounts:				
Normal				
Not past due	212,566	49,177,986	49,390,552	96.81
Past due	—	168,762	168,762	0.33
Impairment	1,420,280	38,860	1,459,140	2.86
Total	₩ 1,632,846	₩49,385,608	₩51,018,454	100.00

The above carrying amounts exclude loan valuation adjustment related to fair value hedging amounting to ₩96,872 million and ₩151,420 million, as of December 31, 2014 and 2013, respectively.

1) Credit quality of loans that are neither past due nor impaired

Credit quality of loans that are neither past due nor impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans					Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)			
Best	₩ 1,846,664	₩ 5,101,792	₩ 851,387	₩ 7,799,843	12.98	₩ (16,184)	₩ (3,970)	₩ 7,779,689
Outstanding	4,784,149	30,876,637	4,664,070	40,324,856	67.09	(363,821)	(71,738)	39,889,297
Good	3,484,579	7,305,159	843,888	11,633,626	19.36	(29,158)	(137,731)	11,466,737
Below normal	160,550	182,799	—	343,349	0.57	(2,217)	(45,641)	295,491
	₩10,275,942	₩43,466,387	₩6,359,345	₩60,101,674	100.00	₩(411,380)	₩(259,080)	₩59,431,214

(Dec. 31, 2013)

	Loans					Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)			
Best	₩ 1,910,299	₩ 4,608,138	₩ 626,135	₩ 7,144,572	14.29	₩ (19,487)	₩ (3,484)	₩ 7,121,601
Outstanding	4,973,463	24,306,098	3,822,284	33,101,845	66.20	(353,715)	(85,553)	32,662,577
Good	3,155,001	5,251,526	1,230,953	9,637,480	19.28	(32,379)	(100,595)	9,504,506
Below normal	109,039	6,631	—	115,670	0.23	(9)	(13,793)	101,868
	₩10,147,802	₩34,172,393	₩5,679,372	₩49,999,567	100.00	₩(405,590)	₩(203,425)	₩49,390,552

2) Aging analysis of loans that are past due but not impaired

Aging analysis of loans that are past due but not impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans					Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)			
Within one months	₩—	₩—	₩ —	₩ —	—	₩—	₩ —	₩ —
Within two months	174	—	—	174	1.91	—	(6)	168
Within three months	—	—	—	—	—	—	—	—
Over three months	—	—	8,943	8,943	98.09	—	(225)	8,718
	₩174	₩—	₩8,943	₩9,117	100.00	₩—	₩(231)	₩8,886

(Dec. 31, 2013)

	Loans					Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)			
Within one months	₩1,192	₩ —	₩ —	₩ 1,192	0.67	₩ —	₩ (43)	₩ 1,149
Within two months	—	159,632	—	159,632	89.62	(2,505)	(6,338)	150,789
Within three months	—	—	—	—	—	—	—	—
Over three months	—	—	17,301	17,301	9.71	—	(477)	16,824
	₩1,192	₩159,632	₩17,301	₩178,125	100.00	₩(2,505)	₩(6,858)	₩168,762

3) Loans assessed for impairment on individual basis

Loans assessed for impairment on individual basis by country and industry of the Bank's counterparties, as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩2,711,444	₩19,055	₩2,730,499	₩(1,232,319)	₩(19,055)	₩(1,251,374)	45.45	100.00	45.83
Transportation	10,233	—	10,233	—	—	—	—	—	—
Construction	278,658	—	278,658	(176,257)	—	(176,257)	63.25	—	63.25
	₩3,000,335	₩19,055	₩3,019,390	₩(1,408,576)	₩(19,055)	₩(1,427,631)	46.95	100.00	47.28

(Dec. 31, 2013)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩3,268,557	₩23,016	₩3,291,573	₩(1,971,741)	₩(23,016)	₩(1,994,757)	60.32	100.00	60.60
Construction	201,716	—	201,716	(78,252)	—	(78,252)	38.79	—	38.79
	₩3,470,273	₩23,016	₩3,493,289	₩(2,049,993)	₩(23,016)	₩(2,073,009)	59.07	100.00	59.34

(5) Credit quality of securities (debt securities)

1) Securities (debt securities) exposed to credit risk as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Securities that are neither past due nor impaired	₩485,263	₩202,457

2) Credit quality of securities (debt securities) that are neither past due nor impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Credit quality (*1)					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
AFS financial assets	₩446,364	₩—	₩—	₩—	₩—	₩446,364
Held-to-maturity financial assets	38,899	—	—	—	—	38,899
	₩485,263	₩—	₩—	₩—	₩—	₩485,263

(Dec. 31, 2013)

	Credit quality (*1)					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
AFS financial assets	₩158,810	₩—	₩—	₩—	₩—	₩158,810
Held-to-maturity financial assets	43,647	—	—	—	—	43,647
	₩202,457	₩—	₩—	₩—	₩—	₩202,457

(*1) Credit quality is classified based on internal credit quality grade as below.

	Credit rating
Grade 1	AAA~BBB
Grade 2	BBB-~BB
Grade 3	BB-~B
Grade 4	B-~C
Grade 5	D

(6) Concentration of credit risk

The amounts disclosed below exclude loan valuation adjustment related to fair value hedging amounting to ₩96,872 million and ₩151,420 million, as of December 31, 2014 and 2013, respectively.

1) Loans by country where the credit risk belongs to as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,175,790	₩10,175,702	₩ 834,636	₩24,186,128	38.22	₩ (420)	₩(1,633,497)
China	7,239	2,705,889	600,114	3,313,242	5.24	(932)	(38,754)
Saudi Arabia	—	2,981,097	146	2,981,243	4.71	(59,163)	(7,275)
India	—	1,841,568	22,608	1,864,176	2.95	(46,870)	(2,714)
Iran	—	84,287	8,943	93,230	0.15	(3,475)	(670)
Indonesia	—	2,900,654	4,966	2,905,620	4.59	(86,830)	(6,485)
Vietnam	—	2,347,637	13,215	2,360,852	3.73	(27,574)	(12,462)
Others	—	5,935,059	4,205,485	10,140,544	16.02	(42,376)	(27,432)
	13,183,029	28,971,893	5,690,113	47,845,035	75.61	(267,640)	(1,729,289)
Europe:							
Russia	—	1,092,912	98,635	1,191,547	1.88	—	(20,898)
England	—	382,877	430,336	813,213	1.28	(1,186)	(284)
Belgium	—	60,410	33,909	94,319	0.15	(182)	(933)
France	—	339,852	3,317	343,169	0.54	(5,902)	(24)
Cyprus	—	73,022	—	73,022	0.12	(4,007)	—
Netherlands	—	131,111	50,864	181,975	0.29	(1,419)	(221)
Malta	—	192,224	—	192,224	0.30	(2,442)	—
Others	2,224	2,993,275	66,428	3,061,927	4.84	(50,043)	(20,531)
	2,224	5,265,683	683,489	5,951,396	9.40	(65,181)	(42,891)
America:							
Panama	—	1,982,012	—	1,982,012	3.13	(8,430)	(3,712)
United States	—	1,144,175	107,281	1,251,456	1.98	(17,733)	(6,209)
The British Virgin Islands	—	657,521	—	657,521	1.04	(3,160)	(557)
Mexico	—	574,795	—	574,795	0.91	(8,208)	(5,577)
Bermuda	—	535,077	—	535,077	0.85	(10,509)	(75)
Others	—	957,904	5,221	963,125	1.50	(3,453)	(3,163)
	—	5,851,484	112,502	5,963,986	9.41	(51,493)	(19,293)
Africa:							
Marshall Islands	—	2,294,266	—	2,294,266	3.63	(6,394)	(436)
Liberia	—	377,121	—	377,121	0.60	(3,998)	(18,511)
Madagascar	—	426,191	—	426,191	0.67	(2,678)	(1,646)
Others	—	427,770	1,250	429,020	0.68	(14,317)	(1,567)
	—	3,525,348	1,250	3,526,598	5.58	(27,387)	(22,160)
	₩13,185,253	₩43,614,408	₩6,487,354	₩63,287,015	100.00	₩(411,701)	₩(1,813,633)

(Dec. 31, 2013)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,575,026	₩ 8,140,030	₩1,679,287	₩23,394,343	43.47	₩ (6,240)	₩(2,215,922)
China	7,239	2,479,513	391,807	2,878,559	5.35	(1,149)	(37,439)
Saudi Arabia	—	2,186,611	28,338	2,214,949	4.12	(69,453)	(7,216)
India	—	1,284,377	18,428	1,302,805	2.42	(22,150)	(2,432)
Iran	—	114,612	17,302	131,914	0.25	(4,821)	(1,139)
Indonesia	—	2,488,525	8,671	2,497,196	4.64	(61,247)	(5,113)
Vietnam	—	1,429,477	84,872	1,514,349	2.81	(22,238)	(5,385)
Others	—	3,899,487	3,041,113	6,940,600	12.90	(58,430)	(24,563)
	13,582,265	22,022,632	5,269,818	40,874,715	75.96	(245,728)	(2,299,209)
Europe:							
Russia	—	922,692	193,712	1,116,404	2.07	(1)	(29,346)
England	—	389,849	2,023	391,872	0.73	(1,920)	(426)
Belgium	—	76,711	7,391	84,102	0.16	(256)	(28)
France	—	383,032	13,613	396,645	0.74	(7,102)	(693)
Cyprus	—	92,920	—	92,920	0.17	(1,625)	—
Netherlands	—	211,258	—	211,258	0.39	(1,623)	(410)
Malta	—	195,230	—	195,230	0.36	(2,931)	(47)
Others	2,223	2,166,627	157,287	2,326,137	4.32	(57,935)	(19,586)
	2,223	4,438,319	374,026	4,814,568	8.94	(73,393)	(50,536)
America:							
Panama	—	1,735,488	—	1,735,488	3.23	(6,009)	(2,362)
United States	—	1,385,976	87,326	1,473,302	2.74	(19,850)	(9,402)
The British Virgin Islands	—	560,604	—	560,604	1.04	(4,384)	(705)
Mexico	—	487,905	—	487,905	0.91	(8,658)	(4,990)
Bermuda	—	115,731	—	115,731	0.22	(5,726)	—
Others	—	962,466	—	962,466	1.79	(3,156)	(3,819)
	—	5,248,170	87,326	5,335,496	9.93	(47,783)	(21,278)
Africa:							
Marshall Islands	—	1,659,543	—	1,659,543	3.08	(19,424)	(1,741)
Liberia	—	417,565	277	417,842	0.78	(4,755)	(6,823)
Madagascar	—	452,240	—	452,240	0.84	(2,960)	(1,702)
Others	—	252,189	2,777	254,966	0.47	(14,573)	(1,011)
	—	2,781,537	3,054	2,784,591	5.17	(41,712)	(11,277)
	₩13,584,488	₩34,490,658	₩5,734,224	₩53,809,370	100.00	₩(408,616)	₩(2,382,300)

2) Loans by industry as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans					Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)		
Manufacturing	₩10,298,585	₩22,253,694	₩ 467,030	₩33,019,309	52.17	₩(144,237)	₩(1,520,018)
Transportation	189,080	7,196,184	—	7,385,264	11.67	(54,801)	(40,092)
Financial institutions	165,000	3,606,430	5,872,482	9,643,912	15.24	(7,657)	(21,648)
Wholesale and retail	679,773	1,365,503	60,475	2,105,751	3.33	2,888	(12,868)
Real estate	—	363,744	—	363,744	0.57	(2,313)	(386)
Construction	1,633,308	1,810,385	26,210	3,469,903	5.48	(5,092)	(189,163)
Public sector and others	219,507	7,018,468	61,157	7,299,132	11.54	(200,489)	(29,458)
	₩13,185,253	₩43,614,408	₩6,487,354	₩63,287,015	100.00	₩(411,701)	₩(1,813,633)

(Dec. 31, 2013)

	Loans					Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)		
Manufacturing	₩ 9,886,878	₩17,610,649	₩ 314,040	₩27,811,567	51.69	₩(181,551)	₩(2,189,124)
Transportation	188,150	5,497,257	—	5,685,407	10.56	(70,332)	(26,915)
Financial institutions	165,000	3,177,503	5,254,700	8,597,203	15.98	(6,510)	(28,251)
Wholesale and retail	877,781	1,415,308	99,488	2,392,577	4.44	(1,675)	(13,134)
Real estate	—	121,887	—	121,887	0.23	(150)	(267)
Construction	2,102,888	1,749,992	32,997	3,885,877	7.22	(5,424)	(89,544)
Public sector and others	363,791	4,918,062	32,999	5,314,852	9.88	(142,974)	(35,065)
	₩13,584,488	₩34,490,658	₩5,734,224	₩53,809,370	100.00	₩(408,616)	₩(2,382,300)

3) Concentration of credit risk of securities (debt securities) by industry as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014		Dec. 31, 2013	
	Amount	Ratio (%)	Amount	Ratio (%)
AFS financial assets				
Government and government sponsored institutions	₩ 82,952	18.58	₩ 70,387	44.32
Banking and insurance	311,862	69.87	77,901	49.05
Others	51,550	11.55	10,522	6.63
Subtotal	446,364	100.00	158,810	100.00
Held-to-maturity financial assets				
Government and government sponsored institutions	11,016	28.32	16,140	36.98
Banking and insurance	27,883	71.68	27,507	63.02
Subtotal	38,899	100.00	43,647	100.00
Total	₩485,263		₩202,457	

4) Concentration of credit risk of securities (debt securities) by country as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014		Dec. 31, 2013	
	Amount	Ratio (%)	Amount	Ratio (%)
AFS financial assets				
Korea	₩227,585	50.99	₩119,693	75.37
Others	218,779	49.01	39,117	24.63
Subtotal	446,364	100.00	158,810	100.00
Held-to-maturity financial assets				
Korea	—	—	5,299	12.14
Others	38,899	100.00	38,348	87.86
Subtotal	38,899	100.00	43,647	100.00
Total	₩485,263		₩202,457	

5) Credit enhancement and its financial effect as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total	Ratio (%)
Maximum exposure to credit risk	₩62,875,314	₩61,372,941	₩28,415,294	₩152,663,549	100.00
Credit enhancement:					
Deposits and savings	75,700	86,025	—	161,725	0.11
Export guarantee insurance	117,296	2,309,306	—	2,426,602	1.59
Guarantee	984,943	1,389,185	844,169	3,218,297	2.11
Securities	212,006	189,280	19,172	420,458	0.28
Real estate	1,107,765	50,390	45,990	1,204,145	0.79
Ships	749,069	181,253	172,598	1,102,920	0.72
Others	785,911	—	351,198	1,137,109	0.74
Subtotal	4,032,690	4,205,439	1,433,127	9,671,256	6.34
Exposure to credit risk after deducting credit enhancement	₩58,842,624	₩57,167,502	₩26,982,167	₩142,992,293	93.66

(*1) Loans exclude loans valuation adjusted related to evaluation of fair value hedging

(Dec. 31, 2013)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total	Ratio (%)
Maximum exposure to credit risk	₩53,400,754	₩53,696,431	₩26,689,629	₩133,786,814	100.00
Credit enhancement:					
Deposits and savings	89,353	31,091	670	121,114	0.09
Export guarantee insurance	324,241	1,680,783	—	2,005,024	1.50
Guarantee	548,784	634,791	37,389	1,220,964	0.91
Securities	127,885	20,105	4,432	152,422	0.11
Real estate	1,091,594	152,358	48,114	1,292,066	0.97
Ships	3,899,607	—	—	3,899,607	2.91
Others	676,343	1,702,389	54,734	2,433,466	1.83
Subtotal	6,757,807	4,221,517	145,339	11,124,663	8.32
Exposure to credit risk after deducting credit enhancement	₩46,642,947	₩49,474,914	₩26,544,290	₩122,662,151	91.68

(*1) Loans exclude loans valuation adjusted related to evaluation of fair value hedging

4-3. Liquidity risk

(1) Overview of liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they become due. The Bank discloses all financial asset, financial liabilities, and off-balance sheet items such as loan commitments and analysis of the contractual maturity, which are related to liquidity risk, into seven categories. The cash flows disclosed in the maturity analysis are undiscounted contractual amounts, including principal and future interest, which resulted in disagreement with the discounted cash flows included in the separate statements of financial position. However, for derivatives, each discounted cash flow consisting of current fair value is presented.

(2) Principles of the liquidity risk management

① Liquidity risk is managed with integration. The Bank measures, reports and controls liquidity risk by quantification with reasonable method.

② Liquidity risk reflects financing plans and fund using plans and the Bank reports the liquidity risk with preciseness, timeliness and consistency.

③ The Bank establishes liquidity risk managing strategy by analyzing liquidity maturity, liquidity gap structure and market environment.

(3) Liquidity risk management

Risk management department monitors changes by liquidity risk sources and compliance of risk limits. It notifies related departments to prepare countermeasures in case the measured liquidity risk is close to risk limits. Also, it analyzes crisis situations and effects of the crisis situations and reports to the Risk Management Committee on a regular basis. Each related department monitors changes of liquidity risk sources and compliance of risk limits by itself and if exposure to new risk is expected, it discusses the matter with the head of risk management department.

(4) Measurement of liquidity risk

The Bank measures liquidity ratio, liquidity gap ratio and others for local currency and foreign currency and simulates analysis reflecting market environment, product features and the Bank's strategies.

(5) Analysis on remaining contractual maturity of financial assets and liabilities

Remaining contractual maturity and amount of financial assets and liabilities as of December 31, 2014 and 2013 is as follows (Korean won in millions):

(Dec. 31, 2014)

	On demand	Within 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	1 year to 5 years	Over 5 years	Total
Financial assets:								
Cash and due from financial institutions	₩ 830,674	₩ 279,906	₩ 231,044	₩ 60,485	₩ 52,005	₩ 1,661,796	₩ —	₩ 3,115,910
Financial assets at FVTPL	1,197,499	—	—	—	—	—	—	1,197,499
Hedging derivative assets	—	503	467	—	15,086	103,983	168,385	288,424
Loans	12,199	7,931,753	6,013,001	10,114,231	7,784,273	21,786,151	15,382,784	69,024,392
AFS financial assets	4,339,990	1,262	1,419	31,766	62,004	283,619	101,805	4,821,865
Held-to-maturity financial assets	—	—	22,527	392	16,879	—	—	39,789
Other financial assets	—	498,998	—	—	230,513	33,423	165,048	927,982
	₩ 6,380,362	₩8,712,422	₩6,268,458	₩10,206,874	₩8,160,760	₩23,868,972	₩15,818,022	₩79,415,870
Financial liabilities:								
Financial liabilities at FVTPL	₩ 489,069	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities	—	60,613	258,861	103,780	198,459	1,109,788	251,955	1,983,456
Borrowings	—	682,671	773,143	3,134,883	1,263,810	2,738,181	1,663,722	10,256,410
Debentures	—	2,560,097	3,638,227	3,078,023	6,964,062	22,161,849	14,326,752	52,729,010
Other financial liabilities	—	2,570,426	—	—	—	—	108	2,570,534
	₩ 489,069	₩5,873,807	₩4,670,231	₩ 6,316,686	₩8,426,331	₩26,009,818	₩16,242,537	₩68,028,479
Off-balance sheet items (*1):								
Commitments	₩28,415,294	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩28,415,294
Financial guarantee contracts	8,830,564	—	—	—	—	—	—	8,830,564
	₩37,245,858	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩37,245,858

(*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

(Dec. 31, 2013)

	On demand	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 year to 5 years	Over 5 years	Total
Financial assets:								
Cash and due from financial institutions	₩ 1,693,695	₩ 215,731	₩ 276,341	₩ —	₩ 30,638	₩ —	₩ —	₩ 2,216,406
Financial assets at FVTPL	855,248	—	—	—	—	—	—	855,248
Hedging derivative Assets	—	5,151	2,246	9,634	7,089	310,529	43,675	378,324
Loans	—	6,803,797	5,620,018	9,239,506	7,080,021	17,289,037	12,246,168	58,278,547
AFS financial assets	4,014,264	678	1,163	42,357	63,787	62,000	20,385	4,204,634
Held-to-maturity financial assets	—	5,488	521	376	897	38,208	—	45,490
Other financial assets	—	803,226	—	—	—	44,213	199	847,638
	₩ 6,563,207	₩7,834,071	₩5,900,289	₩9,291,873	₩7,182,432	₩17,743,987	₩12,310,427	₩66,826,286
Financial liabilities:								
Financial liabilities at FVTPL	₩ 212,888	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 212,888
Hedging derivative liabilities	—	—	62,406	253,527	70,106	1,084,141	329,533	1,799,713
Borrowings	—	1,441,801	281,050	1,297,452	921,863	1,614,582	—	5,556,748
Debentures	—	2,983,389	4,114,891	2,782,075	3,715,001	23,653,549	10,491,755	47,740,660
Other financial liabilities	—	940,450	—	—	—	—	107	940,557
	₩ 212,888	₩5,365,640	₩4,458,347	₩4,333,054	₩4,706,970	₩26,352,272	₩10,821,395	₩56,250,566
Off-balance sheet items (*1):								
Commitments	₩26,689,629	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩26,689,629
Financial guarantee contracts	6,117,175	—	—	—	—	—	—	6,117,175
	₩32,806,804	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩32,806,804

(*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

4-4. Market risk

(1) Overview of market risk

1) Definition of market risk

Market risk is the risk of possible losses that arise from the changes of market factors, such as interest rate, stock price, foreign exchange rate, commodity value and other market factors related to the fair value or future cash flows of the financial instruments. The Bank classifies exposures to market risk into either foreign exchange rate risk or interest rate risk. Foreign exchange risk means that possible losses on assets and liabilities denominated in foreign currency due to changes of foreign exchange rate. Interest rate risk means that possible losses on assets and liabilities due to changes of interest rate.

2) Market risk management group

The Bank operates the Risk Management Committee and the Risk Management Council for managing risks and risk limits. The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council for practical matters such as managing adequate assets and liabilities by analyzing foreign exchange risk, interest rate risk, liquidity risk, money balance plan and effects by initiating new product. Market risk is managed by product and currency for minimizing segments exposed to changes of foreign exchange, interest rate and securities' price. Foreign exchange risk is measured by definite method and probabilistic method and definite method is used for limits management. Interest rate value at risk (VaR) and interest rate earning at risk ("EaR") are measured by BIS standards, definite method and probabilistic method and definite method is used for limits management. Meanwhile, the Bank performs financial crisis analysis supposing exceptional but possible events for evaluating latent weakness. The analysis is used for important decision making such as risk mitigation, emergency plan development and limit setup. The results of the analysis are reported to the Board of Directors and management on a quarterly basis.

(2) Foreign exchange risk

1) Management of foreign exchange risk

Foreign exchange risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of foreign exchange risk by source and compliance of risk limits regularly. A finance division head also monitors changes of foreign exchange risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that foreign exchange risk exceeds risk limit. If foreign exchange risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of foreign exchange risk

Foreign exchange risk is managed by foreign exchange VaR and foreign exchange position. Foreign exchange VaR is measured on a monthly basis and foreign exchange position is measured on a daily basis. It is measured separately by currency for assets and liabilities denominated in foreign currency exceeding 5% of total assets and liabilities denominated in foreign currency.

3) Measurement method

① VaR (Value at Risk)

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal-weighted-average method based on historical changes in market rates, prices and volatilities over the previous 5 years data and measures VaR at a 99% single tail confidence level. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of foreign exchange that has significant influent on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of foreign exchange VaR as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014				Dec. 31, 2013			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Foreign exchange risk	₩124,101	₩52,367	₩193,054	₩122,907	₩226,924	₩15,832	₩548,360	₩186,107

(3) Interest rate risk

1) Management of interest rate risk

Interest rate risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of interest rate risk by source and compliance of risk limits regularly. A finance division head also monitors changes of interest rate risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that interest rate risk exceeds risk limit. If interest rate risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of interest rate risk

Interest rate risk is managed by measuring interest rate EaR and interest rate VaR and uses interest rate sensitivity gap and duration gap as supplementary index. Interest rate EaR and interest rate VaR are measured on a monthly basis, and interest rate sensitivity gap and duration gap are measured on a daily basis. The Bank simulates analysis reflecting market environment, product features and the Bank's strategies.

3) Measurement method

① VaR (Value at Risk)

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal-weighted-average method based on historical changes in market rates, prices and volatilities over the previous 5 years data and measures VaR at a 99% single tail confidence level. This means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate.

As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of interest rate that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of interest rate VaR as of December 31, 2014 and 2013 is as follows (Korean won in millions):

	Dec. 31, 2014				Dec. 31, 2013			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Interest rate risk	₩40,828	₩5,613	₩159,309	₩24,663	₩67,174	₩3,551	₩117,626	₩117,626

4-5. Capital risk

The Bank follows the standard of capital adequacy established by the Financial Services Commission. The standard is based on Basel III, which was established by Basel Committee on Banking Supervision in Bank for International Settlements (“BIS”). According to the standard, domestic banks should maintain at least 8% or above of BIS capital ratio for risk-weighted asset, and quarterly report BIS capital ratio to the Financial Supervisory Service.

According to Korean Banking Supervision rules for operations, the Bank’s capitals are mainly divided into two categories:

1) Tier 1 capital (basic capital): Basic capital is composed of capital stock-common and other basic capital. Capital stock-common includes common stock satisfied with qualifications, capital surplus, retained earnings, accumulated other comprehensive income, other reserves and non-controlling interests among the common stock of consolidated subsidiaries. Other basic capital includes securities and capital surplus satisfied with qualifications

2) Tier 2 capital (supplementary capital): Supplementary capital is composed of the securities and capital surplus satisfied with qualifications, non-controlling interests among the securities of consolidated subsidiaries and the amounts of less than below 1.25% of credit risk-weighted asset like allowance for credit losses in respect of credits classified as normal or precautionary.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Bank bears. The Bank computes the risk-weighted asset by risks (credit risk, market risk and operational risk) and uses it for calculation of BIS capital ratio.

The Consolidated Entity's BIS capital ratio on consolidated basis as of December 31, 2014 and 2013, are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Core capital	₩ 9,320,842	₩ 8,723,869
Supplementary capital	1,222,932	1,031,297
Total	₩ 10,543,775	₩ 9,755,166
Risk-weighted assets	₩100,444,378	₩84,116,848
Capital ratio	10.50%	11.60%

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

5-1. Classification and fair value

(1) Carrying amounts and fair values of financial instruments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

		Dec. 31, 2014		Dec. 31, 2013	
	Classification	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Cash and due from financial institutions	Non-recurring	₩ 3,113,988	₩ 3,114,046	₩ 2,214,755	₩ 2,214,745
Financial assets at FVTPL	Recurring	1,197,499	1,197,499	855,248	855,248
Hedging derivative assets	Recurring	288,424	288,424	378,324	378,324
Loans	Non-recurring	61,158,553	62,154,900	51,169,874	51,959,935
AFS financial assets	Recurring	4,752,625	4,752,625	4,030,332	4,030,332
Held-to-maturity financial assets	Non-recurring	38,899	38,985	43,647	44,942
Other financial assets	Non-recurring	808,893	808,893	833,334	833,334
		₩71,358,881	₩72,355,372	₩59,525,514	₩60,316,860
Financial liabilities:					
Financial liabilities at FVTPL	Recurring	₩ 489,069	₩ 489,069	₩ 212,888	₩ 212,888
Hedging derivative liabilities	Recurring	1,983,456	1,983,456	1,799,713	1,799,713
Borrowings	Non-recurring	10,018,281	10,064,196	5,488,545	5,492,439
Debentures	Non-recurring	47,291,703	48,661,241	42,709,823	42,573,323
Other financial liabilities	Non-recurring	2,570,535	2,570,535	940,557	940,557
		₩62,353,044	₩63,768,497	₩51,151,526	₩51,018,920

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For each class of financial assets and financial liabilities, the Bank discloses the fair value of that class of assets and liabilities in a way that permits them to be compared with their carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods for measuring fair value of financial instruments are as follows:

Financial instruments	Method of measuring fair value
Loans and receivables	As demand deposits and transferable deposits do not have maturity and are readily convertible to cash. Carrying amounts of these deposits are regarded as the nearest amounts of fair values. Fair values of other deposits are determined by discounted cash flow model ("DCF model").
	DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows by contractual cash flows with prepayment rate taken into account by appropriate discount rate.
Investment securities	Trading financial assets and liabilities and AFS financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using valuation techniques.
Derivatives	For exchange traded derivative, quoted price in active market is used to determine fair value and for OTC derivative, fair value is determined using valuation techniques. The Bank uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives including option, interest rate swap and currency swap based on observable market parameters. However, some complex financial instruments are valued using the results of independent pricing services, where part or all of the inputs are not observable in the market.
	The adjustment for credit risk is reflected in cash flow, and the bank's credit risk are considered in the discount rate
Borrowings	Fair value is determined using DCF model discounting contractual future cash flows by appropriate discount rate.
	The adjustment for credit risk is reflected In cash flow, and the bank's credit risk are considered in the discount rate
Debentures	Fair value of debentures denominated in local currency is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.
	Fair value of debentures denominated in foreign currency is determined by DCF model.
	The adjustment for credit risk is reflected In cash flow, and the bank's credit risk are considered in the discount rate

Fair values of financial assets and financial liabilities classified as fair value Level 3 of the fair value hierarchy are determined by using the valuation of independent third-party pricing services. Meanwhile, carrying amounts of other financial assets and financial liabilities are regarded as the nearest amounts of fair values.

(2) Fair value hierarchy

Fair value hierarchy of financial assets and liabilities which are not measured at fair value as of December 31, 2014 and 2013, is as follows (Korean won in millions):

(Dec. 31, 2014)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from financial institutions	₩1,336,284	₩ —	₩ 1,777,762	₩ 3,114,046
Loans	—	—	62,154,900	62,154,900
Held-to-maturity financial assets	—	38,985	—	38,985
Other financial assets	—	—	808,893	808,893
	₩1,336,284	₩ 38,985	₩64,741,555	₩66,116,824
Financial liabilities:				
Borrowings	₩ —	₩10,064,196	₩ —	₩10,064,196
Debentures	—	48,661,241	—	48,661,241
Other financial liabilities	—	—	2,570,535	2,570,535
	₩ —	₩58,725,437	₩ 2,570,535	₩61,295,972

(Dec. 31, 2013)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from financial institutions	₩1,432,027	₩ —	₩ 782,718	₩ 2,214,745
Loans	—	—	51,959,935	51,959,935
Held-to-maturity financial assets	—	44,942	—	44,942
Other financial assets	—	—	833,334	833,334
	₩1,432,027	₩ 44,942	₩53,575,987	₩55,052,956
Financial liabilities:				
Borrowings	₩ —	₩ 5,492,439	₩ —	₩ 5,492,439
Debentures	—	42,573,323	—	42,573,323
Other financial liabilities	—	—	940,557	940,557
	₩ —	₩48,065,762	₩ 940,557	₩49,006,319

Fair value hierarchy of financial assets and liabilities measured at fair value as of December 31, 2014 and 2013, is as follows (Korean won in millions):

(Dec. 31, 2014)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩1,140,719	₩ 56,780	₩ —	₩1,197,499
Hedging derivative assets	—	288,424	—	288,424
AFS financial assets	207,881	446,365	3,677,652	4,331,898
	₩1,348,600	₩ 791,569	₩3,677,652	₩5,817,821
Financial liabilities:				
Financial liabilities at FVTPL	₩ —	₩ 489,069	₩ —	₩ 489,069
Hedging derivative liabilities	—	1,983,456	—	1,983,456
	₩ —	₩2,472,525	₩ —	₩2,472,525

(Dec. 31, 2013)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩700,401	₩ 154,847	₩ —	₩ 855,248
Hedging derivative assets	—	378,324	—	378,324
AFS financial assets	244,063	160,655	3,596,430	4,001,148
	₩944,464	₩ 693,826	₩3,596,430	₩5,234,720
Financial liabilities:				
Financial liabilities at FVTPL	₩ —	₩ 212,888	₩ —	₩ 212,888
Hedging derivative liabilities	—	1,799,713	—	1,799,713
	₩ —	₩2,012,601	₩ —	₩2,012,601

The Bank classifies financial instruments as three level of fair value hierarchy as below;

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value Level 1. This level includes listed equity securities, derivatives, and government bonds traded in an active exchange market.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as Level 2. This level includes the majority of debt and general over-the-counter derivatives such as swap, futures and options

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as Level 3. This level includes unlisted equity securities, structured bonds and over-the-counter derivatives.

The best estimate of fair value of financial instruments is a quoted price from active markets when the financial instruments are traded in an active exchange market (Level 1). If a quoted price of a financial instrument is available readily and regularly through exchange markets, sellers, brokers, industry groups, pricing services, supervisory services and the quoted price is arm's length transaction between knowledgeable, willing parties, the price of the financial instrument is regarded to be disclosed in an active market.

If there is not an active market, fair value of a financial instrument is determined by valuation techniques. The valuation techniques include using a recent transaction between knowledgeable, willing parties, fair value of the similar kind financial instrument, DCF, option pricing model and others. If a valuation technique is used by general market participants and the valuation technique can provide reliable estimates of fair values, the valuation technique can be used. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. The valuation techniques include all the inputs considered by market participants for determining price. The Bank adjusts valuation techniques regularly and reviews the validity of the techniques based on observable current price of the same kind financial instruments observable market data. The Bank believes that used valuation techniques are appropriate and fair values in the statements of financial position are reasonable. However, the fair values in the statements of financial position can be changed when different valuation techniques or different assumptions are used. Also, it can be difficult to compare fair values of the Bank to those of other financial institution because various valuation techniques and several assumptions are used.

Below table accounts for quantitative information of fair value using input factor, which is significant but unobservable, and relation between unobservable input factor and estimate of fair value.

	FY 2014 Fair value (Korean won in million)	Valuation techniques	Input factor which is significant but unobservable	Scope	Relation between unobservable input factor and estimate of fair value
Available-for-sale financial assets					
Unlisted stock . .	3,677,652	Discounted cash flow	Discount rate	3.97%~19.93%	If discount rate is decreased (increased)/ if growth is increased (decrease), fair value is decreased (increased).
			Growth rate	—	
		Option pricing model	Variability	4.80%	If variability of stock price is increased (decreased)/if stock price increased (decreased), fair value is increased (decreased)
			Stock price	494 won	

1) Changes in Level 3 financial assets that are measured at fair value for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	Beginning balance	Profit(loss)	Other comprehen-sive income	Purchases/ issues	Sales/ settlements	Transfers into Level 3 / Transfers out of Level 3	Ending balance
Financial assets							
AFS financial assets	₩3,596,430	₩(33,161)	₩85,950	₩1,415	₩(570)	₩27,588	₩3,677,652

(2013)

	Beginning balance	Profit or loss	Other comprehen-sive income	Purchases/ issues	Sales/ settlements	Transfers into Level 3 / Transfers out of Level 3	Ending balance
Financial assets							
AFS financial assets	₩3,626,441	₩(14,586)	₩78,297	₩21,722	₩(22,695)	₩(92,749)	₩3,596,430

2) In relation with changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for financial instruments held at the end of the reporting period in the separate statement of comprehensive income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Total gains (losses) for financial instruments held at the end of the reporting period	₩(29,485)	₩ 20,490
Total losses included in profit or loss for the period	₩(33,161)	₩(14,586)

3) The sensitivity of fair value analysis for the Level 3 financial instruments

The Bank performed the sensitivity analysis for the Level 3 financial instruments for which fair value would be measured differently upon reasonably possible alternative assumptions. The Bank classified the effect from changes upon the alternative assumptions into favorable effect and unfavorable effect and presented the most favorable effect or the most unfavorable effect in the table hereunder. Stocks are the financial instruments subject to sensitivity analysis, which are classified as Level 3 and of for which changes in fair value are recognized as other comprehensive income. Meanwhile, equity instruments which are recognized as cost among the financial instruments and are classified as Level 3 are excluded from the sensitivity analysis.

Sensitivity analysis details per market risk variable of each Level 3 financial instrument held and measured at fair value as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩5,435,680	₩(1,198,592)

(*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1 percent and discount rate or liquidation value from negative 1 percent to 1 percent and discount rate, which are unobservable inputs.

(Dec. 31, 2013)

	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩6,014,237	₩(1,338,632)

(*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1 percent and discount rate or liquidation value from negative 1 percent to 1 percent and discount rate, which are unobservable inputs.

(3) The table below provides the Bank's financial assets and financial liabilities that are carried at cost since the fair values of the financial instruments are not readily determinable in the separate statements of financial position as of December 31, 2014 and 2013. (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
AFS financial assets		
Unlisted securities (*)	₩385,845	₩ 537
Equity investments to unincorporated entities. (*)	34,882	28,181
Others (*)	—	466
	₩420,727	₩29,184

(*) AFS financial assets are unlisted equity securities and equity investments and recorded as at cost since they do not have quoted prices in an active market and the fair values are not measured with reliability.

5-2. Carrying amounts of financial instruments

Carrying amounts of financial instruments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Financial assets at FVTPL	Loans	Available- for-sale financial assets	Held-to-maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions	₩ —	₩ 3,113,988	₩ —	₩ —	₩ —	₩ 3,113,988
Financial assets at FVTPL	1,197,499	—	—	—	—	1,197,499
Hedging derivative assets	—	—	—	—	288,424	288,424
Loans	—	61,158,553	—	—	—	61,158,553
Financial investments	—	—	4,752,625	38,899	—	4,791,524
Other financial assets	—	808,893	—	—	—	808,893
Total	₩1,197,499	₩65,081,434	₩4,752,625	₩38,899	₩288,424	₩71,358,881

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩489,069	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities	—	—	1,983,456	1,983,456
Borrowings	—	10,018,281	—	10,018,281
Debentures	—	47,291,703	—	47,291,703
Other financial liabilities	—	2,570,535	—	2,570,535
Total	₩489,069	₩59,880,519	₩1,983,456	₩62,353,044

(Dec. 31, 2013)

	Financial assets at FVTPL	Loans	Available-for-sale financial assets	Held-to-maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions	₩ —	₩ 2,214,755	₩ —	₩ —	₩ —	₩ 2,214,755
Financial assets at FVTPL	855,248	—	—	—	—	855,248
Hedging derivative assets	—	—	—	—	378,324	378,324
Loans	—	51,169,874	—	—	—	51,169,874
Financial investments	—	—	4,030,332	43,647	—	4,073,979
Other financial assets	—	833,338	—	—	—	833,338
Total	₩855,248	₩54,217,967	₩4,030,332	₩43,647	₩378,324	₩59,525,518

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩212,888	₩ —	₩ —	₩ 212,888
Hedging derivative liabilities	—	—	1,799,713	1,799,713
Borrowings	—	5,488,545	—	5,488,545
Debentures	—	42,709,823	—	42,709,823
Other financial liabilities	—	940,557	—	940,557
Total	₩212,888	₩49,138,925	₩1,799,713	₩51,151,526

5-3. Offset on financial assets and financial liabilities

The Bank has conditional rights of setoff that are enforceable and exercisable only in the events mentioned in agreements regardless of meeting some or all of the offsetting criteria in K-IFRS 1032 for derivative assets, derivative liabilities, receivable spot exchanges and payable spot exchanges. Cash collaterals do not meet the offsetting criteria in K-IFRS 1032 but they can be set off with net amount of derivative assets and derivatives liabilities and net amount of receivables spot exchanges and payable spot exchanges.

The effects of netting agreements as of December 31, 2014 and 2013 are as follow (Korean won in millions):

(Dec. 31, 2014)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 345,204	₩—	₩ 345,204	₩(253,618)	₩ —	₩ 91,586
Available-for-sale financial assets	112,508	—	112,508	(101,282)	—	11,226
	457,712	—	457,712	(354,900)	—	102,812
Financial liabilities:						
Derivatives	2,472,524	—	2,472,524	(253,618)	(1,567,378)	651,528
Repurchase agreement (RP)	101,282	—	101,282	(101,282)	—	—
Total	₩2,573,806	₩—	₩2,573,806	₩(354,900)	₩(1,567,378)	₩651,528

(Dec. 31, 2013)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 533,171	₩—	₩ 533,171	₩(335,976)	₩ (16,522)	₩180,673
Available-for-sale financial assets	16,173	—	16,173	(13,945)	—	2,228
Held-to-maturity financial assets	38,348	—	38,348	(33,543)	—	4,805
	587,692	—	587,692	(383,464)	(16,522)	187,706
Financial liabilities:						
Derivatives	2,012,600	—	2,012,600	(335,976)	(1,194,442)	482,182
Repurchase agreement (RP)	47,489	—	47,489	(47,489)	—	—
Total	₩2,060,089	₩—	₩2,060,089	₩(383,465)	₩(1,194,442)	₩482,182

6. OPERATING SEGMENT:

Though the Bank conducts business activities related to financial services, in accordance with relevant laws such as the Export-Import Bank of Korea Act, it does not report separate segment information, as management considers the Bank to be operating under one core business.

7. CASH AND DUE FROM FINANCIAL INSTITUTIONS:

(1) Cash and cash equivalents as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Dec. 31, 2014	Dec. 31, 2013
Due from financial institutions in local currency	₩ 176,257	₩ 357,188
Due from financial institutions in foreign currencies	2,937,731	1,857,567
Subtotal	3,113,988	2,214,755
Restricted due from financial institutions	(908)	(407)
Due from financial institutions with original maturities of three months or less at acquisition date	(1,776,796)	(782,321)
Subtotal	(1,777,704)	(782,728)
Total (*)	₩ 1,336,284	₩1,432,027

(*) It is equal to the due from financial institutions as presented on the separate statements of cash flows.

(2) Details of due from financial institutions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Dec. 31, 2014 Amount	Dec. 31, 2014 Interest (%)	Dec. 31, 2013 Amount	Dec. 31, 2013 Interest (%)
Due from financial institutions in local currency:				
Demand deposits	₩ 1,279	—	₩ 788	—
Time deposits	115,000	2.16~2.73	310,000	2.68~3.23
Others	59,500	2.70	46,400	2.70
Margin for derivatives	478	—	—	—
Subtotal	176,257		357,188	
Due from financial institutions in foreign currencies:				
Demand deposits	27,179	—	39,090	—
Time deposits	505,632	0.48~0.50	211,060	0.25~0.40
On demand	438,446	—	36,940	—
Offshore demand deposits	1,215	—	808	—
Others	1,964,829	0.00~0.45	1,569,262	0.00~0.45
Margin for derivatives	430	—	407	—
Subtotal	2,937,751		1,857,567	
Total	₩3,113,988		₩2,214,755	

(3) Restricted due from financial institutions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Financial Institution	Dec. 31, 2014	Dec. 31, 2013	Reason for restriction
Others	DEUTSCHE BANK TRUST COMPANY AMERICAS	₩908	₩407	Credit support annex for derivative transactions

8. FINANCIAL ASSETS AT FVTPL:

Details of financial assets at FVTPL as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Equity securities		
Beneficiary certificates	₩1,140,719	₩700,401
Derivative assets		
Interest product	3,630	1,234
Currency product	53,150	153,613
Subtotal	56,780	154,847
Total	₩1,197,499	₩855,248

9. FINANCIAL INVESTMENTS:

Details of financial investments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
AFS securities in local currency		
Equity securities		
Marketable securities	₩ 217,250	₩ 244,063
Non-marketable securities	4,052,358	3,596,966
Equity investments to unincorporated entities	34,882	28,181
Others	1,771	2,386
Subtotal	4,306,261	3,871,596
AFS securities in foreign currency		
Debt securities		
Debt securities(*1)	446,364	158,704
Equity securities		
Equity securities	—	32
Subtotal	446,364	158,736
Held-to-maturity securities in foreign currency		
Debt securities		
Debt securities(*1)	38,899	43,647
Total	₩4,791,524	₩4,073,979

(*1) It includes debt securities which are pledged as collateral amounting to ₩112,508 and ₩54,521 as of December 31, 2014 and 2013, respectively.

10. LOANS:

Loans as presented below exclude loan valuation adjustment related to fair value hedging amounting to ₩96,872 million and ₩151,420 million, as of December 31, 2014 and 2013, respectively.

(1) Details of loans as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Detail	Dec. 31, 2014	Dec. 31, 2013
Loans in local currency	Loans for export	₩ 9,271,874	₩ 8,983,664
	Loans for overseas investments	744,062	884,197
	Loans for import	1,088,873	1,372,994
	Troubled Debt Restructuring	1,776,744	2,144,957
	Others	303,700	198,676
	Subtotal	13,185,253	13,584,488
Loans in foreign currencies	Loans for export	20,590,839	16,516,899
	Loans for overseas investments	18,241,228	15,606,122
	Loans for rediscounted trading notes	439,680	643,733
	Loans for import	2,795,575	634,593
	Overseas funding loans	632,417	651,124
	Domestic usance bills	503,351	194,976
	Others	411,317	243,211
	Subtotal	43,614,407	34,490,658
Others	Foreign-currency bills bought	1,353,180	1,214,071
	Advance for customers	32,033	37,549
	Call loans	4,803,319	4,435,115
	Interbank loans in foreign currency	298,823	47,489
	Subtotal	6,487,355	5,734,224
	Total loan	63,287,015	53,809,370
	Net deferred origination fees and costs	(411,701)	(408,616)
	Allowance for loan losses	(1,813,633)	(2,382,300)
	Total	₩61,061,681	₩51,018,454

(2) Loans classified by customer as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Detail	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)
Customer	Large corporations	₩ 5,766,233	₩24,926,736	₩ 255,249	₩30,948,218	57.69
	Small and medium companies	7,253,960	6,577,623	342,926	14,174,509	26.43
	Public sector and others	60	8,503,618	16,698	8,520,376	15.88
	Balance	13,020,253	40,007,977	614,873	53,643,103	100.00
	Net deferred origination fees and costs	(931)	(405,836)	—	(406,767)	
	Allowance for loan losses	(1,399,244)	(276,582)	(116,159)	(1,791,985)	
	Subtotal	11,620,078	39,325,559	498,714	51,444,351	
Financial institution	Banks	165,000	1,932,138	5,401,795	7,498,933	77.76
	Others	—	1,674,292	470,687	2,144,979	22.24
	Balance	165,000	3,606,430	5,872,482	9,643,912	100.00
	Net deferred origination fees and costs	—	(4,934)	—	(4,934)	
	Allowance for loan losses	(137)	(19,428)	(2,083)	(21,648)	
	Subtotal	164,863	3,582,068	5,870,399	9,617,330	
	Total	₩11,784,941	₩42,907,627	₩6,369,113	₩61,061,681	

(Dec. 31, 2013)

	Detail	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)
Customer	Large corporations	₩ 6,468,172	₩17,810,959	₩ 176,405	₩24,455,536	54.01
	Small and medium companies	6,941,277	5,403,513	272,170	12,616,960	27.86
	Public sector and others	10,040	8,168,860	30,949	8,209,849	18.13
	Balance	13,419,489	31,383,332	479,524	45,282,345	100.00
	Net deferred origination fees and costs	(2,217)	(399,890)	—	(402,107)	
	Allowance for loan losses	(2,098,562)	(233,005)	(22,551)	(2,354,118)	
	Subtotal	11,318,710	30,750,437	456,973	42,526,120	
Financial institution	Banks	165,000	1,916,492	4,547,447	6,628,939	77.74
	Others	—	1,190,834	707,252	1,898,086	22.26
	Balance	165,000	3,107,326	5,254,699	8,527,025	100.00
	Net deferred origination fees and costs	—	(5,858)	(651)	(6,509)	
	Allowance for loan losses	(150)	(25,180)	(2,852)	(28,182)	
	Subtotal	164,850	3,076,288	5,251,196	8,492,334	
	Total	₩11,483,560	₩33,826,725	₩5,708,169	₩51,018,454	

(3) Changes in net deferred origination fees and costs for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	Beginning balance	Increase	Decrease	Ending balance
Deferred origination fees	₩(408,858)	₩(135,942)	₩(80,229)	₩(464,571)
Deferred origination costs	242	53,407	779	52,870
Total	₩(408,616)	₩ (82,535)	₩(79,450)	₩(411,701)

(2013)

	Beginning balance	Increase	Decrease	Ending balance
Deferred origination fees	₩(358,677)	₩(143,228)	₩(93,047)	₩(408,858)
Deferred origination costs	376	—	134	242
Total	₩(358,301)	₩(143,228)	₩(92,913)	₩(408,616)

(4) Changes in allowance for loan losses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	Individual assessment	Collective assessment	Total
Beginning balance	₩ 2,099,283	₩283,017	₩ 2,382,300
Written-off	(35,924)	(11,814)	(47,738)
Collection of written-off loans	—	387	387
Loan-for-equity swap	(1,048,877)	(7,549)	(1,056,426)
Others	—	253	253
Unwinding effect	(29,428)	(2,118)	(31,546)
Foreign exchange translation	1,787	3,466	5,253
Provision for loan losses	450,267	110,883	561,150
Transfer	35,922	(35,922)	—
Ending balance	₩ 1,473,030	₩340,603	₩ 1,813,633

(2013)

	Individual assessment	Collective assessment	Total
Beginning balance	₩1,699,721	₩294,652	₩1,994,373
Written-off	(48,995)	(44,317)	(93,312)
Collection of written-off loans	—	2,406	2,406
Loan-for-equity swap	(100,768)	(20,944)	(121,712)
Others	—	23,609	23,609
Unwinding effect	(16,284)	(1,791)	(18,075)
Foreign exchange translation	(2,784)	(2,044)	(4,828)
Provision for loan losses	547,852	51,987	599,839
Transfer	20,541	(20,541)	—
Ending balance	₩2,099,283	₩283,017	₩2,382,300

11. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES:

(1) Details of investments in associates and subsidiaries as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Company	Detail	Location	Business	Year end	Ownership (%)	Net asset	Carrying amount
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Finance	December	100.00	₩ 41,274	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Finance	December	100.00	11,479	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Finance	December	85.00	23,032	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Finance	December	100.00	55,408	49,139
Korea Asset Management Corporation	Associate	Korea	Finance	December	25.86	407,868	380,520
Credit Guarantee and Investment Fund(*1)	Associate	Philippines	Finance	December	14.28	112,522	115,486
Korea Marine Guarantee Incorporated Company	Associate	Korea	Finance	December	49.99	30,000	30,000
SUNGDONG Shipbuilding & Marine Engineering Co, Ltd. (*2)	Associate	Korea	Shipbuilding	December	70.71	(680,342)	—
DAESUN Shipbuilding & Engineering Co, Ltd.(*2)	Associate	Korea	Shipbuilding	December	67.27	(239,738)	—
Total							₩659,150

(Dec. 31, 2013)

Company	Detail	Location	Business	Year end	Ownership (%)	Net asset	Carrying amount
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Finance	December	100.00	₩ 44,872	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Finance	December	100.00	9,849	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Finance	December	85.00	16,388	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Finance	December	100.00	50,147	49,139
Korea Asset Management Corporation	Associate	Korea	Finance	December	25.86	388,681	380,520
Credit Guarantee and Investment Fund(*1)	Associate	Philippines	Finance	December	14.28	107,731	115,486
SUNGDONG Shipbuilding & Marine Engineering Co, Ltd. (*2)	Associate	Korea	Shipbuilding	December	33.99	(628,827)	10
Total							₩629,160

(*1) As of December 31, 2014 and 2013, Credit Guarantee and Investment Fund are classified into an associate because the Bank has significant influence in the way of representation on the board of directors or equivalent governing body of the investee.

(*2) Those companies are under the Creditor-led work out program. And the Bank should have at least 75% of the Total creditor's loans to have substantive control based on the creditor's agreement. As the bank has only 48%, 60%, respectively, of the total creditor's loans, those are classified into an associate.

(2) Changes in investments in associates and subsidiaries for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Company	Detail	Beginning balance	Acquisition	Impairment loss	Ending balance
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩ —	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	—	115,486
Korea Marine Guarantee Incorporated Company	Associate	—	30,000		30,000
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	Associate	10	—	(10)	—
DAESUN Shipbuilding & Engineering Co, Ltd.	Associate	—	1	(1)	—
Total		₩629,160	30,001	(11)	₩659,150

(2013)

Company	Detail	Beginning balance	Acquisition	Ending balance
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	115,486
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	Associate	—	10	10
Total		₩629,150	₩ 10	₩629,160

(3) Summarized financial information of associates and subsidiaries as of and for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Company	Assets	Liabilities	Operating income	Net income
KEXIM Bank UK Limited	₩ 497,285	₩ 456,011	₩ 23,257	₩ (2,606)
KEXIM Vietnam Leasing Co.	148,664	137,185	4,374	1,169
PT.KOEXIM Mandiri Finance	163,332	140,300	7,482	3,546
KEXIM Asia Limited	386,051	330,643	11,956	3,308
Korea Asset Management Corporation	2,388,025	810,810	116,055	104,411
Credit Guarantee and Investment Fund	792,311	4,893	3,819	3,816
Korea Marine Guarantee Incorporated Company	60,000	—	—	—
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	2,062,669	3,024,827	(207,799)	(344,873)
DAESUN Shipbuilding & Engineering Co, Ltd.	406,464	762,845	(35,438)	19,667

(2013)

Company	Assets	Liabilities	Operating income	Net income
KEXIM Bank UK Limited	₩ 455,482	₩ 410,611	₩ 6,749	₩ 5,110
KEXIM Vietnam Leasing Co.	124,882	115,033	1,344	1,039
PT.KOEXIM Mandiri Finance	163,849	144,569	3,093	2,568
KEXIM Asia Limited	356,724	306,577	4,621	3,844
Korea Asset Management Corporation	3,085,016	1,588,103	60,742	53,846
Credit Guarantee and Investment Fund	756,255	2,366	2,348	2,344
SUNGDONG Shipbuilding & Marine Engineering Co. Ltd.	2,016,279	3,866,313	(109,801)	(222,247)

12. TANGIBLE ASSETS:

(1) Details of tangible assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Acquisition cost	Accumulated depreciation	Book value
Lands	₩191,306	₩ —	₩191,306
Buildings	97,913	(25,236)	72,677
Vehicles	3,408	(2,031)	1,377
Furniture and fixture	23,971	(15,792)	8,179
Total	₩316,598	₩(43,059)	₩273,539

(Dec. 31, 2013)

Detail	Acquisition cost	Accumulated depreciation	Book value
Lands	₩189,585	₩ —	₩189,585
Buildings	44,741	(23,014)	21,727
Vehicles	2,944	(2,006)	938
Furniture and fixture	21,427	(14,325)	7,102
Construction in progress	17,167	—	17,167
Total	₩275,864	₩(39,345)	₩236,519

(2) Changes in tangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Detail	Beginning balance	Acquisitions	Transfer	Disposals	Depreciation	Ending balance
Lands	₩189,585	₩ 1,721	₩ —	₩—	₩ —	₩191,306
Buildings	21,727	13,317	39,855		(2,222)	72,677
Vehicles	938	883	—	(14)	(430)	1,377
Furniture and fixture	7,102	3,196	481	(21)	(2,579)	8,179
Construction in progress	17,167	23,169	(40,336)	—	—	—
Total	₩236,519	₩42,286	₩ —	₩(35)	₩(5,231)	₩273,539

(2013)

Detail	Beginning balance	Acquisitions	Disposals	Depreciation	Ending balance
Lands	₩189,585	₩ —	₩—	₩ —	₩189,585
Buildings	23,183	—	—	(1,456)	21,727
Vehicles	871	479	(24)	(388)	938
Furniture and fixture	3,740	4,945	(4)	(1,579)	7,102
Construction in progress	10,700	6,467	—	—	17,167
Total	₩228,079	₩11,891	₩(28)	₩(3,423)	₩236,519

13. INTANGIBLE ASSETS:

(1) Details of intangible assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Computer software	₩ 9,972	₩ (5,247)	₩ —	₩ 4,725
System development fees	22,844	(14,059)	—	8,785
Memberships	5,180	—	(509)	4,671
Total	₩37,996	₩(19,306)	₩(509)	₩18,181

(Dec. 31, 2013)

Detail	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Computer software	₩ 8,099	₩ (4,145)	₩ —	₩ 3,954
System development fees	20,507	(11,934)	—	8,573
Memberships	6,195	—	(1,294)	4,901
Total	₩34,801	₩(16,079)	₩(1,294)	₩17,428

(2) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Detail	Beginning balance	Acquisitions	Disposals	Amortization	Impairment	Ending balance
Computer software	₩ 3,954	₩1,874	₩ —	₩(1,103)	₩—	₩ 4,725
System development fees	8,573	2,337	—	(2,125)	—	8,785
Memberships	4,901	—	(230)	—	—	4,671
Total	₩17,428	₩4,211	₩(230)	₩(3,228)	₩—	₩18,181

(2013)

Detail	Beginning balance	Acquisitions	Disposals	Amortization	Impairment	Ending balance
Computer software	₩ 2,807	₩2,026	₩ —	₩ (879)	₩ —	₩ 3,954
System development fees	6,882	2,546	—	(855)	—	8,573
Memberships	5,582	313	(208)	—	(786)	4,901
Total	₩15,271	₩4,885	₩(208)	₩(1,734)	₩(786)	₩17,428

14. OTHER ASSETS:

(1) Details of other assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Other financial assets:		
Guarantee deposits	₩ 33,553	₩ 36,632
Accounts receivable	165,684	128,263
Accrued income	653,032	682,573
Receivable spot exchange	90	170
Allowances for loan losses on other assets	(43,466)	(14,304)
	808,893	833,334
Other assets:		
Prepaid expenses	5,103	4,064
Sundry assets	14,401	8,952
	19,504	13,016
Total	₩828,397	₩846,350

(2) Changes in allowances for loan losses on other assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Beginning balance	₩14,304	₩ 1,335
Collection of written-off loans	35	—
Transfers in	29,162	12,969
Others	(35)	—
Ending balance	₩43,466	₩14,304

15. BORROWINGS:

(1) Details of borrowings as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Lender	Interest rate (%)	Amount
Borrowings in foreign currencies:			
Compulsory loan	MINISTRY OF STRATEGY AND FINANCE	0.25~ LIBOR 3M+0.78	₩ 3,359,507
Long term borrowings from foreign financial institutions	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	LIBOR 3M +0.35 ~LIBOR 3M + 1.10	2,790,601
Discount on borrowings		—	(9,025)
Commercial papers (CP)	CITIBANK N.A., HONG KONG and others	0.05~0.70	3,217,605
Offshore Commercial papers (CP)	BANK OF AMERICA NA and others	0.30	54,960
Others (Foreign banks)	DEUTSCHE BANK AG, LONDON BRANCH RBS(TOKYO) and others	0.46~1.95	503,351
Subtotal			9,916,999
Securities sold under repurchase agreement		0.40~0.45	101,282
Total			₩10,018,281

(Dec. 31, 2013)

Detail	Lender	Interest rate (%)	Amount
Borrowings in foreign currency:			
Long term borrowings from foreign financial institutions	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	0.73~2.02	₩2,374,283
Discount on borrowings			(8,337)
Commercial papers	CITIBANK N.A., HONG KONG and others	0.2~0.81	2,830,263
Offshore long term borrowings	SUMITOMO MITSUI TRUST BANK, Limited	0.98~0.98	31,659
Discount on borrowings			(54)
Others (Foreign banks)	ROYAL BANK OF SCOTLAND, TOKYO BRANCH and others	0.33~3.35	194,975
Others (CSA—Credit Support Annex)	STANDARD CHARTERED BANK	—	18,267
Subtotal			5,441,056
Securities sold under repurchase agreement		—	47,489
Total			₩5,488,545

(2) Details of borrowings from financial institutions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Securities sold under repurchase agreement	Borrowings in foreign currency	Total (*)
Banks	₩101,282	₩6,557,492	₩6,658,774

(Dec. 31, 2013)

Detail	Securities sold under repurchase agreement	Borrowings in foreign currency	Total (*)
Banks	₩47,489	₩5,441,056	₩5,488,545

(*) Borrowings as presented here exclude present value discounts.

16. DEBENTURES:

Details of debentures as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Dec. 31, 2014 Interest rate (%)	Dec. 31, 2014 Amount	Dec. 31, 2013 Interest rate (%)	Dec. 31, 2013 Amount
Local currency:				
Floating rate	2.65~3.76	₩ 440,000	2.65~3.76	₩ 1,490,000
Fixed rate	2.04~4.9	8,230,000	2.69~5.17	6,640,000
Balance		8,670,000		8,130,000
Discount on debentures:		(41,947)		(21,810)
Subtotal		8,628,053		8,108,190
Foreign currencies				
Floating rate	Libor+0.0 ~Libor+1.8	6,578,872	0.32~10.00	4,363,720
Fixed rate	0.08~9.32	31,805,227	0.30~10.49	30,350,557
Balance		38,384,099		34,714,277
Gain on fair value of hedged items		440,212		70,322
Discount on debentures		(160,661)		(182,966)
Subtotal		38,663,650		34,601,633
Total		₩47,291,703		₩42,709,823

17. PROVISIONS:

(1) Details of provisions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Provisions for acceptances and guarantees	₩119,183	₩155,613
Provisions for unused loan commitments	175,994	89,742
Total	₩295,177	₩245,355

(2) Changes in provisions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	Acceptances and guarantees				
Detail	Individual assessment	Collective assessment	Subtotal	Unused loan commitments	Total
Beginning balance	₩ 88,434	₩ 67,178	₩155,612	₩ 89,742	₩245,354
Foreign exchange translation	—	61	61	465	526
Additional Provisions (Reversal of provision)	(82,803)	46,313	(36,490)	85,787	49,297
Transfers in (out)	(387)	387	—	—	—
Ending balance	₩ 5,244	₩113,939	₩119,183	₩175,994	₩295,177

(2013)

Detail	Acceptances and guarantees: Individual assessment	Collective assessment	Subtotal	Unused loan commitments	Total
Beginning balance	₩ 98,644	₩71,040	₩169,684	₩54,950	₩224,634
Foreign exchange translation	(116)	1	(115)	(89)	(204)
Additional Provisions (Reversal of provision)	(13,242)	(715)	(13,957)	34,882	20,925
Transfers in (out)	3,148	(3,148)	—	—	—
Ending balance	₩ 88,434	₩67,178	₩155,612	₩89,743	₩245,355

18. RETIREMENT BENEFIT PLAN:

The Bank operates both defined benefit plan and defined contribution plan.

(1) Defined benefit plan

The Bank operates defined benefit plans which have the following characteristics:

- The entity has the obligation to pay the agreed benefits to all its current and past employees.
- The entity is liable for actuarial risk (excess of actual payment against expected amount) and investment risk.

The present value of the defined benefit obligation recognized in the separate statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation method. The present value of the defined benefit obligation is calculated using the Projected Unit Credit method (the ‘PUC’). The data used in the PUC such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data which are annually updated.

Actuarial assumptions may differ from actual results due to change in the market, economic trend and mortality trend which may affect defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income or loss.

(2) Details of defined benefit obligation as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Present value of defined benefit obligations	₩ 82,626	₩ 62,179
Fair value of plan assets	(35,363)	(34,311)
Defined benefit obligation, net	₩ 47,263	₩ 27,868

(3) Changes in net defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩62,179	₩(34,311)	₩27,868
Contributions from the employer	—	(1,000)	(1,000)
Current service cost	9,026	—	9,026
Interest expense (income)	3,126	—	3,126
Return on plan assets, excluding the interest expense (income)	—	(1,737)	(1,737)
Actuarial gains and losses arising from changes in financial assumptions	10,364	733	11,097
Actuarial gains and losses arising from empirical adjustment	(490)	—	(490)
Management fee on plan assets	—	86	86
Transfer in(out)	620	(620)	—
Benefits paid	(2,199)	1,486	(713)
Ending balance	₩82,626	₩(35,363)	₩47,263

(2013)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩61,067	₩(28,324)	₩32,743
Contributions from the employer	—	(5,997)	(5,997)
Current service cost	8,671	(1,301)	7,370
Interest expense (income)	2,796	—	2,796
Return on plan assets, excluding amounts included in interest income above	—	300	300
Actuarial gains and losses arising from changes in financial assumptions	(3,994)	—	(3,994)
Actuarial gains and losses arising from empirical adjustment	(4,825)	—	(4,825)
Management fee on plan assets	—	158	158
Benefits paid	(1,536)	853	(683)
Ending balance	₩62,179	₩(34,311)	₩27,868

(4) Details of plan assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Cash and cash equivalent	₩13,199	₩ 8,429
Debt securities	4,541	2,362
Others	17,623	23,520
Total	₩35,363	₩34,311

(5) Actuarial assumptions used in retirement benefit obligation assessment as of December 31, 2014 and 2013 are as follows:

	Dec. 31, 2014	Dec. 31, 2013
Discount rate	4.07%	5.06%
Expected wage growth rate	3.04%	3.04%

(6) Assuming that all the other assumptions remain unchanged, the effect of changes in the significant actuarial assumptions which were made within the reasonable limit on retirement benefit obligations as of December 31, 2014 and 2013 are as follows:

(Dec. 31, 2014)

Description	1% Increase	1% Decrease
Change of discount rate	(10,489)	12,697
Change of future salary increase rate:	12,695	(10,671)

(Dec. 31, 2013)

Description	1% Increase	1% Decrease
Change of discount rate	(7,415)	8,951
Change of future salary increase rate:	7,042	(7,608)

The above sensitivity analysis does not present any actual changes in the retirement benefit obligations as there is no change in actuarial assumptions which is independently made due to the correlation among the assumptions. In addition, the actuarial present value of promised retirement benefits in the sensitivity analysis is determined using the projected unit credit method, which is used in the calculation of the retirement benefit obligations in the separate financial statements.

(7) Retirement benefit cost incurred from the defined contribution plan for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Retirement benefit cost	₩358	₩494

19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Other financial liabilities:		
Guarantee deposits	₩ 503,256	₩ 375,123
Foreign exchanges payable	148,452	37
Accounts payable	1,398,555	5,256
Accrued expenses	520,164	560,033
Guarantee deposit received	108	108
Subtotal	2,570,535	940,557
Other liabilities:		
Allowance for credit loss in derivatives	10,931	10,757
Unearned income	226,748	141,833
Sundry liabilities	6,851	6,620
Subtotal	244,530	159,210
Total	₩2,815,065	₩1,099,767

20. DERIVATIVES:

The Bank operates derivatives for trading and hedging instrument. Derivatives held for trading purpose are included in financial assets and liabilities at FVTPL.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. When applying fair value hedge, the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Any adjustment arising from the gain or loss on the hedged item attributable to the hedged risk to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

The Bank uses interest rate swaps for hedging changes of fair values in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of fair values in hedged items arising from changes in foreign exchange rates

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss. When applying cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

The Bank uses interest rate swaps for hedging changes of cash flows in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of cash flows in hedged items arising from changes in foreign exchange.

(3) Details of derivative assets and liabilities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Notional	Derivative assets			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩13,806,343	₩258,295	₩—	₩ 3,630	₩261,925
Currency:					
Currency forwards	1,842,284	—	—	4,966	4,966
Currency swaps	15,528,234	30,129	—	48,184	78,313
Subtotal	17,370,518	30,129	—	53,150	83,279
Total	₩31,176,861	₩288,424	₩—	₩56,780	₩345,204

Detail	Notional	Derivative liabilities			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩13,806,343	₩ 89,641	₩2,789	₩ 28,612	₩ 121,042
Currency:					
Currency forwards	1,842,284	—	—	47,857	47,857
Currency swaps	15,528,234	1,891,026	—	412,600	2,303,626
Subtotal	17,370,518	1,891,026	—	460,457	2,351,483
Total	₩31,176,861	₩1,980,667	₩2,789	₩489,069	₩2,472,525

(Dec. 31, 2013)

Detail	Notional	Derivative assets			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩14,266,649	₩177,324	₩ 60	₩ 1,234	₩178,618
Currency:					
Currency forwards	1,195,972	—	—	28,208	28,208
Currency swaps	15,393,129	200,940	—	125,405	326,345
Subtotal	16,589,101	200,940	—	153,613	354,553
Total	₩30,855,750	₩378,264	₩ 60	₩154,847	₩533,171

Detail	Notional	Derivative liabilities			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩14,266,649	₩ 231,440	₩1,838	₩ 59,114	₩ 292,392
Currency:					
Currency forwards	1,195,972	—	—	783	783
Currency swaps	15,393,129	1,566,435	—	152,991	1,719,426
Subtotal	16,589,101	1,566,435	—	153,774	1,720,209
Total	₩30,855,750	₩1,797,875	₩1,838	₩212,888	₩2,012,601

(4) Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Fair value hedge—hedged items	₩(416,449)	₩ 657,891
Fair value hedge—hedging instruments	₩(623,173)	₩(1,859,353)

(5) The Bank recognized ₩(1,102) million and ₩2,616 million as other comprehensive income (losses) (not adjusting tax effect), and cash flow hedge ineffectiveness of ₩90 million and ₩100 million was recognized in earnings for the years ended December 31, 2014 and 2013.

21. CAPITAL STOCK:

As of December 31, 2014, the authorized capital and paid-in capital of the Bank are ₩15,000,000 million and ₩7,748,055 million, respectively. The Bank does not issue share certificates.

Changes in capital stock for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Beginning balance	₩7,238,055	₩7,138,055
Increase in capital and investment in kind (*1)	510,000	100,000
Ending balance	₩7,748,055	₩7,238,055

(*1) Increase in capital and investment in kind is composed of cash contribution of ₩130,000 million and investment in kind of ₩380,000 million for the year ended December 31, 2014.

22. OTHER COMPONENTS OF EQUITY:

(1) Details of other components of equity as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Gain on valuation of AFS securities	₩116,276	₩54,157
Loss on valuation of cash flow hedge	(2,062)	(1,227)
Remeasurement elements of net defined benefit liability	(3,212)	4,827
Total	₩111,002	₩57,757

(2) Changes in other reserves for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	Beginning balance	Increase (decrease)	Tax effect	Ending balance
Gain (loss) on valuation of AFS securities	₩54,157	₩ 81,950	₩(19,831)	₩116,276
Loss on valuation of cash flow hedge	(1,227)	(1,102)	267	(2,062)
Remeasurement elements of net defined benefit liability	4,827	(10,606)	2,567	(3,212)
Total	₩57,757	₩ 70,242	₩(16,997)	₩111,002

(2013)

	Beginning balance	Increase (decrease)	Tax effect	Ending balance
Gain on valuation of AFS securities	₩25,641	₩37,620	₩ (9,104)	₩54,157
Loss on valuation of cash flow hedge	(3,210)	2,616	(633)	(1,227)
Remeasurement elements of net defined benefit liability	(1,631)	8,520	(2,062)	4,827
Total	₩20,800	₩48,756	₩(11,799)	₩57,757

23. RETAINED EARNINGS:

(1) Details of retained earnings as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Legal reserve (*1)	₩ 319,984	₩ 314,010
Voluntary reserve (*2)	1,119,559	1,067,878
Reserve for bad loan	514,785	—
Unappropriated retained earnings	66,767	572,440
Total	₩2,021,095	₩1,954,328

(*1) Pursuant to the EXIM Bank Act, the Bank appropriates 10% of net income for each accounting period as legal reserve, until the accumulated reserve equals to its paid-in capital.

(*2) The Bank appropriates the remaining balance of net income, after the appropriation of legal reserve and declaration of dividends, to voluntary reserve.

(2) Changes in retained earnings for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Beginning balance	₩1,954,328	₩1,928,883
Net income for the period	66,767	59,731
Dividends	—	(34,286)
Ending balance	₩2,021,095	₩1,954,328

(3) Details of dividends for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
The Government	₩—	₩23,149
BOK	—	5,596
Korea Finance Corporation	—	5,541
Total	₩—	₩34,286

(4) Statements of appropriations of retained earnings for the years ended December 31, 2014 and 2013 are as follows (Korean Won in millions):

	2014 (Expected date of appropriation: Mar. 31, 2015)		2013 (Date of appropriation: Mar. 31, 2014)	
I. RETAINED EARNINGS BEFORE APPROPRIATIONS:		₩66,767		₩572,440
1. Unappropriated retained earnings carried over from prior years	—		₩512,709	
2. Net income	66,767		59,731	
II. Other reserve transferred		12,734		
III. APPROPRIATIONS:		79,501		572,440
1. Legal reserve (*2)	6,677		5,973	
2. Dividend	15,189		—	
3. Other reserve	—		51,682	
4. Reserve for Bad Loans	57,635		514,785	
IV. UNAPPROPRIATED RETAINED EARNINGS AT THE END OF THE PERIOD		₩ —		₩ —

24. RESERVE FOR BAD LOANS:

Reserve for bad loans is calculated and disclosed according to Article 29 (1) and (2), Regulation on Supervision of Banking Business. In accordance with Regulation on Supervision of Banking Business etc., if the estimated allowance for credit loss determined by K-IFRS for the accounting purpose is lower than those for the regulatory purpose required by Regulation on Supervision of Banking Business, the Bank should reserve such difference as the regulatory reserve for bad loans. Due to the fact that regulatory reserve for bad loans is a voluntary reserve, the amounts that exceed the existing reserve for bad loans over the compulsory reserve for bad loans at the period-end date are reversed in profit. In case of accumulated deficit, the Bank should recommence setting aside reserve for bad loans at the time when accumulated deficit is gone.

1) Reserve for bad loans

Details of reserve for bad loans as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Accumulated reserve for bad loans	₩514,785	₩423,827
Expected reserve for bad loans	57,635	90,958
Reserve for bad loans	₩572,420	₩514,785

2) Expected reserve for bad loans and net income after adjusting reserve for bad loans.

Details of expected reserve for bad loans and net income after adjusting the reserve for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Net income for the period	₩ 66,767	₩ 59,731
Expected reserve for bad loans	(57,635)	(90,958)
Net profit (loss) after adjusting the reserve for bad loans (*1)	₩ 9,132	₩(31,227)

(*1) Adjusted profit (loss) considering reserves for bad debt as above is calculated by assuming that the provision in reserves for bad debt before income tax is reflected in net income.

25. NET INTEREST INCOME:

Net interest income is the amount after deduction of interest expenses from interest income, and the details are as follows:

(1) Details of interest income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Interest of due from financial institutions:		
Due from financial institutions in local currency	₩ 6,157	₩ 12,004
Due from financial institutions in foreign currencies	3,604	7,657
	9,761	19,661
Interest of financial assets at FVTPL:		
Interest of trading securities	439	346
Interest of investments:		
Interest of AFS securities	4,041	731
Interest of held-to-maturity securities	791	692
	4,832	1,423
Interest of loans:		
Interest of loans in local currency	547,405	587,898
Interest of loans in foreign currencies	1,091,444	1,043,355
Interest of bills bought	19,541	29,234
Interest of advances for customers	143	443
Interest of call loans	12,341	11,180
Interest of interbank loans	549	2,330
	1,671,423	1,674,440
Interest of others	2,359	2,414
Total	₩1,688,814	₩1,698,284

Interest income accrued from impaired loan is ₩31,546 million and ₩18,076 million for the years ended December 31, 2014 and 2013, respectively.

(2) Details of interest expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Interest of borrowings:		
Borrowings in foreign currencies	₩ 45,251	₩ 39,118
RP	248	70
Interest of call money	9,594	12,059
Interest of debentures:		
Interest of debentures in local currency	253,921	264,938
Interest of debentures in foreign currencies	977,502	1,016,019
Interest of others	7,879	3,492
Total	₩1,294,395	₩1,335,696

26. NET COMMISSION INCOME:

Net commission income is the amount after deduction of commission expenses from commission income, and the details are as follows.

(1) Details of commission income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Commission income in local currency:		
Commissions income on management of Economic Development Cooperation Fund ("EDCF")	₩ 11,512	₩ 9,625
Commissions income on management of Inter-Korean Cooperation Fund ("IKCF")	2,784	2,729
Other commission income in local currency	1	—
	14,297	12,354
Commission income in foreign currency:		
Commissions income on letter of credit	2,644	2,398
Commissions income on confirmation on export letter of credit	876	1,214
Commissions income on loans commitment	84,833	79,537
Management fee	379	36
Arrangement fee	3,032	3,602
Advisory fee	1,031	199
Cancellation fee	5,673	2,997
Prepayment fee	26,443	32,122
Sundry commissions income on foreign exchange	126	286
Other commission income in foreign currency	11	29
	125,048	122,420
Others:		
Other commission income	4,259	1,729
Guarantee fees on foreign currency:		
Guarantee fees on foreign currency	180,675	183,245
Premium for guarantee	33,142	22,874
	213,817	206,119
Total	₩357,421	₩342,622

(2) Details of commission expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Commission expenses in local currency:		
Commissions expenses on borrowings	₩ 132	₩ 132
Commissions expenses on domestic transaction	138	208
	270	340
Commission expenses in foreign currency:		
Commission expenses on foreign borrowings	2,900	1,984
Sundry commission expenses on foreign exchange	464	375
Commission expenses on offshore borrowings	15	15
Sundry commissions expenses on offshore transaction	45	40
	3,424	2,414
Others:		
Other commissions expenses	1,240	287
Other commissions expenses-deferred	—	45
	1,240	332
Total	₩4,934	₩3,086

27. DIVIDEND INCOME:

Details of dividend income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
AFS securities	₩10,471	₩13,977

28. GAIN (LOSS) ON FINANCIAL ASSETS AT FVTPL:

Details of gain (loss) on financial assets at FVTPL for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Trading securities:		
Gain on valuation	₩ 8,181	₩ 1,498
Gain on disposal	12,173	5,567
Loss on disposal	(1,380)	(118)
	18,974	6,947
Trading derivatives		
Gain on valuation	23,957	157,562
Loss on valuation	(418,958)	(144,813)
Gain on transaction	237,491	256,281
Loss on transaction	(205,296)	(106,412)
	(362,806)	162,618
Total	₩(343,832)	₩ 169,565

29. GAIN (LOSS) ON HEDGING DERIVATIVES:

Details of gain (loss) on hedging derivatives for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Gain on hedging derivatives	₩ 434,041	₩ 218,101
Loss on hedging derivatives	(1,057,214)	(2,077,354)
Total	₩ (623,173)	₩(1,859,253)

30. GAIN (LOSS) ON FINANCIAL INVESTMENTS:

(1) Details of gain (loss) on financial investments for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
AFS securities:		
Gain on disposals	₩ 5,733	₩ 22,008
Loss on disposals	(85)	(1,761)
Impairment loss	(52,010)	(20,636)
Total	₩(46,362)	₩ (389)

(2) There is no gain or loss on held-to-maturity securities for the years ended December 31, 2014 and 2013, respectively. In addition, details of interest income of held-to-maturity securities are stated in Note 25.

31. OTHER OPERATING INCOME (EXPENSES):

Details of other operating income (expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Other operating income:		
Gain on disposal of loans	₩ 2	₩ 8
Gain on redemption of loans	—	139
Gain on fair value hedged items	153,195	776,597
Others	3,164	7,439
	156,361	784,183
Other operating expenses:		
Loss on fair value hedged items	569,642	118,706
Contribution to miscellaneous funds	5,184	5,745
Loss on redemption	40	13
Others	375	647
	575,241	125,111
Total	₩(418,880)	₩659,072

32. (REVERSAL OF) IMPAIRMENT LOSS ON CREDIT:

Details of impairment loss (reversal) on credit for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Loans	₩561,150	₩599,839
Other financial assets	29,162	12,971
Guarantees	(36,490)	(13,957)
Unused loan commitments	85,787	34,882
Financial guarantee contract	11,894	(11,139)
Total	₩651,503	₩622,596

33. GENERAL AND ADMINISTRATIVE EXPENSES:

Details of general and administrative expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	Detail	2014	2013
General and administrative	Short-term salaries	₩ 84,010	₩ 82,757
Other expenses in financing department	Office expenses	49,030	47,768
	Subtotal	133,040	130,525
Office expenses of EDCF		1,727	1,696
General and administrative	Post-employment benefit (defined contributions)	358	494
Others	Post-employment benefit (defined benefits)	10,501	10,325
	Depreciation of tangible assets	5,232	3,423
	Amortization of intangible assets	3,229	1,735
	Taxes and duties	34,963	31,722
	Contribution for fund	1,200	—
	Subtotal	55,483	47,699
	Total	₩190,250	₩179,920

34. NON-OPERATING INCOME (EXPENSES):

Details of non-operating income (expenses) for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	Detail	2014	2013
Gain (loss) on investments in associates and subsidiaries	Dividend income	₩ 4,671	₩ 8,018
	Impairment loss	(10)	—
		4,661	8,018
Others income	Gain on disposals of tangible assets	99	73
	Rent income	66	46
	Interest on other loans	153	153
	Revenue on research project	5,140	5,185
	Indemnity received for breach of contact A/C	3	—
	Other miscellaneous Income	536	324
	Subtotal	5,997	5,781
Others expenses	Loss on disposal of tangible assets	2	4
	Loss on disposal of intangible assets	230	4
	Impairment loss on intangible assets	—	786
	Expenses for contribution	4,859	5,347
	Court cost	115	1,021
	Expenses on research project	5,503	4,649
	Other miscellaneous expenses	103	365
	Subtotal	10,812	12,176
	Total	₩ (4,815)	₩ (6,395)

35. INCOME TAX EXPENSE:

(1) Details of income tax expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Current income tax payable	₩ 254,784	₩ 139,806
Adjustment recognized in the period for current tax of prior periods	21,463	3,472
Changes in deferred income taxes due to temporary differences	(232,860)	(117,897)
Changes in deferred income taxes directly recognized in equity	(16,999)	(11,799)
Income tax expense	₩ 26,388	₩ 13,582

(2) Changes in temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Detail	Temporary differences: Beginning balance	Temporary differences: Increase (decrease)	Temporary differences: Ending balance	Deferred tax assets (liabilities)—ending balance
Depreciation expense	₩ 6,032	₩ (6,032)	₩ —	₩ —
Fair value hedging income (loss)	(81,099)	424,439	343,340	83,088
Financial guarantee contract liability	223,219	125,146	348,365	84,304
Allowance account	1,427,243	(764,625)	662,618	160,354
Unused commitment provisions	89,742	86,252	175,994	42,591
Net deferred origination fees and costs	408,616	55,148	463,764	112,231
Long-term income in advance	(1,930)	(16,928)	(18,858)	(4,564)
Provisions for acceptances and guarantees	155,612	(36,429)	119,183	28,842
Loan-for-equity swap	57,002	1,111,983	1,168,985	282,894
Losses on valuation of derivatives	(1,170,172)	(700,450)	(1,870,622)	(452,690)
Gains on valuation of derivatives	1,479,430	647,890	2,127,320	514,812
Defined benefit liability	22,677	17,649	40,326	9,759
Accrued interest and interest receivables related to swap transaction	(322,673)	65,562	(257,111)	(62,221)
Tangible asset	(185,978)	6,712	(179,266)	(43,382)
Others	82,526	16,160	98,686	23,881
Subtotal	2,190,247	1,032,477	3,222,724	779,899
Deferred income tax assets (liabilities) directly adjusted in equity				(35,439)
Total				₩ 744,460

(2013)

Detail	Temporary differences: Beginning balance	Temporary differences: Increase (decrease)	Temporary differences: Ending balance	Deferred tax assets (liabilities)—ending balance
Depreciation expense	₩ 4,443	₩ 1,589	₩ 6,032	₩ 1,460
Fair value hedging income(loss)	570,710	(651,809)	(81,099)	(19,626)
Financial guarantee contract liability	(58,027)	281,246	223,219	54,020
Allowance account	1,065,803	361,440	1,427,243	345,393
Unused commitment provisions	54,950	34,792	89,742	21,718
Net deferred origination fees and costs	358,480	50,136	408,616	98,885
Long-term income in advance	(15,944)	14,014	(1,930)	(467)
Accumulated in equity under the heading of revaluation gain on land	(185,101)	185,101	—	—
Provisions for acceptances and guarantees	169,684	(14,072)	155,612	37,658
Loan-for-equity swap	78,265	(21,263)	57,002	13,794
Losses on valuation of derivatives	258,361	(1,428,533)	(1,170,172)	(283,182)
Gains on valuation of derivatives	(439,546)	1,918,976	1,479,430	358,022
Defined benefit liability	20,882	1,795	22,677	5,489
Other provisions	6,250	(6,250)	—	—
Accrued interest and interest receivables related to swap transaction	(297,177)	(25,496)	(322,673)	(78,087)
Tangible asset	—	(185,978)	(185,978)	(45,007)
Others	62,282	20,244	82,526	19,971
Subtotal	₩1,654,315	₩ 535,932	₩ 2,190,247	₩ 530,041
Deferred income tax assets (liabilities) directly adjusted in equity				(18,440)
Total				₩ 511,601

(3) Details of the reconciliation between net income before income tax and income tax expense for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Net income before income tax	₩93,155	₩73,313
Income tax calculated at statutory tax rate (*)	22,081	17,280
Adjustments:		
Effect on non-taxable income	(288)	(275)
Effect on non-deductible expense	316	2,449
Tax credit	(2,332)	(7,479)
Unrecognized temporary differences	329	4,606
Others	(771)	(913)
	(2,746)	(1,612)
Adjustment recognized in the period for current tax of prior periods	7,053	(2,086)
Income tax expense	₩26,388	₩13,582
Effective tax rate from operations	28.33%	18.53%

(*) The corporate tax rate is 11% up to ₩200 million, 22% over ₩200 million to ₩20 billion and 24.2% over ₩20 billion.

(4) Details of deferred tax relating to items that are recognized directly in equity as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Dec. 31, 2014	Dec. 31, 2013
Gain (loss) on valuation of AFS securities	₩(37,123)	₩(17,290)
Gain (loss) on valuation of cash flow hedge	658	391
Remeasurement of net defined benefit liability	1,026	(1,541)
Total	₩(35,439)	₩(18,440)

(5) Unrecognized deferred tax assets and liabilities

The Bank does not recognize deferred tax liabilities for taxable temporary difference of ₩53,470 million related to investments in associates and subsidiaries as of December 31, 2014 because the Bank considers that those investments in associates and subsidiaries will be indefinitely reinvested.

The Bank also does not recognize deferred tax assets for deductible temporary differences of ₩4,469 million related to impairment loss of AFS securities as of December 31, 2014 because the realizable period has already passed.

36. STATEMENTS OF CASH FLOWS:

(1) Cash and cash equivalents as of December 31, 2014 and 2013 are equal to the due from financial institutions in the statements of cash flows and as detailed in Note 7.

(2) Details of non-cash flow transactions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	2014	2013
Loan-for-equity swap	₩ 22,036	₩68,074
Investment in kind	380,000	—
Gain (loss) on valuation of AFS securities	81,953	37,620
Remeasurement of net defined benefit liability	10,606	8,520

37. CONTINGENT LIABILITIES AND COMMITMENTS:

(1) Details of contingent liabilities and commitments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail		Dec. 31, 2014	Dec. 31, 2013
Guarantees	Confirmed	₩48,057,826	₩41,586,532
	Unconfirmed	13,315,115	12,109,899
	Subtotal	₩61,372,941	₩53,696,431
Loan commitments	Local currency, foreign currency loan commitments	₩28,054,430	₩26,337,798
	Others	401,767	394,801
	Subtotal	28,456,197	26,732,599
	Total	₩89,829,138	₩80,429,030

(2) Details of guarantees that have been provided for others as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail		Dec. 31, 2014	Dec. 31, 2013
Confirmed guarantees	Local currency:		
	Performance of contracts	₩ 109,551	₩ 125,090
	Repayment of advances	104,842	149,128
	Foreign liabilities	—	62,171
	Others	154,201	49,475
	Subtotal	368,594	385,864
	Foreign currency:		
	Performance of contracts	14,014,283	12,551,137
	Repayment of advances	20,466,526	19,145,553
	Acceptances of imported goods	18,478	3,629
	Acceptance of import letter of credit outstanding	182,686	213,857
	Foreign liabilities	6,631,195	4,351,156
	Others	6,376,064	4,935,336
	Subtotal	47,689,232	41,200,668
Unconfirmed guarantees	Foreign liabilities	2,290,655	1,596,718
	Repayment of advances	10,810,518	10,234,943
	Performance of contracts	128,093	120,211
	Underwriting of import credit	85,660	43,947
	Others	189	114,080
	Subtotal	13,315,115	12,109,899
	Total	₩61,372,941	₩53,696,431

(3) Details of guarantees classified by country as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail		Confirmed guarantees		Unconfirmed guarantees		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia	Korea	₩38,752,119	80.64	₩10,464,393	78.59	₩49,216,512	80.19
	India	261,850	0.54	360,581	2.71	622,431	1.01
	Vietnam	451,926	0.94	752,422	5.65	1,204,348	1.96
	Saudi Arabia	956,198	1.99	138,281	1.04	1,094,479	1.78
	Indonesia	860,854	1.79	11,806	0.09	872,660	1.42
	Iran	3,234	0.01	—	—	3,234	0.01
	Others	2,396,262	4.99	811,310	6.09	3,207,572	5.23
		43,682,443	90.90	12,538,793	94.17	56,221,236	91.60
Europe	France	367,581	0.76	146	—	367,727	0.60
	United Kingdom	103,403	0.22	1,613	0.01	105,016	0.17
	Netherlands	10,992	0.02	—	—	10,992	0.02
	Russia	14,209	0.03	73,409	0.55	87,618	0.14
	Others	298,570	0.62	229,386	1.72	527,956	0.86
		794,755	1.65	304,554	2.28	1,099,309	1.79
America	U.S.A.	1,975,646	4.11	166,187	1.25	2,141,833	3.49
	Mexico	305,249	0.64	4,295	0.03	309,544	0.50
	Bermuda	129,156	0.27	—	—	129,156	0.21
	Others	459,612	0.96	177,192	1.33	636,804	1.04
		2,869,663	5.98	347,674	2.61	3,217,337	5.24
Africa	Madagascar	182,653	0.38	—	—	182,653	0.30
	Marshall Islands	318,195	0.66	—	—	318,195	0.52
	Others	210,117	0.43	124,094	0.94	334,211	0.55
		710,965	1.47	124,094	0.94	835,059	1.37
		₩48,057,826	100.00	₩13,315,115	100.00	₩61,372,941	100.00

(Dec. 31, 2013)

Detail		Confirmed guarantees Amount	Ratio (%)	Unconfirmed guarantees Amount	Ratio (%)	Total Amount	Ratio (%)
Asia	Korea	₩35,669,758	85.77	₩10,468,506	86.44	₩46,138,264	85.92
	India	255,596	0.61	43,080	0.36	298,676	0.56
	Vietnam	227,857	0.55	178,529	1.47	406,386	0.76
	Saudi Arabia	784,950	1.89	85,425	0.71	870,375	1.62
	Others	1,808,608	4.35	727,312	6.01	2,535,920	4.72
		38,746,769	93.17	11,502,852	94.99	50,249,621	93.58
Europe	France	217,958	0.52	140	—	218,098	0.41
	Others	234,962	0.57	67,888	0.56	302,850	0.56
		452,920	1.09	68,028	0.56	520,948	0.97
America	U.S.A.	1,384,477	3.33	342,346	2.83	1,726,823	3.22
	Mexico	293,501	0.71	12,819	0.11	306,320	0.57
	Others	339,853	0.81	17,644	0.14	357,497	0.66
		2,017,831	4.85	372,809	3.08	2,390,640	4.45
Africa	Madagascar	193,817	0.47	—	—	193,817	0.36
	Others	175,195	0.42	166,210	1.37	341,405	0.64
		369,012	0.89	166,210	1.37	535,222	1.00
		₩41,586,532	100.00	₩12,109,899	100.00	₩53,696,431	100.00

(4) Details of guarantees classified by industry as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Confirmed guarantees Amount	Ratio (%)	Unconfirmed guarantees Amount	Ratio (%)	Total Amount	Ratio (%)
Manufacturing	₩22,685,432	47.20	₩12,128,222	91.09	₩34,813,654	56.72
Transportation	568,587	1.18	50,546	0.38	619,133	1.01
Finance	1,886,318	3.93	87,419	0.66	1,973,737	3.22
Wholesale and retail	1,626,267	3.38	65,645	0.49	1,691,912	2.76
Property related business	524,431	1.09	—	—	524,431	0.85
Construction	15,328,262	31.90	101,804	0.76	15,430,066	25.14
Public and others	5,438,529	11.32	881,479	6.62	6,320,008	10.30
Total	₩48,057,826	100.00	₩13,315,115	100.00	₩61,372,941	100.00

(Dec. 31, 2013)

Detail	Confirmed guarantees Amount	Ratio (%)	Unconfirmed guarantees Amount	Ratio (%)	Total Amount	Ratio (%)
Manufacturing	₩20,564,148	49.44	₩10,699,164	88.35	₩31,263,312	58.22
Transportation	203,088	0.49	2,358	0.02	205,446	0.38
Finance	1,691,827	4.07	46,364	0.38	1,738,191	3.24
Wholesale and retail	917,843	2.21	3,692	0.03	921,535	1.72
Construction	13,524,300	32.52	342,119	2.83	13,866,419	25.82
Public and others	4,685,326	11.27	1,016,202	8.39	5,701,528	10.62
Total	₩41,586,532	100.00	₩12,109,899	100.00	₩53,696,431	100.00

(5) Global Medium-Term Note Program (“GMTN”) and Commercial Paper (“CP”) programs

The Bank has been establishing the following programs regarding the issue of foreign currency bonds and CPs:

1) Established on August 1, 1991, initially, and annually renewed, U.S. Shelf Registration to issue foreign bonds under the Securities and Exchange Commission rule of the United States of America with an issuance limit of USD 30 billion;
2) Established on May 14, 1997 and May 16, 1997, initially, and annually renewed, CP program to issue CPs with issuance limits of USD 4 billion and USD 2 billion, respectively;
3) Established on November 6, 1997, initially, and annually renewed, Euro Medium-Term Note Program to issue mid-to-long-term foreign currency bonds with an issuance limit of USD 25 billion;
4) Established on March 12, 2008 and February 2, 2012, initially, and renewed every two years, MYR MTN program to issue Malaysian Ringgit-denoted bonds with issuance limits of MYR 3 billion and 1 billion respectively.
5) Established on June 20, 2008, initially, and annually renewed, Yen Shelf Registration to issue Samurai bond with an issuance limit of JPY 500 billion;
6) Established on May 31, 2010, Australian Domestic Debt Issuance Program to issue Kangaroo bond with limit of AUD 2 billion;
7) Established on January 17, 2011, and renewed every two years, Uridashi Shelf Registration to issue Uridashi bond with an issuance limit of JPY 500 billion.

(6) Litigations

As of December 31, 2014, eight lawsuits (aggregated litigation value: ₩83,512 million) were filed by the Bank and seven pending litigations as a defendant were filed (aggregated litigation value: ₩113,555 million). The Bank’s management expects that there is no significant impact on the financial statements due to these lawsuits but it is possible to make additional loss to the Bank due to the results of future litigation.

(7) Written-off loans

The Bank manages written-off loans that have claims on debtors due to the limitation of statute, uncollected after write-off, etc. The written-off loans as of December 31, 2014 and 2013 are ₩605,221 million and ₩544,795 million, respectively.

(8) Ordinary wages

The Supreme Court had handed down sentences in ordinary wages during the previous year. The Bank reviewed the effect by the Supreme Court ruling on the Bank’s financial statements. The Bank determined not to recognize provisions, because the Bank anticipates that the outflow of resources is unlikely to be realized. Effects to the financial statements of the Bank with regard to the judgment of the court for the lawsuit are not disclosed in the notes to the financial statements in accordance with the paragraph 92 of K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets

38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

Related parties consist of entities related to the Bank, post-employment benefits, a key management personnel and a close member of that person's family, an entity controlled or jointly controlled and an entity influenced significantly.

(1) Details of related parties as of December 31, 2014 are as follows:

Detail	Relationship	Percentage
Parent:		
Korean government	Parent	70.08%
Subsidiaries and Associates:		
KEXIM Bank UK Limited	Subsidiary	100.00%
PT.KOEXIM Mandiri Finance	Subsidiary	85.00%
KEXIM Vietnam Leasing Co.	Subsidiary	100.00%
KEXIM Asia Limited	Subsidiary	100.00%
Korea Marine Guarantee Incorporated Company	Associate	49.99%
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	Associate	70.71%
DAESUN Shipbuilding & Engineering Co., Ltd.	Associate	67.27%
Korea Asset Management Corporation,	Associate	25.86%
Credit Guarantee and Investment Fund	Associate	14.28%

(2) Significant balances of receivables, payables and guarantees with the related parties

Significant balances of receivables and payables with the related parties as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Receivables	Allowance	Payables
Subsidiaries:			
KEXIM Bank UK Limited,	₩ 157,598	₩ —	₩ 112
PT.KOEXIM Mandiri Finance	139,671	232	—
KEXIM Vietnam Leasing Co	134,986	213	—
KEXIM Asia Limited	126,373	—	80
Associate:			
SUNGDONG Shipbuilding & Marine Engineering Co., LTD.	₩ 867,781	₩235,776	₩ —
DAESUN Shipbuilding & Engineering Co., Ltd.	363,005	207,293	13,908
Total	₩1,789,414	₩443,514	₩14,100

(Dec. 31, 2013)

Detail	Receivables	Allowance	Payables
Subsidiaries:			
KEXIM Bank UK Limited,	₩ 135,797	₩ —	₩ 72
PT.KOEXIM Mandiri Finance	142,656	258	—
KEXIM Vietnam Leasing Co	112,638	191	—
KEXIM Asia Limited	112,820	—	231
Associate:			
SUNGDONG Shipbuilding & Marine Engineering Co., LTD.	₩1,809,458	₩1,006,104	₩—
Total	₩2,313,369	₩1,006,553	₩303

Guarantees provided to the related parties as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Confirmed guarantees	Unconfirmed guarantees	Loans commitments	Other commitments
Subsidiaries:				
KEXIM Bank UK Limited,	₩ 98,928	₩ —	₩183,566	₩15,389
PT.KOEXIM Mandiri Finance	—	—	27,480	—
KEXIM Vietnam Leasing Co.	—	—	10,992	—
KEXIM Asia Limited	54,960	—	46,166	48,914
Associate:				
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	876,778	1,267,322	—	—
DAESUN Shipbuilding & Engineering Co., Ltd.	78,848	150,898	10,551	—
Total	₩1,109,514	₩1,418,220	₩278,755	₩64,303

(Dec. 31, 2013)

Detail	Confirmed guarantees	Unconfirmed guarantees	Commitments
Subsidiaries:			
KEXIM Bank UK Limited,	₩107,365	₩ —	₩185,733
PT.KOEXIM Mandiri Finance	—	—	26,383
KEXIM Vietnam Leasing Co.	—	728	5,277
KEXIM Asia Limited	52,765	—	54,876
Associate:			
SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	260,838	946,600	30,694
Total	₩420,968	₩947,328	₩302,963

(3) Profit and loss transactions with related parties

Profit and loss transactions with related parties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014			2013		
Detail	Related party	Revenue	Bad debt expenses	Expenses	Revenue	Bad debt expenses	Expenses
Subsidiaries	KEXIM Bank UK Limited	₩ 1,874	₩ —	₩ 989	₩ 2,665	₩ —	₩ 988
	PT.KOEXIM Mandiri Finance	989	(26)	—	1,318	10	1
	KEXIM Vietnam Leasing Co.	943	21	—	952	16	1
	KEXIM Asia Limited	1,521	—	751	1,413	—	1,018
Associate	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	25,789	181,908	—	82,201	26,484	—
	DAESUN Shipbuilding & Engineering Co., Ltd	10,762	29,005	—	—	—	—
	Total	₩41,878	₩210,908	₩1,740	₩88,549	₩26,510	₩2,008

(4) Money dealing with related parties

Money dealing with related parties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

		2014		2013	
		Financing transaction		Financing transaction	
Detail	Related party	Loan	Collection	Loan	Collection
Subsidiaries	KEXIM Bank UK Limited	₩ 363,481	₩ 346,534	₩ 751,734	₩ 766,611
	PT.KOEXIM Mandiri Finance	288,332	296,936	486,789	486,789
	KEXIM Vietnam Leasing Co.	242,128	225,199	326,922	309,207
	KEXIM Asia Limited	287,622	277,439	380,925	414,815
Associate	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	—	10,100	—	10,000
	DAESUN Shipbuilding & Engineering Co., Ltd.	55,525	5,486	—	—
	Total	₩1,237,088	₩1,161,694	₩1,946,370	₩1,987,422

(5) Details of compensation to key management for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	2014	2013
Salaries	₩2,763	₩3,628
Severance and retirement benefits	236	154
Total	₩2,999	₩3,782

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6, rue Eugène Ruppert
L-2453 Luxembourg
Grand Duchy of Luxembourg

THE GUARANTOR

The Export-Import Bank of Korea
38, Eunhaeng-ro
Yeongdeungpo-gu
Seoul 07242
Korea

LEGAL ADVISER TO THE ISSUER
as to Luxembourg law

Arendt & Medernach SA
41A, avenue J.F. Kennedy
L-2082 Luxembourg
Grand Duchy of Luxembourg

LEGAL ADVISER TO THE GUARANTOR
as to Korean law

Kim & Chang
Seyang Building
39, Sajik-ro 8-gil, Jongno-gu
Seoul 03170
Korea

LEGAL ADVISER TO THE ISSUER AND THE GUARANTOR
as to U.S. law

Cleary Gottlieb Steen & Hamilton LLP
Foreign Legal Consultant Office
19F Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

LEGAL ADVISER TO THE MANAGERS
as to U.S. law

Linklaters LLP
Foreign Legal Consultant Office
22F East Tower
Mirae Asset Center 1
26, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

**FISCAL AGENT, PAYING AGENT,
TRANSFER AGENT AND CALCULATION AGENT**

Citibank, N.A., London Branch
c/o Citibank, N.A.
Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP
1 Robinson Road
#18-00 AIA Tower
Singapore 048542