IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A UNDER THE SECURITIES ACT (AS DEFINED BELOW) ("**RULE 144A**") OR (2) NON-U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW) ("**REGULATION S**")) PURCHASING THE SECURITIES OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN RELIANCE ON REGULATION 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 (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 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 HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS 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. 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 PRICING SUPPLEMENT AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN THE OFFERING CIRCULAR (AS AMENDED AND RESTATED) THAT WILL BE DISTRIBUTED TO YOU PRIOR TO THE PRICING DATE AND NOT ON THE BASIS OF THE ATTACHED DOCUMENTS. 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 be either (I) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (II) non-U.S. persons eligible to purchase the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting this e-mail and accessing the following Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons eligible to purchase the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act and that the electronic e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to the delivery of such Offering Circular 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 the 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.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Dealer (as described in the Offering Circular) or any affiliate of a Dealer 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.

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, any Arranger (as described in the Offering Circular) nor any Dealer (as described in the Offering Circular) 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 upon request to the Arranger.

You should not reply by e-mail to this notice, 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 this e-mail 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.

HYUNDAI CAPITAL SERVICES, INC.

(incorporated with limited liability under the laws of the Republic of Korea)

U.S.$5,000,000,000
Global Medium Term Note Programme

This offering circular (the "**Offering Circular**") replaces and supersedes in its entirety the offering circular dated 30 August 2019. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein.

Under this U.S.$5,000,000,000 Global Medium-Term Note Programme (the "**Programme**", as amended, supplemented or restated), Hyundai Capital Services, Inc. (the "**Issuer**" or the "**Company**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$5,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

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

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of Notes that may be issued under the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Approval in-principle from, admission to the Official List of, and the listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer or the merits of the Program or the Notes.

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

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

See "***Risk Factors***" for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued only outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S under the Securities Act ("**Regulation S**") and Registered Notes may be issued both outside the United States to non-U.S. persons in reliance on the exemption from registration provided by Regulation S and within the United States or to U.S. persons in private transactions (i) to "**qualified institutional buyers**" within the meaning of Rule 144A under the Securities Act ("**QIBs**") or (ii) to "**accredited investors**" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") who agree to purchase the Notes for their own account and not with a view to the distribution thereof. Notes are subject to certain restrictions on transfer. See "*Subscription and Sale and Transfer and Selling Restrictions*".

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

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger
HSBC
Dealers

BNP PARIBAS
Citigroup
HSBC
Standard Chartered Bank

BofA Merrill Lynch
Crédit Agricole CIB
Société Générale
Corporate & Investment Banking

UBS

The date of this Offering Circular is 26 January 2021.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and offering of Notes, that the information contained or incorporated by reference in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions and that there are no other facts the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any information or the expression of any opinions or intentions in this Offering Circular misleading in any material respect. The Issuer accepts responsibility accordingly. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

No person is or has been authorized by the Issuer to give any information or to make any representation which is not contained in or which is not consistent with this Offering Circular or any other information supplied by or on behalf of the Issuer in connection with the Programme or the Notes, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference in this Offering Circular when deciding whether or not to purchase any Notes.

Product Governance under Directive 2014/65/EU (as amended)

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**EU MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

The Pricing Supplement in respect of any Notes will include a legend entitled "**EU MiFID II Product Governance**" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**EU MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

Product Governance under UK MiFIR

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR product governance rules set out in the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

The Pricing Supplement will include a legend entitled "**UK MiFIR Product Governance**" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

IMPORTANT — EEA RETAIL INVESTORS If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

IMPORTANT — UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to UK Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) — The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"). The Issuer will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

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

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Issuer nor any of the Dealers represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Japan, Korea, Singapore and Hong Kong. See "*Subscription and Sale and Transfer and Selling Restrictions*".

The Arranger, the Dealers and the Agents have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Agents as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. To the fullest extent permitted by law, none of the Dealers, the Arrangers or the Agents accept any liability in relation to the information contained or incorporated by reference in this Offering Circular, any other information provided by the Issuer in connection with the Programme or any other statement, made or purported to be made by an Arranger or a Dealer or any Agent or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent accordingly disclaims 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. None of the Arranger, the Dealers or the Agents or any of their respective affiliates, directors or advisors undertakes to review the results of operations, financial condition or affairs of the Issuer or any of its affiliates during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Securities of any information coming to the attention of the Arranger, the Dealers or the Agents.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

This Offering Circular is being submitted on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under "*Form of the Notes*") for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorized. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes may be offered and sold outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act ("**Regulation S**"). Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act ("**Rule 144A**") or other available exemption.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under "*Terms and Conditions of the Notes*"). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note (as defined under "*Form of the Notes*") or any Notes issued in registered form in exchange or substitution therefor (together "**Legended Notes**") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

The distribution of this Offering Circular and the offer, sale or delivery of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. The Notes have not been and will not be registered under the Securities Act, and include Notes that are in bearer form that are subject to U.S. tax law requirements and limitations. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see "*Subscription and Sale and Transfer and Selling Restrictions*" below.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilization may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or person(s) acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "forward-looking statements", including statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "will", "aim", "will likely result", "will continue", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "should", "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Issuer's financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Issuer's products and services, are forward-looking statements. Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Issuer or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Issuer's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the Issuer's ability to successfully implement its business strategy, including in relation to its overseas business;
- the condition of and changes in the Korean, Asian or global economies, including changes in consumer confidence and spending;
- future levels of non-performing loans;
- changes in interest rates and foreign currency exchange rates in Korea and, to a lesser extent, in other jurisdictions where the Issuer may operate;
- support from the Issuer's major shareholders, particularly Hyundai Motor Company and Kia Motors Corporation, whose automobile products provide the basis for a captive market for the Issuer;
- changes in government regulation and licensing of the Issuer's businesses in Korea and in other jurisdictions where the Issuer may operate; and
- competition in the installment financing and other segments in the financial services industry in which the Issuer operates.

Additional factors that could cause the Issuer's actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Any forward-looking statements contained in this Offering Circular speak only as of the date of this Offering Circular. Each of the Issuer and the

Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

KOREAN SELLING RESTRICTIONS

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea (the "**FSCMA**"). The Notes 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 resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations. In addition, until the expiration of one year after the issuance of the Notes, a holder of Notes will be prohibited from offering, delivering or selling any Notes, directly or indirectly, in Korea or to any Korean resident except (i) in the case where the Notes are not issued as convertible bonds, bonds with warrants and exchangeable bonds, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of qualified institutional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, **provided that** (x) the Notes are registered with Korea Financial Investment Association (the "**KOFIA**") by the Issuer and (y) the qualified institutional investors are registered with the KOFIA in advance, and further **provided that** all of the following requirements are satisfied: (1) the Notes shall be issued in a currency other than Korean Won and the principal and interest shall be paid in a currency other than Korean Won, (2) at least 80 per cent. of the Notes shall be allocated to non-residents of Korea (which applies only to the Notes acquired from the Issuer or any underwriter at the time of issuance), (3) the Notes shall be those listed on a major overseas securities market specified by the governor of the Financial Supervisory Services, those registered with or reported to a foreign financial investment supervisory agency of the country in which a major overseas market is established, or those for which any other procedure that may be deemed a public offering is completed in the country in which a major overseas market is established, (4) measures shall be taken to state the condition that the Notes shall not be transferred to any Korean resident other than qualified institutional investors at the time of issuance or within one year from the issuance date on the face of such Notes (limited to cases where any physical instrument is issued), the underwriting agreement, subscription agreement and offering document and (5) the Issuer and the relevant Dealers shall take measures under foregoing items (1) through (4) and the Issuer and the relevant Dealers shall severally or jointly preserve evidential documents in relation thereto; or (ii) as otherwise permitted under applicable Korean laws and regulations.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organized under the laws of Korea. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and its officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Korea upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Korea predicated upon civil liabilities of the Issuer or its directors and officers under laws other than Korean law, including any judgment predicated upon U.S. federal securities laws. The Issuer has been advised by Shin & Kim LLC, its Korean counsel, that there is doubt as to the enforceability in Korea in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

CERTAIN DEFINED TERMS AND CONVENTIONS

The Issuer has prepared this Offering Circular using a number of conventions that should be considered when reading the information contained in this Offering Circular. References to the "**Company**" or the "**Issuer**" are to Hyundai Capital Services, Inc., "**Hyundai Card**" are to Hyundai Card Co., Ltd., "**HMC**" are to Hyundai Motor Company, "**KMC**" are to Kia Motors Corporation, the "**Hyundai Motor Group**" or "**HMG**" are to the Company, HMC, KMC and HMC's other subsidiaries and affiliates together, "**SCFBA**" are to the Specialized Credit Financial Business Act, "**FSS**" are to the Financial Supervisory Service of Korea and "**FSC**" are to the Financial Services Commission of Korea. Unless otherwise specified, references to "**GECIH**" are to General Electric Capital International Holdings Limited, "**GECK**" are to GE Capital Korea, Ltd., and "**GECC**" are to

General Electric Capital Corporation, or any of GECC, GECIH, GECK, or its other affiliate, or collectively, as appropriate. References herein to "**Korea**" are to the Republic of Korea, and references to the "**Government**" or "**government**" are to the Government of Korea.

All references in this Offering Circular to "**U.S. dollars", "dollars**", "**U.S.$**" and "**$**" refer to the currency of the United States of America, all references to "**Won**" and "**₩**" refer to the currency of Korea, all references to "**€**", "**Euro**" and "**euro**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, all references to "**MYR**" refer to the currency of Malaysia, all references to "**CHF**" refer to the currency of Swiss Confederation and all references to "**Renminbi**", "**RMB**" and "**CNY**" refer to the currency of the People's Republic of China ("**PRC**"). Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. The Company maintains its accounts in Won. Unless otherwise indicated, all translations from Won to U.S. dollars herein indicated were made at the rate of ₩1,173.50 to U.S.$1.00, the exchange rate based on the basic rate under the market average exchange rate system, provided by Seoul Money Brokerage Services, Ltd. between Won and U.S. dollars (the "**Market Average Exchange Rate**") and in effect on 29 September 2020. These translations were made solely for the convenience of the reader. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. See "*Exchange Rates*".

Unless otherwise stated or the context otherwise requires, the financial data included in this Offering Circular are presented on a consolidated basis.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the publicly available English version of the audited annual consolidated financial statements and the unaudited condensed consolidated interim financial statements of the Issuer for the most recent financial period, which are available at (www.hyundaicapital.com); see "*General Information*" for a description of the financial statements currently published by the Issuer; and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

except that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered offices set out at the end of this Offering Circular.

The Issuer will, in connection with the listing of the Notes on the SGX-ST, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the SGX-ST.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Programme Agreement (as defined below) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him or her, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the "*Terms and Conditions of the Notes*" endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*" below.

This Offering Circular and any supplement will only be valid in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.$5,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and

(c) the U.S. dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") and other Notes issued at a discount or premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer	Hyundai Capital Services, Inc.
Description	Global Medium Term Note Programme
Arranger	The Hongkong and Shanghai Banking Corporation Limited
Dealers	BNP Paribas, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch International, Société Générale, Standard Chartered Bank and UBS AG Hong Kong Branch and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*") including the following restrictions applicable at the date of this Offering Circular. Notes with a maturity of less than one year: Notes having a maturity of less than one year from the date of issue will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale and Transfer and Selling Restrictions*".
Fiscal Agent, Principal Paying Agent and Principal Transfer Agent	Citibank, N.A., London Branch
Registrar	Citigroup Global Markets Europe AG
Calculation Agent and Exchange Agent	Citibank, N.A., London Branch
Programme Size	Up to U.S.$5,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.

Redenomination	The applicable Pricing Supplement may provide that certain Notes may be redenominated in Euro (to the extent permitted under the applicable Korean laws and regulations). The relevant provisions applicable to any such redenomination are contained in Condition 5 (*Redenomination*).
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified installments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as set forth in the applicable Pricing Supplement. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.
Denomination of Notes	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer except that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note (as defined under "*Form of the Notes*") will be U.S.$500,000 or its approximate equivalent in other Specified Currencies.
Taxation	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as defined in Condition 10 (*Taxation*)), subject as provided in Condition 10 (*Taxation*). In the event that any such deduction is made, the Issuer will, except in certain limited circumstances provided in Condition 10 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Certain Covenants	The terms of the Notes will contain limitations on liens, sale and leaseback transactions, consolidation, merger and sale of assets, and certain other covenants, as further described in Condition 4 (*Certain Covenants*).
Cross Acceleration	The terms of the Notes will contain a cross acceleration provision as further described in Condition 12 (*Events of Default*).
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4 (*Certain Covenants*), unsecured obligations of the Issuer and will rank *pari passu* among themselves and (except for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of Notes that may be issued under the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. If a series of Notes is listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in another currency). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law	The Notes will be governed by, and construed in accordance with, New York law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including Italy), the United Kingdom, Korea, Japan, Singapore, Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale and Transfer and Selling Restrictions*".

FORM OF THE NOTES

Certain capitalized terms used herein are defined in "*Terms and Conditions of the Notes*". Any reference herein to Euroclear and/or Clearstream and/or DTC (each as defined below) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a "**Temporary Bearer Global Note**") or a permanent bearer global note ("**Permanent Bearer Global Note**" and, together with Temporary Bearer Global Note, the "**Bearer Global Notes**") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). While any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and Euroclear and/or Clearstream, as applicable, has given a similar certification (based on the certifications it has received) to the Principal Paying Agent.

From the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) by the Noteholder either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given. Definitive Bearer Notes will only be delivered outside the United States. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 12 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Permanent Bearer Global Note is exchanged for definitive Bearer Notes. In addition, an 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 Bearer Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have a maturity of more than 365 days (including unilateral rollovers and extensions) and on all talons, receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED".

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a "**Regulation S Global Note**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person except as otherwise provided in Condition 2 (*Transfers of Registered Notes*) and may not be held otherwise than through Euroclear or Clearstream and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to "**qualified institutional buyers**" within the meaning of Rule 144A under the Securities Act ("**QIBs**") or (ii) to "**accredited investors**" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") who agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form ("**Rule 144A Global Note**" and, together with Regulation S Global Note, the "**Registered Global Notes**").

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") for the accounts of its participants, including Euroclear and Clearstream or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form. Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Global Note shall be € 50,000 or its approximate equivalent in other Specified Currencies.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof ("**Definitive IAI Registered Notes**"). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.$500,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*". Institutional Accredited Investors that hold Definitive IAI Registered Notes may elect to hold such Notes through DTC, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144 under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under "*Subscription and Sale and Transfer and Selling Restrictions*". The Rule 144A Global Note and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provisions to the contrary, be made to the person shown on the Register (as defined in Condition 8(d) (*Payments — Payments in Respect of Registered Notes*)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provisions to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 8(d) (*Payments — Payments in Respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, the Issuer has been notified that both Euroclear and Clearstream have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Permanent Registered Global Note is exchanged for definitive Registered Notes. In addition, an 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 Registered Notes, including details of the Paying Agent in Singapore. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*".**

General

Pursuant to the Agency Agreement (as defined in "*Terms and Conditions of the Notes*"), the Principal Paying Agent or the Registrar, as the case may be, shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a Common Code and ISIN and, where applicable, a CUSIP and CINS number which are different from the Common Code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche and, for Notes subject to the certification requirements under U.S. Treasury regulations, until at least the Notes represented by interests in a temporary Global Note are exchanged for Notes represented by an interest in a permanent Global Note or for definitive Bearer Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, each person (other than Euroclear or Clearstream) who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 12 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a Paying Agent in Singapore where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Note is exchanged for definitive Notes. In addition, an 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 Notes, including details of the Paying Agent in Singapore.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

Hyundai Capital Services, Inc.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the U.S.$5,000,000,000 Global Medium Term Note Programme

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**EU Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the Financial Services and Markets Act 2000 (the "**FSMA**") to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

OPTION 1 – EU MiFID II Target market Legend for a professional investors and ECPs (consider if any of the Issuer / Guarantor / Managers are "MiFID II entities" and are "manufacturers" for the purposes of MiFID II)

[**EU MIFID II product governance / Professional investors and ECPs only target market –** Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the [Notes] has led to the conclusion that: (i) the target market for the [Notes] is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**EU MiFID II**")][EU MiFID II]; or (ii) all channels for distribution of the [Notes] to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any person subsequently offering, selling or recommending the [Notes] (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the [Notes] (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

OPTION 2 – UK MiFIR Target market Legend for a professional investors and ECPs (consider if any of the Issuer / Guarantor / Managers are "UK MiFIR entities" and are "manufacturers" for the purposes of UK MiFIR)

[UK MIFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the

[Notes] has led to the conclusion that: (i) the target market for the [Notes] is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("COBS"), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the [Notes] to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the [Notes] (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**Singapore Securities and Futures Act Product Classification –** Solely for the purposes of its obligations pursuant to Sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore)(as modified or amended from time to time, the "SFA"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products "]/ ["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

The Notes have not been registered with the Financial Services Commission of Korea under the Financial Investment Services and Capital Markets Act of Korea. Accordingly, the Notes may not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations. [In addition, during the first year after the issuance of the Notes, the Notes may not be transferred to any resident of Korea other than a "qualified institutional investor" as defined in the Regulation on Securities Issuance and Disclosure of Korea (a "**Korean QII**") who is registered with the Korea Financial Investment Association (the "**KOFIA**") for Korean QII bond trading. Furthermore, the Notes acquired by all Korean QIIs at the time of issuance must be less than 20 per cent. of the aggregate principal amount of the Notes.]

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated [●], [2021]. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated [*original date*]. The Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [date], [2021], except in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.

[*Include whichever of the following apply or specify as* "*Not Applicable*". *Note that the numbering should remain as set out below, even if* "*Not Applicable*" is indicated for individual paragraphs or subparagraphs.]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		Hyundai Capital Services, Inc.
	LEI Code:		[●]
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●] (*if re-opening fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
	(iii)	Re-opening:	[Yes/No] [*Specify terms of initial or eventual fungibility*]
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		[●]
	Series:		[●]
	Tranche:		[●]
5.	(i)	Issue Price of Tranche:	[●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible re-opening issues only, if applicable)].
	(ii)	Net Proceeds: (*Required only for listed issues*)	[●]
	(iii)	Use of Proceeds:	[●]
6.	(i)	Specified Denominations:	[●] (*N.B. In the case of Registered Notes, this means the minimum integral amount in which transfers can be made. For Registered Global Notes, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies) "[U.S.$200,000] and integral multiples of [U.S.$1,000] in excess thereof"*) (*N.B. For Bearer Notes with a Specified Denomination and higher integral multiples above the minimum denomination, consider including language substantially to the following effect (however, appropriate amendments should be made for different currencies*): *"[U.S.$200,000] and integral multiples of [U.S.$1,000] in excess thereof, up to and including [U.S.$499,000]. No definitive notes will be issued with a denomination above"*)
	(ii)	Calculation Amount:	[●] (*If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations*)
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●]
8.	Maturity Date:		[*Fixed rate — specify date/Floating rate* — Interest Payment Date falling in or nearest to [specify month and year]]
9.	Interest Basis:		[% Fixed Rate] [[LIBOR/EURIBOR/SOFR] +/-% Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)

10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Installment] [specify other]
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provisions for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	Status of the Notes:	Senior
14.	Listing:	[Singapore Exchange Securities Trading Limited/*specify other*/ None]
15.	Method of Distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
	(i) Rate(s) of Interest:	[●]% per annum [payable [annually/semi-annually/quarterly] in arrears] (*If payable other than annually, consider amending Condition 6 (Interest)*)
	(ii) Interest Payment Date(s):	([●] in each year up to and including the Maturity Date]/[specify other]) (*N.B.: This will need to be amended in the case of long or short coupons*)
	(iii) Fixed Coupon Amount(s):	[●] per Calculation Amount
	(iv) Broken Amount(s):	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●] [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*]
	(v) Day Count Fraction:	[30/360 or Actual/Actual *(ICMA)/specify other*]
	(vi) Determination Date(s):	[●] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B.: This will need to be amended in the case of regular interest payment dates which are not of equal duration. N.B.: Only relevant where Day Count Fraction is Actual/Actual (ICMA)*]
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[*None/give details*]
17.	Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Specified Period(s)/ Specified Interest Payment Dates:	[●]

(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
(iii) Additional Business Center(s):	[●] (*Insert New York City for U.S. dollar denominated Notes to be held through DTC and for non-U.S. dollar denominated Notes where exchange into U.S. dollars is contemplated for DTC participants holding through Euroclear and Clearstream*)
(iv) Manner in which the Rate of Interest and Interest Amount are to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[●]
(vi) Screen Rate Determination:	
• Reference Rate:	[●] (*Either LIBOR, EURIBOR, SOFR or other, although additional information is required if other — including fallback provisions in the Agency Agreement*)
[OPTION — SOFR]	
• Index Determination:	[Applicable/Not Applicable]
• SOFR Compounded Index:	[Applicable/Not Applicable]
• Relevant Decimal Place:	[ ] *(unless otherwise specified in the Pricing Supplement, will be the seventh decimal place in the case of the SOFR Compounded Index)*
• Relevant Number of Index Days:	[ ] *(unless otherwise specified in the Pricing Supplement, Relevant Number shall be, in the case of the SOFR Compounded Index shall be [two])*
[***END OF OPTION***]	
• Interest Determination Date(s):	[●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR*)
• Relevant Screen Page:	[●] (*In the case of EURIBOR, if not Reuters Page EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(vii) ISDA Determination:	
• Floating Rate Option:	[●] (*If not on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, the Issuer shall describe the basis here*)

	• Designated Maturity:	[●]
	• Reset Date:	[●]
	(viii) Margin(s):	[+/-] [●]% per annum
	(ix) Minimum Rate of Interest:	[●]% per annum
	(x) Maximum Rate of Interest:	[●]% per annum
	(xi) Day Count Fraction:	[●]% per annum [Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 [ISDA] Other] (*See Condition 6 (Interest) for alternatives*)
	(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Accrual Yield:	[●]% per annum
	(ii) Reference Price:	[●]
	(iii) Any other formula/basis of determining amount payable:	[●]
	(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 9(e) (*Redemption and Purchase — Early Redemption Amounts) — (iii) and Condition 9(j) (Redemption and Purchase — Late Payment on Zero Coupon Notes)*] (*Consider applicable day count fraction if non-U.S. dollar denominated*)
19.	Index Linked Interest Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Index/Formula:	[*give or annex details*]
	(ii) Calculation Agent responsible for calculating the principal and/or interest due:	[●]
	(iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[●]

	(iv) Specified Period(s)/ Specified Interest Payment Dates:	[●]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(vi) Additional Business Center(s):	[●]
	(vii) Minimum Rate of Interest:	[●]% per annum
	(viii) Maximum Rate of Interest:	[●]% per annum
	(ix) Day Count Fraction:	[●]
20.	Dual Currency Note Provisions	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable:	[●]
	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●]
	(b) Maximum Redemption Amount:	[●]

(iv) Notice period (if other than as set out in the Conditions):	[●]
	(*N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
22. Investor Put:	[Applicable/Not Applicable]
	(*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i) Optional Redemption Date(s): [●]	
(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii) Notice period (if other than as set out in the Conditions):	[●]
	(*N.B. If setting notice periods which are different from those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)
23. Final Redemption Amount of each Note:	[●] [per Calculation Amount/specify other]
24. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 9(e) (*Redemption and Purchase — Early Redemption Amounts*)):	[●]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:	[Bearer Notes:
	[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]•]
	[Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]
	[Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]•]

		[Registered Notes: Regulation S Global Note (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]/Rule 144A Global Note (U.S.$[●] nominal amount registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream]/Definitive IAI Registered Notes *(**specify nominal amounts**)*]
26.	Additional Financial Center(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] (*Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate; insert New York City for U.S. dollar denominated Notes to be held through DTC*)
27.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Not Applicable/*give details*]
28.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*] [*New forms of Global Note may be required for Partly Paid issues*]
29.	Details relating to Installment Notes:	
	(i) Installment Amount(s):	[Not Applicable/*give details*]
	(ii) Installment Date(s):	[Not Applicable/*give details*]
30.	Redenomination applicable:	Redenomination [not] applicable [*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*]
31.	Other terms or special conditions:	[Not Applicable/*give details*]
32.	Additional U.S. federal income tax considerations:	[Not applicable/*give details*] [The Notes are [not] subject to U.S. federal withholding tax under Section 871(m).][1] [Additional information regarding the application of Section 871(m) to the Notes will be available at [●]]

1 *The Notes should not be subject to U.S. federal withholding tax under Section 871(m), if they (i) do not reference any U.S. equity or any index that contains any U.S. equity (ii) reference indices considered to be "qualified indices" for purposes of Section 871(m) or (iii) are Non-Delta-One Notes and are issued prior to 1 January 2021. Delta-One Notes issued at any time or Non-Delta-One Notes issued on or after 1 January 2021 that reference a U.S. equity or index that contains any U.S. equity are subject to additional testing on a trade-by-trade basis to determine whether they are Section 871(m) Notes.*

DISTRIBUTION

33.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilizing Manager (if any):	[Not Applicable/*give names*]
34.	If non-syndicated, name of relevant Dealer:	[●]
35.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	[TEFRA D/TEFRA C/TEFRA not applicable (for Bearer Notes with a maturity of one year or less (including unilateral rollovers and extensions) or Registered Notes)]
36.	U.S. Selling Restriction:	[Rule 144A]/Regulation S, Category 2
37.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] *[(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products, "Applicable" should be specified.)]*
38.	Prohibition of Sales to UK retail Investors:	[Applicable/Not Applicable] *[(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products, "Applicable" should be specified.)]*
39.	[MiFID II product governance / target market:]	[*appropriate target market legend to be included*]
40.	Additional selling restrictions:	[Not Applicable/give details]

OPERATIONAL INFORMATION

41.	Any clearing system(s) other than Euroclear and Clearstream and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
42.	Delivery:	Delivery [against/free of] payment
43.	In the case of Registered Notes, specify the location of the office of the Registrar if other than New York:	[Not applicable/[Luxembourg]]
44.	Additional Paying Agent(s) (if any):	[●]]
	ISIN:	[●]
	Common Code:	[●]
	[FISIN:	[●]]
	[CFI Code:	[●]]
	[CUSIP:	[●]]
	[CINS:	[●]]
	(*insert here any other relevant codes*)	

[LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the U.S.$5,000,000,000 Global Medium Term Note Programme of Hyundai Capital Services, Inc.]

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By: ____________________________________

Duly authorized signatory
Name:
Title:

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1 (*Form, Denomination and Title*), 5 (*Redenomination*), 6 (*Interest*), 8 (*Payments*), 9 (*Redemption and Purchase* (except Condition 9(b) (*Redemption and Purchase — Redemption for tax reasons*)), 13 (*Replacement of Notes, Receipts, Coupons and Talons*), 14 (*Agents*), 15 (*Exchange of Coupons for Talons*), 16 (*Notices*) (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 18 (*Further Issues*), they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes. Reference herein to "**Condition**" shall be to the Terms and Conditions set forth below.*

This Note is one of a Series (as defined below) of Notes issued by Hyundai Capital Services, Inc. (the "**Issuer**") pursuant to the Agency Agreement (as defined below).

References herein to the "Notes" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note ("**Global Note**"), units of the lowest Specified Denomination in the Specified Currency;

(ii) any Global Note;

(iii) any definitive Notes in bearer form ("**Bearer Notes**") issued in exchange for a Global Note in bearer form; and

(iv) any definitive Notes in registered form ("**Registered Notes**") (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of the Amended and Restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 11 March 2009, and made between the Issuer, Citibank, N.A., London Branch as fiscal agent, principal paying agent and exchange agent (the "**Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), and Citigroup Global Markets Europe AG, as registrar (the "**Registrar**", which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents).

Interest bearing definitive Bearer Notes have interest coupons ("**Coupons**") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in installments have receipts ("**Receipts**") for the payment of the installments of principal (other than the final installment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects except for their respective Issue Dates, Interest Commencement Dates (if applicable) and/or Issue Prices (if applicable).

Copies of the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the "**Agents**"). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents except that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement or between the Terms and Conditions and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes may be in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, will be serially numbered, in the Specified Currency and the Specified Denomination(s). Except as provided in Condition 2, Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Installment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be a Limited Recourse Note, as indicated in the applicable Pricing Supplement. Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), each person (other than Euroclear or Clearstream who is for the time being shown in the records of Euroclear or of Clearstream as the holder of a particular nominal amount of such Notes in which regard any certificate or other document issued by Euroclear or Clearstream as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

For so long as The Depository Trust Company ("**DTC**") or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, as the case may be. References to DTC, Euroclear and/or Clearstream shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

2. TRANSFERS OF REGISTERED NOTES

(a) Transfers of Interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorized denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

(b) Transfers of Registered Notes in Definitive Form

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part, in the authorized denominations set out in the applicable Pricing Supplement. In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note, or the relevant part of the Registered Note, at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 7 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(c) Registration of Transfer upon Partial Redemption

In the event of a partial redemption of Notes under Condition 9 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) Costs of Registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) **Transfers of Interests in Regulation S Global Notes**

Prior to expiry of the Distribution Compliance Period (as defined below), transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(i) upon receipt by the Registrar of a written certification substantially in the form set out in Schedule 5 of the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

(A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(B) to a person who is an Institutional Accredited Investor, in which case the Transfer Certificate must be accompanied by a duly executed investment letter from the relevant transferee substantially in the form set out in Schedule 6 of the Agency Agreement (an "**IAI Investment Letter**"); or

(ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note (as defined below) in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) **Transfers of Interests in Legended Notes**

Transfers of Legended Notes or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream; or

(ii) to a transferee who takes delivery of such interest through a Legended Note:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) **Exchanges and Transfers of Registered Notes Generally**

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) **Definitions**

In this Condition, the following expressions shall have the following meanings:

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

"**Institutional Accredited Investor**" means "**accredited investors**" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

"**Legended Note**" means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

"**QIB**" means a "**qualified institutional buyer**" within the meaning of Rule 144A; "Regulation S" means Regulation S under the Securities Act;

"**Regulation S Global Note**" means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rule 144A Global Note**" means a Registered Global Note representing Notes sold in the United States or to QIBs; and

"**Securities Act**" means the United States Securities Act of 1933, as amended.

3. STATUS OF NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Certain Covenants*)) unsecured obligations of the Issuer and rank *pari passu* among themselves and (except for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

4. CERTAIN COVENANTS

(a) **Limitation on Liens**

The Issuer will not itself, and will not permit any Restricted Subsidiary to, create, incur, issue or assume or guarantee any External Indebtedness secured by any mortgage, charge, pledge, encumbrance or other security interest (a "**Lien**") on any Restricted Property without in any such case effectively providing that the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Restricted Subsidiary then existing or thereafter created) are secured equally and ratably with or prior to such secured External Indebtedness unless, after giving effect thereto, the aggregate principal amount of all such secured External Indebtedness, plus Attributable Debt of the Issuer and its Restricted Subsidiaries in respect of Sale/Leaseback Transactions as described under "*Limitation upon Sale and Leaseback Transactions*" below, in each case entered into after the date of the issuance of the Notes, would not exceed 10% of Consolidated Net Tangible Assets.

The foregoing restriction will not apply to External Indebtedness secured by:

(i) any Lien existing on any Restricted Property prior to the acquisition thereof by the Issuer or any of its Restricted Subsidiaries or arising after such acquisition pursuant to contractual commitments entered into prior to and not in contemplation of such acquisition;

(ii) any Lien on any Restricted Property securing External Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof, **provided that** such Lien attaches to such Restricted Property concurrently with or within 12 months after the acquisition thereof or completion or construction, improvement or repair thereof;

(iii) any Lien existing on any Restricted Property of any Restricted Subsidiary prior to the time such Restricted Subsidiary becomes a Subsidiary of the Issuer or arising after such time pursuant to contractual commitments entered into prior to and not in contemplation thereof;

(iv) any Lien securing External Indebtedness owing to the Issuer or to a Subsidiary; or

(v) any Lien arising out of the refinancing, extension, renewal or refunding of any External Indebtedness secured by any Lien permitted by any of the foregoing clauses or existing at the date of the issuance of the Notes, **provided that** such External Indebtedness is not increased and is not secured by any additional Restricted Property.

For the purposes of Conditions 4(a) and 4(b) the giving of a guarantee which is secured by a Lien on a Restricted Property, and the creation of a Lien on a Restricted Property to secure External Indebtedness which existed prior to the creation of such Lien, shall be deemed to involve the creation of indebtedness in an amount equal to the principal amount guaranteed or secured by such Lien; but the amount of indebtedness secured by Liens on Restricted Properties shall be computed without cumulating the underlying indebtedness with any guarantee thereof or Lien securing the same.

For the avoidance of any doubt, the establishment of any receivables financing facility or arrangement pursuant to which a special purpose vehicle (including any special purpose trust) purchases or otherwise acquires accounts receivable of the Issuer shall not be deemed to be affected by Conditions 4(a) or 4(b).

(b) **Limitation upon Sale and Leaseback Transactions**

Neither the Issuer nor any Restricted Subsidiary may enter into any Sale/Leaseback Transaction after the date of the issuance of the Notes, unless (a) the Attributable Debt of the Issuer and its Restricted Subsidiaries in respect thereof and in respect of all other Sale/Leaseback Transactions entered into after the date of the issuance of the Notes (other than transactions permitted by clause (b) below) plus the aggregate principal amount of External Indebtedness secured by Liens on Restricted Property then outstanding (excluding any such External Indebtedness secured by Liens described in clause (i) through (v) under "*Limitation on Liens*" above or existing at the date of the issuance of the Notes without equally and ratably securing the Notes, would not exceed 10% of Consolidated Net Tangible Assets, or (b) the Issuer or a Restricted Subsidiary within 12 months after such Sale/Leaseback Transaction, applies to the retirement of External Indebtedness, which is not subordinate to the Notes, of the Issuer or a Restricted Subsidiary an amount equal to the greater of (i) the net proceeds of the sale or transfer of the property or other assets which are the subject of such Sale/Leaseback Transaction or (ii) the fair market value of the Restricted Property so leased (in each case as determined by the Issuer); **provided that** the amount to be so applied shall be reduced by (i) the principal amount of the Notes delivered within 12 months after such Sale/Leaseback transaction to the Agent for cancellation, and (ii) the principal amount of External Indebtedness of the Issuer or a Restricted Subsidiary, other than the Notes, voluntarily retired by the Issuer or a Restricted Subsidiary within 12 months after such Sale/Leaseback Transaction. Notwithstanding the foregoing, no retirement referred to in this paragraph (b) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision. Notwithstanding the foregoing, where the Issuer or any Restricted Subsidiary is the lessee in any Sale/Leaseback Transaction, Attributable Debt shall not include any External Indebtedness resulting from the guarantee by the Issuer or any other Restricted Subsidiary of the lessee's obligation thereunder. The foregoing restriction shall not apply to any transaction between the Issuer and a Subsidiary or between a Restricted Subsidiary and a Subsidiary.

(c) **Consolidation, Merger and Sale of Assets**

The Issuer, without the consent of the Holders of any of the Notes, may consolidate with, or merge into, or sell, transfer, lease or convey its assets substantially as an entirety (each a "**transaction**") to any corporation organized under the laws of Korea, **provided that** (a) any successor corporation expressly assumes the Issuer's obligations under the Notes and the Agency Agreement, (b) after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (c) such successor corporation has the benefit of a credit rating which, at the time and immediately after such transaction takes place, is no worse than the credit rating of the Issuer, and (d) if, as a result of any such transaction, properties or assets of the Issuer or a Restricted Subsidiary would become subject to a Lien which would not be permitted under these Terms and Conditions, the Issuer or such successor corporation, as the case may be, shall take such steps as shall be necessary effectively to secure the Notes (together with, if the Issuer shall so determine, any other indebtedness of the Issuer or such Subsidiary then existing or thereafter created which is not subordinate to the notes) equally and ratably with (or prior to) all indebtedness secured thereby.

(d) **Certain Definitions**

"**Attributable Debt**" means, with respect to any Sale/Leaseback Transaction, the lesser of (x) the fair market value of the property or other assets subject to such transaction and (y) the present value (discounted at a rate per annum equally to the discount rate of a capital lease obligation with a like term in accordance with K-IFRS) of the obligations of the lessee for net rental payments (excluding amounts on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges and contingent rents) during the term of the lease.

"**Consolidated Net Tangible Assets**" means the total amount of assets of the Issuer and its consolidated Subsidiaries, including investments in unconsolidated Subsidiaries, after deducting therefrom (a) all current liabilities (excluding any current liabilities constituting Long-term Debt by reason of their being renewable or extendible) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent audited annual consolidated statement of financial position of the Issuer and its consolidated Subsidiaries and computed in accordance with K-IFRS.

"**External Indebtedness**" means any obligation for the payment or repayment of money borrowed which is denominated in a currency other than the currency of Korea and which has a final maturity of one year or more from its date of incurrence or issuance.

"**Long-term Debt**" means any note, bond, debenture or other similar evidence of indebtedness of money borrowed having a maturity of more than one year from the date such evidence of indebtedness was incurred or having a maturity of less than one year but by its terms being renewable or extendible, at the option of the borrower beyond one year from the date such evidence on indebtedness was incurred.

"**person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**Restricted Property**" means any asset or property located in Korea, whether at the date of the Indenture owned or thereafter acquired, other than any such asset or property, or portion thereof, reasonably determined by the Issuer's board of directors not to be of material importance to the total business conducted by the Issuer and its Subsidiaries as a whole.

"**Restricted Subsidiary**" means any Subsidiary that owns Restricted Property.

"**Sale/Leaseback Transaction**" means any arrangement with any Person which provides for the leasing by the Issuer or any Restricted Subsidiary, for an initial term of three years or more, of any Restricted Property, whether now owned or hereafter acquired, which are to be sold or transferred by the Issuer or any Restricted Subsidiary after the date of the issuance of the Notes to such Person for a sale price of U.S.$1,000,000 (or the equivalent thereof) or more where the rental payments are denominated in a currency other than the currency of Korea.

"**Subsidiary**" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Issuer.

5. REDENOMINATION

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream and at least 30 days' prior notice to the Noteholders in accordance with Condition 16 (*Notices*), elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in Euro.

The election will have effect as follows:

(i) the Notes and the Receipts shall be deemed to be redenominated into Euro with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into Euro at the Established Rate (as defined below), rounded to the nearest euro 0.01 if the conversion results in an amount involving a fraction of Euro 0.01, **provided that**, if the Issuer determines that the then market practice in respect of the redenomination into Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;

(ii) except to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01;

(iii) if definitive Notes are required to be issued after the Redenomination Date (as defined below), they shall be issued at the expense of the Issuer in the denominations of Euro 1,000, Euro 10,000, Euro 100,000 and (but only to the extent of any remaining amounts less than Euro 1,000 or such smaller denominations as the Agent may approve) Euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

(iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the "**Exchange Notice**") that replacement Euro-denominated Notes, Receipts and Coupons are available for exchange (**provided that** such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New Euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to Euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro check;

(vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date (as specified in the applicable Pricing Supplement), it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;

(vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and

(viii) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Agent, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in Euro.

(b) **Definitions**

In these Conditions, the following expressions have the following meanings:

"**Established Rate**" means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into Euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

"**Euro**" means the lawful currency of the Member States of the European Union that have adopted the single currency in accordance with the Treaty;

"**Redenomination Date**" means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above, which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

"**Treaty**" means the Treaty on the functioning of the European Union (signed in Rome on 25 March 1957), as amended from time to time.

6. **INTEREST**

(a) **Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Terms and Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction (as defined below), and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

In these Terms and Conditions:

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest, in accordance with this Condition 6(a):

(i) if "Actual/Actual (ICMA)" is specified in the applicable Pricing Supplement:

(A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "**30/360**" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

"**Determination Period**" means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, one cent.

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes**

(i) ***Interest Payment Dates***

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 6 (*Interest* — (b)(i)(B)) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, unless the context otherwise requires, "**Business Day**" means a day which is either (1) in relation to any sum payable in a Specified Currency other than Euro, a day (other than a Saturday or Sunday) 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 principal financial center of the country of the relevant Specified Currency (if other than the country of the Paying Agent's specified office and any Additional Business Center and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) or (2) in relation to any sum payable in Euro, a day (other than a Saturday or Sunday) on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open.

(ii) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(1) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("**LIBOR**") or on the Euro-zone inter-bank offered rate ("**EURIBOR**"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), "***Floating Rate***", "***Calculation Agent***", "***Floating Rate Option***", "***Designated Maturity***" and "***Reset Date***" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will (other than in respect of Notes for which SOFR is specified as the Reference Rate in the relevant Pricing Supplement), subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (as specified in the applicable Pricing Supplement) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(C) *Floating Rate Notes referencing SOFR*

(1) Where "SOFR" is specified as the Reference Rate in the Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be the Benchmark plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent. In no event will the Rate of Interest for any Interest Period be less than the Minimum Rate of Interest.

(2) For the purposes of this Condition 6(b)(ii)(C):

"**Benchmark**" means Compounded SOFR, which is a compounded average of daily SOFR, as determined for each Interest Period in accordance with the specific formula and other provisions set out in this Condition 6(b)(ii)(C) (*Floating Rate Notes referencing SOFR*).

Daily SOFR rates will not be published in respect of any day that is not a U.S. Government Securities Business Day, such as a Saturday, Sunday or holiday. For this reason, in determining Compounded SOFR in accordance with the specific formula and other provisions set forth herein, the daily SOFR rate for any U.S. Government Securities Business Day that immediately precedes one or more days that are not U.S. Government Securities Business Days in the Observation Period will be multiplied by the number of calendar days from and including such U.S. Government Securities Business Day to, but excluding, the following U.S. Government Securities Business Day.

If the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of Compounded SOFR (or the daily SOFR used in the calculation hereof) prior to the relevant SOFR Determination Time, then the provisions under Condition 7B(c) below will apply.

"**Interest Period**" means each period from, and including, an Interest Payment Date (or, in the case of the first Interest Period, the Interest Commencement Date) to, but excluding, the next Interest Payment Date (or, in the case of the final Interest Period, the Maturity Date or, if the Issuer elects to redeem the Notes on any earlier redemption date, the relevant redemption date);

"**Interest Payment Determination Dates**" means the date falling "p" U.S. Government Securities Business Days before each Interest Payment Date where "**p**" has the value ascribed to it in the relevant Pricing Supplement;

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

"**Business Day**" means any weekday that is a U.S. Government Securities Business Day and is not a legal holiday in New York and each (if any) Additional Business Centre(s) and is not a date on which banking institutions in those cities are authorised or required by law or regulation to be closed;

"**Observation Period**" in respect of each Interest Period means the period from, and including, the date falling "p" U.S. Government Securities Business Days preceding the first date in such Interest Period to, but excluding, the date falling "p" U.S. Government Securities Business Days preceding the Interest Payment Date for such Interest Period;

"**SOFR**" with respect to any U.S. Government Securities Business Day, means:

(i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator's Website at 3:00 p.m. (New York time) on the immediately following U.S. Government Securities Business Day (the "**SOFR Determination Time**"); or

(ii) if the rate specified in (i) above does not so appear, the Secured Overnight Financing Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate);

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York, or any successor source; and

"**Compounded SOFR**" with respect to any Interest Period, means the rate of return of a daily compound interest investment computed in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards to 0.00001):

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right] \times \frac{360}{d}$$

where:

"**d_o,**" for any Observation Period, is the number of U.S. Government Securities Business Days in the relevant Observation Period;

"**i**" is a series of whole numbers from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from, and including, the first U.S. Government Securities Business Day in the relevant Observation Period;

"**SOFRi,**" for any U.S. Government Securities Business Day "i" in the relevant Observation Period, is equal to SOFR in respect of that day "i";

"**ni,**" for any U.S. Government Securities Business Day "i" in the relevant Observation Period, is the number of calendar days from, and including, such U.S. Government Securities Business Day "i" to, but excluding, the following U.S. Government Securities Business Day ("**i+1**"); and

"**d**" is the number of calendar days in the relevant Observation Period.

(3) If the Issuer determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement, the Issuer will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of [the Trustee or] Noteholders.

Any determination, decision or election that may be made by the Issuer pursuant to this section, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

(i) will be conclusive and binding absent manifest error;

(ii) will be made in the sole discretion of the Issuer; and

(iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

"**Benchmark**" means, initially, Compounded SOFR, as such term is defined above; provided that if the Issuer determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to Compounded SOFR (or the published daily SOFR used in the calculation thereof) or the then-current Benchmark, then "Benchmark" shall mean the applicable Benchmark Replacement.

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(i) the sum of: (A) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (B) the Benchmark Replacement Adjustment;

(ii) the sum of: (A) the ISDA Fallback Rate and (B) the Benchmark Replacement Adjustment; or

(iii) the sum of: (A) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (B) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the issuer or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(i) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of clause (iii) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

“**Benchmark Transition Event**” means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

“**ISDA Definitions**” means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;

“**ISDA Fallback Adjustment**” means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

“**ISDA Fallback Rate**” means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

“**Reference Time**” with respect to any determination of the Benchmark means (i) if the Benchmark is Compounded SOFR, the SOFR Determination Time, and (ii) if the Benchmark is not Compounded SOFR, the time determined by the Issuer after giving effect to the Benchmark Replacement Conforming Changes;

“**Relevant Governmental Body**” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

“**Unadjusted Benchmark Replacement**” means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(i) Any Benchmark Replacement, Benchmark Replacement Adjustment and the specific terms of any Benchmark Replacement Conforming Changes, determined under this Condition 6(b)(ii)(C) will be notified promptly by the Issuer to the Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 16 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date on which such changes take effect.

No later than notifying the Agent of the same, the Issuer shall deliver to the Agent a certificate signed by two authorised signatories of the Issuer:

(ii) confirming (x) that a Benchmark Transition Event has occurred, (y) the relevant Benchmark Replacement and, (z) where applicable, any Benchmark Replacement Adjustment and/or the specific terms of any relevant Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 7(B); and

(iii) certifying that the relevant Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of such Benchmark Replacement and/or Benchmark Replacement Adjustment.

(iii) ***Minimum Rate of Interest and/or Maximum Rate of Interest***

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) ***Determination of Rate of Interest and Calculation of Interest Amounts***

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6(b):

(1) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest period falling in a non-leap year divided by 365);

(2) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(3) if "**Actual/365 (Sterling)**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365, or in the case of an Interest Payment Date falling in a leap year, 366;

(4) if "**Actual/360**" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(5) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(6) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(7) if "**30E/360 (ISDA)**" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

Y1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

M2 is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case

D1 will be 30; and

D2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D2 will be 30.

(v) ***Notification of Rate of Interest and Interest Amounts***

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 16 (*Notices*) as soon as practicable after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 16 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) ***Certificates to be Final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b) (*Interest — Interest on Floating Rate Notes and Index Linked Interest Notes*), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(vii) ***Interest on Dual Currency Interest Notes***

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(viii) ***Interest on Partly Paid Notes***

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(ix) ***Accrual of Interest***

Each Note (or in the case of the redemption of only part of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(1) the date on which all amounts due in respect of such Note have been paid; and

(2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 16 (*Notices*).

(c) **Benchmark Discontinuation**

(i) ***Benchmark Discontinuation for U.S. dollar-denominated Notes***

In the case of U.S. dollar-denominated floating rate Notes (other than a Note for which the "Reference Rate" is specified in the relevant Pricing Supplement as being "SOFR" and in respect of which the provisions of Condition 6(b)(ii)(C) (*Floating Rate Notes referencing SOFR*) will apply), if the Issuer determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement (ARRC) will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement (ARRC), the Issuer will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of the Noteholders.

Any determination, decision or election that may be made by the Issuer pursuant to this section, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

(A) will be conclusive and binding absent manifest error;

(B) will be made in the sole discretion of the Issuer; and

(C) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

As used in this Condition 6(c)(i) (*Benchmark Discontinuation – Benchmark Discontinuation for U.S. dollar-denominated Notes)*:

"**Benchmark**" means, initially, U.S. dollar LIBOR; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to U.S. dollar LIBOR or the then-current Benchmark, then "**Benchmark**" shall mean the applicable Benchmark Replacement (ARRC);

"**Benchmark Replacement (ARRC)** " means the Interpolated Benchmark with respect to the then-current Benchmark; provided that if the Issuer cannot determine the Interpolated Benchmark as of the Benchmark Replacement Date, then "**Benchmark Replacement (ARRC)**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(i) the sum of (a) Term SOFR and (b) the Benchmark Replacement Adjustment;

(ii) the sum of (a) Compounded SOFR and (b) the Benchmark Replacement Adjustment;

(iii) the sum of (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the Benchmark Replacement Adjustment;

(iv) the sum of (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment; and

(v) the sum of (a) the alternate rate of interest that has been selected by us or our Designee as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate mortgage bonds at such time and (b) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the issuer or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, then the ISDA Fallback Adjustment;

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark** Replacement **Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(i) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of clause (iii) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**Corresponding Tenor**" with respect to a Benchmark Replacement means a tenor (including overnight) having approximately the same length (disregarding business day adjustment) as the applicable tenor for the then-current Benchmark;

"**Interpolated Benchmark**" with respect to the Benchmark means the rate determined for the Corresponding Tenor by interpolating on a linear basis between: (1) the Benchmark for the longest period (for which the Benchmark is available) that is shorter than the Corresponding Tenor and (2) the Benchmark for the shortest period (for which the Benchmark is available) that is longer than the Corresponding Tenor;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;

"**ISDA Fallback Adjustment**" means the spread adjustment, (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (i) if the Benchmark is U.S. dollar LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such determination, and (ii) if the Benchmark is not U.S. dollar LIBOR, the time determined by the Issuer after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto;

"**Term SOFR**" means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

(ii) ***Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars***

Other than in the case of a U.S. dollar-denominated floating rate Note, if a Benchmark Event occurs in relation to the Reference Rate when the Rate of Interest (or any component part thereof) for any Interest Period remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread, if any, and any Benchmark Amendments in accordance with this Condition 6(c)(ii).

In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Agent or the Noteholders for any determination made by it pursuant to this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*).

(A) If (i) the Issuer is unable to appoint an Independent Adviser or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 6(c)(ii) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Interest Period. For the avoidance of doubt, any adjustment pursuant to this Condition 6(c)(ii)(A) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*).

(B) If the Independent Adviser determines in its discretion that:

(1) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 6(c)(ii)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*) in the event of a further Benchmark Event affecting the Successor Rate; or

(2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 6(c)(i)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*) in the event of a further Benchmark Event affecting the Alternative Rate.

(C) If the Independent Adviser determines in its discretion (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall apply to the Successor Rate or the Alternative Rate (as the case may be).

(D) If any relevant Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*) and the Independent Adviser determines in its discretion (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, following consultation with the Calculation Agent (or the person specified in the applicable Pricing Supplement as the party responsible for calculating the Rate of Interest and the Interest Amount(s)), subject to giving notice thereof in accordance with Condition 6(c)(ii)(E), without any requirement for the consent or approval of relevant

Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice (and for the avoidance of doubt, the Agent shall, at the direction and expense of the Issuer, consent to and effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*).

(E) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 6(c)(ii) will be notified promptly by the Issuer to the Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 16 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

(F) No later than notifying the Agent of the same, the Issuer shall deliver to the Agent a certificate signed by two authorised signatories of the Issuer:

(1) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Rate and, (z) where applicable, any relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 6(c)(ii); and

(2) certifying that the relevant Benchmark Amendments are necessary to ensure the proper operation of such relevant Successor Rate, Alternative Rate and/or Adjustment Spread.

(G) The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Rate and such Adjustment Spread (if any) and such Benchmark Amendments (if any)) be binding on the Issuer, the Agent, the Calculation Agent, the Paying Agents and the Noteholders.

(H) As used in this Condition 6(c)(ii) (*Benchmark Discontinuation — Benchmark Discontinuation for floating rate Notes not denominated in U.S. dollars*):

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the relevant Successor Rate or the relevant Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(B) (if no such recommendation has been made, or in the case of an Alternative Rate), the Independent Adviser, determines is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reference Rate; or

(C) (if no such determination has been made) the Independent Adviser determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

(D) (if the Independent Adviser determines that no such industry standard is recognised or acknowledged) the Independent Adviser determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with this Condition 7(i) is customary in market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in the Specified Currency.

"**Benchmark Event**" means:

(A) the relevant Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or

(B) a public statement by the administrator of the relevant Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of such Reference Rate) it has ceased publishing such Reference Rate permanently or indefinitely or that it will cease to do so by a specified future date (the "**Specified Future Date**"); or

(C) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will, by a specified future date (the "**Specified Future Date**"), be permanently or indefinitely discontinued; or

(D) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that such Reference Rate will, by a specified future date (the "**Specified Future Date**"), be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes; or

(E) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that, in the view of such supervisor, [(i)] such Reference Rate is or will, by a specified future date (the "**Specified Future Date**"), be no longer representative of an underlying market [or (ii) the methodology to calculate such Reference Rate has materially changed;] or

(F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (as applicable) (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable).

Notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraphs (B), (C), (D) or (E) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed occur until the date falling six months prior to such Specified Future Date.

"**Benchmark Amendments**" has the meaning given to it in Condition 7(i)(dd).

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense under Condition 7(i).

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

7. LIMITED RECOURSE

The amounts payable in respect of the Limited Recourse Notes shall be determined in the manner specified in the applicable Pricing Supplement.

8. PAYMENTS

(a) Method of Payment

Subject as provided below:

(i) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of

Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a check in such Specified Currency drawn on, a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively); and

(ii) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro check.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*).

(b) **Presentation of Definitive Bearer Notes, Receipts and Coupons**

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of installments of principal (if any) in respect of definitive Bearer Notes, other than the final installment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final installment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant installment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of six years after the Relevant Date (as defined in Condition 10 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11 (*Prescription*)) or, if later, six years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon **provided that** such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) **Payments in Respect of Bearer Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) **Payments in Respect of Registered Notes**

Payments of principal (other than installments of principal prior to the final installment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a check in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than Euro) a bank in the principal financial center of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively) and (in the case of a payment in Euro) any bank which processes payments in Euro.

Payments of interest and payments of installments of principal (other than the final installment) in respect of each Registered Note (whether or not in global form) will be made by a check in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of one business day before the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and installments of principal (other than the final installment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a check posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) **General Provisions Applicable to Payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition applicable to payments on Bearer Notes, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) **Payment Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 11 (*Prescription*)) is:

(i) in relation to any sum payable in a Specified Currency other than Euro, a day (other than a Saturday or Sunday) 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 principal financial center of the country of the relevant Specified Currency (and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne or Wellington, respectively); and/or

(ii) in relation to any sum payable in Euro, a day on which the TARGET2 System is open; and/or

(iii) in the case of any payment in respect of a Note in definitive form, a day (other than a Saturday or Sunday) 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 (A) the relevant place of presentation and (B) any Additional Financial Center specified in the applicable Pricing Supplement; and/or

(iv) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorized or required by law or regulation to be closed in New York City.

(g) **Interpretation of Principal and Interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 10 (*Taxation*);

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) in relation to Notes redeemable in installments, the Installment Amounts;

(vi) in relation to Zero Coupon Notes, the Amortized Face Amount (as defined in Condition 9(e) (*Redemption and Purchase — Early Redemption Amounts*)); and

(vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 (*Taxation*).

9. REDEMPTION AND PURCHASE

(a) Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 16 (*Notices*), the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws of a Tax Jurisdiction (as defined in Condition 10 (*Taxation*)) or any regulations or rulings promulgated thereunder or any change in the application or official interpretation of such laws or regulations or rulings, or any change in the application or official interpretation of, or any execution of or amendment to, any treaty or treaties affecting in taxation to which the Tax Jurisdiction is a party, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by an authorized officer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisors of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 9(b) (*Redemption and Purchase — Redemption for Tax Reasons*) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16 (*Notices*); and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 16 (*Notices*) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, **provided that**, such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*) at least five days prior to the Selection Date.

(d) **Redemption at the Option of the Noteholders (Investor Put)**

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 16 (*Notices*) not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 9(d) (*Redemption and Purchase — Redemption at the Option of the Noteholders* (*Investor Put*)) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by check, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2 (*Transfers of Registered Notes — Transfers of Registered Notes in Definitive Form*). If this Note is in definitive form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 12 (*Events of Default*).

(e) **Early Redemption Amounts**

For the purpose of paragraphs (b) through (d) above and Condition 12 (*Events of Default*), each Note will be redeemed at its Early Redemption Amount calculated as follows:

(i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of a Note (other than a Zero Coupon Note but including an Installment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(iii) in the case of a Zero Coupon Note, at an amount (the "**Amortized Face Amount**") calculated in accordance with the following formula:

$$\textit{Early Redemption Amount} = RP \text{ x } (1 + AY)\ y$$

where:

"**RP**" means the Reference Price; and

"**AY**" means the Accrual Yield expressed as a decimal; and

"**y**" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) **Installments**

Installment Notes will be redeemed in the Installment Amounts and on the Installment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) **Partly Paid Notes**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 9 and the applicable Pricing Supplement.

(h) **Purchases**

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (**provided that**, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike.

Notes held by the Issuer and its Subsidiaries are not "outstanding" for the purpose of Condition 17 (*Meetings of Noteholders, Modification and Waiver*).

(i) **Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) **Late Payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 12 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 16 (*Notices*).

10. TAXATION

All payments of principal and interest, Receipts and Coupons in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; **provided that** no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment (where presentation is required) in Korea (provided the Notes can also be presented at an office of a Paying Agent outside Korea); or

(b) where such withholding or deduction is imposed on a payment to a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 8(f) (*Payments — Payment Day*)); or

(d) any combination of (a), (b) or (c) above.

Nor will additional amounts be paid with respect to any payment on a Note, Receipt or Coupon to a holder who is a fiduciary, a partnership, a limited liability company or a holder other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of a Tax Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the additional amounts had that beneficiary, settlor, member or beneficial owner been the holder.

The Issuer shall be permitted to withhold or deduct any amounts required by the rules of US Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions) or pursuant to any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**") as a result of a holder, beneficial owner or an intermediary that is not an agent of the Issuer not being entitled to receive payments free of FATCA withholding. The Issuer shall not be liable for, or otherwise obliged to pay, any FATCA withholding deducted or withheld by the Issuer, any paying agent or any other party.

As used herein:

(i) "**Tax Jurisdiction**" means Korea or any political subdivision or any authority thereof or therein having power to tax; and

(ii) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 16 (*Notices*).

The obligation to pay additional amounts shall not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, assessment or other governmental charge or (b) any tax, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest or premium on, the Notes, Receipts or Coupons; **provided that**, except as otherwise set forth in these Terms and Conditions and in the Agency Agreement, the Issuer shall pay all stamp and other duties, if any, which may be imposed by Korea or the United Kingdom or any respective political subdivision thereof or any taxing authority of or in the foregoing, with respect to the Agency Agreement or as a consequence of the initial issuance of the Notes.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note, Receipt or Coupon, such mention shall be deemed to include payment of additional amounts to the extent that, in such context, additional amounts are, were or would be payable in respect thereof.

11. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of six years (in the cases of both principal and interest) after the Relevant Date (as defined in Condition 10 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8(b) (*Payments — Presentation of Definitive Bearer Notes, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 8(b) (*Payments — Presentation of Definitive Bearer Notes, Receipts and Coupons*).

12. EVENTS OF DEFAULT

The occurrence and continuance of the following events will constitute events of default ("**Events of Default**"):

(a) default in the payment of any installment of interest upon any of the Notes, whether at maturity, upon redemption or otherwise, as and when the same shall become due and payable, and continuance of such default for a period of 10 days; or

(b) default in the payment of all or any part of the principal of any of the Notes, whether at maturity, upon redemption or otherwise, as and when the same shall become due and payable, and continuance of such default for a period of 2 days; or

(c) failure on the part of the Issuer duly to observe or perform any other of the covenants or agreements on the part of the Issuer contained in these Terms and Conditions for a period of 45 days after the date on which written notice specifying such failure, stating that notice is a "Notice of Default" under these Terms and Conditions and demanding that the Issuer remedy the same, shall have been given by registered or certified mail, return receipt requested, to the Issuer or to Issuer at the office of the Agent by the holders of at least 10% in aggregate principal amount of the Notes at the time outstanding; or

(d) any External Indebtedness of the Issuer in the aggregate principal amount of U.S.$15,000,000 or more either (i) becoming due and payable prior to the due date for payment thereof by reason of acceleration thereof following default by the Issuer or (ii) not being repaid at, and remaining unpaid after, maturity as extended by the period of grace, if any, applicable thereto, or any guarantee given by the Issuer in respect of External Indebtedness of any other Person in the aggregate principal amount of U.S.$15,000,000 or more not being honored when, and remaining dishonored after becoming, due and called, **provided that**, if any such default under any such External Indebtedness shall be cured or waived, then the default under these Terms and Conditions by reason thereof shall be deemed to have been cured and waived; or

(e) a court or administrative or other governmental agency or body having jurisdiction shall enter a decree or order for relief in respect of the Issuer in an involuntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of its property or ordering the winding up, dissolution or liquidation of its affairs, or shall otherwise adjudicate or find the Issuer to be bankrupt or insolvent and such decree or order shall remain unstayed and in effect for a period of 45 consecutive days; or

(f) the Issuer shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization, compulsory composition or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of its property, or cease to carry on the whole or substantially the whole of its business or make any general assignment for the benefit of creditors, or enter into any composition with its creditors or take corporate action in furtherance of any such action.

If any one or more of the above Events of Default shall occur and be continuing then any holder of a Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 9(e) (*Redemption and Purchase — Early Redemption Amounts*)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

13. **REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. **AGENTS**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, **provided that**:

(a) there will at all times be an Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office (outside the United States in the case of Bearer Notes) in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);

(c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in London; and

(d) for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a Paying Agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Note is exchanged for definitive Notes. In addition, an 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 Notes, including details of the Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 8(e) (*Payments — General Provisions Applicable to Payments*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 16 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

15. **EXCHANGE OF COUPONS FOR TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 11 (*Prescription*).

16. **NOTICES**

All notices regarding the Bearer Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London and (ii) if and for so long as the Bearer Notes are listed on the SGX-ST and the rules of the SGX-ST so require, a daily newspaper of general circulation in Singapore. It is expected that such publication will be made in the *Financial Times* in London and the *Business Times* in Singapore. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first-class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a manner specified by those rules. Any such notice shall be deemed to have been given to the holders of the Notes one day after the day on which the said notice was given to Euroclear and/or Clearstream and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). While any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent or the Registrar through Euroclear and/or Clearstream and/or DTC, as the case may be, in such manner as the Agent, the Registrar and Euroclear and/or Clearstream and/or DTC, as the case may be, may approve for this purpose.

17. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 5% in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(i) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(ii) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

The Agency Agreement also provides that quorum and voting requirements for certain resolutions which may affect the Notes of more than one Series shall be deemed to require separate meetings of the holders of each Series or group of Series so affected.

18. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders, create and issue further notes with the same terms and conditions as the Notes in all respects except for the amount and date of the first payment of interest thereon so that such further issue shall be consolidated and form a single Series with the outstanding Notes; **provided that**, in the case of Bearer Notes initially represented by interests in a Temporary Global Note exchangeable for interests in a Permanent Global Note or definitive Bearer Notes, such consolidation will occur only upon certification of non-U.S. beneficial ownership and exchange of interests in the Temporary Global Note for interests in the Permanent Global Note or definitive Bearer Notes.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) Governing Law

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the law of the State of New York.

(b) Submission to Jurisdiction

To the fullest extent permitted by applicable law, the Issuer irrevocably submits to the non-exclusive jurisdiction of any federal or state court in the Borough of Manhattan, The City of New York, United States of America ("**New York Courts**"), in any suit, action or proceeding brought by any Noteholder, Receiptholder or Couponholder arising out of or based upon the Notes, the Receipts/or the Coupons, and irrevocably agrees that all claims in respect of any such suit, action or proceeding may be determined in any such court. The Issuer irrevocably waives, to the fullest extent permitted by applicable law, any objection it may have to the laying of venue in any such court and any claim that any such suit, action or proceeding brought in such a court has been brought in an inconvenient forum. The Issuer hereby appoints Law Debenture Corporate Services Inc., located at 4th Floor, 400 Madison Avenue, New York, New York 10017, as its authorized agent (the "**Authorized Agent**", which expression shall include any replacement authorized agent) upon whom process may be served in any such suit or proceeding set forth herein, it being understood that the designation and appointment of the Authorized Agent as such authorized agent shall become effective immediately without any further action on the part of the Issuer; **provided that** if for any reason the Authorized Agent named above ceases to act as Authorized Agent hereunder for the Issuer, the Issuer will appoint another person acceptable to the Dealers in the Borough of Manhattan, The City of New York, as Authorized Agent. The Issuer agrees to take any and all action as may be necessary, including the filing of any and all documents that may be necessary, to maintain such designation and appointment of the authorized agent in full force and effect. If for any reason the appointment of the Authorized Agent shall cease to be in force, the Issuer shall forthwith appoint a new agent to be the Authorized Agent and shall deliver to the Dealers and the Arranger a copy of the new Authorized Agent's acceptance for that appointment within 30 days. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Issuer. The parties hereto each hereby waive, to the fullest extent permitted by applicable law, any right to trial by jury in any action, proceeding or counterclaim arising out of or relating to the Notes, the Receipts and/or Coupons.

(c) Other Documents

The Issuer has in the Agency Agreement submitted to the jurisdiction of the New York Courts and appointed an agent for service of process in terms substantially similar to those set out in subparagraph (b) above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Company for its general corporate purposes or such other purposes as may be specified in the applicable Pricing Supplement.

EXCHANGE RATES

The table below sets forth the Market Average Exchange Rate for the last day of, and the average for, the periods indicated. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Year ended 31 December	At end of period	Average[(1)]	High	Low
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
2018	1,118.1	1,100.3	1,142.5	1,057.6
2019	1,157.8	1,165.7	1,218.9	1,111.6
2020	1,088.0	1,180.1	1,280.1	1,082.7
2021				
January (through January 25)	1,100.7	1,095.3	1,104.4	1,083.1

Source: Seoul Money Brokerage Services, Ltd.

(1) Annual and monthly averages are calculated using the daily Market Average Exchange Rates during the relevant period.

RISK FACTORS

An investment in the Notes is subject to numerous risks, including those listed below. Investors should carefully consider the following risks as well as the other information contained in this Offering Circular before purchasing the Notes. These risks could materially affect the Company's ability to meet its obligations under the Notes. In such case, investors may lose all or part of their original investment in, and the expected return on, the Notes.

Risks Relating to the Company

Difficult conditions in the Korean and global economy could adversely affect the Company's profitability, liquidity and asset quality.

Most of the Company's assets are located in, and the Company generates most of its income from, Korea. As a result, the Company's business and profitability are subject to political, economic, legal and regulatory risks specific to Korea, many of which are beyond the Company's control. Certain sections of the Korean economy continue to show signs of sluggishness in part due to weak consumer confidence, consumer spending and corporate investment, and its outlook for 2021 and beyond remains uncertain. Market turmoil and economic downturn, particularly in Korea, could materially adversely affect the liquidity, and businesses and/or financial conditions of the Company's customers, which in turn could lower demand for goods such as automobiles and homes the financing of which represents the Company's primary business. Such developments could also hurt the value of assets (such as automobiles and homes) collateralizing the Company's secured receivables and loans, increase the delinquency among the Company's customers and otherwise impair the quality of the Company's receivables, loans and other financial assets.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In light of the ongoing general economic weakness and the trade disputes between the United States and China and between Korea and Japan, signs of cooling economy for China and the continuing political instability in the Middle East, among others, significant uncertainty remains as to the global economic prospects in general and such factors have adversely affected, and may continue to adversely affect, the Korean economy and in turn on the Company's business and profitability, as a result of, for instance, a decrease in domestic consumption of automobiles due to dampened consumer confidence. In addition, the value of the Won relative to the U.S. Dollar has also fluctuated significantly in recent years, and there is no guarantee that similar currency fluctuation will not occur again in the future. See "*Exchange Rates*". Any future deterioration of global economy could adversely affect the Company's business, financial condition and results of operations.

Furthermore, if the conditions in credit or financial markets in Korea or globally worsen in the future due to changes in government policy, structural weaknesses or for other reasons, the Company's ability to borrow may be adversely affected and the Company may be forced to fund its operations at a higher cost or the Company may be unable to raise as much funding as it needs to support its lending to customers and other activities, which could reduce the Company's profitability.

The profitability and financial condition of the Company's operations are largely dependent upon the number of vehicles sold by HMC and KMC.

In recent years, financing and extending lease financing for HMC and KMC vehicles in Korea combined represented a substantial majority of the total new vehicle financing and leasing amounts of the Company in those periods, respectively. As a result, the level of domestic automobile production and sales by HMC and KMC directly impacts the Company's automotive financing and automotive leasing volume. In addition, the resale value of HMC and KMC vehicles in Korea, which may be impacted by various factors relating to their respective businesses, such as brand image or the number of new HMC and KMC vehicles produced, affects the proceeds the Company receives from the sale of repossessed vehicles and off-lease vehicles at lease termination.

HMC and KMC are the leading automobile manufacturers in Korea, with a combined market share of approximately 83.3% as of 30 September 2020 based on units of new vehicles sold (excluding imported units) according to the Korea Automobile Manufacturers Association ("**KAMA**"). Any decline in the sales of HMC and KMC vehicles in Korea due to a reduction or suspension of HMC or KMC's production, declining market share, growing popularity of imported cars, excess industry capacity, industry pricing pressures, declines in consumer demand, labor unrest, government action, negative publicity or significant changes to marketing programmes sponsored by HMC and KMC may have a material adverse effect on the Company's business, financial condition and results of operations.

Fluctuations in interest rates may negatively affect the Company's margins and volumes.

The Bank of Korea reduced the base interest rate to a historic low of 1.25% in June 2016, but in November 2017 it raised the base interest rate to 1.50%, which was the first time to raise its base interest rate since June 2011. In November 2018, the Bank of Korea further raised the base rate to 1.75% but in July 2019 reduced the base interest rate back to 1.50% and further to 1.25% in October 2019, 0.75% in March 2020 and 0.50% in May 2020. The base rate may be further reduced in 2021 because of the anticipated economic slowdown.

The Company's profitability is affected by changes in interest rates, as the Company realizes profit for the period mainly from the margin between interest revenue from its assets and interest expense on its liabilities. Accordingly, if interest rates were to fall sharply or remain at a low level for a significant period of time (the latter being the case in recent years) and the Company is unable, for competitive or other reasons, to pass through the effects of interest rate changes to customers by adjusting the interest rates charged to them or by adjusting its cost of funding on a full or timely basis, such developments may limit or reduce the amount of spread between the interest rate that the Company can charge customers for loans and receivables (which are recorded as assets) and the interest rate payable by the Company for its funding (which is recorded as liabilities). In such cases, the Company's business, financial condition and results of operation may be adversely affected.

Conversely, an increase in interest rates may also adversely affect the Company's business, financial condition and results of operation in a number of ways, including (i) an increase in funding costs that the Company may not be able to timely or sufficiently offset by an increase in the interest rates charged to customers due to competitive, regulatory or other reasons, (ii) a decrease in the volume of the Company's automotive financing due to a higher price associated with purchasing an automobile by use of financing relative to cash purchasers and (iii) a decrease in demand for mortgage loans due to the competitive market and other reasons.

Competition in the Korean consumer financial services industry is intense, and if the Company is unable to compete successfully or if there is increased competition in the automotive financing, automotive leasing, personal loan or mortgage loan markets, the Company's margins could be materially and adversely affected.

The markets for automotive financing, automotive leasing and personal loans (including mortgage loans) are highly competitive. In the past few years, demand for automotive financing and automotive leasing products has generally grown, as customers in Korea have become increasingly familiar with and receptive to automotive financing and automotive leasing. Because the companies that specialize in car rental business have also entered into the automotive leasing market, competition in the automotive financing and automotive leasing sectors has also increased, which puts more pressure on the Company's share of automotive financing and lease financing of new HMC and KMC vehicles. The Company's personal loan (including mortgage loan) business also faces significant competition from existing and new consumer finance companies, including commercial banks, credit card companies and other specialty finance companies in Korea, which have made significant investments and engaged in aggressive marketing campaigns and promotions in these areas. In addition, foreign financial institutions may further add to the competition in the credit specialized financing industry. Commercial banks have extensive distribution networks in Korea and have lower cost structures, lower cost of capital and are less reliant on securitization and have a wide range of financial resources. The Company faces significant competition in various areas, including product offerings, rates, pricing and fees, and customer service. To the extent the Company reduces interest rates or fees on its products and services in response to competitive pressures, the Company's interest margins will decline. Furthermore, the average credit quality of the Company's customers may decline if higher credit quality customers borrow from the Company's competitors rather than from the Company. If the Company is unable to compete effectively in the markets in which it operates, its profitability and financial condition could be adversely affected.

The Company relies on settlement interest arrangements with HMC and KMC.

The Company has an agreement with each of HMC and KMC under which these two companies provide the Company a fixed interest spread over interest on a Korean benchmark Won-denominated financial institution bond with a three-year maturity for installment financings arranged by the Company to its customers for the purchase of new HMC or KMC vehicles (together, the "**Settlement Interest Agreements**"). Such fixed interest spread may be amended during the term of the agreement by either HMC or KMC, as the case may be, with consultation with the Company and based upon market conditions or the rates of competitors. The Settlement Interest Agreements have been successfully renewed as of December 2020. If any of the Settlement Interest Agreements were to be terminated, amended to provide for a lower fixed interest spread, or found to be unenforceable or illegal under Korean law, the Company would be exposed to greater interest rate risks and its returns on its financing could be substantially reduced which in turn could have a material adverse effect on the Company's business, financial condition and results of operations. See "*Certain Relationships and Related Party Transactions — Settlement Interest Agreements*".

Affiliates of the Hyundai Motor Group may exercise significant control of the Company through their shareholdings and their interests may differ from those of the Company.

As of the date of this Offering Circular, HMC and KMC held 59.68% and 20.10% of the outstanding shares of the Company, respectively. In addition, the Company engages in a variety of related party transactions with HMC, KMC and their respective affiliates. See "*Certain Relationships and Related Party Transactions*".

When exercising their rights as the Company's shareholders, either alone or in concert, HMC and KMC may take into account not only the Company's interests, but also their respective interests and the interests of their respective affiliates. Various conflicts of interest among the four shareholders and the Company may arise in the future in a number of areas relating to the Company's business and relationships, including incurrence of indebtedness, financial commitments, sales and marketing functions, indemnity arrangements, service arrangements, potential acquisitions of businesses or properties, and the exercise by HMC and KMC of control over the Company's management and affairs. Such conflicts of interest may not be resolved in the Company's favor, which may adversely affect the interests of the Company.

Reductions in the Company's ratings may adversely affect the Company's ability to raise capital in the debt markets at attractive rates.

Credit ratings are a component of the Company's funding and liquidity profile. Credit ratings are an indicator of the credit worthiness of a particular company, security or obligation. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Funding Sources and Strategy — Credit Ratings*". Any reduction in the Company's credit ratings could adversely affect its liquidity and competitive position, increase the Company's borrowing costs and limit its access to the capital markets and funding sources on commercially acceptable terms. In addition, as the Company's business performance is closely tied to those of HMC and KMC, downgrades or changes in outlook of credit ratings of HMC or KMC may also have an adverse effect on the Company's credit ratings. Such events could adversely affect the Company's financial condition and results of operations.

If external financing is not sufficiently available at commercially reasonable terms or at all, the Company's profitability and financial condition may suffer and the Company may not be able to implement its business strategy and future plans.

The Company depends on its ability to access diversified funding alternatives, including issuances of debt securities in the Korean or international capital markets and additional bank borrowings, to meet future cash flow requirements and to continue to fund its operations. The ability of the Company to access bank loans and capital markets depends on its financial position, the liquidity of the Korean and international capital markets and the Government's policies regarding Korean Won and foreign currency borrowings. Currently, the Company primarily obtains its financing through issuances of bonds. To a lesser extent, the Company relies on ABSs, commercial papers and bank loans as sources of financing. The availability of any one financing source may decrease in the future due to general market conditions or other factors beyond the Company's control. As of 31 December 2017, 2018 and 2019 and 30 September 2020, the Company had domestic loans and bonds (which generally have maturities of one to 10 years) in the aggregate amounts ₩12,926 billion, ₩14,998 billion and ₩17,224 billion and ₩16,581 billion respectively, and commercial papers (which generally have maturities ranging from 30 days to 3 years) in the amounts of ₩1,230 billion, ₩1,920 billion and ₩970 billion and ₩1,300 billion respectively. As of 30 September 2020, 26.1% of the Company's long term debt funding was obtained from the international debt capital and lending markets. The Company securitized its receivables in the aggregate amount of ₩3,168 billion in 2017, ₩2,248 billion in 2018, and ₩2,959.2 billion in 2019 and ₩3,389.9 billion in the nine months ended 30 September 2020. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Funding Sources and Strategy*". If the Company is unable to maintain adequate financing or if other sources of capital are not available, it could be forced to suspend, curtail or reduce certain aspects of its operations, which could harm its revenues, profitability, financial condition and business prospects.

The Company is subject to contractual arrangements obligating it to purchase delinquent and written-off receivables from two members of the HMG and one partner company the amount of which may increase significantly in an economic downturn.

The Company has entered into agreements with Hyundai Card, Hyundai Commercial and Fubon Hyundai Life Insurance pursuant to which the Company is obligated to purchase all future delinquent and written-off receivables from such companies. Under such arrangements, the Company agrees to purchase all of the 60-day overdue and wholly written-off receivables from these companies each month at a market value of such receivables as determined by an independent accountant. However, the sale of receivables that arose during the period from February 2020 to December 2020 is currently put on hold until June 2021 as the Financial Services Commission of Korea has issued a recommendation to refrain from selling off unsecured delinquent individual receivables as a relief measure for individuals impacted by COVID-19. In 2017, 2018 and 2019 and the nine months ended 30 September 2020, the aggregate nominal value of the delinquent and written-off receivables the Company purchased from these companies amounted to ₩455.5 billion, ₩530.9 billion and ₩537.6 billion and ₩200.4 billion, respectively, for which the Company paid ₩191.2 billion, ₩206.6 billion and ₩220.3 billion and ₩77.8 billion, respectively. See "*Certain Relationships and Related Party Transactions — Relationship with Hyundai Card*". During an economic downturn, the amount of such delinquent and written-off receivables may increase as delinquency ratios increase and the credit quality of credit card assets deteriorate. The Company may experience difficulty collecting receivables purchased from these companies, which, in turn, may have an adverse effect on the Company's financial condition.

A decline in the value of the collateral securing the Company's loans and an inability to realize the full value of the collateral may adversely affect the Company's credit portfolio.

While some portion of the Company's automotive financings are secured by liens on the vehicles financed by the Company, there is no assurance that the collateral securing any particular loan will protect the Company from suffering a partial or complete loss if the loan becomes non-performing. In addition, all of the Company's mortgage loans are secured by residential property. The Company's general policy is to provide mortgage loans with loan-to-value ratios, in the case of individual borrowers, up to 70% pursuant to regulatory guidelines and consistent with general market practice for other financial service providers, and in the case of corporate borrowers for which there is no specific regulatory guideline, up to 85%. The value of the collateral may fall below the outstanding principal balance of the underlying loans, for which the Company has signed up for residual value insurance ("**RVI**") and is insured up to a certain level against declines in real estate prices in Korea. Nevertheless, the Company is not fully protected against such declines and the Company may be required to increase loan loss provisions that may have a material adverse effect on the Company's business, financial condition and results of operations.

Foreclosure on collateral generally requires a written petition to a Korean court. Such application, when made, may be subject to delays and administrative requirements that may result in a decrease in the recovery value of such collateral. Foreclosure proceedings under laws and regulations in Korea generally take seven months to one year from initiation to collection, depending on the nature of the collateral. In addition, there is no assurance that the Company will be able to realize the full value of such collateral as a result of, among other factors, delays in foreclosure proceedings, defects in the perfection of the collateral, fraudulent transfers by borrowers and general declines in collateral value due to oversupply of properties that are placed in the market.

The Company maintains an allowance for doubtful accounts, which it establishes as a reserve against charge-offs for doubtful loans and receivables. If charge-offs exceed the existing allowance, the Company charges the excess to charge-offs for doubtful accounts. The Company may experience higher than anticipated loan and lease defaults and delinquencies, and its allowance for doubtful accounts may not be adequate to cover future charge-offs.

A large portion of the Company's assets are the subject of ABS transactions for which the Company remains contingently liable and which are not available to creditors generally, including the holders of the Notes.

A large portion of the Company's assets were sold in ABS transactions, and the Company may enter into additional ABS transactions in the future without equally and ratably securing the Notes. The assets supporting the payments on the asset-backed securities are not available to creditors of the Company, including holders of the Notes. As of 31 December 2017, 2018 and 2019 and 30 September 2020, ₩4,954.5 billion, ₩4,313.5 billion and ₩5,035.3 billion and ₩4,902.2 billion, respectively, or 20.2%, 16.0% and 17.0% and 16.2%, respectively, of the Company's financial receivables, were pledged or sold in connection with ABS transactions.

When the Company securitizes assets, it is required to make customary representations and warranties to the purchaser or securitization trust and is required to indemnify breaches of representations or warranties in connection with its securitizations. Although the Company does not have any obligation to repurchase any assets transferred to the securitization vehicle in the event they become delinquent, if any such assets have certain legal defects and are deemed ineligible receivables, the Company is generally required to repurchase such ineligible receivables from the vehicle or replace such assets. However, there is no assurance that such allowance will be sufficient to cover actual losses resulting from the Company's ABS transactions.

In connection with the securitization of its receivables, the Company generally acquires subordinated notes and/or money receivables trust (including in the form of beneficiary certificates issued by the securitization vehicle), in order to enhance the credit quality of the senior tranches of asset-backed securities being issued by the vehicle to investors in the securitization transaction and, to recapture any revenues generated by the securitized receivables in excess of amounts required to pay principal and interest on the senior tranches of asset-backed securities and the other expenses of the securitization vehicle. As of 31 December 2017, 2018 and 2019 and 30 September 2020, the Company held ₩2,067.2 billion, ₩2,147.9 billion and ₩2,235.0 billion and ₩1,690.3 billion, respectively, of such subordinated notes and money receivables trust (including in the form of beneficiary certificates). The Company's interest income from subordinated bonds and distribution income from subordinated beneficiary certificates from ABS in the aggregate amounted to ₩266.6billion, ₩581.8 billion and ₩188.0 billion and ₩95.8 billion in 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively. In the event that the assets transferred to securitization vehicles do not generate sufficient revenues to make payments on the subordinated notes and money receivables trust at current levels after payments of principal and interest on the senior tranches of asset-backed securities and other expenses of the vehicles, the Company's interest income from ABS will decrease.

The Company may from time to time pursue international expansion opportunities that may subject it to different or greater risk from those associated with its domestic operations.

While the Company's operations have, to date, been primarily based in Korea, the Company has expanded and may continue to expand, in each case on a selective basis, its overseas operations in the future. For example, the Company has established subsidiaries in Australia, Germany, Brazil, China, India, Russia, Canada and the United Kingdom, some of which are in the form of joint ventures with foreign partners. See "*Business — History*".

The Company's overseas operations are currently limited to the provision of automotive financing services in China, the United Kingdom, Canada, Germany and Brazil and the provision of primarily consulting services in other countries. In the third quarter board of directors meeting in September 2020, the Company's board of directors authorized the establishment of a subsidiary in Indonesia to support overseas automobile sales business. However, subject to market conditions, the Company may also seek to provide automotive financing services in other countries. For instance, the Company seeks opportunities to provide automotive financing services to purchasers of vehicles sold by HMC and KMC overseas in conjunction with their existing overseas sales networks. As a result, the Company's overseas expansion plans generally face less risk than would have been the case if the Company were to venture into overseas markets without such support networks. However, overseas operations involve risks that are different from those the Company faces in its domestic operations, including the following:

- challenges of complying with multiple foreign laws and regulatory requirements, including tax laws and laws regulating the Company's operations and investments;
- volatility of overseas economic conditions, including fluctuations in foreign currency exchange rates;
- difficulties in enforcing creditors' rights in foreign jurisdictions;
- risk of expropriation and exercise of sovereign immunity where the counterparty is a foreign government;
- difficulties in establishing, staffing and managing foreign operations;
- differing labor regulations;
- political and economic instability, natural calamities, war and terrorism;
- lack of familiarity with local markets and competitive conditions;
- changes in applicable laws and regulations in Korea that affect foreign operations; and obstacles to the repatriation of earnings and cash.

Any failure by the Company to recognize or respond to these differences may adversely affect the success of its operations in those markets, which in turn could adversely affect its business and results of operations.

The Company may not be successful in implementing new business strategies or penetrating new markets, including through acquisitions, joint ventures or alliances.

While the Company is currently focused on maintaining its competitive position in its core business and key operations, including automotive financing, the Company may selectively enter into new business areas, subject to business opportunities and prevailing market conditions. The introduction of new financial products and services exposes it to a number of risks and challenges, including, among others, additional marketing and compliance costs, failure to realize anticipated returns and associated opportunity costs, failure to identify and offer attractive new services in a timely fashion, competitors that may have substantially greater experience and resources, and difficulties in hiring or retaining capable personnel. In addition, as part of its business strategy, the Company may also seek, evaluate or engage in potential acquisitions, mergers, restructurings, combinations, rationalizations, divestments, and other similar opportunities, including with existing or future related-party joint ventures, acquisitions and strategic alliances and with respect to existing or new product lines. The prospects of these initiatives are uncertain, and there is no assurance that the Company will be able to successfully implement or grow new ventures, and these ventures may prove more difficult or costly or less profitable than expected. If the Company is unsuccessful in its new business endeavors, the Company may fail to recover its investments or expenditures, which together with associated opportunity costs, may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's failure to manage operational risk could adversely affect its business.

Operational risk is the risk of loss resulting from, among other factors, inadequate or failed processes, systems or internal controls, theft, fraud, or natural disaster. Operational risk can occur in many forms including, but not limited to, errors, business interruptions, failure of controls, inappropriate behavior of or misconduct by the Company's employees or those contracted to perform services for the Company, and vendors that do not perform in accordance with their contractual agreements. These events may result in financial losses or other damages to the Company, including damage to its reputation.

In order to monitor and manage operational risk, the Company maintains a framework of internal controls designed to provide a sound and well-controlled operational environment. However, due to the complexity of the Company's business, problems could be identified in the future, and there is no assurance that these problems will not have a material effect on the Company's operations. The Company strives to maintain appropriate levels of operational risk relative to its business strategies, competitive and regulatory environment, and the markets in which it operates. The Company believes that it maintains appropriate levels of insurance coverage for those aspects of operating risk that can be mitigated through the purchase of insurance. Notwithstanding these control measures and insurance coverage, the Company remains exposed to certain levels of operational risk and there is no assurance that these problems will not have an adverse effect on the Company's operations.

The Company's failure to manage risks associated with its information and technology systems could adversely affect its business.

The Company is subject to risks relating to its information and technology systems and processes. These risks, which may arise internally and externally, include malfunctions and failures, human error or misconduct and other external factors. Although the Company actively seeks to identify and remedy flaws in its information and technology systems, it may not be able to prevent all types of defects in or malfunctioning of its systems and any such occurrences in the future could potentially result in financial losses or other damages to the Company, including damage to its reputation.

The Company relies on internal and external information and technology systems to generate new business, provide services to customers, administer customer data and manage the Company's operations. The Company administers some of its personal loan operations through third party administered automatic teller machines and internet portals. The Company uses advanced software, systems and networks to manage its customer and accounting data and other aspects of its business. This hardware and software is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses and similar events or the interruption or loss of support services from third parties such as internet data center operators, system vendors and Internet service providers. Any disruption, outage, delay or other difficulty experienced by any of these information and technology systems could result in underwriting or other delays, slower processing of applications and reduced efficiency in servicing including delays in the provision or repayment of borrowings, or decreased consumer confidence in the Company's business, or otherwise adversely affect the Company's results of operations.

The Company is subject to the Act on Use and Protection of Credit Information (the "**CIUP Act**"), as amended in February 2020, which regulates companies that use databases of personal credit information for its business. The Company is also subject to the Personal Information Protection Act as amended in February 2020, which regulates the collection, use and provision of personal information and the procedure for obtaining consents on handling personal information. Through its business, the Company acquires a large amount of personal and financial information related to its customers. In addition, certain third party vendors may provide services to the Company using personal and financial information of its customers. Improper use or disclosure of, or a failure to protect or properly control, such information could result in violations of applicable laws or reputational or financial harm to the Company. The Company takes precautionary measures, including implementation of internal compliance procedures, to prevent and detect misuse or unauthorized disclosure of customers' personal information, but these measures may not be effective in all cases, particularly in respect of third party vendors. There is no assurance that stricter legal and regulatory measures or heightened regulatory activities will not have an adverse effect on the business and operation of such financial institutions, including the Company.

The occurrence of contagious diseases could affect the Company's business, financial condition or results of operations.

Since December 2019, there has been an outbreak of the COVID-19 which has spread to several countries around the world, including Korea. As of January 25, 2021, Korea's Center for Disease Control and Prevention reported a total to 75,521 cases of confirmed patients with 1,360 deaths.

Concerns about the spread of contagious diseases in the past have caused governments to take measures to prevent the spread of the diseases. The outbreak of communicable diseases such as COVID-19, H7N9 strain of flu, the H1N1 virus and MERS on a global scale may affect investment sentiment and result in sporadic volatility in global capital markets or adversely affect Korea and other economies.

In particular, the recent global outbreak of COVID-19 has resulted in changes in consumer behavior, the implementation of restrictions intended to slow the spread of COVID-19, including quarantines, government-mandated actions, stay-at-home orders, restrictions on travel and public transport, prolonged closures of workplaces and other restrictions, all of which have negatively impacted the global economy as well as the Company's business and created significant volatility and disruption of financial markets. As a payment relief option to small business owners and small and medium-sized enterprises impacted by COVID-19, the Company has offered temporary deferrals of principal and interest payment for a period of six months or more for automotive financing for commercial vehicles since April 2020, but the actual number of applicants for such relief option was very limited so far. The payment relief measures offered by the Company could increase the Company's credit and residual value losses, and may adversely affect the Company's business, financial condition, results of operations, and cash flows. On March 27, 2020, Moody's Investors Service ("**Moody's**") placed long-term issuer rating on review for downgrade, and on April 2, 2020, Standard & Poor's Financial Services LLC ("**S&P**") placed its long-term issuer and issue credit ratings for the Company on CreditWatch with negative implications. Both Moody's and S&P cited deteriorating economic conditions for the Company caused by the COVID-19 outbreak as the rationale behind their decisions and highlighted that the Company's status as a subsidiary of Hyundai Motor Company and Kia Motors Corporation and Korea's largest auto finance company exposed it to significant challenges from expected reduced global auto demand in the next few months. On June 12, 2020, Moody's changed the Company's outlook to negative from review for downgrade as Moody's expects a rebound in auto sales and improving product mix, which will lead to profitability improvement for the Company over the next 1-2 years. On September 14, 2020, S&P changed the Company's rating to negative outlook from CreditWatch with negative outlook based on its expectation that the Company will maintain strong capitalization over the next one to two years despite some pressure to the Company's profitability from the impact of COVID-19 pandemic.

The continued and widening spread of COVID-19 has led to disruption and volatility in the global capital markets which could increase the Company's funding costs, limit the Company's access to the capital markets or result in a decision by lenders not to extend credit to the Company. Accordingly, the Company may in the future have difficulty accessing debt and capital on attractive terms, or at all, which could have a material adverse effect on the Company's business, results of operations and financial condition.

The duration of the COVID-19 outbreak is uncertain and the long-term impact of the COVID-19 outbreak on the Company is difficult to predict. However, if the COVID-19 outbreak were to continue for a prolonged period of time with no additional government relief funds or a future outbreak were to occur, it could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. In addition, there can be no assurance that there will not be a serious outbreak of contagious diseases in Korea in the future.

Risks Relating to Government Regulation and Policy

The legal and regulatory environment in which the Company operates could have a material adverse effect on the Company's business and earnings.

The Company's operations are heavily regulated and subject to various laws and regulations imposing various requirements and restrictions relating to supervision and regulation. Such regulation and supervision are primarily for the benefit and protection of the Company's customers, not for the benefit of investors in the Company's securities, and could limit the Company's discretion in operating its business. Non-compliance with applicable statutes or regulations could result in the suspension or revocation of any license or registration at issue, as well as the imposition of civil fines and criminal penalties. In addition, changes in the accounting rules or their interpretation could have an adverse effect on the Company's business and earnings. Such changes may be more restrictive or result in higher costs than current requirements or otherwise materially affect the Company's business, results of operations or financial conditions.

For example, on 18 November 2016, the FSS issued an institutional caution to the Company and imposed an administrative fine of ₩6 million in connection with the Company's breach of a requirement under the CIUP Act. The CIUP Act requires a credit information company to register, modify, and manage credit information in order to maintain its credit information accurate and up-to-date. On 6 July 2015, the Company, which qualifies as a credit information company under the CIUP Act, breached this requirement by failing to register overdue debtors as exempted overdue debtors on the Korea Federation of Banks' database. The Company has thereafter completed restoration and compensated the debtors who have been wrongfully registered between 7 July 2015 and 9 July 2015.

While the Company believes that it is currently in compliance with applicable regulatory requirements in all material respects, failure to do so, whether inadvertently or otherwise, could have a material adverse effect on the Company's operations and on its reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently, that new laws and regulations will not be adopted or that the Company will not be prohibited by laws from adjusting the rates of interest and fees it charges to its customers to a level commercially desirable to the Company, any of which could materially adversely affect the Company's business, financial condition or results of operations.

The level and scope of the Korean government's oversight of the Company's lending business, particularly regarding mortgage loans, may change depending on the economic or political climate.

Curtailing excessive speculation in the real estate market has historically been a key policy initiative for the Korean government, and it has in the past adopted several regulatory measures, including in relation to retail banking, to effect such policy. Some of the measures undertaken in the past include, requiring financial institutions to impose stricter debt-to-income ratio and loan-to-value ratio requirements for mortgage loans for real property located in areas deemed to have engaged in high speculation, raising property taxes on real estate transactions for owners of multiple residential units, adopting a ceiling on the sale price of newly constructed housing units and recommending that commercial banks refrain from making further mortgage lending, among others.

The Korean government may, from time to time, take measures to regulate the housing market in order to pre-empt undue speculation, including by way of imposing restrictions on retail lending, including mortgage lending. Any such measures may be premature, result in unintended consequences or contribute to substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing the Company's mortgage loans. See "— *Risks Relating to the Company — A decline in the value of the collateral securing the Company's loans and its inability to realize full value of the collateral may adversely affect the*

Company's credit portfolio and the Company's allowance for doubtful accounts may prove inadequate". Such measures may also have the effect of limiting the growth and profitability of the Company's retail banking business, especially in the area of mortgage lending.

Risks Relating to Korea

If economic conditions in Korea deteriorate, the Company's customers may face financial problems and the Company's current business and future growth could be materially and adversely affected.

The Company is incorporated in Korea and substantially all of its operations and assets are located in Korea. As a result, the Company's business and profits are subject to political, economic, legal and regulatory risks specific to Korea. The future of the Korean economy is subject to many factors beyond the Company's control. In Korea, uncertainties remain as to the future directions of key macro- and microeconomic indicators such as exports, consumption, demand for business products and services, unemployment rates, debt service burden of households and businesses, the general availability of credit and the asset value of real estate and securities may further deteriorate.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the 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. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has also fluctuated. Furthermore, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index ("**KOSPI**") and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Political instability may further adversely affect the Korean economy and cause volatility in the stock prices of Korean companies. Recent trade dispute between Korea and Japan has raised significant concerns.

Developments that could adversely affect Korea's economy in the future include the following:

- fiscal difficulties, political turbulence and increased sovereign default risks in select countries in Europe and the resulting adverse effects on the global financial markets;
- adverse change or increased volatility in macroeconomic indicators, including interest rates, inflation level, foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of U.S. Dollar, Euro or Japanese Yen or revaluation of the Renminbi), stock market indices and inflows and outflows of foreign capital;
- adverse developments in the economies of countries and regions that are Korea's important export markets (such as the United States, China and Japan) and deterioration in economic or diplomatic relations between Korea and its major trading partners or allies, as a result of trading or territorial disputes or disagreements in foreign policy, such as the recent trade dispute between Korea and Japan;
- sluggishness in the Korean real estate market;
- a continuing rise in the level of household debt and an increase in delinquency and credit default by retail or small- and medium-sized enterprise borrowers;
- a rise in unemployment or stagnation of real wages;
- an increase in social expenditures to support an aging population or decreases in productivity due to shifting demographics;
- social and labor unrest;
- a decline in consumer confidence and a slowdown in consumer spending and corporate investments;
- a widening fiscal deficit from a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus, unemployment compensation and other economic and social programmes;
- political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;

- political scandal, including but not limited to, bribery, power abuse and illegal dealings by the government officials;
- investigation on *chaebols* and arrest of their senior management, which causes volatility of the Korean stock market and delays decision making of major businesses in Korea;
- laws, regulations or other government actions (financial, economic or otherwise) that fail to achieve desired policy objectives, produce adverse unintended consequences or otherwise constrain or distort sound economic activities;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues, including in respect of certain *chaebols*;
- any other developments that has a material adverse effect on the global or Korean economy, such geopolitical tensions (such as in the Middle East and the Korean peninsula), an act of war, a terrorist act, a breakout of an epidemic or natural or man-made disasters (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months); and
- an increase in the level of tensions or an outbreak of hostilities in the Korean peninsula.

Any future deterioration of the Korean and global economy could adversely affect the income, financial conditions and liquidity of Korean consumers in general, including the Company's customers. This may adversely impact the ability of the Company's customers to make new purchases through credit cards, including purchases of vehicles produced by HMC and KMC, on whose sales the Company relies for a significant portion of its revenues. In addition, economic or liquidity difficulties faced by the Company's customers could negatively affect their ability to repay outstanding debt, including credit-card related debt, and as a result, increase the Company's delinquency and non-performing loan ratios, impair the quality of the Company's loans and other financial assets and lower the Company's capital adequacy ratio.

Tensions with North Korea could have a material adverse effect on the Company and the price of the Notes.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- In September 2020, a Korean official who went missing near the inter-Korean sea border while reportedly seeking to defect was shot dead and his body was cremated by North Korean soldiers.
- In June 2020, North Korea demolished a joint liaison office in Kaesong and severed all lines of communication with Korea in retaliation of the leaflet campaign from Korean peace activists who have flown leaflets containing pro-democracy messages past the border via balloons.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaeseong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017, in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army reinitiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, 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 Korean economy and the Company.

North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea may suddenly occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear programme, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on the Company's business, financial condition and results of operations, as well as the credit rating for Korean issuers, including the Company, or for the Notes.

Risks Relating to the Notes

The Notes issued under the Programme may have limited liquidity.

The Notes when issued may constitute a new issue of securities for which there will be no existing trading market. Although the Dealers may make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the liquidity and market price of the Notes may be adversely affected. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including, among others:

- prevailing interest rates;
- the Company's results of operations, financial condition and prospects;
- the rate of exchange between Won and the currency of the Notes;
- political and economic developments in and affecting Korea and other regions;
- the financial condition and stability of the Korean financial and other sectors; and
- the market conditions for similar securities.

The Notes are not protected by restrictive covenants.

The Notes and the Agency Agreement do not contain various restrictive financial, operating or other covenants or restrictions, including on change of control, the payment of dividends, the incurrence of indebtedness or the issuance of securities by the Company.

The Notes are subject to transfer restrictions.

The Notes will be offered and sold pursuant to an exemption from registration under the United States and applicable state securities laws. Therefore, you may transfer or resell the Notes in the United States only in a transaction registered under, or exempt from, the registration requirements of the United States and applicable state securities laws, and you may be required to bear the risk of your investment for an indefinite period of time. In addition, subject to the conditions set forth herein and the Agency Agreement, Notes may be transferred only if the principal amount of Notes transferred is at least U.S.$200,000.

The Notes have not been registered under the Financial Investment Services and Capital Markets Act of Korea (the "**FSCMA**"). Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined under the Foreign Exchange Transaction Law and Regulation of Korea and its Enforcement Decree), for a period of one year from the date of issuance of the Notes, except (i) in the case where the Notes are issued as bonds other than convertible bonds, bonds with warrants or exchangeable bonds, and where the other relevant requirements are further satisfied, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of qualified institutional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, or (ii) as otherwise permitted under applicable Korean laws and regulations.

Payments made on or with respect to the Notes may be subject to U.S. withholding tax.

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Korea) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**"IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes treated as debt for U.S. federal income tax purposes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions of the Notes — 18. Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future — including the potential phasing-out of LIBOR after 2021.

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**") and Regulation (EU) No. 2016/1011 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") apply to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU and the UK, respectively. The EU Benchmark Regulation and UK Benchmark Regulation could have a material impact on any Notes linked to LIBOR, EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmark Regulation or UK Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and, on 12 July 2018, announced that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation. Such announcements indicate that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

The elimination of LIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 6(b)(ii)(C) (*Floating Rate Notes referencing SOFR*) and Condition 6(c) (*Benchmark Discontinuation*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The "Terms and Conditions of the Notes" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, unlawful or unrepresentative, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms or possible cessation or reform of certain reference rates in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes

Investors should be aware that the market continues to develop in relation to the Secured Overnight Financing Rate ("**SOFR**") as a reference rate in the capital markets and its adoption as an alternative to U.S. Dollar LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SOFR, including term SOFR reference rates (which seek to measure the market's forward expectation of an average SOFR rate over a designated term). The nascent development of Compounded Daily SOFR rates as an interest reference rate for the Eurobond markets, as well as continued development of SOFR based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of the Notes.

The use of Compounded Daily SOFR as a reference rate for Eurobonds continues to develop both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing Compounded Daily SOFR. In particular, investors should be aware that several different SOFR methodologies have been used in SOFR linked notes issued to date and no assurance can be given that any particular methodology, including the compounding formula in the terms and conditions of the Notes, will gain widespread market acceptance.

The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Terms and Conditions as applicable to the Notes. Furthermore, the Issuer may in future issue Notes referencing SOFR that differ materially in terms of interest determination when compared with the Notes. In addition, the manner of adoption or application of SOFR reference rates in the Eurobond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Noteholders should carefully consider how any mismatch between the adoption of SOFR reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing Compounded Daily SOFR.

SOFR differs from LIBOR in a number of material respects and has a limited history

Compounded Daily SOFR differs from LIBOR in a number of material respects, including that Compounded Daily SOFR is a backwards-looking, compounded, risk-free overnight rate, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that LIBOR and SOFR may behave materially differently as interest reference rates for the Notes. Furthermore, SOFR is a secured rate that represents overnight secured funding transactions, and therefore will perform differently over time to LIBOR which is an unsecured rate. For example, since publication of SOFR began on April 3, 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmarks or other market rates.

Publication of SOFR began in April 2018 and it therefore has a limited history. The future performance of SOFR may therefore be difficult to predict based on the limited historical performance. The level of SOFR during the term of the Notes may bear little or no relation to the historical level of SOFR. Prior observed patterns, if any, in the behaviour of market variables and their relation to SOFR such as correlations, may change in the future.

Furthermore, the Interest Rate is only capable of being determined at the end of the relevant Reference Period and immediately prior to the relevant Interest Payment Date. It may be difficult for Noteholders to estimate reliably the amount of interest which will be payable on the Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which factors could adversely impact the liquidity of the Notes. Further, in contrast to LIBOR-based Notes, if the Notes become due and payable as a result of an Event of Default under Condition 12 (Events of Default), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Interest Rate payable in respect of the Notes shall be determined by reference to a shortened period ending immediately prior to the date on which the Notes become due and payable.

The administrator of SOFR may make changes that could change the value of SOFR or discontinue SOFR

The New York Federal Reserve (or a successor), as administrator of SOFR, may make methodological or other changes that could change the value of SOFR, including changes related to the method by which SOFR is calculated, eligibility criteria applicable to the transactions used to calculate SOFR, or timing related to the publication of SOFR. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SOFR (in which case a fallback method of determining the interest rate on the Notes will apply). The administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing SOFR.

CAPITALIZATION

The following table sets out the Company's capitalization (defined as the sum of long-term debt and equity) as of 30 September 2020.

	As of 30 Sep 2020	
	(billions of Won)	(millions of U.S.$)[1]
Long-term debt[2]:		
Long-term debt (net of current portion)	₩20,029.0	U.S.$17,067.7
Equity:		
Issued capital	496.5	423.1
Capital surplus	388.6	331.1
Accumulated other comprehensive income (loss), net	(81.2)	(69.2)
Retained earnings	3,829.5	3,263.3
Non-controlling interests	—	—
Total equity	4,633.5	3,948.4
Total long-term debt and equity	₩24,662.5	U.S.$21,016.1

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 Sep 2020.

(2) Excluding discounts on bonds payable.

There has been no material change in the Company's capitalization since 30 September 2020.

SELECTED FINANCIAL AND OTHER DATA

The following tables set forth selected financial and other data. The selected financial and other data as of and for the years ended 31 December 2017, 2018 and 2019 set forth below have been derived from the Company's audited consolidated financial statements and related notes included elsewhere in this Offering Circular, which have been prepared in accordance with K-IFRS. The selected financial data as of and for the nine months ended 30 September 2019 and 2020 set forth below have been derived from the Company's unaudited consolidated interim financial statements included elsewhere in this Offering Circular, which have been prepared in accordance with Korean IFRS No. 1034 *Interim Financial Reporting*.

The selected financial and other data set forth below should be read in conjunction with the audited financial statements (and related notes), "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and other historical financial data included elsewhere in this Offering Circular.

Selected Statement of Comprehensive Income Data

		For the Year Ended 31 December			For the Nine Months Ended 30 Sep		
	2017	2018	2019	2019	2019	2020	2020(1)
	(in billions of Won and millions of U.S.$, except for per share data)						
Operating revenue:							
Interest income	₩ 29.3	₩ 31.9	₩ 32.8	U.S.$ 28.0	₩ 26.2	₩ 14.3	U.S.$ 12.2
Gain on valuation and sale of securities	0.7	0.8	2.3	2.0	0.4	0.8	0.7
Income on loans	940.0	981.6	895.0	762.7	681.1	607.2	517.4
Income on installment financial assets	479.2	528.3	598.5	510.0	444.2	466.8	397.8
Income on leases	933.6	1,004.3	1,041.7	887.7	777.2	829.2	706.6
Gain on sale of loans	96.3	101.0	86.3	73.5	72.1	70.6	60.2
Gain on foreign currency transactions	588.9	42.3	12.3	10.5	3.8	35.3	30.1
Dividend income	2.8	5.3	0.6	0.5	0.6	1.1	0.9
Other operating income	172.7	392.4	407.9	347.6	533.0	271.3	231.2
Total operating revenue	₩3,243.5	₩3,087.9	₩3,077.4	U.S.$2,622.4	₩2,538.6	₩2,296.6	U.S.$1,957.1
Operating expenses:							
Interest expenses	539.5	573.7	616.6	525.4	462.6	443.7	378.1
Lease expenses	601.1	641.1	664.7	566.4	489.9	623.8	531.6
Loss on valuation and sale of securities	0.1	0.0	0.2	0.2	0.2	1.6	1.4
Provision for loan losses	317.5	392.9	384.1	327.3	282.9	188.0	160.2
Loss on sale of loans	7.1	13.8	12.7	10.8	10.1	4.8	4.1
Loss on foreign currency transactions	25.0	223.8	250.5	213.5	412.5	154.5	131.7
General and administrative expenses	752.2	768.0	674.9	575.1	486.5	460.4	392.3
Other operating expenses	677.4	127.2	100.9	86.0	69.1	107.8	91.9
Total operating expenses	**₩2,920.0**	**₩2,740.5**	**₩2,704.6**	**U.S.$2,304.7**	**₩2,214.0**	**₩1,984.7**	**U.S.$1,691.2**
Operating income	323.6	347.4	372.8	317.7	324.6	311.9	265.8
Non-operating income	78.9	71.8	97.4	83.0	75.7	72.1	61.4
Non-operating expenses	1.5	3.8	10.4	8.9	5.8	1.7	1.4
Profit before income taxes	400.9	415.5	459.8	391.8	394.6	382.2	325.7
Income tax expense	101.0	104.2	108.9	92.8	93.3	92.2	78.6
Profit for the period	**₩ 299.9**	**₩ 311.3**	**₩ 350.9**	**U.S.$ 299.0**	**₩ 301.3**	**₩ 290.1**	**U.S.$ 247.2**
Earnings per-share (in Korean Won and U.S.$)	**₩3,128.0**	**₩3,204.0**	**₩3,538.0**	**U.S.$ 3.0**	**₩3,039.0**	**₩2,921.0**	**U.S.$ 2.5**

Selected Statements of Financial Position Data

	As of 31 December				As of 30 September	
	2017	2018	2019	2019	2020	2020(1)
	(in billions of Won and millions of U.S.$)					
Assets:						
Cash and due from other financial institutions	₩ 2,131.8	₩ 1,731.1	₩ 1,647.2	U.S.$ 1,403.7	₩ 1,220.1	U.S.$ 1,039.7
Securities	600.1	671.6	968.5	825.3	1,351.1	1,151.3
Loans receivable, net	9,656.9	9,777.5	9,537.9	8,127.7	9,207.8	7,846.4
Installment financial assets, net	10,040.9	12,081.9	13,958.8	11,895.0	14,321.4	12,204.0
Lease receivables, net	2,423.4	2,578.1	2,683.8	2,287.0	2,451.6	2,089.1
Leased assets, net	1,899.8	2,012.6	2,371.1	2,020.5	3,302.5	2,814.2
Property and equipment, net	260.8	242.7	215.5	183.6	199.9	170.3
Right-of-use assets, net	—	—	42.9	36.6	37.3	31.8
Other assets, net	594.5	587.5	723.0	616.1	816.4	695.7
Assets held for sale	—	5.7	11.5	9.8	5.8	4.9
Assets of a disposal group classified as held for sale	—	839.8	—	—	—	—
Total assets	**₩27,608.1**	**₩30,528.3**	**₩32,160.2**	**U.S.$27,405.4**	**₩32,913.6**	**U.S.$28,047.4**
Liabilities and equity:						
Borrowings	₩22,015.0	₩24,288.3	₩26,384.2	U.S.$22,483.3	₩26,938.8	U.S.$22,955.9
Other liabilities	1,523.7	1,363.8	1,324.4	1,128.6	1,341.4	1,143.1
Liabilities directly associated with the assets of a disposal group classified as held for sale	—	719.4	—	—	—	—
Total liabilities	**₩23,538.7**	**₩26,371.5**	**₩27,708.6**	**U.S.$23,611.9**	**₩28,280.2**	**U.S.$24,099.0**
Issued capital	496.5	496.5	496.5	423.1	496.5	423.1
Capital surplus	408.3	408.3	388.6	331.1	388.6	331.1
Accumulated other comprehensive income and loss, net	(38.2)	(146.6)	(62.5)	(53.3)	(81.2)	(69.2)
Retained earnings	3,164.1	3,364.9	3,628.9	3,092.4	3,829.5	3,263.3
Accumulated other comprehensive income related to a disposal group classified as held for sale	—	1.1	—	—	—	—
Non-controlling interest	38.8	32.6	—	—	—	—
Total equity	**₩ 4,069.5**	**₩ 4,156.9**	**₩ 4,451.6**	**U.S.$ 3,793.4**	**₩ 4,633.5**	**U.S.$ 3,948.4**
Total liabilities and equity	**₩27,608.1**	**₩30,528.3**	**₩32,160.2**	**U.S.$27,405.4**	**₩32,913.7**	**U.S.$28,047.4**

Selected Other Data

	As of or for the year ended 31 December			As of or for the nine months ended 30 September
	2017	2018	2019	2020
	(in billions of Won, except percentages)			
Adjusted capital adequacy ratio(2)	15.2%	14.3%	13.8%	14.1%
NPL(3) balance(4)	₩561.1	₩755.7	₩907.4	₩873.6
Ratio of NPLs to total financial receivables	2.3%	2.8%	3.1%	2.9%
Ratio of delinquent receivable to total financial receivables(5)	1.3%	1.4%	1.3%	1.1%
Allowance as percentage of total financial receivables	2.3%	2.6%	2.5%	2.3%
Coverage ratio(4)(6)	69.6%	69.1%	44.9%	42.0%

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Adjusted capital adequacy ratio is calculated by dividing adjusted total capital by adjusted total assets. Adjusted total capital represents the sum of total capital and the allowance for normal and precautionary assets, less reserve for bad loans. Adjusted total assets are total assets less cash and cash equivalents and reserve for bad loans.

(3) Defined as substandard or below. For a description of assets that are classified as substandard or below, see "*Business — Risk Management — Allowances for Doubtful Accounts*".

(4) Reflects securitized assets as well as receivables on the statements of financial position. Also includes delinquent and written-off receivables purchased by the Company from Hyundai Card, Hyundai Commercial and Fubon Hyundai Life Insurance as further described in "*Certain Relationships and Related Party Transactions — Relationship with Hyundai Card and — Relationship with Hyundai Commercial*".

(5) Delinquent receivables are those overdue for 90 days or more.

(6) Represents ratio of (x) allowance to (y) managed assets (which include loans receivable, installment financial assets and lease receivables) less such assets classified as "normal".

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

The following discussion of the Company's financial condition and results of operations should be read together with its audited and unaudited financial statements (and the related notes) included elsewhere in this Offering Circular. This discussion may contain forward-looking statements that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" and elsewhere in this Offering Circular.

Overview

The Company is a leading financial services company in Korea with ₩32.9 trillion of assets as of 30 September 2020, and offers a broad range of financial products and services primarily to individuals and, to a lesser extent, corporate customers. Established in 1993 as Hyundai Auto Finance Co., Ltd., the Company was the first company in Korea to engage in installment financing business starting in 1996. The Company principally operates in the following business areas: automotive financing, automotive leasing, personal loans including mortgage loans, and rental car services.

The Company operates as the primary financing arm of HMC and KMC. As a result, providing financing for the purchase and lease of new HMC and KMC vehicles has historically represented and continues to represent the principal source of the Company's automotive financing and automotive leasing businesses. With respect to the Company's installment financing of new HMC and KMC vehicles, the Company has an agreement with each of HMC and KMC under which each of HMC and KMC provides the Company a fixed interest spread over interest on a Korean benchmark Won-denominated financial institution bond with a three-year maturity for installment financings arranged by the Company for the purchase of new HMC or KMC vehicles.

The Company also provides personal loan services, including mortgage loans for residential property. Outstanding financial receivables for personal loans, including mortgage loans, amounted to ₩5,453.0 billion, ₩6,475.7 billion and ₩6,653.6 billion and ₩6,414.8 billion as of 31 December 2017, 2018 and 2019 and 30 September 2020, respectively. The Company believes that it has developed, and will continue to develop, competitive personal loan products under a risk-based pricing scheme that will maintain or enhance the Company's financial position. The Company's risk-based pricing scheme allows it to charge rates according to a customer's individual credit risk profile, data that is compiled by the Company based on a comprehensive and proprietary data gathering and analysis system.

Sources of the Company's Revenues

The Company generates revenue, income and cash flows by providing automotive financing and leasing products and services primarily to customers of HMC and KMC, and by making personal loans (including mortgage loans) to individuals and small business owners. Revenues from the Company's operations consist mainly of the following:

- ***Income on loans***: Consists of interest and fees on loans charged on the outstanding balances, including any default interest. Interest rates charged by the Company vary depending on the consumer's credit score and the maturity of the loan. For new car automotive loans, the Company charges interest at rates currently ranging from 5.90% to 6.90% per year. For used car automotive loans, the Company charges interest at rates currently ranging from 3.50% to 23.90% per year. For personal loans, the Company charges interest at rates currently ranging from 4.40% to 23.90% per year. For mortgage loans, the Company charges interest at rates ranging from 3.00% to 13.55% per year.
- ***Income on leases***: For the Company's leasing operations, the Company acquires the vehicle or equipment that is the subject of the lease from the manufacturer before leasing it to the Company's customers. The Company receives interest payments currently ranging from 6.25% to 13.55% per year of the purchase price, and typically receives a security deposit up to 50.0% of the purchase price of the vehicle or equipment, as the case may be. For operating leases, lease rates vary depending on the type of the product and vehicle.
- ***Income on installment financial assets***: Consists of interest and fees on installment purchases charged on the outstanding balances of the installment purchases. For installment purchase financing for the purchase of new automobiles, the Company charges interest at rates currently ranging from 0.0% to 6.50% per year. The Settlement Interest Agreements provide that with respect to the Company's installment financing of new HMC and KMC vehicles, the Company must return to HMC and KMC any interest payments received that represent payments in excess of the agreed interest payments.

- ***Interest income***: Consists of interest income on bank deposits, securities and others.
- ***Others***: Consists of gain on valuation and disposal of securities, loan and derivatives, foreign currency trading income, dividends income and others.

Factors Affecting Results of Operation

The Company's financial results are generally affected by a variety of macroeconomic and industry factors, including but not limited to, interest rate, demand for new and used vehicles, sales commission rate, price of goods, unemployment rate, government policies, as well as the Company's ability to respond to changes in interest rates with respect to both contract pricing and funding and the level of competitive pressure. Changes in these factors can influence the demand for new and used vehicles, the number of contracts that default and the loss per occurrence, the realizability of residual values on the Company's lease earning assets, and its gross margins on financing volume. For the Company's personal loan (including mortgage loan) business, additional factors affecting its results include consumer spending patterns, the Government's housing policies and housing prices, and the Company's ability to cross-sell its personal loan (including mortgage loan) products to its existing automotive financing and automotive leasing customers. The Korean economy continues to show signs of an uncertain outlook, and a continued slump in the Korean economy or any future deterioration of the Korean or global economy could adversely affect the Company's business, financial condition and results of operations in 2021 and beyond. In addition, since as a consumer finance company the Company operates in an industry that is heavily regulated by the government, any legal or regulatory developments that impede with the Company's ability to take full advantage of market opportunities could also have an adverse effect on the Company's business, financial condition and results of operations in 2021 and beyond. See, for example, "*Risk Factors — Risks Relating to the Company — Difficult conditions in the global credit and financial markets could adversely affect the Company's liquidity and performance*" and "*Risk Factors — Risks Relating to Government Regulation and Policy — The legal and regulatory environment in which the Company operates could have a material adverse effect on the Company's business and earnings*".

The Company measures the performance of its finance operations using the following metrics: financing volume and mix, market share and pricing related to HMC and KMC vehicle sales, return on assets, financial leverage, financing margins, operating efficiency, reserve of allowance through the coverage ratio and loss metrics. The volume of the Company's financial receivables and net investment in lease assets depends on many factors, including, but not limited to, the volume of new and used vehicle sales and leases, the sales price of the vehicles financed, and funding costs. For installment financing receivables, financing margin equals the difference between revenue earned on financing receivables and the cost of borrowed funds. For leased assets, financing margin equals revenue earned on operating lease assets, less depreciation expenses and the cost of borrowed funds.

The Company's foreign currency transaction and translation gain and gains on derivatives valuation and foreign currency transaction and translation losses and losses from derivatives valuation relate principally to the Company's foreign currency-denominated borrowings. Since all of the Company's foreign currency-denominated borrowings are fully hedged by currency swaps, the foreign currency transaction and translation gain and gains on derivatives valuation related to foreign currency denominated borrowings are nearly entirely offset by corresponding losses from derivatives valuation and foreign currency transaction and translation losses, and accordingly do not have any significant impact on profit for the period.

Critical Accounting Policies, Estimates and Judgments

The preparation of the Company's financial statements and related disclosures in conformity with K-IFRS requires the Company to make estimates and judgments that affect the reported amounts in its financial statements and related disclosures. The Company's estimates and judgments are based on historical experience, forecasted future events and various other assumptions that it believes to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. The Company evaluates its estimates and judgments on an ongoing basis.

Set forth below is a description of some of the accounting policies that the Company has identified as critical to understanding its business, financial condition and results of operations. See Note 3 to the Company's audited financial statements as of and for the years ended 31 December 2018 and 2019.

Recent Accounting Changes

K-IFRS 1109, published on 25 September 2015, is effective for annual periods beginning on or after 1 January 2018. It has replaced existing guidance in K-IFRS 1039, *Financial Instruments: Recognition and Measurement*. The Company has adopted K-IFRS 1109 for the year beginning on 1 January 2018 and has recognized the accumulated effect resulting from the initial application of K-IFRS 1109 as of 1 January 2018, the date of initial application.

Key features of the new standard, K-IFRS 1109, are (i) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, (ii) impairment methodology that reflects the "expected credit loss" model for financial assets and (iii) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS 1109 introduces additional requirements for a financial asset to be classified as measured at amortized costs or fair value through other comprehensive income compared to the existing guidance in K-IFRS 1039 and therefore would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, thereby increasing volatility in the Company's profit or loss. K-IFRS 1109 also replaces the "incurred loss" model in the existing standard with a forward-looking "expected credit loss" model for loans, debt instruments, lease receivables, contractual assets and financial guarantee contracts, and therefore impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance. In addition, under K-IFRS 1109, which provides principle-based and less complex guidance in determining the scope of hedged items and hedging instruments that quality for hedge accounting, more hedged items and hedging instruments would qualify for hedge accounting.

K-IFRS 1109 requires the Company to assess the financial impact from application of K-IFRS 1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS 1109 is dependent on the financial instruments the Company holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future. For further details, see Notes 3 and 38 to the Company's audited consolidated financial statements included elsewhere in this Offering Circular.

K-IFRS No. 1116, *Leases* which was published on May 2017, is effective for annual period beginning on or after 1 January 2019, with early adoption permitted. K-IFRS 1116 has replaced K-IFRS No. 1017, *Leases*, K-IFRS No. 2104, *Determining whether an Arrangement contains a Lease*, K-IFRS No. 2015, *Operating Leases-Incentives* and K-IFRS No. 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Company has adopted K-IFRS 1116 for the annual period starting on 1 January 2019.

In relation to K-IFRS No.1109, *Financial Instruments* and K-IFRS No.1107, *Financial Instruments: Disclosures*, the interest rate benchmark reform has added an exception that allows hedge accounting to be applied while uncertainty exists. In a hedging relationship, it is assumed that the interest rate benchmark on which the hedged cash flow is based is not changed by the interest rate benchmark reform when reviewing the probability of occurrence of forecast transaction and the prospective assessment of the hedge effectiveness. For hedges of non-contractually specified interest rate risk components, the requirement that the hedged risk should be separately identifiable applies only at the inception of the hedging relationship. This application of exception is ended when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flow of hedged item, or the hedging relationship is discontinued. The Group's significant interest rate benchmark for hedging relationships is LIBOR rate. The effect of the adoption of this amendment is described in Note 17 of the notes to the Company's audited consolidated financial statements included elsewhere in this Offering Circular.

Based on K-IFRS 1116, a single lessee accounting model was adopted, thus the Company recognizes a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments. An accounting model for lessors is similar as the previous model.

The Company recognized the cumulative effect of initially applying K-IFRS 1116 as an adjustment to the opening balance of retained earnings as of 1 January 2019 (the date of initial application). Thus, the comparative financial information was prepared applying K-IFRS 1017 and the related interpretation and not restated retrospectively.

In relation to K-IFRS No.1109, *Financial Instruments* and K-IFRS No.1107, *Financial Instruments: Disclosures*, the interest rate benchmark reform has added an exception that allows hedge accounting to be applied while uncertainty exists. In a hedging relationship, it is assumed that the interest rate benchmark on which the hedged cash flow is based is not changed by the interest rate benchmark reform when reviewing the probability of occurrence of forecast transaction and the prospective assessment of the hedge effectiveness. For hedges of non-contractually specified interest rate risk components, the requirement that the hedged risk should be separately identifiable applies only at the inception of the hedging relationship. This application of exception is ended when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flow of hedged item, or the hedging relationship is discontinued. The Group's significant interest rate benchmark for hedging relationships is LIBOR rate. The effect of the adoption of this amendment is described in Note 17 of the notes to the Company's unaudited condensed consolidated financial statements included elsewhere in this Offering Circular.

The Company has applied K-IFRS No. 1115, *Revenue from Contracts with Customers* which was published on 6 November 2015, and effective for annual period beginning on 1 January 2018. It replaces revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue-Barter Transaction Involving Advertising Services,* K-IFRS No. 2113, *Customer Loyalty Programmes*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate* and K-IFRS No. 2118, *Transfers of Assets from Customers*.

Subsidiaries

The Company, regardless of the nature of its involvement with the investee, determines whether it is a parent by assessing whether it controls the investee. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee; thus, the principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

The Company has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns. The Company is exposed, or has rights, to variable returns from its involvement with the investee when the Company's returns from its involvement have the potential to vary as a result of the investee's performance. The Company's returns can be only positive, only negative or both positive and negative. The Company controls an investee if the Company not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the Company's returns from its involvement with the investee. When the Company assesses it controls an investee, it consolidates the investee's financial statements as the parent.

Certain securitization vehicles sponsored by the Company under its securitization programme are run according to predetermined criteria that are part of the initial design of the vehicles. In addition, the Company is exposed to variability of returns from the vehicles through its holding of debt securities in the vehicles and by issuing financial guarantees. Outside the day-to-day servicing of the receivables (which is carried out by the Company under a servicing contract), key decisions are usually required only when receivables in the vehicles go into default. Therefore, in considering whether it has control, the Company considers whether it manages the key decisions that most significantly affect these vehicles' returns. As a result, the Company has concluded that it controls these vehicles although its ownership interests over such vehicles do not exceed 50%. The following table sets forth the subsidiaries of the Company as of 30 September 2020.

	Subsidiaries
Asset-backed securitization special purpose entities(1)	Autopia Fifty-ninth SPC (trust)
	Autopia Sixtieth SPC (trust)
	Autopia Sixty-second SPC (trust)
	Autopia Sixty-third SPC (trust)
	Autopia Sixty-fourth SPC (trust)
	Autopia Sixty-fifth SPC (trust)
	Autopia Sixty-sixth SPC (trust)
	Autopia Sixty-seventh SPC (trust)

	Subsidiaries
	Autopia Sixty-eighth SPC (trust)
	Autopia Sixty-ninth SPC (trust)
	Autopia SeventiethSPC (trust)
Limited liability companies	Hyundai Capital Europe GmbH(2)
	Hyundai Capital India Private Limited
	Hyundai Capital Brasil LTDA
Stock company	Hyundai Capital Australia Pty Limited
Special money trusts(3)	6 special money trusts
Structured Entity(4)	Zavurov First Co., Ltd.

(1) Autopia Fifty-ninth SPC (trust) were established in 2015. Autopia Sixtieth (trust), Autopia Sixty-first (trust), Autopia Sixty-second (trust) and Autopia Sixty-third (trust) were established in 2016.. Autopia Sixty-fourth (trust) was established in 2017. Autopia Sixty-fifth SPC (trust) was established in 2018. Autopia Fifty-sixth SPC (trust) was liquidated in 2019. Autopia Sixty-sixth SPC (trust) and Autopia Sixty-seventh SPC (trust) and Autopia Sixty-eighth SPC (trust) were established in 2019. Autopia Sixty-ninth SPC (trust) and Autopia Seventieth SPC (trust) were established in 2020.

(2) Holds 100% of the shares in Hyundai Capital Services LLC.

(3) These trusts are structured entities where investment managers of broker-dealer firms invest funds held by such entities in various financial investment products (primarily, commercial papers, repurchase transactions, certificates of deposit and other money market instruments) in accordance with directions from the Company.

(4) It is established to finance real estate project. Although the Group owns less than 50% of the shares of subsidiary, it is considered that the Group has control over the company as it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Measurement of fair value

The Company uses widely recognized valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("**OTC**") derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Company uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates.

Allowance for loan losses and doubtful accounts

The Company presents the allowance for loan losses and doubtful accounts calculated based on the best estimates that are necessary to reflect the expected credit losses at each reporting date. Allowance for loan losses and doubtful accounts is recognized as individual and collective units considering the financial circumstances of customers, net realizable value, credit quality, size of portfolio, the level of concentration of accounts, economic factors and others. Depending on any change in these factors, the allowance for loan losses and doubtful accounts will change in a future period. The accuracy of the allowance depends on the model assumptions and parameters used in determining the allowance. Allowance for loan losses and doubtful accounts consists of impairments related to individually material financial receivables and allowances of collective assessment for impairment incurred in homogeneous assets.

Provisions for unused loan commitments

Provisions are recognized when the Company has a present unused loan commitments, 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. When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from unused loan commitments, a corresponding amount of provision is recognized in the financial statements. Provisions are the best estimate of the expenditure required to settle the present obligation that consider the risks and uncertainties inevitably surrounding many events and circumstances as of the reporting date. 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.

Results of Operations

The following table sets forth a summary of the Company's results of operations for the periods presented.

	For the year ended 31 December				For the nine months ended 30 Sep		
	2017	2018	2019	2019	2019	2020	2020[1]
	(in billions of Won and millions of U.S.$)						
Operating revenue:							
Interest income	₩ 29.3	₩ 31.9	₩ 32.8	U.S.$ 28.0	₩ 26.2	₩ 14.3	U.S.$ 12.2
Gain on valuation and sale of securities	0.7	0.8	2.3	2.0	0.4	0.8	0.7
Income on loans	940.0	981.6	895.0	762.7	681.1	607.2	517.4
Income on installment financial assets	479.2	528.3	598.5	510.0	444.2	466.8	397.8
Income on leases	933.6	1,004.3	1,041.7	887.7	777.2	829.2	706.6
Gain on sale of loans	96.3	101.0	86.3	73.5	72.1	70.6	60.2
Gain on foreign currency transactions	588.9	42.3	12.3	10.5	3.8	35.3	30.1
Dividend income	2.8	5.3	0.6	0.5	0.6	1.1	0.9
Other operating income[2]	172.7	392.4	407.9	347.6	533.0	271.3	231.2
Total operating revenue	**₩3,243.5**	**₩3,087.9**	**₩3,077.4**	**U.S.$2,622.4**	**₩2,538.6**	**₩2,296.6**	**U.S.$1,957.1**
Operating expenses:							
Interest expenses	539.5	573.7	616.6	525.4	462.6	443.7	378.1
Lease expenses	601.1	641.1	664.7	566.4	489.9	623.8	531.6
Loss on valuation and sale of securities	0.1	0.0	0.2	0.2	0.2	1.6	1.4
Provision for loan losses	317.5	392.9	384.1	327.3	282.9	188.0	160.2
Loss on sale of loans	7.1	13.8	12.7	10.8	10.1	4.8	4.1
Loss on foreign currency transactions	25.0	223.8	250.5	213.5	412.5	154.5	131.7
General and administrative expenses	752.2	768.0	674.9	575.1	486.5	460.4	392.3
Other operating expenses[3]	677.4	127.2	100.9	86.0	69.1	107.8	91.9
Total operating expenses[3]	**₩2,920.0**	**₩2,740.5**	**₩2,704.6**	**U.S.$2,304.7**	**₩2,214.0**	**₩1,984.7**	**U.S.$1,691.2**
Operating income[2]	323.6	347.4	372.8	317.7	324.6	311.9	265.8
Non-operating income	78.9	71.8	97.4	83.0	75.7	72.1	61.4
Non-operating expenses	1.5	3.8	10.4	8.9	5.8	1.7	1.4
Profit before income taxes[2]	400.9	415.5	459.8	391.8	394.6	382.2	325.7
Income tax expense	101.0	104.2	108.9	92.8	93.3	92.2	78.6
Profit for the period[2]	**₩ 299.9**	**₩ 311.3**	**₩ 350.9**	**U.S.$ 299.0**	**₩ 301.3**	**₩ 290.1**	**U.S.$ 247.2**

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Includes, among others, (i) gain on valuation of derivatives of ₩17.2 billion, ₩190.2 billion and ₩194.3 billion and ₩360.6 billion and ₩136.6 billion in 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, respectively, and (ii) gain on derivatives transactions of ₩3.4 billion, ₩33.6 billion, and ₩56.0 billion and ₩51.9 billion and ₩17.3 billion in 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, respectively.

(3) Includes, among others, (i) loss on valuation of derivatives of ₩462.2 billion, ₩39.2 billion and ₩11.0 billion and ₩1.7 billion and ₩33.7 billion in 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, respectively, and (ii) loss on derivatives transactions of ₩126.6 billion, ₩1.4 billion and nil and nil and nil in 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020, respectively.

Operating Revenues

Operating revenues decreased by 9.5% to ₩2,296.6 billion for the nine months ended 30 September 2020 from ₩2,538.6 billion for the nine months ended 30 September 2019 primarily due to a decrease in other operating income, offset by an increase in gain on foreign currency transaction. Operating revenues decreased by 0.3% to ₩3,077.4 billion in 2019 from ₩3,087.9 billion in 2018, primarily due to a decrease in income on loans, offset by an increase in income on instalment financial assets. Operating revenues decreased by 4.8% to ₩3,087.9 billion in 2018 from ₩3,243.4 billion in 2017, primarily due to a decrease in gain on foreign currency transactions, offset by an increase in other operating income.

Adjusted operating revenues. Adjusted operating revenue is defined as operating revenue for the nine months or the year excluding gain on foreign currency transactions, gain on valuation of derivatives and gain on derivatives transactions, to internally evaluate the performance of our business. The table below presents a reconciliation of operating revenue to adjusted operating revenue.

	For the year ended 31 December				For the nine months ended 30 Sep		
	2017	2018	2019	2019	2019	2020	2020
	(in billions of Won and millions of U.S.$)						
Total operating revenue	₩3,243.5	₩3,087.9	₩3,077.4	U.S.$2,622.4	₩2,538.6	₩2,296.6	U.S.$1,957.1
Less: Gain on foreign currency transaction	588.9	42.3	12.3	10.5	3.8	35.3	30.1
Less: Gain on valuation of derivatives	17.2	190.2	194.3	165.6	360.6	136.6	116.4
Less: Gain on derivatives transactions	3.4	33.6	56.0	47.7	51.9	17.3	14.8
Total adjusted operating revenue	**₩2,643.0**	**₩2,821.8**	**₩2,814.8**	**U.S.$2,398.6**	**₩2,122.3**	**₩2,107.4**	**U.S.$1,927.0**

Adjusted operating revenues decreased by 0.7% to ₩2,107.4 billion for the nine months ended 30 September 2020 from ₩2,122.4 billion for the nine months ended 30 September 2019. Adjusted operating revenues decreased by 0.2% to ₩2,814.8 billion in 2019 from ₩2,821.8 billion in 2018, mainly due to a decrease in income on loans, offset by an increase in income on instalment financial assets. Adjusted operating revenues increased by 7.1% to ₩2,821.8 billion in 2018 from ₩2,634.1 billion in 2017, mainly due to an increase in income from leases and, to a lesser extent, an increase in income on instalment financial assets and income on loans. Adjusted operating revenue is not a measure determined in accordance with K-IFRS. It also should not be considered as an alternative to gross profit, cash flows from operating activities or profit for the six months or the year, as determined in accordance with K-IFRS. Our calculation of adjusted operating revenue may not be comparable to similarly titled measures reported by other companies.

Interest income. Interest income decreased by 45.4% to ₩14.3 billion for the nine months ended 30 September 2020 from ₩26.2 billion for the nine months ended 30 September 2019 primarily due to a decrease in the return rate of excess cash. Interest income increased by 2.8% to ₩32.8 billion in 2019 from ₩31.9 billion in 2018, primarily due to an increase in the return rate of excess cash. Interest income increased by 8.7% to ₩31.9 billion in 2018 from ₩29.3 billion in 2017, primarily due to an increase in the return rate of managed investments.

Income on loans. Income on loans decreased by 10.8% to ₩607.2 billion for the nine months ended 30 September 2020 from ₩681.1 billion for the nine months ended 30 September 2019 primarily due to the enhanced risk management measures including adoption of more conservative screening process for non-auto products. Income on loans decreased by 8.8% to ₩895.0 billion in 2019 from ₩981.6 billion in 2018 primarily due to the enhanced risk management measures including adoption of more conservative screening process for non-auto products. Income on loans increased by 4.4% to ₩981.6 billion in 2018 from ₩940.0 billion in 2017, primarily due to an increase in mortgage loans.

Income on installment financial assets. Income on installment financial assets increased by 5.1% to ₩466.8 billion for the nine months ended 30 September 2020 from ₩444.2 billion for the nine months ended 30 September 2019, primarily due to an increase in sales of luxury and SUV vehicles. Income on installment financial assets increased by 13.3% to ₩598.5 billion in 2019 from ₩528.3 billion in 2018, primarily due to the effect of new car model releases and joint marketing efforts of HMC and KMC. Income on installment financial assets increased by 10.3% to ₩528.3 billion in 2018 from ₩479.2 billion in 2017, primarily due to the effect of new car model releases and cross-selling efforts.

Income on leases. Income from leased assets increased by 6.7% to ₩829.2 billion for the nine months ended 30 September 2020 from ₩777.2 billion for the nine months ended 30 September 2019, primarily due to the effect of new Genesis car model (G80, GV80) releases. Income from leased assets increased by 3.7% to ₩1,041.7 billion in 2019 from ₩1,004.3 billion in 2018, primarily due to an increase in lease sales of Genesis car model G90 and an increase of sales via online channels. Income from leased assets increased by 7.6% to ₩1,004.3 billion in 2018 from ₩933.6 billion in 2017, primarily due to an increase in LPG-fuelled automobile leases as the Company expanded the financing in such products.

Gain on foreign currency transactions. Gain on foreign currency transactions increased by 828.9% to ₩35.3 billion for the nine months ended 30 September 2020 from ₩3.8 billion for the nine months ended 30 September 2019. Gain on foreign currency transactions decreased by 70.9% to ₩12.3 billion in 2019 from ₩42.3 billion in 2018. Gain on foreign currency transactions decreased by 92.8% to ₩42.3 billion in 2018 from ₩588.9 billion in 2017.

Gain on sale of loans. Gain on sale of loans decreased by 2.0% to ₩70.6 billion for the nine months ended 30 September 2020 from ₩72.1 billion for the nine months ended 30 September 2019, primarily due to the adoption of new regulation restricting sales of overdue individual loans. Gain on sale of loans decreased by 14.6% to ₩86.3 billion in 2019 from ₩101.0 billion in 2018, primarily due to the gains realized from large-scale one-off sales of loans. Gain on sale of loans increased by 4.9% to ₩101.0 billion in 2018 from ₩96.3 billion in 2017, primarily due to the gains realized while disposing non-performing loans. The volume of such loans sold varies from year to year depending on the outstanding volume of such loans purchased as well as pricing and other market considerations, particularly in respect of loans with a low level of expected recovery and accordingly a low resale value.

Other operating income. Other operating income decreased by 49.1% to ₩271.3 billion for the nine months ended 30 September 2020 from ₩533.0 billion for the nine months ended 30 September 2019, primarily due to a decrease in gain on valuation of derivatives and a decrease in gain on derivatives transactions. Other operating income increased by 4.0% to ₩407.9 billion in 2019 from ₩392.4 billion in 2018, primarily due to an increase in gain on derivatives transaction. Other operating income more than doubled to ₩392.4 billion in 2018 from ₩172.7 billion in 2017, primarily due to an increase in gain on valuation of derivatives. The Company's derivatives consist largely of currency swaps, and volatility in the value of the Korean Won against major foreign currencies results in a fluctuation in the asset value of the currency swaps relating to the Company's liabilities denominated in foreign currencies. A decrease in the asset value results in loss on valuation of derivatives and an increase in the asset value results in gain on valuation of derivatives. In the process of applying hedge accounting, any gain or loss from valuation of derivatives is, with limited exceptions, offset by foreign currency translation gain or loss, effectively eliminating any significant impact on profit for the period.

Operating Expenses

Operating expenses decreased by 10.4% to ₩1,984.7 billion for the nine months ended 30 September 2020 from ₩2,214 billion for the nine months ended 30 September 2019 primarily due to a decrease in loss on foreign currency transactions, offset by an increase in lease expense. Operating expenses decreased by 1.3% to ₩2,704.6 billion in 2019 from ₩2,740.5 billion in 2018, primarily due to decrease in General and administrative expenses, offset by an increase in Interest expense and Lease expense. Operating expenses decreased by 6.1% to

₩2,740.5 billion in 2018 from ₩2,920 billion in 2017, primarily due to decrease in other operating expenses, offset by an increase in Interest expense, Lease expense, and Loss on foreign currency transactions.

Adjusted operating expenses. Adjusted operating expense is defined as operating expense for the nine months or the year excluding loss on foreign currency transactions, loss on valuation of derivatives and loss on derivative transactions, to internally evaluate the performance of our business. The table below presents a reconciliation of operating expense to adjusted operating expense.

	For the year ended 31 December				For the nine months ended 30 Sep		
	2017	2018	2019	2019	2019	2020	2020
	(in billions of Won and millions of U.S.$)						
Total operating expense	₩2,920.0	₩2,740.5	₩2,704.6	U.S.$2,304.7	₩2,214.0	₩1,984.7	U.S.$1,691.2
Less: Loss on foreign currency transaction	25.0	223.8	250.5	213.5	412.5	154.5	131.6
Less: Loss on valuation of derivatives	462.2	39.2	11	9.4	1.7	33.7	28.7
Less: Loss on derivatives transactions	126.6	1.4	—	—	—	—	—
Total adjusted operating expense	**₩2,306.2**	**₩2,476.1**	**₩2,443.1**	**U.S.$2,081.9**	**₩1,800.0**	**₩1,796.4**	**U.S.$1,530.8**

Adjusted operating expenses decreased by 0.2% to ₩1,796.4 billion for the nine months ended 30 September 2020 from ₩1,799.8 billion for the nine months ended 30 September 2019. Adjusted operating expenses decreased by 1.3% to ₩2,443.1 billion in 2019 from ₩2,476.1 billion in 2018, primarily due to stabilisation of bad debt expenses and improved efficiency in sales and administrative expenses. Adjusted operating expenses increased by 7.4% to ₩2,476.1 billion in 2018 from ₩2,306.2 billion in 2017, primarily due to an increase in provision for loan losses and, to a lesser extent, an increase in lease expense and interest expense. As discussed above, the sum of loss on foreign currency transactions, loss on valuation of derivatives and loss on derivatives transactions is substantially offset by the sum of corresponding operating income line items (namely, gain on foreign currency transactions, gain on valuation of derivatives and gain on derivatives transactions), and accordingly, on a net basis, these line items do not have a significant impact on profit for the period. Adjusted operating expense is not a measure determined in accordance with K-IFRS. It also should not be considered as an alternative to gross loss, cash flows from operating activities or loss for the six months or the year, as determined in accordance with K-IFRS. Our calculation of adjusted operating expense may not be comparable to similarly titled measures reported by other companies.

Interest expenses. Interest expenses decreased by 4.1% to ₩443.7 billion for the nine months ended 30 September 2020 from ₩462.6 billion for the nine months ended 30 September 2019, primarily due to a decrease in interest rate despite an increase in borrowings. Interest expenses increased by 7.5% to ₩616.6 billion in 2019 from ₩573.7 billion in 2018, primarily due to an increase in borrowings. Interest expenses increased by 6.3% to ₩573.7 billion in 2018 from ₩539.5 billion in 2017, primarily due to an increase in borrowings.

Lease expenses. Lease expenses increased by 27.3% to ₩623.8 billion for the nine months ended 30 September 2020 from ₩489.9 billion for the nine months ended 30 September 2019, primarily due to an increase in the Company's lease undertakings. Lease expenses increased by 3.7% to ₩664.7 billion in 2019 from ₩641.1 billion in 2018, primarily due to an increase in depreciation as the Company's lease undertaking increased. Lease expenses increased by 6.7% to ₩641.1 billion in 2018 from ₩601.1 billion in 2017, primarily due to an increase in depreciation as the Company's lease undertaking increased.

Provision for loan losses. Provision for loan losses decreased by 33.5% to ₩188.0 billion for the nine months ended 30 September 2020 from ₩282.9 billion for the nine months ended 30 September 2019, primarily due to the improvement in asset quality as the portion of installment finance and loans on new automobile as compared to total assets increased. Provision for loan losses decreased by 2.2% to ₩384.1 billion in 2019 from ₩392.9 billion in 2018, primarily due to stabilization of loan loss provision despite the increase in the asset size. Provision for loan losses increased by 23.7% to ₩392.9 billion in 2018 from ₩317.5 billion in 2017, primarily due to the deterioration of asset quality in the industry and the increased provision in preparation for the introduction of IFRS 9.

General and administrative expenses. General and administrative expenses decreased by 5.4% to ₩460.4 billion for the nine months ended 30 September 2020 from ₩486.6 billion for the nine months ended 30 September 2019, primarily due to a decrease in labour cost and marketing expenses. General and administrative expenses decreased by 12.1% to ₩674.9 billion in 2019 from ₩768.0 billion in 2018, due to a decrease in labour cost and marketing expenses. General and administrative expenses increased by 2.1% to ₩768.0 billion in 2018 from ₩752.2 billion in 2017, in line with the increase in the Company's asset size.

Loss on foreign currency transactions. Loss on foreign currency transactions decreased by 62.5% to ₩154.5 billion for the nine months ended 30 September 2020 from ₩412.5 billion for the nine months ended 30 September 2019, primarily due to the fluctuation in exchange rates and changes in foreign currency denominated debts. Loss on foreign currency transactions increased by 11.9% to ₩250.5 billion in 2019 from ₩223.8 billion in 2018, primarily due to the fluctuation in exchange rates and changes in foreign currency denominated debts. Loss on foreign currency transactions significantly increased to ₩223.8 billion in 2018 from ₩25.0 billion in 2017, primarily due to the fluctuation in exchange rates and changes in foreign currency denominated debts.

Other operating expenses. Other operating expenses increased by 56.0% to ₩107.8 billion for the nine months ended 30 September 2020 from ₩69.1 billion for the nine months ended 30 September 2019, primarily due to an increase in loss on valuation of derivatives. Other operating expenses decreased by 20.7% to ₩100.9 billion in 2019 from ₩127.2 billion in 2018, primarily due to a decrease in loss on valuation of derivatives. Other operating expenses decreased to ₩127.2 billion in 2018 from ₩677.4 billion in 2017, primarily due to the fluctuation in exchange rates and changes in foreign currency denominated debts. As discussed above, the Company's derivatives consist largely of currency swaps, and appreciation of the Korean Won against major foreign currencies generally results in a decrease in the asset value of the currency swaps relating to the Company's liabilities denominated in foreign currencies, which results in loss on valuation of derivatives while depreciation of the Korean Won has the opposite effect. Also as discussed above, in the process of applying hedge accounting, any loss or gain from valuation of derivatives is, with limited exceptions, offset by foreign currency translation loss or gain, effectively eliminating any significant impact on profit for the period.

Operating Income

As a cumulative result of the factors described above, operating income decreased by 3.9% to ₩311.9 billion for the nine months ended 30 September 2020 from ₩324.6 billion for the nine months ended 30 September 2019, increased by 7.3% to ₩372.8 billion in 2019 from ₩347.4 billion in 2018 and increased by 7.4% to ₩347.4 billion in 2018 from ₩323.5 billion in 2017.

Non-operating Income

The Company recorded non-operating income of ₩72.1 billion in the nine months ended 30 September 2020, compared to ₩75.7 billion in the nine months ended 30 September 2019, primarily due to the one-off equity method income in 2019. The Company recorded non-operating income of ₩97.4 billion in 2019, compared to ₩71.8 billion in 2018, primarily due to a gain on sale of shares in German subsidiary which was converted to a joint venture. The Company recorded non-operating income of ₩71.8 billion in 2018, compared to ₩78.9 billion in 2017, primarily due to a decrease in share in net income of associates under the equity method as HMC and KMC automobile sales in China significantly decreased during the relevant period.

Non-operating Expenses

The Company recorded non-operating expenses of ₩1.7 billion as of 30 September 2020, compared to ₩5.8 billion in 30 September 2019, primarily due to improved performance of newly formed subsidiaries in Germany and Brazil. The Company recorded non-operating income of ₩10.4 billion in 2019, compared to ₩3.8 billion in 2018, primarily due to recognition of losses from newly formed subsidiaries in Germany and Brazil in 2018. The Company recorded non-operating income of ₩3.8 billion in 2018, compared to ₩1.5 billion in 2017.

Income Tax Expense

Income tax expense decreased by 1.1% to ₩92.2 billion as of 30 September 2020, compared to ₩93.3 billion in 30 September 2019. Income tax expense increased by 4.5% to ₩108.9 billion in 2019 from ₩104.2 billion in 2018. Income tax expense increased by 3.2% to ₩104.2 billion in 2018 from ₩101.0 billion in 2017.

Profit for the Period

As a cumulative result of the factors described above, profit for the period decreased by 3.7% to ₩290.1 billion as of 30 September 2020 from ₩301.3 billion as of 30 September 2019, increased by 12.7% to ₩350.9 billion in 2019 from ₩311.3 billion in 2018 and increased by 3.8% to ₩311.3 billion in 2018 from ₩299.9 billion in 2017.

Financial Condition

The table below describes the Company's financial condition as of the dates indicated.

	As of 31 December				As of 30 September	
	2017	2018	2019	2019	2020	2020[1]
	(in billions of Won and millions of U.S.$)					
Assets:						
Cash and due from other financial institutions	₩ 2,131.8	₩ 1,731.1	₩ 1,674.2	U.S.$ 1,403.7	₩ 1,220.1	U.S.$ 1,039.7
Securities	600.1	671.6	968.5	825.3	1,351.1	1,151.3
Loans receivable, net	9,656.9	9,777.5	9,537.9	8,127.7	9,207.8	7,846.4
Installment financial assets, net	10,040.9	12,081.9	13,958.8	11,895.0	14,321.4	12,204.0
Lease receivables, net	2,423.4	2,578.1	2,683.8	2,287.0	2,451.6	2,089.1
Leased assets, net	1,899.8	2,012.6	2,371.1	2,020.5	3.302.5	2,814.2
Property and equipment, net	260.8	242.7	215.5	183.6	199.9	170.3
Right-of-use assets, net	—	—	42.9	36.6	37.3	31.8
Other assets, net[2]	594.5	587.5	723.0	616.1	816.4	695.7
Assets held for sale	—	5.7	11.5	9.8	5.8	4.9
Assets of a disposal group classified as held for sale	—	839.6	—	—	—	—
Total assets	**₩27,608.1**	**₩30,528.3**	**₩32,160.2**	**U.S.$27,405.4**	**₩32,913.6**	**U.S.$28,047.4**
Liabilities and equity:						
Borrowings	₩22,015.0	₩24,288.3	₩26,384.2	U.S.$22,483.3	₩26,938.8	U.S.$22,955.9
Other liabilities[3]	1,523.7	1,363.8	1,324.4	1,128.6	1,341.4	1,143.1
Liabilities directly associated with the assets of a disposal group classified as held for sale	—	719.4	—	—	—	—
Total liabilities	**₩23,538.7**	**₩26,371.5**	₩27,708.6	**U.S.$23,611.9**	₩28,280.2	**U.S.$24,099.0**
Issued capital	496.5	496.5	496.5	423.1	496.5	423.1
Capital surplus	408.3	408.3	388.6	331.1	388.6	331.1
Accumulated other comprehensive income and (expenses), net	(38.2)	(146.6)	(62.5)	(53.3)	(81.2)	(69.2)
Retained earnings	3,164.1	3,364.9	3,628.9	3,092.4	3,829.5	3,263.3
Accumulated other comprehensive income related to a disposal group classified as held for sale	—	1.1	—	—	—	—
Non-controlling interest	38.8	32.6	—	—	—	—
Total equity	**₩ 4,069.5**	**₩ 4,156.9**	₩ 4,451.6	**U.S.$ 3,793.4**	₩ 4,633.5	**U.S.$ 3,948.4**
Total liabilities and equity	**₩27,608.1**	**₩30,528.3**	₩32,160.2	**U.S.$27,405.4**	₩32,913.6	**U.S.$28,047.4**

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Includes, among others, derivative assets of ₩24.7 billion, ₩26.5 billion, ₩138.8 billion and ₩240.4 billion as of 31 December 2017, 2018 and 2019 and as of 30 September 2020, respectively.

(3) Includes, among others, derivative liabilities of ₩363.9 billion, ₩285.0 billion, ₩125.4 billion and ₩194.1 billion as of 31 December 2017, 2018 and 2019 and as of 30 September 2020, respectively.

The financial condition of the Company over the periods indicated in the above table was affected by the following factors:

Major Factors Affecting Changes to the Company's Assets

Cash and due from other financial institutions. Cash and due from other financial institutions decreased by 25.9% to ₩1,220.1 billion as of 30 September 2020 from ₩1,647.2 billion as of 31 December 2019, primarily due to an increase in borrowings. Cash and due from other financial institutions decreased by 4.8% to ₩1,647.2 billion as of 31 December 2019 from ₩1,731.1 billion as of 31 December 2018, primarily due to the expansion of low-cost credit lines in consideration of negative carry. Cash and due from other financial institutions decreased by 18.8% to ₩1,731.1 billion as of 31 December 2018 from ₩2,131.8 billion as of 31 December 2017, which mainly reflects the base effect of the high liquidity position taken in the previous year.

Loans receivable. Loans receivable decreased by 3.5% to ₩9,207.8 billion as of 30 September 2020 from ₩9,537.9 billion as of December 31, 2019, primarily due to a decrease in non-auto products as a part of conservative risk management measure. Loans receivable decreased by 2.5% to ₩9,537.9 billion as of 31 December 2019 from ₩9,777.5 billion as of 31 December 2018, primarily due to the continuation of conservative risk management trend since the end of 2018. Loans receivable increased by 1.2% to ₩9,777.5 billion as of December 31, 2018 from ₩9,656.9 billion as of 31 December 2017, mainly due to an increase in the average loan balance.

Installment financial assets. Installment financial assets have increased by 2.6% to ₩14,321.4 billion as of 30 September 2020 from ₩13,958.8 billion as of 31 December 2019, primarily due to growth in assets from increased sales of high-end vehicles. Installment financial assets have increased by 15.5% to ₩13,958.8 billion as of 31 December 2019 from ₩12,081.9 billion as of 31 December 2018, primarily as a result of an increase in installment finance undertaking as the OEM marketing continued and new model cars were released during the period. Installment financial assets increased by 20.3% to ₩12,081.9 billion as of 31 December 2018 from ₩10,040.9 billion as of 31 December 2017, primarily as a result of an increase in installment finance undertaking as the OEM marketing continued and new model cars were released during the period. Such increase in the balance of installment financing products, and in particular, new automotive financing products, reflects increased co-marketing efforts with HMG to promote installment financing products which feature more competitive financing rates compared to those of automotive loan products.

Lease receivables. Lease receivables, which relate to financial leases with non-affiliates, decreased by 8.7% to ₩2,451.6 billion as of 30 September 2020 from ₩2,683.8 billion as of 31 December 2019, primarily due to the sale of capital lease receivables worth 500 billion won in the first quarter of 2020 to comply with the related regulations. Lease receivables, which relate to financial leases with non-affiliates, increased by 4.1% to ₩2,683.8 billion as of 31 December 2019 from ₩2,578.1 billion as of 31 December 2018, primarily due to an increase in the total lease amount. Lease receivables, which relate to financial leases with non-affiliates, increased by 6.4% to ₩2,578.1 billion as of 31 December 2018 from ₩2,423.4 billion as of 31 December 2017, primarily due to an increase in the average lease balance.

Leased assets. Leased assets, which relate to operating leases, increased by 39.3% to ₩3,302.5 billion as of 30 September 2020 from ₩2,371.1 billion as of 31 December 2019, primarily due to an increase in the amount of operating lease undertaking. Leased assets, which relate to operating leases, increased by 17.8% to ₩2,371.1 billion as of 31 December 2019 from ₩2,012.6 billion as of 31 December 2018, primarily due to an increase in the amount of operating lease undertaking. Leased assets increased 5.9% to ₩2,012.6 billion as of 31 December 2018 from ₩1,899.8 billion as of 31 December 2017, primarily due to an increase in LPG-fuelled automobile leases as the Company expanded the financing in such products.

Other Assets. Other assets increased by 12.9% to ₩816.4 billion as of 30 September 2020 from ₩723.0 billion as of 31 December 2019. Other assets increased by 23.1% to ₩723.0 billion as of 31 December 2019 from ₩587.5 billion as of 31 December 2018. Other assets decreased by 1.2% to ₩587.5 billion as of 31 December 2018 from ₩594.5 billion as of 31 December 2017.

Major Factors Affecting Changes to Liabilities and Equity

Liabilities. Total liabilities increased by 2.1% to ₩28,280.2 billion as of 30 September 2020 from ₩27,708.6 billion as of 31 December 2019, as the financing to support the growth in assets increased. Total liabilities increased by 5.1% to ₩27,708.6 billion as of 31 December 2019 from ₩26,371.5 billion as of 31 December 2018, as the financing to support the growth in assets increased. Total liabilities increased by 12.0% to ₩26,371.5 billion as of 31 December 2018 from ₩23,538.7 billion as of 31 December 2017, as the financing to support the growth in assets increased.

Equity. Total equity increased by 4.1% to ₩4,633.5 billion as of 30 September 2020 from ₩4,451.6 billion as of 31 December 2019, primarily due to an increase in retained earnings. Total equity increased by 7.1% to ₩4,451.6 billion as of 31 December 2019 from ₩4,156.9 billion as of 31 December 2018, primarily due to an increase in retained earnings and a decrease in accumulated other comprehensive loss. Total equity increased by 2.1% to ₩4,156.9 billion as of 31 December 2018 from ₩4,069.5 billion as of 31 December 2017, primarily due an increase in retained earnings.

Cash Flow

The increase in cash and cash equivalents during 2017 was principally due to net outflow of cash from operating activities of ₩2,208.6 billion and net outflow of cash from investing activities of ₩83.3 billion, which was partially offset by a net inflow from financing activities of ₩2,382.5 billion.

The increase in cash and cash equivalents during 2018 was principally due to a net inflow from financing activities of ₩2,609.7 billion, which was partially offset by a net outflow of cash from operating activities of ₩2,197.7 billion and net outflow of cash from investing activities of ₩51.4 billion.

The decrease in cash and cash equivalents during 2019 was principally due to a net outflow from operating activities of ₩2,167.5 billion and a net outflow from investing activities of ₩119.1 billion, which was partially offset by a net inflow of cash from financing activities of ₩1,764.6 billion.

The increase in cash and cash equivalents during the nine months ended 30 September 2020 was principally due to a net inflow of cash from financing activities of ₩359.0 billion and a net inflow of cash from operating activities of ₩61.6 billion, which was partially offset by a net outflow from investing activities of ₩331.5 billion.

The Company recorded cash used in operations of ₩61.6 billion in the nine months ended 30 September 2020, principally as a result of a slowdown in asset growth rate. The Company recorded cash used in operations of ₩2,167.5 billion in 2019. The Company recorded cash used in operations of ₩2,197.7 billion in 2018, principally as a result of an increase in installment financial assets. The Company recorded cash used in operations of ₩2,208.6 billion in 2017 principally as a result of an increase in installment financial assets and increase in loans receivables. The changes in installment financial assets, loans receivable and finance and operating lease receivables were due to reasons discussed above in "— *Results of Operations*".

Funding Sources and Strategy

The Company's liquidity and profitability are, in large part, dependent upon its timely access to capital and the costs associated with raising funds in different segments of the capital markets. The Company's funding strategy is based on general market conditions, prevailing interest rates, the desirability of diversified funding sources, the Company's liquidity needs, the desired maturity profile of the Company's liabilities and the Company's ability to enter into the different segments of the capital market. Over the past several years, the Company's funding strategy has focused on developing diversified funding sources across a global investor base, both public and private, and increasing the proportion of long-term debt. This diversification has been achieved in a variety of ways, including by engaging in ABS transactions, accessing the public and private debt capital markets and establishing credit facilities.

The Company also fully hedges its foreign currency exposure through currency swap contracts and the amounts that the Company is actually liable under such borrowings and bonds are the Won amounts payable under the corresponding swap contracts. Accordingly, in the following subsection, unless otherwise stated, amounts payable under foreign currency-denominated borrowings and bonds are presented on an "as swapped" basis based on the Won amounts payable under the corresponding currency swap contracts under which such borrowings and bonds are swapped into Won-denominated borrowings and bonds.

The following table summarizes outstanding debt and other sources of funding as of the periods indicated:

	As of 31 December						As of 30 September		
	2017		2018		2019		2020		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	Amount[(1)]	% of Total
	(billions of Won and millions of U.S.$, except percentages)								
Domestic									
Corporate bonds	₩11,596.0	52.5%	₩13,391.0	54.8%	₩15,416.0	58.6%	₩14,325.0	U.S.$12,207.0	53.5%
Commercial paper	1,230.0	5.6	1,920.0	7.9	970.0	3.7	1,300.0	1,107.8	4.9
Securitizations	2,065.0	9.4	1,740.0	7.1	2,260.0	8.6	1,950.0	1,661.7	7.3
Bank loans and other	1,330.0	6.0	1,606.7	6.6	1,868.4	7.1	2,256.0	1,922.5	7.8
Total domestic debt	₩16,221.0	73.5%	₩18,657.7	76.3%	₩20,514.4	77.9%	₩19,831.0	U.S.$16,899.0	73.5%
International[(4)]									
Corporate bonds[(2)]	4,753.0	21.5	5,281.0	21.5	5,113.1	19.4	5,426.1	4,623.9	20.3
Securitizations	1,103.0	5.0	508.0	2.1	699.2	2.7	1,439.9	1,227.0	0.9
Bank loans and other	—	—	—	—	—	—	99.0	84.4	—
Total international debt	₩ 5,856.0	26.5%	₩ 5,789.0	23.7%	₩ 5,812.3	22.1%	₩ 6,965.0	U.S.$ 5,935.2	26.0%
Total funding[(3)]	₩22,077.0	100.0%	₩24,446.7	100.0%	₩26.326.8	100.0%	₩26,796.0	U.S.$22,834.3	100.0%

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) For further information, see "— *Bonds*" below.

(3) Does not include discounts on bond payable and gains and profits from foreign currency translation.

(4) For international funding, it is recorded in KRW using historic rate as of the transaction date. It is retranslated to U.S dollars using the rate of W1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the Company obtained 26.5%, 23.7%, 22.3% and 26.0%, respectively, of its debt funding in the international debt capital markets and banking markets, in the form of corporate bonds, bank loans and international and loan sales, among others.

Borrowings

The Company's short-term funding needs are met through the issuance of commercial paper in Korea. The maturity for commercial paper ranges from 30 days to 3 years. The Company also utilizes Won-denominated and foreign-currency denominated bank loans to meet its funding needs. The maturity for the Company's bank loans ranges from one year to four years. The Company's loan and other borrowings amounted to ₩2,560.0 billion, ₩3,526.7 billion, ₩2,838.4 billion and ₩3,556.0 billion as of 31 December 2017, 2018, 2019 and as of 30 September 2020, respectively.

Bonds

The Company principally meets its long-term funding requirements through the issuance of a variety of debt securities in both Korea and international capital markets. To diversify its funding sources, the Company has issued in a variety of geographic and product markets, with different currencies and maturities, and to a wide range of investors and has also extended the maturity profile of its liabilities, which has allowed the Company to broaden the distribution of its securities and further enhance its liquidity.

The following table summarizes the components of the Company's unsecured debt securities:

	Domestic bonds[(1)]	GMTN bonds[(2)]	Samurai bonds[(3)]	Malaysia bonds[(4)]	Kangaroo bonds[(5)]	FRN[(6)]	Total bonds[(7)]
Issuances during 2017	3,800.0	2,326.2	—	—	341.3	—	6,467.5
Payments during 2017	2,577.5	1,625.0	174.0	118.9	278.3	—	4,773.7
Balance as at 31 December 2017	₩11,596.0	₩3,822.5	₩ 54.2	—	₩639.6	₩237.0	₩16,349.0
Issuances during 2018	4,850.0	863.15	223.3	—	—	226.9	6,163.4
Payments during 2018	3,055.0	494.50	54.2	—	—	237.0	3,840.7

	Domestic bonds(1)	GMTN bonds(2)	Samurai bonds(3)	Malaysia bonds(4)	Kangaroo bonds(5)	FRN(6)	Total bonds(7)
Balance as at 31 December 2018	₩13,391.0	₩4,190.8	₩223.3	—	₩639.6	₩226.9	₩18,672.0
Issuances during 2019	5,195.0	281.3	—	—	—	—	5,476.3
Payments during 2019	3,380.0	449.2	—	—	—	—	3,829.2
Balance as at 31 December 2019	₩15,206.0	₩ 4023.2	₩223.3	—	₩639.6	₩226.9	₩20,319.1
Issuances during 2020	2620.0	884.7	—	—	—	—	3,504.7
Payments during 2020	3,501.0	445.8	125.9	—	—	—	4,072.7
Balance as at 30 September 2020	₩14,325.0	₩4,462.1	₩ 97.4	—	₩639.6	₩226.9	₩19,751.1

(1) Domestic bonds have terms to maturity ranging from approximately one year to 10 years, and have interest rates at the time of issuance ranging from 1.04% to 3.39%.

(2) In March 2016, the Company issued a U.S.$500 million bond with a maturity of five years at an interest rate of 2.875%.. In August 2017, the Company issued U.S. Dollar-denominated bonds in an aggregate principal amount of U.S.$900 million with a U.S.$600 million bond with a maturity of five years at an interest rate of 3% and a U.S.$300 million bond with a maturity of ten years at an interest rate of 3% with a dual tranche. In October 2017, the Company issued a SGD150 million bond with a maturity of three years at an interest rate of 2.041%. In March 2018, the Company issued a U.S.$500 million bond with a maturity of five years at an interest rate of 3.750%. In June 2018, the Company issued Swiss France denominated bond with a maturity of five years at an interest rate of 0.695%. In February 2019, the Company issued Swiss France denominated bond with a maturity of five years at an interest rate of 0.7325%. In February 2020, the Company issued Swiss France denominated bond with a maturity of five years at an interest rate of 0.260%. In July 2020, the Company issued Swiss France denominated bond with a maturity of three years at an interest rate of 0.7525%. In September 2020, the Company issued Dollar denominated bond with a maturity of five years at an interest rate of 1.4995%. In September 2020, the Company issued Yuan denominated bond with a maturity of three years at an interest rate of 3.55%.

(3) In October 2018, the Company issued Samurai Bonds in an aggregate principal amount of JPY22.3 billion with three tranches with maturities of two and three and five years at interest rates of 0.34% and 0.40% and 0.65%, respectively.

(4) In February 2012, the Company issued debt securities in a principal amount of MYR320 million with a maturity of five years at an interest rate of 4.2%.

(5) In June 2016, the Company issued Australian Dollar-denominated bonds in an aggregate principal amount of AUD350 million with a maturity of five year at a fixed interest rate of 3.50%. In March 2017, the Company issued Australian Dollar-denominated bonds in an aggregate principal amount of AUD275 million with a maturity of five year at a fixed interest rate of 3.50%. In March 2017, the Company issued Australian Dollar-denominated bonds in an aggregate principal amount of AUD125 million with a maturity of five year at an interest rate of three month BBSW + 1.30%.

(6) In November 2018, the Company issued a floating rate note in a principal amount of U.S.$200 million with a maturity of three years at an interest rate of 3 month U.S. dollar LIBOR + 0.70%.

(7) Does not include discounts on bond payable and gains and profits from foreign currency translation.

The interest rates, maturity schedule and the proportion of the Company's short-term and long-term debt obligations outstanding as of 30 September 2020 are as follows:

Payments due by Period	Interest Rate	Amount	% of Total
	(billions of Won, except percentages)		
Short-term debt (including current portion of long-term debt)	0.95-4.07%	6,767.0	25.3%
Long-term debt			
within 1~2 years (due on or prior to 31 December 2020)	1.10-3.09%	6,263.5	23.4%
within 2~3 years (due on or prior to 31 December 2021)	1.04-3.02%	5,913.5	22.1%
within 3~4 years (due on or prior to 31 December 2022)	1.46-3.06%	3,701.2	13.8%
more than 4 years (due on or after 1 January 2023)	1.27-3.39%	4,134.6	15.4%
Total long-term debt		20,012.8	74.7%
Total debt(1)		26,779.8	100.0%

(1) Does not include discounts on bonds payable and gains or losses from foreign currency translation.

Credit Facilities

For additional liquidity purposes, the Company maintains credit facilities with Korean branches of international banks as well as domestic banks, as described in the table below as of 30 September 2020.

Lender	Issue Date	Maturity Date[1]	In billions of Won/JPY, In millions of U.S.$ and Euro
Australia and New Zealand Banking Group	29 March 2020	26 March 2021	100
Banco Santander, Singapore Branch	17 June 2020	17 June 2021	USD 50
Banco Santander, Singapore Branch	17 June 2020	17 June 2021	EUR200
Bank of America, N.A., Seoul Branch	27 June 2020	26 June 2021	20
Bank of China, Seoul Branch	28 September 2020	28 September 2021	100
BNP Paribas, Seoul Branch	31 August 2020	30 August 2021	100
China Construction Bank, Seoul Branch	30 July 2020	30 July 2021	50
China Construction Bank, Seoul Branch	12 August 2020	12 August 2021	50
China Construction Bank, Seoul Branch	30 October 2019	30 October 2020	50
Citibank Korea Inc	30 September 2020	30 September 2021	100
Citibank, N.A	21 July 2019	21 July 2021	USD200
Commerzbank	29 March 2020	26 March 2021	EUR 75
Credit Agricole, Seoul Branch	27 February 2020	27 February 2021	50
Credit Agricole, Seoul Branch	24 March 2020	24 March 2021	50
Daegu Bank	06 November 2019	06 November 2020	20
DBS Bank, Seoul Branch	05 November 2019	05 November 2020	150
Hana Financial Investment	02 December 2019	01 December 2021	200
Industrial and Commercial Bank of China, Seoul Branch	30 January 2020	30 January 2021	100
Industrial and Commercial Bank of China, Seoul Branch	09 June 2020	09 June 2021	50
ING Bank, N.V., Seoul Branch	27 February 2020	27 February 2021	100
JP Morgan Chase Bank, N.A., Seoul Branch	19 December 2019	19 December 2020	55
JP Morgan Chase Bank, N.A., Seoul Branch	22 May 2020	21 May 2021	EUR 50
KEB Hana Bank	31 October 2019	31 October 2020	100
Kookmin Bank	26 March 2020	26 March 2021	100
Korea Development Bank	19 November 2019	19 November 2021	120
Kyobo Life Insurance Co., Ltd	28 June 2019	28 June 2021	100
Mizuho Corporate Bank, Seoul Branch	28 February 2020	28 February 2021	65
National Australia Bank	30 October 2019	30 October 2020	USD 40
Shinhan Bank	15 November 2019	13 November 2020	50
Societe Generale, Seoul Branch	26 January 2020	26 January 2021	150
Standard Chartered, Seoul Branch	27 December 2019	27 December 2020	50
Sumitomo Mitsui Banking Corporation	28 November 2019	29 November 2021	JPY 70
Sumitomo Mitsui Banking Corporation, Seoul Branch	30 April 2020	30 April 2021	50
Bank of China, Seoul Branch	28 September 2020	28 September 2021	100

(1) If original maturity dates have been extended, such extended dates are reflected as maturity dates.

Cash Reserves

As of 30 September 2020, the Company held ₩1,220.1 billion in cash and due from other financial institutions and ₩1,351.1 billion of securities.

Securitizations

In November 2017, the Company raised ₩400 billion through securitization of its new vehicle installment financing receivables and loans with an average weighted life of 3.03 years at an average interest rate of 2.67%. In April 2018, the Company issued off-balance sheet asset backed securities in the amount of ₩282.0 billion by securitizing its new vehicle instalment financing receivables. In December 2018, March 2019 and May 2019, the Company raised ₩500.0 billion, ₩600.0 billion and ₩600.0 billion through securitization of its new vehicle installment financing receivables and loans with an average weighted life of 3.4 years, 4.2 years and 4.6 years at an average interest rate of 2.32%, 2.19%, 2.08%, respectively. In November 2019, May 2020 and October 2020, the Company raised ₩644.3 billion, ₩795.6 billion and ₩600.0 billion through securitization of its new vehicle installment financing receivables and loans with an average weighted life of 3.5 years, 3.5 years and 3.0 years at an average interest rate of 1.40%,1.52%, 1.36% respectively.

The Company's asset securitization income from subordinated bonds and subordinated beneficiary certificates amounted to ₩266.6 billion, ₩581.8 billion, ₩188.0 billion and ₩166.1 billion in 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively. In the event that the assets transferred to securitization vehicles do not generate sufficient revenues in the future to make payments on the subordinated beneficiary certificates at current levels after payments of principal and interest on the senior tranches and other expenses of the vehicles, the Company's interest income will decrease.

The table below sets forth outstanding balances of the Company's securitizations and direct loan sales for the periods indicated.

	As of 31 December			As of 30 September	
	2017	2018	2019	2020	2020[(1)]
	(in billions of Won and millions of U.S.$)				
Securitizations	₩ 4,954.5	₩ 4,313.5	₩ 5,035.3	₩ 4,902.2	U.S.$ 4,177.4
Ratio of total assets securitized	20.2%	16.0%	17.0%	16.2%	16.2%
Total financial receivables	₩24,491.0	₩27,035.8	₩29,657.7	₩30,260.5	U.S.$25,786.5

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

The amount of financial receivables sold in securitization transactions was ₩593.6 billion, ₩791.2 billion, ₩1084.9 billion and ₩1,271.2 billion during 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively.

Credit Ratings

The cost and availability of unsecured financing is influenced by credit ratings, which are intended to be an indicator of the credit worthiness of a particular company, security or obligation. Lower credit ratings generally result in higher borrowing costs as well as reduced access to the capital markets. Credit ratings are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by the assigning rating agency.

As of the date of this Offering Circular, the Company is rated "Baa1" by Moody's with a negative outlook and "BBB+ (negative)" by S&P, as well as "BBB+ (negative)" by Fitch. The Company is also rated "AA0" by each of Korean Information Service and Korea Ratings, each with a stable outlook. In addition, the Company is rated "A+" by Japan Credit Rating Agency, with a stable outlook, same as the sovereign rating of Korea "A+".

Capital Adequacy

The Company's capital management policies are to allocate capital efficiently and to maintain a prudent relationship between the Company's capital and the risks of its underlying business. In determining capital requirements, the Company projects business growth, capital investment plans, earnings and reserve requirements. The Company is subject to capital adequacy requirements of the FSC, which are primarily based on the capital adequacy accord reached by the Basel Committee of Banking Supervision, Bank of International Settlements in 1988.

Under the FSC's guidelines, all specialized credit financial companies in Korea, including the Company, are required to maintain a minimum ratio of adjusted capital to adjusted assets of 7.0% (8.0% for credit card companies). Adjusted capital consists of shareholders' equity and (to the extent it does not exceed shareholders' equity) supplementary capital less certain deductions. Shareholders' equity consists of paid-in capital, capital surplus, retained earnings, accumulated other comprehensive income and expenses and capital adjustments. Specialized credit financial companies applying the K-IFRS accounting method must deduct certain items from adjusted capital. For example, (i) accumulated unrealized gains or losses represented in a comprehensive income item on valuation of loans, receivables on capital lease and certain advances (the "**Balance Loans**") must be deducted from accumulated other comprehensive gains or losses as credit, (ii) reserves for bad debts must be deducted from retained earnings, (iii) accumulated unrealized gains or losses accounted in retained earnings on the Balance Loans and financial loans must be deducted from retained earnings, and (iv) revaluation gains after income tax on tangible assets and investment properties accounted for as retained earnings on the date such specialized credit financial company adopted K-IFRS, to the extent that distribution of such revaluation gains as dividend is not restricted by a resolution of the board of directors or a general shareholders' meeting or an amendment of the articles of incorporation of such company, must be deducted from retained earnings. Supplementary capital includes, among other things, provisions for normal and precautionary assets (in the case of card receivables, provisions for non-delinquent card receivables) and unsecured subordinated debt the maturity of which is five years or longer, which qualifies for certain requirements for being supplementary capital specified in the Detailed Regulation on Supervision of Specialized Credit Financial Business. In the case of subordinated debt with a remaining maturity period equal to or longer than 10 years, the subordinated debt amount is recognized as supplementary capital up to an amount equal to 100% of shareholders' equity, and in the case of subordinated debt with a remaining maturity equal to or longer than five years, but less than 10 years, the subordinated debt amount will be recognized as supplementary capital up to an amount equal to 50% of shareholders' equity. Subordinated debt that qualifies for supplementary capital treatment is generally subject to amortization of such capital treatment at an annual rate of 20%, commencing five years prior to the applicable maturity date of such debt. Deductions include, among other things, deferred tax assets and goodwill. Adjusted assets consist of total assets less (i) cash, short-term deposits without security arrangements and treasury or public bonds maturing within three months and (ii) certain deductions. Specialized credit financial companies utilizing the K-IFRS accounting method must deduct from adjusted assets accumulated unrealized gains or losses on valuation of reserves for bad debts and the Balance Loans.

The following table sets forth details of the Company's capital, on a separate basis, as of the dates indicated.

	As of 31 December				As of 30 September	
	2017	2018	2019	2019	2020	2020[1]
	(in billions of Won and millions of U.S.$, except percentages)					
Equity						
Issued capital	₩ 496.5	₩ 496.5	₩ 496.5	U.S.$ 423.1	₩ 496.5	U.S.$ 423.1
Capital surplus	407.5	407.5	407.5	331.1	407.5	331.1
Accumulated other comprehensive income (loss)	(6.1)	(105.2)	(62.5)	(53.3)	(67.8)	(57.8)
Retained earnings	3,087	3,236.6	3,422.3	3,092.4	3,575.4	3,046.8
Reserve for bad loans	(213.3)	(198.7)	(218.7)	(186.4)	(223.2)	(190.2)
Total equity (basis capital)[2]	3,771.8	3,836.7	4,045.2	3,447.1	4,188.4	3,569.2
Total equity	3,985.1	4,035.4	4,263.9	3,793.4	4,411.6	3,759.4
Supplementary capital						
Provisions	407.0	426.8	387.6	330.3	378.3	322.4
Total Supplementary capital	407.0	426.8	387.6	330.3	378.3	322.4
Deductions	113.6	105.9	92.2	78.6	70.7	60.2
Adjusted total capital	4,065.3	4,157.6	4,340.6	3,698.8	4,496.0	3,831.3
Adjusted total assets	26,728.9	29,169.3	31,459.0	26,807.8	31,960.7	27,235.4
Total adjusted capital adequacy ratio	15.21%	14.25%	13.80%	13.80%	14.07%	14.07%

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Total basis capital is calculated as total equity less reserve for bad loans.

The Company's total capital adequacy ratio increased from 13.80% on 31 December 2019 to 14.07% on 30 September 2020, primarily due to the rapid growth of total assets of the Company. The Company's total capital adequacy ratio decreased from 14.25% on 31 December 2018 to 13.80% on 31 December 2019, primarily due to the rapid growth of total assets of the Company. The Company's total capital adequacy ratio decreased from 15.21% on 31 December 2017 to 14.25% on 31 December 2018, primarily due to the rapid growth of total assets of the Company and the deterioration of profitability in the entire industry.

Market Risk and Risk Management

Currency Exchange Risk

To meet funding objectives, the Company borrows in a variety of currencies, principally Won, U.S. dollars and Japanese Yen. The Company faces exposure to currency exchange rate fluctuations, particularly if there is a mismatch between the currency of its receivables (which are primarily in Won) and the currency of the debt funding those receivables. The Company's policy is to hedge all exposure to the Company's operating results arising from changes in currency exchange rates at the time it obtains foreign currency denominated borrowings. As of 30 September 2020, the Company had fully hedged its exposure to foreign currency fluctuations through swaps.

Interest Rate Risk

The Company's interest rate risk exposure results principally from "re-pricing risk" or differences in the re-pricing characteristics of assets and liabilities. An instrument's re-pricing period refers to the time it takes an instrument's interest rate to reflect a change in market interest rates. For fixed-rate instruments, the re-pricing period is equal to the maturity of the instrument's principal because the principal is considered to re-price only when re-invested in a new instrument. For a floating-rate instrument, the re-pricing period is the period of time before the interest rate adjusts to the market rate. Re-pricing risk arises when assets and the debt funding those assets have different re-pricing periods, and consequently, respond differently to changes in interest rates.

The Company's receivables consist primarily of fixed-rate retail installment sale and lease contracts. Fixed-rate retail installment sale and lease contracts are originated principally with maturities ranging between two and five years and generally require customers to make equal monthly payments over the life of the contract.

Funding sources consist primarily of short- and long-term unsecured debt and sales of receivables in securitizations. In the case of unsecured debt, and in an effort to have funds available throughout business cycles, the Company may borrow at terms longer than the terms of its assets. These debt instruments are principally fixed-rate and require fixed and equal interest payments over the life of the instrument and a single principal payment at maturity.

The Company is exposed to interest rate risk to the extent that a difference exists between the re-pricing profile of its assets and its debt. The Company's Risk Control Committee ("**RCC**") manages its exposure to interest rate risks through the use of its proprietary asset-liability management system which measures the Company's risk exposures and provides forecasts of cash inflows and outflows, including scenario analysis of market interest rates, calculation of actual maturity taking into account customer behavior forecasts, analysis of interest rate and liquidity risk using actual cash flows and expedient generation of analysis reports to aid decision making processes including adjustments to the terms and conditions of the Company's funding in accordance with the rules and regulations of the Risk Management Committee. The RCC deliberates on the Company's risk management policy and strategies within the scope determined by the quarterly meetings of the Risk Management Committee. During its monthly meetings, the RCC establishes counterparty limits, formulates hedging strategies, implements risk management strategies, optimizes risks stemming from liquidity, interest rate, foreign exchange and maturity mismatch and reports the stress test results and the status of implementation of the agendas determined by the Risk Management Committee.

Derivative Financial Instruments

In the normal course of business, the Company uses derivative financial instruments to manage exposure to currency risk and interest rate risks in floating rate bonds. The Company enters into swap agreements primarily for hedging purposes. Swap agreements are valued at the fair value as of the relevant balance sheet date. See Note 15 to the audited financial statements as of and for the year ended 31 December 2019 included elsewhere in this Offering Circular.

Counterparty Credit Risk

Certain debt and derivative instruments involve counterparty credit risk, which is the risk that the counterparty may fail to perform on its contractual obligations. The Company manages this risk through the use of a policy that includes credit standard guidelines, counterparty diversification, monitoring of counterparty financial condition and exposure limits based on counterparty credit, exposure amount and management risk tolerance. This policy is reviewed on an annual basis and as conditions warrant.

Operational Risk

Operational risk is the risk of loss resulting from, among other things, inadequate or failed processes or systems, theft, fraud, or natural disaster. These events can potentially result in financial losses or other damages to the Company. The Company relies on internal and external information and technological systems to manage its operations and therefore is exposed to risk of loss resulting from potential failures of these systems. In order to monitor and manage operational risk, the Company maintains a framework of internal controls designed to provide a sound operational environment, including through enhanced fraud detection systems, and strives to maintain appropriate levels of operational risk relative to its businesses strategies, competitive and regulatory environment, and markets in which it operate.

Asset Quality

The Company analyzes its financial performance and reports to the FSC certain of its operating performance, including delinquency ratios. The Company periodically securitizes and sells receivables generated from its automotive financing and leasing operations to diversify its funding sources. Under K-IFRS, a financial asset is removed only if the contractual rights on cash flow of the financial asset terminates or all the risk and reward of ownership of the financial asset are substantially transferred. The Company continues to manage such securitized and sold receivables including billing and payment as well as record keeping, and receives service fees from the securitization vehicles for servicing such receivables. For information on the treatment of the securitized assets under K-IFRS, see to Note 30 of the Company's audited financial statements included elsewhere in this Offering Circular.

The asset quality of a portfolio is generally a function of the initial underwriting criteria used, account management activities and demographic concentration, as well as general economic conditions. The following table provides a breakdown of the Company's financial receivables as of the dates indicated.

	As of 31 December				As of 30 September	
	2017	2018	2019	2019	2020	2020(1)
	(in billions of Won and millions of U.S.$)					
Financial Receivables:						
Automotive financing:						
New vehicles	₩11,990.4	₩12,940.3	₩15,102.4	U.S.$12,869.5	₩15,329.2	U.S.$13,062.8
Used vehicles	1,406.3	1,595.8	1,744.0	1,486.2	1,873.5	1,596.5
Maturity extension(2)	49.0	40.8	26.1	22.2	18.6	15.9
Subtotal	13,445.6	14,576.9	16,872.6	14,378.0	17,221.2	14,675.1
Automotive leasing	4,230.4	4,543.2	5,052.4	4,305.4	5,782.5	4,927.6
Personal loan:						
Personal loans	2,407.4	2,736.0	2,780.7	2,369.6	2,895.1	2,467.1
Mortgage	3,045.6	3,739.7	3,872.9	3,300.3	3,519.6	2,999.2
Others(3)	—	—	—	—	—	—
Subtotal	5,453.0	6,475.7	6,653.6	5,669.9	6,414.8	5,466.4
Others:						
Re-aged loans	—	—	—	—	—	—
CRS loans(4)	80.5	107.7	95.7	81.6	89.1	75.9
Others(5)	1,281.6	1,332.4	983.4	838.0	752.9	641.6
Subtotal	1,362.0	1,440.1	1,079.1	919.6	842.0	717.5
Total financial receivables	**₩24,491.1**	**₩27,035.8**	**₩29,657.7**	**U.S.$25,272.9**	**₩30,260.5**	**U.S.$25,786.5**

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Includes non-delinquent loans whose maturity has been extended.

(3) Includes specialized loans not sold under one of the Company's brands.

(4) Includes loans restructured in coordination with the Credit Counselling and Recovery Service. See "*Business — Risk Management — Collections in respect of Delinquent Assets*".

(5) Includes other corporate loans and loans purchased from Hyundai Card, Hyundai Commercial and Fubon Hyundai Life.

Delinquencies

The following table summarizes the quality of the Company's financial receivables, including information relating to non-performing loans ("**NPLs**"), delinquent receivables and credit write-offs both on an overall and a product-level basis.

	As of 31 December				As of 30 September	
	2017	2018	2019	2019	2020	2020[(1)]
	(in billions of Won and millions of U.S.$, except percentages)					
Total financial receivables	₩24,491.1	₩27,035.8	₩29,657.7	US$ 25,272.9	₩30,260.5	US$ 25,786.5
NPL[(2)] balance	561.1	755.7	908.4	774.1	873.6	744.4
Automotive financing	122.2	147.5	208.8	177.9	188.6	160.7
Automotive leasing	87.2	98.8	97.2	82.8	110.4	94.1
Personal loan	226.6	337.3	425.0	362.2	446.7	380.7
Others[(3)]	125.1	172.1	177.46	151.2	127.89	109.0
Ratio of NPLs to total financial receivables	2.29%	2.80%	3.06%	3.06%	2.89%	2.89%
Delinquent receivables[(4)]	₩ 309.1	₩ 384.4	₩ 384.9	U.S.$ 328.0	₩ 339.0	U.S.$ 288.9
Automotive financing	59.3	37.8	59.6	50.8	47.2	40.2
Automotive leasing	51.6	30.6	47.9	40.8	42.6	36.3
Personal loan	47.9	173.3	195.2	166.3	191.8	163.4
Others[(3)]	149.8	93.3	82.3	70.1	57.4	48.9
Ratio of delinquent receivables to total financial receivables	1.26%	1.42%	1.86%	1.86%	1.69%	1.69%
Allowances, beginning of period	₩ 529.1	₩ 638.3	₩ 707.4	U.S.$ 602.8	₩ 729.0	U.S.$ 621.2
Provisions for losses	319.8	391.8	383.2	326.5	189.0	161.1
Charge-offs	370.4	411.0	451.0	384.3	283.4	241.5
Recoveries and others	93.0	92.2	89.4	76.2	48.6	41.4
Allowances, end of period	571.4	707.4	729.0	621.2	683.2	582.2
Loan allowance as percentage of total financial Receivables	2.33%	2.62%	2.46%	2.46%	2.26%	2.26%
Net charge-offs as a percentage of average amount outstanding (finance receivables)	1.17%	1.22%	1.27%	1.27%	0.98%	0.98%

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Defined as sub-standard or below.

(3) Includes re-aged loans, CRS Loans and other restructured loans and corporate loans.

(4) Delinquent receivables are those overdue for 90 days or more. The Company purchases delinquent and written-off receivables from Hyundai Card, Hyundai Commercial and Fubon Hyundai Life Insurance as further described in "*Certain Relationships and Related Party Transactions — Relationship with Hyundai Card and — Relationship with Hyundai Commercial*".

The tables below show the delinquency amounts and ratios for the Company's automotive financing, automotive leasing, personal loan and other assets as of the dates indicated. The entire balance of an account is contractually delinquent if a payment is not received by the payment due date. Delinquencies have the potential to impact earnings (and the capital adequacy ratio) if the account is written off and/or provision for loss increases, and also result in additional costs in terms of the personnel and other resources dedicated to resolving such delinquencies.

	As of 31 December			As of 30 September	
	2017	2018	2019	2020	2020(1)
	(in billions of Won and millions of U.S.$, except percentages)				
Automotive financing:					
Total automotive financing receivables	₩13,494.6	₩14,576.9	₩16,872.6	₩17,221.2	US$ 14,675.1
Delinquent loans:					
Over 1 month:	124.1	129.9	110.4	89.2	76.0
Between 1 to 3 months	64.8	77.4	50.8	42.1	35.9
Between 3 to 6 months	42.0	67.7	43.6	28.5	24.3
Over 6 months	17.3	18.1	16.0	18.6	15.9
Delinquency ratio (over 1 month)(2)	0.92%	0.89%	0.65%	0.52%	0.81%
Automotive leasing:					
Total automotive leasing receivables	**₩ 4,230.4**	₩ 4,543.2	₩ 5,052.4	₩ 5,782.5	U.S.$ 4,927.6
Delinquent loans:					
Over 1 month:	73.4	68.3	60.9	98.0	83.5
Between 1 to 3 months	21.8	19.0	13.1	55.3	47.1
Between 3 to 6 months	8.5	10.3	11.3	5.5	4.7
Over 6 months	43.1	39.0	36.6	37.1	31.6
Delinquency ratio (over 1 month)(2)	1.74%	1.50%	1.21%	1.69%	1.69%
Personal loan:					
Total personal loan	**₩ 5,453.0**	₩ 6,475.7	₩ 6,653.6	₩ 6,414.8	U.S.$ 5,466.4
Delinquent loans:					
Over 1 month:	183.8	250.4	273.2	257.4	219.3
Between 1 to 3 month	67.1	77.1	78.0	65.6	55.9
Between 3 to 6 months	56.8	82.2	71.0	56.9	48.5
Over 6 months	60.0	91.1	124.2	134.9	115.0
Delinquency ratio (over 1 month)(2)	3.37%	3.87%	4.11%	4.01%	4.01%
Other assets:					
Total other assets	**₩ 1,313.1**	₩ 1,440.1	₩ 1,079.1	₩ 842.0	U.S.$ 717.5
Delinquent loans:					
Over 1 month:	114.4	124.5	111.1	71.3	60.8
Between 1 to 3 months	32.1	31.2	28.8	13.9	11.8
Between 3 to 6 months	47.0	56.6	48.2	17.2	14.7
Over 6 months	35.3	36.8	34.1	40.3	34.3
Delinquency ratio (over 1 month)(2)	8.71%	8.65%	10.29%	8.47%	8.47%

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

(2) Represents ratio of receivables that are overdue for more than one month to the total amount of such receivables.

Net Charge-offs

The FSS guidelines permit charge-offs, with FSS approval, on a quarterly basis for balances categorized as estimated loss with an expected loss of greater than ₩10 million, without any minimum delinquency period or collection effort requirements. Balances of ₩10 million or less that are categorized as estimated loss may be charged off at any time without approval from the FSS, subject to certain restrictions.

In accordance with the FSS guidelines, the Company charges off balances of ₩30,000 or more that are delinquent for 180 days or more and categorized as estimated loss. Prior to a charge-off, the Company collects documentation to justify the charge-off, such as documents showing the relevant customer's inability to pay or the customer's death or disappearance. Amounts equal to or less than ₩5 million are charged off monthly, and the Company applies for FSS approval to charge-off balances of more than ₩5 million on a quarterly basis. The FSS reviews all such charge-off applications submitted by the Company to the FSS.

The following table sets forth information regarding the Company's charge-offs (excluding those in relation to other assets) for the periods indicated.

	As of 31 December				As of 30 September	
	2017	2018	2019	2019	2020	2020[1]
	(in billions of Won and millions of U.S.$, except percentages)					
Average daily interest earning assets	₩23,296.2	₩25,166.0	₩27,411.9	US$23,359.1	₩29,959.1	US$25,529.7
Gross charge-offs	370.4	411.0	451.0	384.3	283.4	241.5
Recoveries	97.3	103.0	102.5	87.3	62.8	53.5
Net charge-offs	273.1	308.0	348.5	297.0	220.6	188.0
Gross charge-off ratio[2]	1.6%	1.6%	1.7%	1.7%	1.3%	1.3%
Net charge-off ratio[3]	1.2%	1.2%	1.3%	1.3%	1.0%	1.0%

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.
(2) Represents the ratio of gross charge-offs for the year to average daily balances of interest earning assets for the period.
(3) Represents the ratio of net charge-offs for the year to average daily balances of interest earning assets for the period.

Net charge-offs include the principal amount of losses (excluding accrued and unpaid interest, fees and current period recoveries). All amounts collected on previously charged off accounts are included in recoveries. Costs to recover previously charged off accounts are recorded as collection fees and litigation-related expenses in other operating expenses.

Allowance for Loan Losses

The Company maintains its allowances at an amount estimated to be sufficient to absorb expected losses, net of recoveries, inherent in the Company's total portfolio of assets. These allowances are based on the Company's classification of the assets in its portfolio as of the date of the statement of financial position, based on the asset classification criteria set by the Company which is within the guidelines set by the FSC. If additions to the allowances are made on the statement of financial position, the Company records provision for loss as the periodic cost of maintaining an adequate allowance which is charged to the Company's statement of comprehensive income. Credit exposures that become uncollectible are charged directly against the allowances.

The following is a summary of the asset classification criteria under the guidelines of the FSC and related minimum allowance ratios under FSC guidelines that the Company, as a CSF Company, must apply in the classification of its financing receivables.

Classification	Description	FSC Minimum Reserve Ratio
Normal	Credits that do not raise concerns regarding the customers' ability to repay on the obligation.	1.0% in the case of installment financing assets relating to individuals and retail household loans and 0.5% in all other cases.
Precautionary	Credits extended to customers that, in consideration of such customers' financial transaction conditions, credit conditions and business and operations, are to be managed with normal or extra caution (e.g., credits to customers, which, despite the repayment thereof being in arrears for one month or more, but less than three months, do not raise any concern regarding such credits' collectability).	10.0% for installment financing assets to individuals and retail household loans and 1.0% in all other cases.

Classification	Description	FSC Minimum Reserve Ratio
Sub-standard	Expected collectible portion of credits extended to customers that are subject to aggressive collection measures or management because such customers' financial transaction conditions, credit conditions and business and operations are poor (e.g., expected collectible portion of (i) credits in arrears for three months or more or (ii) credits extended to customers that are in the process of corporate reorganization or composition).	20.0%
Doubtful	Expected but not fixed amounts in excess of collectible portion of credits classified as sub-standard.	75.0%
Estimated Loss	Fixed amounts in excess of expected collectible portion of credits classified as sub-standard.	100.0%

The Company records the allowance amount based on incurred losses. The following tables provide a breakdown of the Company's financial receivables by asset quality classification and the related allowance based on incurred losses, as of the dates indicated.

As of 31 December 2017

	Automotive financing			Automotive leasing			Personal loans			Total receivables		
	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total
	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio
Normal	₩13,114.7	₩111.6	0.9%	₩3,982.2	₩22.7	0.6%	₩5,081.3	₩111.5	2.2%	₩23,370.4	₩259.2	1.1%
Precautionary	208.7	13.3	6.4%	161.0	2.3	1.4%	145.1	15.6	10.7%	559.6	45.6	8.1%
Sub-standard	46.8	17.9	38.1%	2.7	0.5	19.2%	124.8	6.9	5.5%	174.4	25.3	14.5%
Doubtful	45.5	19.6	43.2%	33.9	2.1	6.2%	72.8	41.6	57.2%	237.0	116.6	49.2%
Estimated loss	29.9	22.6	75.5%	50.6	41.1	81.2%	29.0	19.1	66.0%	149.7	118.6	79.3%
Total	**₩13,445.6**	**₩185.0**	**1.4%**	**₩4,230.4**	**₩68.7**	**1.6%**	**₩5,453.0**	**₩194.7**	**3.6%**	**₩24,491.1**	**₩565.3**	**2.3%**

As of 31 December 2018

	Automotive financing			Automotive leasing			Personal loans			Total receivables		
	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total
	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio
Normal	₩14,248.0	₩138.63	1.0%	₩4,268.9	₩21.20	0.5%	₩5,988.3	₩143.64	2.4%	₩25,732.0	₩316.84	1.2%
Precautionary	181.4	16.53	9.1%	175.5	3.08	1.8%	150.1	21.23	14.1%	548.0	55.04	10.0%
Sub-standard	51.7	23.33	45.1%	4.9	1.22	25.1%	187.1	20.18	10.8%	243.7	44.75	18.4%
Doubtful	62.0	28.85	46.5%	42.4	3.87	9.1%	111.8	64.33	57.5%	347.0	163.06	47.0%
Estimated loss	33.7	26.51	78.6%	51.5	40.49	78.6%	38.5	24.53	63.8%	165.1	127.73	77.4%
Total	**₩14,576.9**	**₩ 233.8**	**1.6%**	**₩4,543.2**	**₩ 69.9**	**1.5%**	**₩6,475.7**	**₩ 273.9**	**4.2%**	**₩27,035.8**	**₩ 707.4**	**2.6%**

As of 31 December 2019

	Automotive financing			Automotive leasing			Personal loans			Total receivables		
	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total
	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio
Normal	₩16,017.9	129.30	0.8%	4,796.3	23.52	0.5%	5,919.8	153.32	2.6%	27,568.4	318.87	1.2%
Precautionary	645.8	21.93	3.4%	160.0	2.45	1.5%	308.8	27.42	8.9%	1,181.9	64.01	5.4%
Sub-standard	70.1	23.40	33.4%	4.8	0.88	18.3%	238.8	26.14	10.9%	313.9	50.50	16.1%
Doubtful	102.3	32.98	32.2%	40.9	2.75	6.7%	108.6	49.19	45.3%	371.3	145.09	39.1%
Estimated loss	36.4	25.01	68.8%	50.4	41.54	82.4%	77.5	43.93	56.7%	222.2	150.53	67.7%
Total	**16,872.6**	**232.6**	**1.4%**	**5,052.4**	**71.1**	**1.4%**	**6,653.6**	**300.0**	**4.5%**	**29,657.7**	**729.0**	**2.5%**

	As of 30 September 2020											
	Automotive financing			Automotive leasing			Personal loans			Total receivables		
	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total	Billions of Won	Billions of Won	% of Total
	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio	Assets	Allowance	Ratio
Normal	₩16,370.8	130.05	0.8%	5,456.0	17.04	0.3%	5,657.9	114.59	2.0%	28,126.2	271.51	1.0%
Precautionary	661.8	22.81	3.4%	216.1	1.99	0.9%	310.1	26.34	8.5%	1,260.7	59.18	4.7%
Sub-standard	62.3	25.47	40.9%	3.9	1.45	36.6%	249.4	25.40	10.2%	316.5	52.81	16.7%
Doubtful	90.2	33.71	37.4%	50.4	4.94	9.8%	108.4	51.26	47.3%	320.3	125.68	39.2%
Estimated loss	36.1	26.14	72.4%	56.1	42.80	76.3%	88.9	59.89	67.4%	236.8	174.02	73.5%
Total	**17,221.2**	**238.2**	**1.4%**	**5,782.5**	**68.2**	**1.2%**	**6,414.8**	**277.5**	**4.3%**	**30,260.5**	**683.2**	**2.3%**

According to the Regulation on Supervision of Specialized Credit Financial Business, if allowances under K-IFRS do not meet the minimum amount under FSC guidelines, the Company is required to appropriate reserve for loan losses in an amount that is not less than the difference between the allowance under K-IFRS and the FSC guidelines. The estimated regulatory reserve for loan losses as of 30 September 2020 was ₩788.4 billion.

The Company determines the amount of provisioning for each quarter based on the amount of outstanding receivables, the charge-offs experience and the amount of receivables that were delinquent.

The following table sets forth changes in the Company's allowance for loan losses excluding other assets for the periods indicated.

	For the Year Ended 31 December			For the Nine-month period Ended 30 Sep	
	2017	2018	2019	2020	2020[(1)]
	(in billions of Won and millions of U.S.$)				
Allowance at beginning of period	₩529.1	₩638.3	₩707.4	₩729.0	U.S.$621.2
Gross charge-off	370.4	411.0	451.0	283.4	241.5
Recoveries	97.3	103.0	102.5	62.8	53.5
Provision	319.8	391.8	383.2	189.0	161.1
Others	(4.3)	(10.8)	(13.1)	(14.2)	(12.1)
Ending balance	**₩571.4**	**₩707.4**	₩729.0	₩683.2	**U.S.$582.2**

(1) Translated from Won to U.S. dollars at the rate of ₩1,173.50 to U.S.$1.00, the Market Average Exchange Rate in effect on 29 September 2020.

BUSINESS

Overview

The Company is a leading financial services company in Korea that primarily offers automotive financing services. As of the date of this Offering Circular, the HMG owns 79.78% of the Company, which has enabled the Company to derive significant benefit from the support from its major shareholders, particularly in the form of easy access to a captive market of customers that purchase automobiles sold by HMC and KMC, which together have a dominant market share of automobiles sold in Korea. As the primary financing arm of HMC, the largest automotive manufacturer in Korea, and KMC, an affiliate of HMC, the Company has historically held the largest share of the Korean automotive financing and automotive lease markets based on sales volume.

The Company's offerings include the following:

- ***Automotive Finance***: The Company provides automotive financing to purchasers of new and used vehicles, arranged as either installment financing or loans;
- ***Automotive Leasing***: The Company provides automotive leasing to individual and corporate customers, which service includes maintenance and accident management services and arrangement of third-party automobile insurance; and
- ***Personal Loans***: The Company provides consumer loans to individuals and small business owners. These loans consist of mortgage loans, which are typically secured by real property owned by the borrowers, and other personal loans, which are typically unsecured and without a guarantee. The Company utilizes its extensive automotive financing and leasing customer database to cross-sell its personal loan products.

The Company recorded operating revenue and profit for the period of ₩3,243.5 billion and ₩299.9 billion, respectively, in 2017, ₩3,087.9 billion and ₩311.3 billion, respectively, in 2018, ₩3,077.4 billion and ₩350.9 billion, respectively, in 2019 and ₩2,296.6 billion and ₩290.1 billion, respectively, in the nine months ended 30 September 2020. The Company had total assets of ₩27,608.1 billion, ₩30,528.3 billion, ₩32,160.2 billion and ₩32,913.6 billion respectively, and equity of ₩4,069.5 billion, ₩4,156.9 billion, ₩4,451.6 billion and ₩4,633.5 billion respectively, as of 31 December 2017, 2018, 2019 and as of 30 September 2020.

History

The Company was incorporated in December 1993 as Hyundai Auto Finance Co., Ltd. The Company subsequently changed its trade name to Hyundai Financial Services Co. in April 1995. In January 1996, the Company was licensed as an installment financing company by the Ministry of Strategy and Finance of Korea. Shortly thereafter, the Company commenced its housing and automotive installment financing businesses and began providing automotive financing to purchasers of new HMC vehicles and used vehicles.

In 1998, the SCFBA was implemented, which removed certain restrictions on the scope of activities of installment financing companies. In response, the Company expanded its business and in January 1998, the Company was registered as a specialized credit financial institution under the SCFBA. After that expansion, the Company engaged in installment financing, non-automotive leasing and new technology financing businesses. In December 1998, the Company's trade name was changed to Hyundai Capital Services, Inc. The Company commenced its automotive leasing business in July 2001.

In October 2004, the Company and HMC entered into a strategic alliance with GECC whereby GECC, through its wholly-owned subsidiary, GECIH, acquired a 38.0% equity interest in the Company and in 2005 GECC acquired an additional 5.0% equity interest in the Company, increasing its equity interest in the Company to 43.0%. In July 2012, In August 2012, the Company acquired a 100% equity interest in GECK. On 5 January 2016, GECC sold a 23.3% equity interest in the Company to HMC and KMC, reducing its equity interest in the Company to 20.0%. On 17 October 2016, GECC sold its remaining 20.0% equity interest in the Company held by IGE USA Investments, a second tier subsidiary of GECC, to Elisia the Sixth Co., Ltd. and Jace C the Third Co., Ltd. for 10.0% each and as of the date of this Offering Circular, GECC does not hold any equity interest in the Company.

In May 2010, Hyundai Capital Europe GmbH ("**Hyundai Capital Europe**") was established as a wholly-owned subsidiary of the Company. Hyundai Capital Europe provides consulting and advisory services for HMC and KMC and through its strategic partnership with Santander, ALD Automotive and BNP Paribas. In December 2015, the businesses of Hyundai Capital Europe were transferred to Hyundai Capital Services Deutschland GmbH ("**Hyundai Capital Deutschland**") through an asset transfer, and Hyundai Capital Europe has been converted into an entity that provides market research and consulting services in the European market other than Germany, the UK and Russia.

In July 2015, the Company established Hyundai Capital Deutschland in order to provide financing services in Germany. Hyundai Capital Deutschland was established as a joint venture among the Company, which owns an 80% equity interest and KMC, which owns a 20% equity interest. The Company received the approval from the European Central Bank ("**ECB**") to establish Hyundai Capital Bank Europe GmbH in September 2016, the first for a financial institution based in a non-EU member state to receive approval from the ECB for a banking license. In October 2016, Hyundai Capital Deutschland changed its name to Hyundai Capital Bank Europe GmbH ("**HCBE**") and began operations in 2017. In March 2017, the Company provided the credit line to HCBE by providing a revolving credit facility at the aggregate amount of EUR75 million, to assist it to meet the liquidity stress test requirements implemented by the *Bundesanstalt für Finanzdienstleistungsaufsich* and as an indication of the Company's support for HCBE's future fundraising activities. Shortly thereafter, HMC acquired a 20.0% equity interest in HCBE whereupon the Company, KMC and HMC owned 65%, 15% and 20% equity interests, respectively, in HCBE. The Company, through HCBE, plans to provide banking and auto financing services directly to consumers and expand similar operations to other markets in Europe. In August 2018, the Company and Santander Consumer Bank AG ("**SCB**") entered into a joint venture agreement to convert HCBE into a new joint venture between the Company, which owns a 49% equity interest, and SCB, which owns a 51% equity interest. In March 2019, HCBE commenced its automotive financing business as a newly formed joint venture entity. The total amount of capital contribution made by the Company into HCBE was EUR390.5 million as of 30 September 2020.

In July 2010, the Company, HMC and Beijing Automotive Industry Holding Co., Ltd. ("**BAI**") entered into a joint venture to create Beijing Hyundai Auto Finance Co., Ltd. ("**Beijing Hyundai Auto Finance**"). In June 2012, Beijing Hyundai Auto Finance was established with a registered capital of RMB500 million. According to the joint venture agreement, as amended, the Company, BAI, BHMC (a joint venture between HMC and BAI) and HMC own 46%, 33%, 14% and 7% equity interests, respectively, in Beijing Hyundai Auto Finance. Beijing Hyundai Auto Finance aims to support the Company's initiatives to grow its retail auto loan and dealer inventory financing activities in China over the long term. In 2020, the Company commenced leasing business in China under the name of BAIC Hyundai Leasing Co., Ltd. in coalition with BAIC Motor Corporation and HMG China Holding Co. The total amount of capital contribution made by the Company into Beijing Hyundai Auto Finance was RMB1.8 billion as of 30 September 2020.

In December 2011, the Company, Hyundai Motor UK Limited ("**HMUK**"), Kia Motors UK Limited ("**KMUK**"), and Santander Consumer (UK) PLC ("**SCUK**") entered into a joint venture agreement to create Hyundai Capital Services UK Limited ("**HCUK**"). In February 2012, HCUK was established and began its operations in July 2012. According to the joint venture agreement, the Company, HMUK, KMUK, and SCUK own 29.99%, 10%, 10%, and 50.01% equity interests, respectively, in HCUK. The joint venture aims to support the Company's initiatives to grow its retail auto loan and dealer inventory financing activities in the United Kingdom over the long term. The total amount of capital contribution made by the Company into HCUK was GBP16.5 million as of 30 September 2020.

In April 2014, Hyundai Capital Canada Inc. ("**Hyundai Capital Canada**") was established as a joint venture among HMC, which owned a 60% equity interest, and KMC, which owned a 40% equity interest. In May 2017, the Company acquired a 20% equity interest in Hyundai Capital Canada whereupon the Company, HMC and KMC owned 20%, 50% and 30% equity interests, respectively, in Hyundai Capital Canada. The total amount of capital contribution made by the Company into Hyundai Capital Canada was CAD41.3 million as of 30 September 2020.

In May 2013, the Company established Hyundai Capital Brazil LTDA ("**Hyundai Capital Brazil**") as a wholly-owned subsidiary of the Company. Hyundai Capital Brazil provides financial consulting services in Brazil. The Company and AYMORÉ CRÉDITO, FINANCIAMENTO E INVESTIMENTO S.A. ("**Aymoré**"), which is a wholly-owned subsidiary of the BANCO SANTANDER (BRASIL) S.A., entered into a joint venture agreement to create Banco Hyundai Capital Brasil S.A. ("**BHCB**"). In April 2018, BHCB was established and began providing automotive financing services in April 2019. The total amount of capital contribution made by the Company into BHCB was BRL150 million as of 30 September 2020.

In March 2016, the Company established Hyundai Capital Australia Pty Limited ("**Hyundai Capital Australia**") as a wholly-owned subsidiary of the Company. Hyundai Capital Australia provides financial consulting services in Australia.

The Company has also established subsidiaries in Russia and India and is currently exploring business opportunities (including automotive financing services) in such countries and adjacent regions, subject to market conditions.

In February 2020, the Company completed the acquisition of shares in Sixt Leasing SE, a German-based international mobility service provider, by Hyundai Capital Bank Europe GmbH, a joint venture of Santander Consumer Bank AG and the Company. In the third quarter board of directors meeting in September 2020, the Company's board of directors also authorized the establishment of a subsidiary in Indonesia to support overseas automobile sales business.

Industry Overview

Overview of the Korean Credit Specialized Financing Industry

In Korea, credit specialized financing companies, including installment financing companies, lease companies, credit card companies and new technology financing companies, offer a wide range of credit specialized financing products as defined in the SCFBA, which include installment financing, leasing, credit card products and other types of credit specialized financing products. These companies are not legally permitted to take customer deposits but instead rely on other funding sources, such as commercial papers, corporate debentures and asset-backed securitizations, to provide the above mentioned financing products.

Historically, credit specialized financing companies have generally targeted customer segments that, on average, have less financial means and credit profiles less robust than those targeted by major commercial banks in Korea and did so by offering financial products at higher rates than would be charged by the major commercial banks. Accordingly, servicing these customers, on average, entail higher return but also higher risks, which means that the credit specialized financing business tends to be more susceptible to the fluctuations in the general economic cycles. For example, in the aftermath of the Asian financial crisis in 1997 which adversely affected the Korean economy, the credit specialized financing industry went through substantial restructuring under close government supervision amid significant financial difficulties, and the government enacted the SCFBA in 1998 to provide a comprehensive framework for credit specialized financing products and companies providing these products. In addition, following deterioration of the Korean consumer credit sector in 2002 partly as a result of aggressive competition by credit card service providers to capture market share without adequate risk management practices which led to excessive credit card usage and leveraging by cardholders, the credit card sector underwent significant industry-wide consolidation. Furthermore, following the global financial crisis in 2008, many credit specialized financing companies also faced significant financial difficulties, as a result of which the government introduced a number of measures to enhance risk management and consumer protection with respect to the overall financial industry, including the credit specialized financing sector.

Although the assets of credit specialized financing companies in Korea have been growing steadily, the profitability of such companies has not seen similar increments because of intensified competition in the credit specialized financing industry in the past two years. According to FSS, the total assets for special credit financing service providers amounted to ₩289.7 trillion as of 30 June 2020, and total net income for these companies showed stagnant trend, amounting to ₩4.0 trillion, ₩3.5 trillion, ₩3.5 trillion and ₩2.2 trillion 2017, 2018, 2019 and 30 June 2020, respectively.

Historically, the Korean financial regulators have placed emphasis on consumer protection and contingency planning as part of their key policy objectives.

From time to time, the FSC also promulgates measures to strengthen lending standards and raise the asset soundness standards for credit specialized finance companies on par with other financial institutions. For example, under the Regulation on Supervision of Specialized Credit Financial Business, the FSC requires credit-specialized financial companies to maintain a minimum 7% (or 8% for credit card companies) adjusted equity capital ratio to adjusted total assets, a minimum 100% current ratio of assets denominated in Korean Won currency, and (in the case of credit card companies) less than 10% delinquency ratio over a one month period. Korean regulators are required to take prompt corrective actions with regard to finance companies that show a decline in credit quality. In addition, under the aforementioned FSC Regulation, a Credit Specialized Finance

Company, in making loans, should secure the transparency of the loans by implementing comprehensive review and analysis of the loans, such as borrower's purpose for obtaining the loan and the size of the loan, and taking measures to prevent the loans from being used for a purpose other than specified.

The SCFBA and relevant Presidential Decree were amended in 2016, which took effect on 30 September 2016. Under the amended SCFBA and relevant Presidential Decree which is currently in effect, (i) the total amount of credit extension which the CSF company (as defined below) is allowed to grant to its major shareholder shall not exceed 50% of the equity capital of such CSF company, (ii) a CSF Company should not provide credit support to its major shareholder for the purpose of making investments in other companies, and (iii) the total amount of shares issued by the major shareholder of a CSF company which the CSF company is allowed to hold shall not exceed 150% of the equity capital of such CSF company. The SCFBA Presidential Decree was partially amended in 2020, which took effect on August 5, 2020. Under the amended SCFBA and relevant Presidential Decree, individuals who have entered into credit facility agreements with a CSF company are granted rights to request for interest rate reduction when acknowledged that they have improved financial conditions by way of employment, promotion, property growth or an increase in his/her individual credit score.

Unless otherwise described, the description set forth herein is based on information available from the Korean Credit Finance Association and the Financial Supervisory Services of Korea.

Installment Financing

Installment financing companies provide loans to consumers who wish to purchase durable consumer goods (automobiles and home appliances), houses or machinery. In the case of installment financing for automobiles, a tripartite agreement is entered into between the customer, the installment financing provider and the automobile manufacturer. The seller receives full payment upfront from the installment financing provider, and the customer then repays the principal and interest of the loan in installment payments. According to the Korea Credit Finance Association, the substantial majority of installment financing in Korea relates to automobile purchases. Installment financing was first introduced in Korea in 1967 to purchasers of automobiles. The industry has undergone extensive consolidations, including in the aftermath of the Asian financial crisis of the late 1990s, the introduction of the SCFBA in 1998 and the global financial crisis in 2008. As of 22 December 2020, there were 47 companies in Korea dedicated to providing installment financing. According to the FSS, the Company, RCI Financial Services Korea, Mercedes-Benz Financial Services Korea and Hana Capital were the largest providers of installment financing, based on installment financing assets outstanding as of 30 June 2020.

According to the Korea Credit Finance Association, automotive financing represents the largest operating segment for the credit specialized financing companies (excluding credit card companies) in terms of assets. Accordingly, automobile sales is an important indicator of the financial health of such companies. In recent years, the automotive financing industry in Korea has seen stagnant trend despite an increase in the number of automobiles sold, largely due to the sustained low-interest rate environment as well as increased competition from commercial banks and insurance companies who are increasingly showing interest in the automotive financing segment, which generally carry a larger margin than the traditional commercial banking or insurance services. Also in recent years, credit card companies are joining the auto instalment financing market for new car purchases by utilizing their own in instalment financing system.

According to FSS, the total amount of outstanding installment financing in Korea was approximately ₩28.9 trillion, ₩32.3 trillion, ₩35.4 trillion and ₩36.9 trillion as of 31 December 2017, 2018, 2019 and 30 June 2020, respectively.

Leasing

Under the SCFBA, a lease is defined as the act of purchasing or borrowing an asset, for the purpose of lending to another party for a fixed period of time. The lessee pays periodic payments to the lessor in return for using the asset, and the disposition of the asset at expiration of the lease agreement is agreed separately by the two parties. Assets that can be leased include machinery, facilities, equipment, vehicles, ships, airplanes, and real estate assets linked to such assets. Leases are classified as either operating leases or finance leases, and can also be divided into sub leases, syndicated leases, sales and lease backs, and vendor leases. The Company had focused on long-term car rental business to meet the increased demand, but due to the Korean regulation that prohibits the proportion of rental business of financial services companies from exceeding that of its lease business, the Company is focusing on maintaining the balance between its lease and rental products. Also, since 2019, an increasing number of the Company's new customers has been introduced through home shopping, ARS and other online channels.

The majority of lease financing in Korea relates to automobile leasing. According to FSS, the Company, KB Capital, Hana Capital, Lotte Capital, and Shinhan Card were the largest providers of lease financing, based on lease financing assets outstanding as of 30 June 2020.

As of 22 December 2020, there were 47 companies based in Korea dedicated to lease financing. According to the FSS, the total outstanding balance of lease financing amounted to ₩28.8 trillion, ₩31.0 trillion, ₩33.9 trillion and ₩35.7 trillion as of 31 December 2017, 2018, 2019 and 30 June 2020, respectively.

Personal Loans

Under the reporting guidelines of the Bank of Korea, personal credit refers to credit extended to individuals and small-sized sole proprietorships (commonly referred to as "**SOHOs**"), which in turn consist of "personal loans" and, to a less extent, "sales on credit". Personal loans represent the sum of general loans made to individuals and SOHOs (including cash advance, card loans, revolving loans and automotive loans) and housing-related credit (including secured housing mortgage loans and housing-related installment financing). Sales on credit represent the sum of installment financing (other than housing-related installment financing), upfront credit card payments and credit card installment receivables. Personal loans are typically extended by commercial banks, savings banks, mutual savings banks, post office, insurance companies, pension funds, credit specialized financing companies and securities companies.

According to the Bank of Korea, the total outstanding amounts of personal credit in Korea as of 31 December 2017, 2018 and 2019 and 30 September 2020 were ₩1,450.6 trillion, ₩ 1,536.7 trillion, ₩1,600.3 trillion and ₩1,682.1 trillion, respectively, of which personal loans represented 94.4% (or ₩1,369.1 trillion), 94.1% (or ₩1,446.6 trillion), ₩1,504.6 (or 94.0%) and ₩1,585.5 (or 94.3%) as of such dates, respectively.

According to the Bank of Korea, credit specialized financing companies accounted for 4.4%, 4.5%, 4.4% and 4.3% of personal loans outstanding as of 31 December 2017, 2018 and 2019 and 30 September 2020, respectively, while they accounted for the substantial majority of sales on credit outstanding as of such dates.

In recent years, due to the sustained low interest rate environment, personal credit (particularly housing-related credit) has been on the rise, although to a limited extent and at a relatively low delinquency rate in part due to the reduced interest burden in tandem with the general decrease in market interest rates over the recent years. The personal loan sector is subject to heavy government regulations partly as a result of a government policy to protect consumers of financial services. For example, as of the date of this Offering Circular, the maximum legally permitted interest rate for personal loans applicable to all financial institutions in Korea is 24% per annum under the Act on Registration of Credit Business and Protection of Finance Users and the Enforcement Decree thereunder. However, a proposed amendment to the Enforcement Decree of the Act on Registration of Credit Business and Protection of Finance Users which restricts the maximum interest rate to 20% per annum has been announced lately and is expected to take effect some time during the second half of 2021 upon the review of the Cabinet council and approval of the President of the Republic of Korea.

Mortgage Loans

Mortgage loans are one of the key products in the Korean personal loan market. Typically customers are provided with a number of mortgage loan products, which is a type of loan in which the borrower uses the equity in their home as collateral, that have flexible features for terms, repayment schedules, amount and eligibility for such loans. Mortgage loans typically involve long-term loans (with maturities of 10 years or more) provided to consumers seeking to finance home purchases. Mortgage loans are primarily provided by banks, but insurance companies and non-banking finance entities also make such loans.

According to the Bank of Korea, as of 30 September 2020, the total secured housing mortgage loans (including asset-backed securitized loans) amounted to ₩838.2 trillion, of which (i) ₩566.5 trillion, or 67.6%, was extended by commercial banks; (ii) ₩176.7 trillion or 21.1% was extended by Korea Housing Finance Corporation and Korea Housing & Urban Guarantee Corporation; and (iii) ₩95.0 trillion or 11.3% was extended by non-banking depositary institutions (such as savings banks).

In March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Government launched a mortgage loan refinancing programme aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Earlier in March, the Government launched a ₩40 trillion programme that allows eligible borrowers of the floating rate mortgage-backed loans held by the local lenders to transfer them to fixed rate loans at a lower 2% range rate. In addition, in December 2015, the FSC, jointly with the Korean Association of Lenders, announced tightened lending guidelines including reduction in loan grace periods and heightened standard in credit checks applicable for new borrowers, which took into effect in Seoul in February 2016 and for the rest of Korea, in May 2016. According to household debt management plan announced by the FSC on 13 January 2017, the programmes applied to Korean commercial banks, insurance providers and mutual savings banks, but did not apply to the Company. On 22 January 2019, the FSC announced a new COFIX (Cost of Funds Index), a new standard for calculating floating rate of mortgage loans to be applied to new lenders starting from July 2019. The new COFIX has the effect of lowering the interest rate on mortgage loans. In May 2019, the FSC announced its management plan to extend Debt Service Ratio (DSR) standards to non-bank financial institutions as one of the criteria for managing household loans. The DSR is the ratio of a household borrower's total debt repayment (i.e. principal and interest payments) to the borrower's annual income. The DSR was first introduced to the banking sector from October 2018. Starting from June 17, 2019, the DSR has been implemented across the non-banking financial sector including insurance providers, mutual saving banks, card companies and installment financing companies. Under the implementation plan, the target ratio of the average DSR of CSF companies by end of 2021 is 90%. In the case of high-risk loans, loans to borrowers with DSR exceeding 70% shall be less than 45% of the total loan CSF companies provide, and loans to borrowers with DSR exceeding 90% shall be less than 30% of the total loan provided by each CSF company.

In January 2018, the FSC amended the Regulation on Supervision of Specialized Credit Financial Business to lower the maximum loan-to-value ("**LTV**") ratio and the debt-to-income ("**DTI**") ratio allowed for mortgage loans. In particular, the amendment tightened the LTV ratio and the DTI ratio for certain districts which are considered to be under excessive speculation (*Tugi-jiyeok and Tugi-gwayeol-jigu*), and heightened the conditions to get granted additional household mortgage loan for borrowers who have existing mortgage loan outstanding. In October 2018, the FSC further amended the Regulation on Supervision of Specialized Credit Financial Business. The amendment was part of reflecting the Government's measures announced in September 2018 that aim to stabilize real estate market by blocking the speculative demand of homeowners who own multiple houses while protecting those people who are actually in need of residence. The amended regulation also applies more tightened DTI ratio and LTV ratio for mortgage loans if the price of the house under contemplation exceeds KRW 900 million. In December 2020, the FSC amended the Regulation on Supervision of Specialized Credit Financial Business, following a series of Government's ongoing real estate policy from 2019 that aims to steady the real estate market. The amended regulation sets more tightened LTV ratio for houses over KRW 900 million and prohibits mortgage loans with apartments over KRW 1,500 million in *Tugi-jiyeok and Tugi-gwayeol-jigu.* See "*Regulation and Supervision — Limitations on Mortgage Lending*."

Business Strengths

Core Member of the Hyundai Motor Group

The Company, as the provider of automotive financing services for a captive market of customers that purchase automobiles produced by HMC and KMC, is a core member of HMG, for which HMC is the flagship company. HMC is Korea's largest motor vehicle manufacturer, producing cars, trucks, buses and special purpose vehicles for sale in Korea and overseas. Together, HMC and, its affiliate, KMC had a combined domestic market share of 77.6%, 80.8%, 82.0% and 83.3% based on units of new vehicles sold (excluding imported units) in 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively. HMG has continued to provide, and the Company believes will continue to provide, critical support to the Company by virtue of its affiliation with HMC and otherwise, including in areas of captive markets, brand awareness, credit rating support (including on account of the Company being one of HMC's "**core subsidiaries**") as determined by rating agencies, potential direct and indirect financial support and joint business opportunities (particularly in relation to HMC's overseas expansions).

Best-in-class Credit Profile within the Korean Consumer Finance Industry

As of the date of this offering circular, the Company is rated "Baa1 (negative)" by Moody's and "BBB+ (negative)" by S&P, as well as "BBB+ (negative)" by Fitch. The Company is also rated "AA" by each of Korean Information Service and Korea Ratings, each with a stable outlook. Since the outbreak of the COVID-19 pandemic, Moody's and S&P had temporarily adjusted the credit outlooks, but such outlooks have returned to their previous level due to the expected rebound in the auto sales, improved product mix and strong capitalization of the Company. The Company is one of the few companies in Korea in auto industry whose credit rating was not adjusted by these credit rating agencies since the outbreak of the COVID-19 pandemic. In addition, the Company is rated "A+" by Japan Credit Rating Agency, with a stable outlook, same as the sovereign rating of Korea "A+".

In addition, the Company has the largest domestic market share of automotive financing in terms of sales volume as of 30 September 2020, and is one of the largest consumer finance companies in Korea in terms of assets and revenues as of 30 September 2020 with a consistent growth in assets. The Company believes that such credit profile and asset size has enabled and will continue to enable the Company to withstand market challenges and adverse changes in the market environment as well as leverage new business opportunities, compared to its other competitors

Rigorous and Effective Credit Risk Management Practice

The Company maintains an effective risk management process that is implemented across various functions and levels within the Company. As part of its risk management process, the Company maintains rigorous credit risk controls, collects and analyzes credit and repayment capability profiles of its customers and constantly monitors risk appetite thresholds and profitability targets to maintain a healthy asset portfolio. For example, in relation to its new automotive installment financing services, the Company minimizes exposure to credit and counterparty risk by requiring an advance payment from the customers and transferring to the Company the title to the vehicle until full payment of receivables, and reduces loss through efficient and effective collection efforts. The Company also seeks to reduce risks by targeting prime customers with sound credit profiles. Partly as a result of such business model, the delinquency ratio (the ratio of balances that are overdue for more than one month to total assets) for its receivables has stabilized in recent years to 2.0%, 2.1%, 1.9% and 1.7% during 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively. The Company also continues to adopt a conservative approach to risk management in an effort to pre-emptively respond to economic downturn. In April 2018, as the Company spotted signs of potential economic slowdown, the Company implemented a pre-emptive cut-off, and in August 2018, in response to a continuing deterioration of macro and internal indicators, the Company further adopted a contingency-level loan approval and collection process. As a result of implementing such pre-emptive measures and building a healthy asset portfolio since 2018, the 30-day or more overdue delinquency rate is the lowest on record. The Company also plans to further strengthen its risk management system by implementing a new risk management frame tailored for each product in case of potential economic downturn.

Business Strategies

The Company seeks to continue to solidify its position as a leading financial services provider in Korea. In order to achieve these goals, the Company intends to implement the following strategies.

Maintain Its Leading Position in Automotive Financing and Automotive Leasing

The Company seeks to maintain and strengthen its leading position in the automotive financing and automotive leasing markets as the provider of automotive financing services for a captive market of customers that purchase automobiles produced by HMC and KMC by leveraging the Company's high brand recognition and reinforcing the value chain of the Company's auto financing business. The Company has been collaborating with HMC and KMC to jointly develop various new marketing initiatives that has expanded its suite of low-interest rate financing offers, enabling it to attract a wider range of customer segments. The Company has also jointly developed financing products with Hyundai Card enabling customers to choose from a wider range of products and receive more benefits and has further simplified its loan application process with the adoption of a fully digitalized mobile web-based credit approval process. Additionally, the Company has sought to diversify its sales channels with home shopping, ARS and other online methods and the proportion of these new sales channels has been continuously growing. The Company reinforced its customer retention program so that the customers extend the lease contract or re-use the Company's leasing products.

Further Enhance Credit Risk Management

The Company plans to continue its risk monitoring and stress tests to ensure that it remains resilient to negative market conditions and its growth does not come at the cost of increased risk. The Company will continue to focus on monitoring its products using various risk monitoring systems (including risk appetite management, monthly performance reviews and projections and monitoring of bad debt expenses) and offer its products at price levels determined by its proprietary risk-based pricing model. The Company plans to further invest in upgrading its technological infrastructure and accounting systems to maintain high standards of operational risk control mechanisms commensurate to its level of growth and its overall business expansion strategy.

Further Diversify the Funding Portfolio

The Company is dependent on external sources of funding both to generate the liquidity necessary to provide loans and other financing to its customers and to provide the Company with the capital necessary to meet its operating needs. Currently, the Company's primary sources of financing include issuance of bonds and bank loans, and to a lesser extent, ABS transactions, and the Company seeks to maintain an optimal mix of such funding sources as part of its funding diversification efforts. As part of its overseas funding strategy, the Company also seeks to diversify its funding sources by issuing bonds denominated in various currencies (which include U.S. dollars, Japanese Yen, Swiss Franc, Chinese Yuan and Australian Dollar), reflecting in part the Company's efforts to reduce the currency concentration risk, and to a larger extent reflecting the Company's flexible and sophisticated approach in accessing the capital markets spanning across various jurisdictions. The Company plans to enhance its liquidity position by increasing the tenor of its long-term debt portfolio and increasing the ratio of long-term debt over short-term borrowings. The Company's Executive Finance Committee has implemented policies and procedures that establish the Company's framework to achieve its funding goals by tapping the domestic and international capital markets for capital raising opportunities while also monitoring significant variances from its existing debt issuance structure or interest rate levels.

Selectively Pursue Overseas Business Opportunities

The Company seeks to selectively expand the countries and regions in which it provides automotive financing services by marketing to local purchasers of vehicles sold by HMC and KMC overseas in tandem with the existing overseas sales networks of HMC and KMC. In order to strengthen its funding and operation in its overseas business, the Company usually forms a joint venture with a strategic partner. The Company adopts unified management framework for human resources and risk management, which is referred to as as "Global One Company" approach. The Company, however, establishes business model and operates it in accordance with local market situation and business opportunities in each jurisdiction.

To that end, the Company established subsidiaries in China, the United Kingdom and Germany, where it is actively providing automotive financing services. The Company also established its presence in Canada by acquiring a 20% stake in Hyundai Capital Canada on May 30, 2017. The Company also established subsidiaries in other regions, including Germany, Brazil, Australia, India and Russia, to explore opportunities and provide financial consulting services, subject to market conditions. The Company established BHCB, automotive financing service provider in Brazil, based on joint venture agreement with Aymoré which is a wholly-owned subsidiary of the BANCO SANTANDER (BRASIL) S.A. Most recently, the Company acquired the shares in Sixt Leasing SE, a German-based international mobility service provider, via Hyundai Capital Bank Europe GmbH, a joint venture of Santander Consumer Bank AG and the Company. In the third quarter board of directors meeting in September 2020, the Company's board of directors also authorized the establishment of a subsidiary in Indonesia to support overseas automobile sales business.

Business Operations

Automotive Financing

Financing arm of HMC and KMC. As a result, financing for the purchase of new HMC and KMC vehicles has historically represented and continues to represent the principal source of the Company's automotive financing business. The Company benefits from customer referrals by HMC and KMC and cooperates with HMC and KMC in marketing and customer management to deliver well-integrated customer services. To a limited extent, the Company also provides automotive financing for other domestic vehicles.

The Company's automotive financing products are arranged either as installment financing or loans. In 2017, 2018 and 2019, 93.9%, 97.7% and 96.2%, respectively, of the Company's automotive financings for new vehicles were arranged as installment financings and 6.1%, 2.3% and 3.8%, respectively, were arranged as loans.

Installment Financing

The Company's installment financing is arranged as tripartite agreements among (i) the Company, (ii) the automobile manufacturer and (iii) the customer. For installment financing, the amount of financing may not exceed the price of the vehicle financed and the customer must be the registered owner of the vehicle.

The following describes the key terms and features of the Company's installment financing products for new vehicles. The amount that the Company provides is limited to the cost of the vehicle.

Repayment option	Description	Interest rate	Maturity
Amortization	Equal monthly payments for principal and interest	0.00-5.50%	3-60 months
Personal Contract Purchase	Equal monthly payments for a partial amount of the principal followed by payment of remaining principal amount at the used car value upon maturity	1.90-5.70%	36 and 48 months
Principal deferred	Equal monthly payments for a partial amount of the loan principal followed by payment for the outstanding amount	1.90-6.50%	36, 48 and 60 months

The Company has a Settlement Interest Agreement with each of HMC and KMC, under which each of HMC and KMC provides a fixed interest spread over interest on a Korean benchmark Won-denominated financial institution bond and commercial paper for installment financings extended to its respective customers. See "*Certain Relationships and Related Party Transactions — Settlement Interest Agreements*".

Automotive Loans

Unlike installment financing, automotive loans are arranged as a bilateral agreement between the Company and the customer. Automotive loan rates are determined solely by the Company and such rates generally cover the cost of the automobile purchase price, the Company's margin, as well as certain other related expenses. Unlike installment financing products, automotive loan rates are not predetermined pursuant to any arrangement with HMC or KMC, but are influenced by rates offered by the Company's competitors and the Company's margin target.

Automotive Financing of Used Vehicles

The Company provides automotive financing for used vehicles, including used HMC and KMC vehicles and other used domestic and imported vehicles. The Company's automotive financing of used vehicles is typically capped at ₩100 million. The Company offers financing of used vehicles at interest rates ranging from 3.5% to 23.9% per annum, with a maximum maturity of up to five years.

In recent years, the Company has increased its focus on automotive financing of used vehicles. As of 30 September 2020, the Company operated 11 automotive financing branches specializing in used car financing. The Company believes it is the leading provider of automotive financing for used vehicles in the Korean market.

Automotive Leasing

The Company is a leading automotive leasing company in Korea. Lease financing for HMC and KMC vehicles represents the principal source of the Company's automotive leasing business, although the Company also provides lease financing for other domestic and imported vehicles.

The Company offers two types of automotive leases: (i) operating leases and (ii) financial leases. In the case of operating leases, they carry a substantial residual value and offer greater flexibility to customers in terms of financing options. In the case of finance leases, the residual value is set at a *de minimis* level (usually ₩10,000 or less), and the customer pays for the lease in a manner substantially similar to that for installment financing. Under both types of leases, the Company holds the title to the vehicle, with limited exceptions, and provides maintenance services with limited exceptions.

In the nine months ended 30 September 2020, 22% of the Company's total amount of the leases that were newly entered or extended during the period were finance leases and the remaining 78% were operating leases. Unlike automotive financing products, under the terms of the Company's automotive lease products, the title of the leased automobile does not automatically pass to the customer at the end of the lease term.

When compared to automotive financing products, automotive operating leasing products have the following advantages for customers:

- payments made under an automotive lease may be deductible by the customer as a business expense;

- customers have the option to extend the lease, purchase or return the leased vehicle at the expiry of the lease period;
- lease payments exclude the residual value of the vehicle;
- customers pay the acquisition tax and the registration tax in monthly installments as opposed to one lump-sum payment at the time of purchase of the vehicle;
- customers do not bear the responsibility for disposal of the vehicle at the end of a lease term;
- customers are not responsible for sale or disposal of the vehicle at the end of the lease term; and
- customers pay all ancillary fees to the Company, which handles payments on behalf of such customers, rather than making payments to multiple third parties.

Automotive Leasing Terms

The Company provides a wide range of auto lease products. While the Company's marketing efforts previously focused primarily on high-end customers (including corporations) for leasing of high-priced vehicles, the Company has expanded its marketing programmes to also target other customer segments (including individuals and sole proprietors) for leasing of mid- to low-priced vehicles. Automotive leases targeting high net-worth professionals and individuals generally have lease periods of 12, 24, 36, 48 or 60 months, with a distance limit of 30,000 kilometers per 12 months. Such leases generally cover the vehicle price, registration cost and applicable tax expenses for the lease period. Depending on the credit profile of a customer, a deposit of up to 50% of the lease value may be required upon commencement of the lease, which is returned upon expiration. The residual value of vehicles leased to professionals is generally 30% to 60% of the original vehicle purchase price.

The customer is typically given the option to extend the lease or purchase the vehicle at the end of the lease term. If the customer does not exercise such option, the Company will sell the vehicle to a third party or its to a certified used-car showroom operated by the Company.

In terms of disposing off-lease vehicles to a third party, the Company has contractual arrangements with Glovis (a member company of the HMG) and Autoplus in respect of domestic vehicles. Under these arrangements, the counter-party pays a pre-agreed price for returned vehicles protecting the Company from residual value losses. These contracts are automatically renewable for one-year terms unless either party provides written notice of its intent to terminate the contract. In addition to the option to sell via contractual arrangements with Glovis and Autoplus, the Company may also utilize certified used-car showrooms to dispose of the returned vehicles.

In the case of selling returned vehicles through certified used-car showrooms, the partner of the Company sell the qualified off-lease products with warranty service after detailed inspection process. With the pre-owned used car showroom channel, the Company provides the customers with more options and potentially better price.

The Company's automotive leasing products generally have lease periods ranging from 12 to 60 months and interest rates ranging from 6.25% to 13.55% per annum, depending on, among other factors, the amount of initial deposit. Although automotive leasing products in the market generally have 48-month lease periods, the Company prefers to offer 60-month maturity products, which increase customer retention and interest income.

Rental Car

The Company operates a long-term (i.e., with a minimum contract period of one year) car rental business for both captive and non-captive brands. The Company increased its sales from ₩619.8 billion in 2017 to ₩1,024.0 in 2018, from ₩ 874.4 billion in 2018 to ₩1,375.1 in 2019 and further to ₩1,054.3 billion in the nine months ended 30 September 2020, including both personal and corporate rentals. With approximately 2,200 maintenance facilities of HMC and KMC, the Company believes it has an advantage in providing key services to its customers, which it believes is critical in the car rental business.

As of 31 December 2017, 2018 and 2019 and 30 September 2020, the number of registered rental cars provided by the Company totalled 59,960, 80,443, 51,558 and 35,992, respectively.

In March 2020, the Company sold its assets related to the long-term car rental business for around 500 billion won in order to improve its portfolio and also to comply with the Korean regulation that prohibits the proportion of rental business of financial services companies from exceeding that of its lease business. The sale was mainly comprised of financial receivables for long-term car rentals, which have low profitability compared to operative rent assets, and was also a part of the Company's decision to focus on lease business as the demand for lease increases particularly for high-end car model "Genesis".

Fleet Services

The Company operates a fleet leasing business which involves the leasing of HMC, KMC and imported vehicles for corporate customers as a total solution package. The Company oversees management of the vehicles for fleet leasing customers, including maintenance, payment of fines, arrangement of automobile insurance, and other ancillary responsibilities associated with ownership of vehicles. Fleet leasing customers can access approximately 2,200 maintenance facilities of HMC and KMC that are located throughout Korea to service their fleet vehicles. In 2017, 2018, 2019 and the nine months ended 30 September 2019, sales in the Company's fleet leasing business was ₩438.3 billion, ₩590.2 billion, ₩462.2 billion and ₩441.0 billion, respectively.

Personal Loans

Unsecured Personal Loans

The Company offers unsecured and unguaranteed personal loans to individuals and small business owners. The Company targets mainly near-prime customers. As of 31 December 2017, 2018, 2019 and 30 September 2020, total outstanding personal loans (other than mortgage loans) were ₩2,407.4 billion, ₩2,736.0 billion, ₩2,780.7 billion and ₩2,895.1 billion, respectively, representing 9.8%, 10.1%, 9.4% and 9.6% of the Company's total financial receivables balance as of the respective dates.

The Company offers different terms to its personal loan customers depending on the customer's credit profile. As of 31 December 2017, 2018, 2019 and 30 September 2020, the average annual percentage rate ("**APR**") for the Company's entire personal loan portfolio was 17.7%, 15.9%, 15.1% and 14.3%, respectively.

Mortgage Loans

The Company offers mortgage loans to individuals and small business owners. As of 31 December 2017, 2018 and 2019 and 30 September 2020, the outstanding balance of the Company's mortgage loans amounted to ₩3,045.6 billion, ₩3,739.7 billion, ₩3,872.9 billion and ₩3,519.6 billion, respectively, representing 12.4%, 13.8%, 13.1% and 11.6% of the Company's total outstanding financial receivables balance as of the respective dates.

The Company primarily targets the prime segment of the domestic residential market, mainly individuals and small business owners who are residents of apartment complexes in major cities in Korea. The Company provides mortgage loans with LTV ratios, in the case of individual borrowers, up to 70% pursuant to regulatory guidelines and consistent with market practice for other financial service providers, and in the case of corporate borrowers for which there is no specific regulatory guideline, up to 85%, and with floating interest rates calculated as a spread over the interest rate on the average yield of three month debentures issued by Korean financial institutions rated AA0 by domestic rating agencies. Mortgage loans have varying repayment periods ranging from 60 to 396 months with interest rates ranging from 3.0% to 13.6% per annum.

The Company also offers key-money loans, which allow individuals to make a lump-sum deposit on rental property, instead of paying monthly rent, with such deposit amounts ranging between 50% to 80% of the market value. At the end of the contract, which typically runs for two years, the landlord returns the amount in its entirety to the renter of such property unless the renter has defaulted on the key money loans with the Company, in which case the Company has a priority right over the renter to receive such money. As of 31 December 2017, 2018 and 2019 and 30 September 2020, the balance of the Company's key-money loans amounted to ₩31.0 billion, ₩7.6 billion, ₩37.3 billion and ₩43.0 billion, respectively. The Company charges interest on key-money loans at a rate between the range of 2.4% to 10.5%. Typically, the Company imposes a limit to its key-money loans of up to 80% of the actual amount of the key-money deposit. Key-money loans are only available in residential properties that have Korea Appraisal Board prices and if the borrower resides at the property as a tenant.

Sales and Marketing

Sales Network

Automotive Financing and Automotive Lease

The Company sells its automotive financing products (including installment financing and loan products) for the purchase of new HMC and KMC vehicles, as a well as its leasing products, through HMC's and KMC's extensive dealer networks. Automotive financing products sold to purchasers of new vehicles of other manufacturers are marketed through the dealers of such other manufacturers located throughout Korea. The underwriting process for the Company's automotive financing business begins with the origination of loan applications for the financing of purchases of new HMC and KMC vehicles. HMC's and KMC's sales representatives or car masters ("**CMs**") originate loan applications from their prospective customers and also obtain supporting loan documentation. As of 30 September 2020, HMC's sales network in Korea consists of 409 HMC sales offices and 377 independent dealerships. KMC's sales network in Korea consists of 315 KMC sales offices and 378 independent dealerships. The sales representatives or CMs, who are either employees of HMC or KMC or independent contractors of HMC and KMC acting as their exclusive agents, perform an initial credit screening in accordance with the procedures and criteria established by the Company.

As of 30 September 2020, the Company had a sales network consisting of 42 automobile financing or leasing branches and 8 regional offices strategically located throughout Korea, whose sales and marketing efforts are supported by 8 support teams. The Company's sales network is designed to work closely with the automobile dealers. The branches principally cover dealers that are directly owned and operated by HMC and KMC, while the sales teams principally cover dealers that are owned by individuals. The Company's sales force consists of those known as "relationship managers"("**RMs**") who market automotive financing products for the purchase of new vehicles, those known as "auto planners"("**APs**") who market automotive leasing products and those known as "fleet planners"("**FPs**") who market fleet leasing products. The RMs are generally regular employees of the Company while the APs and FPs are agents that work under exclusive agency agreements with the Company.

The local branch representatives of the Company visit HMC and KMC sales representatives daily to collect loan applications and to provide updates on new products, daily interest rate quotes, and any changes to underwriting procedures.

As of 30 September 2020, the Company also had an online network consisting of 5 branches. The Company's online sales network is designed to directly offer financing to new customers without going through CMs in the middle. The customers are introduced by those known as "general agency" ("**GA**") who specializes in sales or lease through home shopping, ARS, internet website or mobile application channels. After customers submit request for consultation via home shopping channel, ARS, internet website or mobile application, those known as "consultants" ("**CTs**") perform the consulting via phone. Some APs belong to the Company's online sales network and perform the consulting as well.

For sales of used vehicles, the Company relies on dealers affiliated with approximately 100 third-party agencies nationwide with whom the Company has an on-going business relationship. The Company has a "loyalty focusing strategy" designed to encourage these agencies to recommend to their customers the Company's used car financing products as opposed to the products offered by the Company's competitors. The dealers and sales agents receive a combination of commissions and other incentives for their services.

Mortgage Loans and Personal Loans

The Company markets mortgage loans to walk-in customers to its mortgage loan branches and cross-sales customers. As with personal loans, cross-sales customers are targeted through brochures, telemarketing and other direct sales efforts based on the perceived needs of existing customers. As of 30 September 2020, the Company had a sales network of 8 mortgage loan branches nationwide. In addition, the Company also employs 226 individual loan planners to market products related to mortgage loans.

The Company's personal loan customers are generally either walk-in customers or cross-sales customers. Walk-in customers are new customers who approach the Company through its various distribution channels. Cross-sales customers are existing customers that the Company has specifically targeted based on the perceived needs of such customer.

The Company selects cross-sales customers by screening its existing customers based on transaction records and credit history. The Company then provides the targeted customers with application materials.

The Company provides mobile automatic response system (ARS) customer service for its walk-in customers and telemarketer service for cross-sales customers, respectively.

Cross-Selling

The Company focuses on effectively and strategically expanding cross-selling opportunities to its loyal customers, including in the automotive financing and leasing segments. The sale of personal loan products through cross-selling has shown strong growth in recent years, having nearly doubled in the past three years. In 2017, 2018, 2019 and the nine months ended 30 September 2020, 66.6%, 64.4%, 65.2% and 69.3% of the Company's personal loan customers were sourced from its existing automotive customer base, respectively. The Company also seeks to continuously enlarge the base of quality customers by operating a membership system, which will be available to both its existing and new customers, to offer various personal loan and other financial services.

Risk Management

Credit Risk Management

The Company's credit risk management process is mainly comprised of an initial credit scoring system to review the credit profile of the applicant and an on-going credit review system for existing customers. The Company believes that its credit risk management system ("**CRMS**") is among the most sophisticated and advanced systems in the Korean consumer finance industry. The Company has also adopted a "**Champion & Challenger**" strategy as part of its CRMS. The Champion & Challenger strategy operates by applying a new strategy ("**Challenger**") under the same condition as the existing strategy ("**Champion**") for a specific period and monitoring the performance of the new strategy. If the performance of the Challenger is better than that of the existing strategy, the new strategy replaces it, becoming the new Champion. The objective is to continually optimize business strategies and minimize business risks.

The overall responsibility of the Company's credit risk management rests with its Risk Management Committee, which was established by the Board of Directors of the Company in November 2015 as a result of amendments to the Enforcement Decree of the SCFBA on 30 March 2015, pursuant to which the Company was required to adopt certain amendments to its Articles of Incorporation and establish additional committees. Since 1 August 2016, the Company is required to establish and maintain a Risk Management committee under the Act on Governance Structure of Financial Institutions.

The Risk Management Committee meets regularly and reports directly to the board of directors of the Company. As of the date of this Offering Circular, the Risk Management Committee consists of three members. The Chairman of the Risk Management Committee is appointed by HMC.

The Company performs loss simulations to predict the expected bad debt expenses for each product as well as the Company's overall assets. Such loss simulation enables the Company to make annual and long-term business plans based on profitability projections that factor in various bad debt expense scenarios.

With respect to any new loans or receivables, the Company implements a "Risk Appetite" framework in order to manage appropriate levels of risk-adjusted returns for such assets. Under this framework, the Company sets minimum profitability targets for each product and product segment and monitors whether such product or product segment actually meets such targets.

The Company also implements stress test methodology and has created stress test models for each of the Company's products. Stress tests are conducted on a semi-annual basis. By performing extensive simulations under the stress test methodology using a variety of assumptions relating to major macro-economic indicators such as unemployment rate, interest rate and consumer price index, the Company tests the resilience and financial health of its assets under negative market conditions and other scenarios.

Credit Approval

Automotive Financing and Automotive Leasing

The Company has established standardized underwriting procedures and credit guidelines in accordance with a master agreement between the Company and each of HMC and KMC. The Company's credit approval process is substantially the same for all of the vehicles it finances or for which it extends lease financing. There are three independent departments that take part in the Company's credit approval process — CMs, the credit department of the Company's sales branches and the Company's underwriting team.

The initial credit check is performed by the CMs who collect loan applications and required supporting documentation. Following the initial credit check, the loan application undergoes a thorough, standardized credit assessment process with the credit department of the Company.

Once the credit department receives the documentation, it screens the applicant and sets a credit limit. The Company's initial screening process is strict and an application typically undergoes two stages of screening before an approval can be granted. The Company's credit assessment procedures are managed according to a Rule Based Management System ("**RBMS**") which generates a score code for each application, assigns a credit limit for the loan and determines any required level of credit enhancement and any other relevant factors. If the approved credit limit is less than the value of the vehicle, the Company requires credit enhancement in the form of a third party guarantee, mortgage on the vehicle or, in rare cases, a mortgage over real property covering the difference between the value of the vehicle and the approved credit limit. In accordance with the RBMS, the credit department reviews the applicant's current and past credit relationships with the Company as well as with other creditors and verifies the information such as the applicant's employment status and income. The Company also obtains centralized credit information on borrowers from the Korea Federation of Banks, National Information & Credit Evaluation, Inc. and Korea Credit Bureau. If the loan application is incomplete or inaccurate, the credit department will return the loan application to the HMC or KMC sales representative to obtain more information to substantiate the applicant's ability to repay or net worth, such as employment or business records or, if the applicant is unemployed, property records. In the event that these requests are not met, the application is rejected. Ultimately, the application will be (i) approved and a credit limit will be set; (ii) rejected; (iii) reconsidered after additional or supplemental documentation is provided to the Company; or (iv) determined to be eligible for exceptional approval whereby the Company's underwriting team has discretion to approve borderline credits in accordance with established policies and procedures.

After receiving the formal approval from the Company's credit department, the loan information, including the requested loan principal amount and the Company's branch code, is transferred to the Company's accounting department and the sales finance department at HMC or KMC. The Company's accounting department sends a copy of the formal approval and notice of the total loan principal amount to the Company's internal finance department. On the day following the approval, the Company's internal finance department transfers the principal amount of the loan to the sales finance department at HMC or KMC. The amount is verified with the loan information received earlier. Upon verification, the funds are transferred to the HMC or KMC dealership.

The Company has a systematic approach to managing the three independent departments in the credit approval process. For CMs, the Company focuses on detecting any fraudulent activities and divides the CMs into three groups based on their fraud-related score. For sales branches, the Company grants branch heads a small degree of discretion for credit approval based on the prior month's performance of credit originated from the relevant branch. For the Company's underwriting team, exceptional approval authority is apportioned based upon consideration of the customer's credit score, guarantor, and down payment rate.

The Company has also introduced a Pre-Approval Process, which is a fast-track, streamlined process for the existing customers. Under the Pre-Approval Process, the Company's loan approval process does not require the existing customers to submit additional documents or to undergo new credit check but rather relies on the pre-approved loan limit that is based on the existing credit information of the customer. The Company gathers and updates such credit information of the existing customers regularly on a monthly basis.

Personal Loans

The Company's credit assessment process for personal loans differs for walk-in customers and cross-sales customers. With respect to walk-in customers, if a customer submits the application materials at a branch through the internet or by telephone, the application is reviewed by such branch, telemarketer, or initial credit assessment system, and the customer's credit is assessed based on external and internal credit information available with respect to such customer. Applications that meet the necessary credit criteria at this stage are referred to the underwriting center for final approval. Credit limits are determined with reference to the customer's capacity to repay the loan, including the customer's Debt to Income Ratio, and the interest rate is based on a risk based pricing model.

For cross-sales customers, the credit assessment process consists of two stages. First, the marketing channel assesses the customer's credit based on external credit information and any information available internally. Applications that pass this initial screening are sent to the Company's underwriting center for more detailed analysis. Credit assessment criteria for cross-sales customers include annual salary, length of employment and credit history. The Company also relies on information from credit bureaus. To supplement the information available from existing credit bureaus, the Company, together with certain Korean banks and credit card companies, established a private credit bureau to facilitate the sharing of credit information in January 2006. The loan limit is based upon the customer's debt to income ratio and the interest rate is determined through a risk based pricing model.

Credit assessments for mortgage loans are substantially the same as those for personal loans except that the credit limit is based on the value of the real property being purchased as well as the debt to income ratio of the customer. The Company also confirms the title of the real property being purchased with the mortgage proceeds through First American Title Insurance Company and The-K NON-Life Insurance., Ltd. Mortgage loans are secured by the value of the real property being purchased with the proceeds of the loan. The value of collateral is determined by the Korea Appraisal Board and Kookmin Bank. The Company is insured under residual value insurance for mortgage loans with LTV ratio of higher than 70%. For such loans, if the Company suffers a loss due to a decline in the value of collateral, the Company is compensated for its loss by residual value insurance up to 30% of the loan amount.

On-Going Credit Review

Once an application for a loan or financing has been approved and a loan or financing has been extended, the credit profile of such customer will be monitored and reviewed by the Company on an on-going basis. For these purposes, the Company uses the Behavior Scorecard System ("**BSS**") to review the credit profile of the customer. The BSS system is specifically designed to evaluate and manage information about each customer's credit quality. The system reviews the length of time a particular customer has been a customer as well as the employment history of the customer and seeks to detect any negative credit data, such as payment and delinquency information both from internal and external sources such as credit bureaus. Credit scoring under the BSS system is fully automated and reported to the Chief Risk Officer on a quarterly basis.

Portfolio Quality Review

In addition to the on-going credit review of individual customers, the Company conducts a portfolio quality review ("**PQR**") on a bimonthly basis to help monitor main indices such as the approval rate, exceptional approval rate, delinquency ratio and the average initial credit line by product line. In the event any index exceeds the trigger point, the Company implements appropriate actions and also reviews its underwriting strategies.

Fraud Management and Control

The Company's fraud loss prevention programme consists of an internally developed system known as "de-dup" and fraud RBMS (standing for "rule-based management system"). The Company conducts an anti-fraud function which is dedicated to preventing, detecting and investigating fraud in order to reduce fraud losses.

Collections in Respect of Delinquent Assets

The Company handles collection of its automotive financings, automotive leases and personal loans through its Collection Management Department and Collection Support Department which manages local collection centers in 24 different regions in Korea including regional offices and streamlines the Company's collection strategies. In addition, collection process is centrally managed from the early stages at the Company's call team which utilizes various statistical programmes and an automated dialing system. The call teams are staffed by approximately 113 permanent and contract employees.

The Company has an agreement with Hyundai Card under which the Company purchases delinquent and written-off receivables from Hyundai Card. Under this arrangement, the Company is obligated to purchase all of Hyundai Card's 60-day overdue and wholly written-off receivables on five fixed dates of each month at the market value of such receivables as determined by an independent valuation firm. In 2017, 2018, 2019 and the nine months ended 30 September 2020, the Company purchased in the aggregate ₩372.8 billion, ₩405.7 billion, ₩349.2 billion and ₩145.7 billion, respectively, of such receivables for which it paid ₩159.2 billion, ₩159.0 billion, ₩119.7 billion and ₩48.2 billion, respectively. However, the sale of receivables that arose during the period from February 2020 to December 2020 is currently put on hold until June 2021 as the Financial Services Commission of Korea has issued a recommendation to refrain from selling off unsecured delinquent individual receivables as a relief measure for individuals impacted by COVID-19. The Company also has an agreement with Hyundai Commercial pursuant to which the Company is obligated to purchase all future delinquent and written-off receivables from Hyundai Commercial. Under this agreement, the Company purchases 60-day overdue and written off receivables on one or two fixed dates of each month at the market value of such receivables as determined by an independent valuation firm. Although the Financial Services Commission of Korea has issued a recommendation to refrain from selling off delinquent individual receivables, the impact of such recommendation on the arrangement with Hyundai Commercial is expected to be minimal since such recommendation is applicable to unsecured products only while the majority of delinquent receivables held by Hyundai Commercial are secured products. The aggregate value of delinquent and written-off receivables purchased from Hyundai Commercial was ₩44.8 billion, ₩87.7 billion, ₩174.2 billion and ₩50.2 billion in 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively, of such receivables for which it paid ₩19.0 billion, ₩33.0 billion, ₩95.4 billion and ₩27.6 billion, respectively. The Company also has a similar agreement with Fubon Hyundai Life Insurance. The aggregate value of delinquent and written-off receivables purchased from Fubon Hyundai Life Insurance was ₩37.9 billion, ₩37.5 billion, ₩14.2 billion and ₩4.5 billion in 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively, of such receivables for which it paid ₩13.0 billion, ₩14.6 billion, ₩5.2 billion and ₩2.0 billion, respectively. In 2018, Fubon Hyundai Life Insurance Co., Ltd. was excluded from the affiliated parties of HMG upon a change in the largest shareholder of the company and others. See "*Certain Relationships and Related Party Transactions — Relationship with Hyundai Card*" and "*— Relationship with Hyundai Commercial*". Since the Company needs to have a collection system for its own delinquent receivables, having entered into agreements to provide collection services for Hyundai Card, Hyundai Commercial and Fubon Hyundai Life Insurance provides greater economy of scale and efficiency for the Company's overall collection processes. See "*Risk Factors — Risks Relating to the Company — The Company is obligated to purchase delinquent and written-off receivables from three members of the Hyundai Motor Group under a contractual arrangement and, in an economic downturn, the amount of such receivables may increase significantly and the Company may experience difficulties collecting on such receivables*," "*Certain Relationships and Related Party Transactions — Relationship with Hyundai Card and — Relationship with Hyundai Commercial*".

The Company operates a Collection Efficiency Support system by Score ("**CESS**"), through which the Company generates collections scores and ratings of receivables based on information from credit bureaus and the Company's own Application Scoring System and Behavior Scoring System. The Company also considers value-at-risk ("**VaR**") for purposes of the CESS analysis, which enables the Company to expand its focus in collection efforts from a simple collection rate to also cover the final collection amount. The scoring and ratings provided by CESS and VaR serve as the basis for the Company's basic collection functions such as allocation of receivables to designated collection teams, determination of incentives and evaluation of collection rates, which make the collection process more efficient.

The collection team at the Company's headquarters oversees all unresolved delinquencies. The Company's collection teams are assigned to specific delinquent assets and attempt to contact the delinquent obligor by telephone, text message or by telegram based on the length of delinquency and the history of the account. The Company also uses an early warning system of phone calls from the call center reminding customers of approaching due dates for payment. The Company also utilizes text messaging on mobile telephones to remind customers of impending due dates. The collection process for the receivables purchased from Hyundai Card is the same as the collection process for the Company's own delinquent assets. The Company has established dedicated teams to make collections with respect to the acquired Hyundai Card receivables.

Receivables which are past due are scored by the CESS based on collectability. Call teams are responsible for collecting receivables with higher scores while local collection branches are responsible for loans with lower scores. Receivables that are written-off are further graded into different categories to be handled by local collection branches separately.

When a customer misses his/her payment due date, call teams contact the customers to arrange for payment or a promise of payment within a scheduled time period. Once the contact with the customer has been made, the system continues to track the delinquency. If payment is not received by the promised date, the customer is called again until the payment is received or the account becomes more than two months past due.

Once a receivable becomes delinquent for 45 days or more, the local collection branches become involved in the process, with separate teams assigned for automotive financing and leasing and personal loans. Depending on the CESS gradation, collectors contact customers by phone, make personal visits, investigate the borrower's overall asset status, initiate legal actions and/or request credit enhancement such as a third party personal guarantee. When receivables are past due by 90 days or more, collectors typically file a lawsuit, following which it usually takes approximately three months to obtain a final court order.

The Company also manages delinquent assets through re-aged loans and credit relief support loans.

Re-aged Loans and Credit Relief Support Loans

The re-aged loans are refinancing loans provided by the Company for delinquent loans under which a delinquent loan is replaced with a new loan with amended terms.

Credit relief support loans are made by the Company as a way of restructuring a delinquent loan upon request from the Credit Counselling and Recovery Service (the "**CCRS**"), together with confirmation from the CCRS that the delinquent customer has the ability to repay the loan. The CCRS is a non-profit organization founded by an association of financial institutions in Korea to advise and support credit rescheduling through workout programmes for individuals. Unlike re-aged loans discussed above, where the Company has discretion in selecting customers for restructuring, credit relief support loans are generally required to be made upon request from the CCRS, generally on terms as recommended by the CCRS, including in respect of interest rate and maturity. However, once a customer remains delinquent for 90 days or more, the Company may set its own terms for restructuring. In addition, a credit relief support loan granted to an individual by a financial institution, including a credit company, will be deemed to be immediately delinquent if another credit relief support loan granted to such individual becomes delinquent.

As of 31 December 2017, 2018, 2019 and 30 September 2020, the total outstanding balance of the Company's re-aged loans and credit relief support loans (including pre-workout loans) was ₩80.5 billion, ₩107.7 billion, ₩95.7 billion and ₩89.1 billion, respectively.

Write-off Policy

The Company assesses credit risk before extending financing or loans, and monitors outstanding financing receivables, in order to determine loans that must be written off. Based on a write-off policy that is more conservative than the guidelines of the FSS, the Company writes off payments in arrears in respect of automotive financings and leases that have been overdue for more than seven months and payments in arrears in respect of personal loans that have been overdue for more than seven months. Receivables of an amount exceeding ₩10 million require FSS approval prior to a write-off.

Allowances for Loan Losses

The Company maintains its allowances for doubtful accounts at an amount estimated to be sufficient to absorb probable losses, net of recoveries, inherent in the Company's total portfolio of assets. These allowances are based on the Company's classification of the assets in its portfolio as of the balance sheet date, based on the asset classification criteria set by the Company which is within the guidelines set by the FSC. If additions to the allowances are made on the balance sheet, the Company records provision for loss as the periodic cost of maintaining an adequate allowance which is charged to the Company's income statement. Credit exposures that become uncollectible are charged directly against the allowances.

The Company estimates the rate of loss for assets under the "expected loss (EL)" method in accordance with its credit risk management system. The Company was the first in the industry to adopt this accounting policy of estimating expected loss by factoring in the probability of default, loss given default and exposure at default.

The following is a summary of the asset classification criteria under the guidelines of the FSC and related minimum reserve ratios under FSC guidelines that the Company must apply in the classification of its financing receivables.

Classification	Description	FSC Minimum Reserve Ratio
Normal	Credits that do not raise concerns regarding the customers' ability to repay on the obligation.	1.0% for installment financing assets relating to individuals and retail household loans and 0.5% in all other cases.

Classification	Description	FSC Minimum Reserve Ratio
Precautionary	Credits extended to customers that, in consideration of such customers' financial transaction conditions, credit conditions and business and operations, are to be managed with normal or extra caution (e.g., credits to customers, which, despite the repayment thereof being in arrears for one month or more, but less than three months, do not raise any concern regarding such credits' collectability).	10.0 % for installment financing assets relating to individuals and retail household loans and 1.0% in all other cases.
Sub-standard	Expected collectible portion of credits extended to customers that are subject to aggressive collection measures or management because such customers' financial transaction conditions, credit conditions and business and operations are poor (e.g., expected collectible portion of (i) credits in arrears for three months or more or (ii) credits extended to customers that are in the process of corporate reorganization or composition).	20.0%
Doubtful	Expected but not fixed amounts in excess of collectible portion of credits classified as sub-standard	75.0%
Estimated Loss	Fixed amounts in excess of expected collectible portion of credits classified as sub-standard	100.0%

Regulation and Supervision

Legal and Regulatory Framework

The Company is registered with the FSC under the SCFBA. The SCFBA, which took effect on 1 January 1998, was enacted in order to uniformly regulate various non-bank banking businesses, i.e., those companies that provide various forms of financing but did not take any deposits. Up until the enactment of the SCFBA, such entities were regulated under separate laws such as the Credit Card Business Law, the Equipment Lease Business Law, the Installment Financing Business Law or the New Technology Financing Business Law.

An entity that is registered with or licensed by the FSC under the SCFBA (a "**CSF Company**") may conduct credit card, installment financing, equipment leasing or new technology financing businesses (collectively, "**CSF Businesses**") and other businesses as specified in the SCFBA and the Implementing Decree thereunder including acquisition, management and collection of sales/service receivables from the companies that originated such receivables, lending (including discounting of promissory notes) and other specified ancillary businesses.

A CSF Company is subject to the regulations and supervision of the FSC and the FSS. The FSS may periodically examine the business and finance of a CSF Company and any CSF Company that is determined to be conducting unsafe and unsound business in violation of the SCFBA and regulations thereunder may be subjected to various administrative sanctions by the FSC.

Principal Regulations Applicable to a CSF Company

Capital Adequacy and Liquidity

Regulations issued by the FSC under the SCFBA provide for several financial ratios that a CSF Company must comply with. Such financial ratios include the following:

- the ratio of adjusted capital to adjusted total asset must be at least 7% (8% for credit card companies);
- the ratio of Korean Won current assets to Korean Won current liabilities must be at least 100%; and
- for credit card companies, the ratio of receivables delinquent more than one month must be less than 10%.

A CSF Company that fails, or, in the determination of the FSS, is likely to fail, to maintain any of the above ratios will be subjected to the FSS' orders to submit and implement a plan for improvement of its finances.

Limitations on Funding

A CSF Company may obtain funding only in certain specified methods which include the following:

- borrowings from financial institutions;
- issuances of bonds or promissory notes;
- sales of securities owned by the company;
- sales of receivables;
- foreign currency borrowings or issuances of foreign currency securities as a foreign exchange business company registered with the Ministry of Economy and Finance under the Foreign Exchange Transaction Law of Korea; and
- issuances of securities backed by receivables owned by the CSF Company.

A CSF Company may not issue bonds or promissory notes to an individual. It may publicly offer bonds or promissory notes only through the underwriting by a licensed securities company in the case of bonds or through the underwriting, discount purchase or brokerage by either a licensed securities company or a merchant bank in the case of promissory notes.

Limitations on Acquisition of Real Property

A CSF Company is generally prohibited from acquiring real property except for its own business operations. Exceptions include cases where the real property is the subject matter of its leasing business or installment financing business or the real property is acquired as a result of a foreclosure on collateral. Even in instances when a CSF Company acquires real property for its own business operations, the aggregate amount of such real property shall not be more than 100% of its capital.

Limitations on Lending

As of each quarter end, the aggregate average balance of a CSF Company's loans should not exceed 30% of the total assets of the CSF Company (excluding loans from its credit card business and incidental business), **provided that** loans should not include any lending to a business enterprise, any receivables that arise as a result of the refinancing of restructured credit with changed terms such as maturity or interest rate, loans secured by mortgage as defined under the Korea Housing Finance Corporation Law, receivables that arise under the financing provided to a credit card member, receivables that arise under vehicle purchase financing loans in a manner similar to those under installment financing or any claims corresponding to 20/100 of the claims arising from loans that meet the criteria as set forth in the Regulation on Supervision of Specialized Credit Financial Business, such as interest rates, of personal credit loans mainly for the debtors whose personal credit scores are not higher than the prescribed grade as of the date of application for loans. If the average balance of a CSF Company exceeds 30% due to a decrease in its total assets (and not due to an increase in the amount of its receivables), the CSF Company is required to reduce the balance of the loans below 30% within one year from the date of such violation.

Limitations on Extension of Credit to the Major Shareholder

The aggregate amount of credit that a CSF Company may extend to major shareholder (as defined under the SCFBA, the "**Major Shareholder**") or related persons (including, but not limited to affiliates) thereof cannot exceed 50% of the CSF Company's capital. According to the Act on Governance Structure of Financial Institutions (which has been effective from 1 August 2016), the Major Shareholder includes: (i) the largest shareholder; (ii) a shareholder holding in aggregate 10% or more of the CSF Company's total issued voting shares; and (iii) a shareholder who can exercise de facto control over the major business affairs of the CSF Company through, among others, appointment and dismissal of the officers.

Limitations on Mortgage Lending

Due to a rapid increase in the number of loans secured by homes and other forms of housing, the FSC adopted an amendment to the Regulation on Supervision of Specialized Credit Financial Business, effective as of 31 January 2018. On 25 October 2018, the FSC further amended the Regulation on Supervision of Specialized Credit Financial Business. The amendment was part of reflecting the Government's measures announced in September 2018, which aim to stabilize real estate market by blocking the speculative demand of homeowners who own multiple houses while protecting those people who are actually in need of residence. The amended regulation tightened the level of maximum LTV ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) and DTI ratio (calculated as (i) the aggregate annual payment amount of (a) the principal of and interest on loans secured by apartment(s) and (b) the interest on other debts of the borrower over (ii) the borrower's annual income) applicable for the mortgage loans. In particular, the amendment tightened the LTV and the DTI ratios for certain districts which are considered to be under excessive speculation (*Tugi-jiyeok, Tugi-gwayeol-jigu, and Jojungdaesang-jiyeok, altogether 'Kyuje-jiyeok(regulated area)'*), and heightened the conditions to get granted additional household mortgage loan for borrowers who are already homeowners. Under the amended regulation, detailed household mortgage regulations are imposed such as: (i) multiple home owners are banned from taking out mortgages when purchasing new homes in the regulated area, (ii) loans to single home owners in the regulated area are only allowed in exceptional circumstances such as job-relocation or to borrowers who promise to dispose their old houses in two years, and (iii) mortgages are only allowed for houses worth more than KRW 900 million when intended for residential purpose. In December 2020, the FSC amended the Regulation on Supervision of Specialized Credit Financial Business, following a series of Government's ongoing real estate policy from 2019 that aims to steady the real estate market. The amended regulation sets more tightened LTV ratio for houses over KRW 900 million and prohibits mortgage loans with apartments over KRW 1,500 million in *Tugi-jiyeok and Tugi-gwayeol-jigu.* Under the amended regulation, when a CSF Company makes a new loan to those who already took out mortgage loan regarding high graded houses (as defined below), the borrower's DSR (Debt-Service-Ratio, ratio of a certain household borrower's total debt repayment (i.e. principal and interest payments) to the borrower's annual income) would be calculated as follows:

Area	Areas considered to be under excessive speculation (*Tugi-jiyeok* and *Tugi-gwayeol-jigu*)	Area subject to adjustments (*Jojung-daesang-jiyeok*)	Others
DSR	60%	N/A	N/A

The following table is a summary of the LTV and DTI ratios according to the Regulation on Supervision of Specialized Credit Financial Business, subject to certain exceptions:

Category	Classifications of households		Areas considered to be under excessive speculation (*Tugi-jiyeok and Tugi-gwayeol-jigu*)		Area subject to adjustments (*Jojung-daesang-jiyeok*)		Capital area except *Tugi-jiyeok, Tugi-gwayeol-jigu and Jojung-daesang-jiyeok*		Others	
			LTV	DTI	LTV	DTI	LTV	DTI	LTV	DTI
When not buying high graded houses[1]	Actual demander[3]		50%	50%	60%	60%	70%	60%	70%	N/A
	Household who does not have existing houses (base line)[4]		40%	40%	50%	50%	70%	60%	70%	N/A
	Household who has one existing house	As per rules	0%	—	0%	—	60%	50%	60%	N/A
		Exceptions[5]	40%	40%	50%	50%	60%	50%	60%	N/A
	Household who has two or more existing houses		0%	—	0%	—	60%	50%	60%	N/A

Category	Classifications of households			Areas considered to be under excessive speculation (*Tugi-jiyeok and Tugi-gwayeol-jigu*)		Area subject to adjustments (*Jojung-daesang-jiyeok*)		Capital area except *Tugi-jiyeok, Tugi-gwayeol-jigu and Jojung-daesang-jiyeok*		Others	
				LTV	DTI	LTV	DTI	LTV	DTI	LTV	DTI
When buying high graded houses	Household who does not have existing houses	As per rules		0%	—	0%	—				
		Exceptions(4)	For the price under KRW 900 million	40%	40%	50%	50%	The same as above			
			For the price over KRW 900 million	20%	40%	30%	50%				
	Household who has one existing house	As per rules		0%	—	0%	—				
		Exceptions(5)	For the price under KRW 900 million	40%	40%	50%	50%				
			For the price over KRW 900 million	20%	40%	30%	50%				
	Household who has two or more existing houses			0%	—	0%	—				
When buying Extra-high graded apartments(2)				0%	—	The same as above					

(1) High graded houses are defined as the houses whose price is more than KRW 900 in millions.
(2) Extra-high graded apartments are defined as the apartments whose price is more than KRW 1,500 in millions.
(3) Actual demander means anyone who meets all of the following conditions: (i) a head of household who does not own a home, (ii) a purchaser of a home priced KRW 600 million or less in areas considered to be under excessive speculation or KRW 500 million or less in areas subject to adjustments and (iii) a person whose annual income, combined with the annual income of such person's spouse, is not more than KRW 80 million (in the case of first-time homeowners, KRW 90 million).
(4) The household shall move into the new house within the following period:

Date of Contract	Period
Before 2020. 6. 30.	N/A
After 2020. 7. 1.	6 months (move into the new house)

(5) Exceptions are applied when the households dispose of the existing house within the following period:

Areas	Date of Contract	Period
Areas considered to be under excessive speculation (*Tugi-jiyeok and Tugi-gwayeol-jigu*)	Before 2019. 12. 22.	2 years (disposal)
	2019. 12. 13 ~ 2020. 6. 30.	1 year (disposal and move into the new house)
	After 2020. 7. 1.	6 months (disposal and move into the new house)
Area subject to adjustments (*Jojung-daesang-jiyeok*)	Before 2020. 3. 1.	2 years (disposal)
	2020. 3. 2. ~ 2020. 6. 30.	2 years (disposal and move into the new house)
	After 2020. 7. 1.	6 months (disposal and move into the new house)

Credit Relief Support

The Company, together with other Korean consumer finance lenders, is subject to the Act on Supporting the Financial Life of the Low Income Households (the "**ASFLLIH**") and the Korean financial industry's Agreement among Financial Institutions for Assisting the Credit Relief Support Plan (the "**Individual Work-out Plan Agreement**") to assist qualifying individuals who are in financial difficulty to avoid personal bankruptcy. The Individual Work-out Plan Agreement applies to small business owners and to individuals who have a bad credit history, who owe ₩1.5 billion or less of total debt (which consist of (i) the secured debt of ₩1 billion or less and (ii) the unsecured debt of ₩500 million or less) to financial institutions and (i) whose income exceeds a specified minimum or (ii) who are determined by the Review Committee (as defined below) to be able to repay their debts.

Under the ASFLLIH Individual Work-out Plan Agreement, qualifying individuals may apply for protection under the scheme to the Credit Counselling and Relief Service. On receipt of such an application, the Credit Counselling and Relief Service notifies each of the debtor's creditor financial institutions and requests them to certify the amount owed to them and their opinion on the application. From the time that the financial institutions receive such a notice, they are subject to a moratorium on their ability, among other things, to enforce any security that they hold in respect of the relevant debt. Furthermore, from the time of receipt of such notice, the creditor financial institutions must reject any voluntary repayment by the debtor.

The application is then considered by a review committee (the "**Review Committee**") established under the Individual Work-out Plan Agreement. The Review Committee may recommend a plan (an "**Individual Work-out Plan**") for the rehabilitation of the debtor, including extending the repayment period (i) up to eight years in the case of the debtor's outstanding unsecured debt, (ii) up to twenty years in the case of the debtor's outstanding secured debt and (iii) up to the remaining repayment period in the case such period exceeds twenty years. An Individual Work-out Plan may also include postponing of payments for an additional period of up to three years, adjusting interest rates, establishing an installment plan for a period not exceeding the repayment period and writing-off the principal amountand/or interest of the outstanding debt. The final Individual Work-out Plan of the Review Committee is put to a vote of the relevant debtor and, to be adopted, must be approved by creditor financial institutions representing more than 50% of the debtor's outstanding unsecured debt and 50% of the debtor's outstanding secured debt. If the first Individual Work-out Plan is rejected, the Review Committee may submit a revised Individual Work-out Plan to the creditor financial institutions, which must be approved by the same majorities.

If the Individual Work-out Plan is adopted, the creditor financial institutions are bound by its terms. Any creditor financial institution that violates the Individual Work-out Plan, for example by seeking to enforce its security, could be fined by the Credit Counselling and Relief Service an amount up to ₩2 million.

Information Technology

The Company's information technology ("**IT**") system is comprised of three main systems: the transaction system, the information system and the channel system. The Company uses these systems for assessment of customer credit, application processing, account management, loan disbursements and payments, customer retention and other related functions. These systems allow customer service representatives to access specific account information when responding to customer inquiries. All customer data and servers are subject to protection from security breaches through extensive security systems and firewall software. The Company maintains its data at a remote backup center in Eui-Wang, as well as at its main computer center in Paju. In addition, the Company has a disaster recovery system that can restore the Company's data within two hours of a failure of the main system The Company established a dual network system in case one network fails.

The Company continually upgrades its security systems for handling personal and other sensitive data relating to its customers. In June 2016, the Company completed upgrades of its security systems in marketing and all other areas of the Company's operations to will manage customer-related information on a segregated basis from other operating data. Such upgrade is intended to eradicate the risk of leakage of confidential customer information.

Competition

Automotive Financing

The Company believes it is the market leader in the domestic automotive financing sector. However, competition in the automotive financing industry has increased substantially in recent years as existing consumer finance companies, credit card companies and other financial institutions have made significant investments and engaged in aggressive marketing campaigns and promotions.

Principal factors of competition include interest rates and fees, credit limits and other services and benefits, as well as commissions paid to sales agents. The Company's main competitors are Shinhan Card, Samsung Card, KB Kookmin Card, KB Capital and RCI Financial Services Korea, and more recently, commercial banks, including Shinhan Bank and Woori Bank, which tend to have lower funding costs than the Company does. Many of these entities, in order to capture a larger portion of the automotive financing market, offer aggressive incentive schemes that the Company does not intend to emulate.

The Company believes that it has significant competitive advantages over its competitors in the automotive financing sector due to the following reasons:

- under the Settlement Interest Agreements, the Company receives a fixed interest spread over interest on a Korean benchmark Won-denominated financial institution bond with a three-year maturity for installment financings extended to customers of HMC and KMC vehicles;
- the Company is strategically critical to the HMG, which is the largest automobile manufacturer in Korea;
- as a member company of the HMG, the Company benefits from customer referrals and is able to co-operate closely with the HMG in automobile marketing and customer management;
- the integration of the Company's financing services with the HMG's automobile production and marketing plans gives the Company a competitive advantage in providing financing to HMC and KMC dealers and their customers;
- the Company's size allows it to take advantage of economies of scale in both purchasing and servicing receivables and leases;
- the Company's advanced sales support system, which is based upon a scientific approach to customer relationship management, appeals to sales persons;
- the Company has a team dedicated to selling online products;
- the Company has a digitalized system in place that simplifies the automotive loan application process; and
- the Company has a close relationship with its used car dealers and a differentiated approach to agency management which have helped the Company maintain over approximately 30% market share in the used car financing market despite intensifying competition.

Automotive Leasing

Principal factors of competition in the automotive leasing market include competitive prices and cultivating a good relationship with dealers. The existing major competitors in this market are KB Capital, Hana Capital, Lotte Capital, Shinhan Card, BMW Financial Services Korea, Mercedes Benz Financial Services Korea and BNK Capital based on leased assets as of 30 September 2020. In addition to these credit specialized financing companies, companies that specialize in car rental business have also entered into the automotive leasing market intensifying the competition. The Company utilizes the customer base and distribution network of its core automotive financing business to secure market share. However, to compete more effectively, the Company continues to focus on marketing and promoting its automotive leasing products, including through launching various brand enhancement initiatives and expanding its channels via both online (e.g., general agent and home shopping channels) and offline networks. The Company also targets the corporate business sector with its fleet leasing business.

Personal Loans

In recent years, the personal loan market in Korea has been characterized by aggressive expansion and increased competition. Competitors' efforts to expand market share in this increasingly saturated and competitive market environment has contributed to asset quality problems. As a result, the Company is faced with challenging market conditions as it attempts to secure a customer base with the credit quality and on credit terms necessary to maintain or increase the Company's income and profitability. Principal factors of competition in the personal loan market include interest rates and fees, credit limits and other services and benefits. In the personal loan segment, the Company competes with domestic and foreign commercial banks in Korea as well as consumer finance companies and other financial institutions. Many of these banks are significantly larger than the Company in terms of asset size and customer base and have greater financial resources or more specialized capabilities than the Company.

The Company believes that it has opportunities which it can exploit in the near prime segment of the personal loan market, where the Company believes that competition is less intense compared to the prime segment of the personal loan market because of its relatively small size and potential brand conflicts for some of the major consumer finance providers such as commercial banks. In addition, the Company seeks to leverage off its automotive financing and automotive leasing businesses and relationships with HMC and KMC to cross-sell personal loan products to the existing customer base.

Mortgage Loans

The mortgage loan market in Korea is intensely competitive. Principal factors of competition include interest rates and fees, credit limits and other services and benefits. The main competitors in the Korean mortgage loan market are large commercial banks, which generally can offer more attractive interest rates based on stable and low-cost funding in the form of customer deposits.

Previously, the Company primarily targeted prospective homeowners in areas outside of the Greater Seoul Metropolitan area and/or engaged in small businesses by offering more attractive terms, including higher LTV ratios, than its competitors. However, following recent regulatory changes under which the same maximum LTV ratio of 70% applies to all financial service providers, the Company has increasingly shifted its marketing focus to the wealthier customer segment of prospective homeowners in the Greater Seoul Metropolitan area and/or employed by large corporations. In addition, the Company also seeks to bolster its competitive position in the mortgage loans market by taking customer-oriented marketing initiatives to directly access the customer and enhance speed and convenience in customer service and through pricing differentiation.

Legal and Regulatory Proceedings

The Company is subject to certain claims and is a party to legal and regulatory proceedings incidental to the normal course of its business activities. As of the date of this Offering Circular, the Company is not involved in any material litigation, arbitration or administrative proceedings relating to claims which may have a significant effect on the financial condition or result of operations of the Company. In addition, the Company is not aware of any material litigation, arbitration or administrative proceedings that are pending or threatened.

Property

The Company's registered office and corporate headquarters is located at 3 Uisadang-daero, Yeongdeungpo-gu, 07237, Seoul, Korea.

As of 30 September 2020, the Company had a nationwide network of 42 automotive financing and automotive leasing branches. The Company also has an early warning center in Seoul and 24 collection centers nationwide. In addition, the Company operated 8 personal loan branches as of such date. The Company owns all of the properties in which it operates.

Employees

The Company had 1,684 regular (or full-time) employees and 638 contract and commissioned employees as of 30 September 2020. The Company believes that it has a good relationship with its employees. The Company has not experienced any work stoppages of a serious nature. The Company's employee compensation is based on a combination of an agreed-upon base salary and bonuses. The bonus system is based on individual performance, business unit performance and the Company's overall performance. Like most other non-banking financial institutions in Korea, the Company grants its employees annual increases in base salary and pays periodic bonuses and overtime. In 2017, 2018, 2019 and the nine months ended 30 September 2020, the Company's salaries comprised 28.9%, 28.7%, 31.8% and 31.5% of the Company's total general and administrative expenses, respectively. The Company believes that its compensation package is similar to that offered by its peer financial institutions. The Company provides a wide range of benefits to its employees, including medical insurance, employment insurance, workers' compensation and accident insurance, financial aid for children's tuition, low-interest mortgage loans and pension plans.

The Company operates a defined benefit retirement pension plan for its employees. Under a retirement pension plan system, contributions are deposited annually into a financial institution and, upon retirement, an employee is granted the option of choosing between receiving a pension or a single sum amount. A defined benefit plan guarantees a certain payout at retirement according to a fixed formula which, in general, depends on the employee's average salary and the number of years' membership in the plan.

As of 31 December 2017, 2018, 2019 and 30 September 2020, the present value of defined benefit obligations was ₩101.4 billion, ₩102.0 billion, ₩103.8 billion and ₩110.2 billion, respectively, and the fair value of plan assets, which were deposited with insurance companies and banks, was ₩105.8 billion, ₩101.8 billion, ₩110.8 billion and ₩114.3 billion, respectively. Under Korean law, the Company may not terminate full-time employees except under limited circumstances. In 2017, 2018, 2019 and the nine months ended 30 September 2020, the Company paid ₩1.60 billion, ₩1.71 billion, ₩1.72 billion and ₩1.28 billion for the training of its employees, respectively.

MANAGEMENT

Board of Directors

The Company's board of directors (the "**Board**") has the ultimate responsibility for the management of its business affairs. The Board oversees the operations of the Company and is headed by Mr. Tae Young Chung, the President and CEO of the Company.

Under the Company's articles of incorporation ("**Articles of Incorporation**"), the Board must consist of at least four directors but no more than 12 directors, of which the majority must be composed of minimum of three outside directors. The members of the Board are elected by the shareholders at a general meeting of shareholders. Resolutions of the Board are made with the presence of a majority of the incumbent directors at the meeting and by the affirmative vote of a majority of the directors present, **provided that** matters pertaining to potential conflicts, whether direct or indirect, between the company and an interested director are subject to special resolution by the affirmative vote of at least two-thirds of total directors, but the interested director may not cast a vote. If the non-interested directors are fewer than two-thirds of the total directors, such resolution shall be adopted by the affirmative unanimous vote of the non-interested directors.

The Articles of Incorporation also require that the Board must elect, from its members, at least one representative director to represent the Company by resolution of the Board. Under the Korean Commercial Code and the Articles of Incorporation, the representative director is authorized to represent the Company in activities relating to its business.

The members of the Audit Committee are elected by shareholders at a general meeting of shareholders.

As of the date of this Offering Circular, all the directors of the Company satisfy the eligibility requirements set forth in the SCFBA.

Board Members

As of 30 September 2020, the Board was comprised of the following members

Name	Title	Age
Tae-Young Chung	Representative Director, Vice Chairman and CEO	60
Yoo-No Hwang	Director, President	62
Sang-Tae Jun	Director	53
Sang-Hyun Kim	Director	52
Hyo-Eun Moon	Outside Director	53
Wook Sohn	Outside Director	56
Kyoo-Bok Lee	Outside Director	47
Sung-Zoon Cho	Outside Director	60
In-Tae Hwang	Outside Director	63

Tae-Young Chung has been Representative Director since 2003. He was appointed as Head of Planning, Managerial, Treasury and Auto Parts Division of Hyundai Mobis in 2000 and subsequently held senior positions at KMC, HMC and Hyundai Card before holding his current position. Mr. Chung received a B.A. in French Literature from Seoul National University and an M.B.A. from Massachusetts Institute of Technology.

Yoo-No Hwang has served as Director since March 2013. Mr. Hwang worked at HMC and Hyundai Mobis prior to joining the Company. Mr. Hwang received a B.A. in Business Administration from Hongik University.

Sang-Tae Jun has served as Director since June 2020. Mr. Jun is currently an Executive Vice President at HMC. Mr. Jun received a Master's degree in Business Administration from Seoul National University and an M.B.A. from Massachusetts Institute of Technology.

Sang-Hyun Kim has served as Director since June 2020. Mr. Kim is currently an Executive Director at HMC. Mr. Kim received a B.A. in business administration from Seoul National University.

Hyo-Eun Moon has served as Outside Director since March 2020. Ms. Moon is currently the CEO of Artventures. Ms. Moon received a Master's degree in journalism from Korea University School of Journalism.

Wook Sohn has served as Outside Director since June 2020. Mr. Sohn is currently a professor at KDI School of Public Policy and Management. Mr. Sohn received a B.A. in business administration from Seoul National University and Master's and Ph.D degrees from Columbia University.

Kyoo-Bok Lee has served as Outside Director since March 2020. Mr. Lee is currently a Vice Executive Director at The Korea Institute of Finance. Mr. Lee received a Ph.D in economics from Duke University.

Sung-Zoon Cho has served as Outside Director since March 2020. Mr. Cho is currently a professor at Seoul National University. Mr. Cho received a Ph.D in computer science from University of Maryland.

In-Tae Hwang has served as Outside Director since March 2020. Mr. Hwang is currently a professor at Chung-Ang university. Mr. Hwang received a Ph.D in business administration from State University of New York.

As a result of amendments to the Enforcement Decree of the SCFBA in 30 March 2015, the Company was required to adopt certain amendments to its Articles of Incorporation and establish additional committees. Under the Articles of Incorporation, the Board may establish committees and delegate certain of its functions to such committees. Each such committee must have as its members at least two directors of the Board, with the exception of the Audit Committee and Executives Recommendation Committee, which must consist of at least three directors of the Board. The members of the committees shall be appointed by the Board.

Board Committees

Under the Articles of Incorporation, the Board is required to have Steering Committee, Executives Recommendation Committee, Remuneration Committee, Risk Management Committee, and Audit Committee. The majority of the members of each of the Executives Recommendation Committee, Remuneration Committee and Risk Management Committee must be Outside Directors, and at least two-thirds of the members of the Audit Committee must be Outside Directors.

Outside Director Committee

The primary function of the Outside Director Committee is to review and discuss matters prior to any Board meeting as an independent body. It does not pass a vote on any matter on its own. The Outside Director Committee currently consists of five members, Ms. Hyo-Eun Moon, Mr. Wook Sohn, Mr. Kyoo-Bok Lee, Mr. Sung-Zoon Cho and Mr. In-Tae Hwang.

Steering Committee

The primary function of the Steering Committee is to approve matters regarding the Company's ordinary course of business and certain functions related to financing that are subject to the approval of the Board in order to improve the efficiency and business process of the Company. Examples of the matters delegated to the Steering Committee include:

- amendments to internal regulations, including that of the Company's subsidiaries;
- approval and execution of MOU or other contracts worth more than 20 billion won relating to joint venture and strategic partnership, and approval of amendment of certain major terms and conditions of contracts already approved by the Board;
- approval of lending or guaranteeing of funds more than 20 billion won (excluding matters previously approved by the Board or the Steering Committee);
- approval of creating securities with secured claim worth more than 20 billion won on the Company's assets;
- approval of creating leasehold rights with deposit worth more than 20 billion won on the Company's properties;
- approval of the payment in substitutes worth more than 20 billion won;
- approval of the purchase and sale of non-performing loans;
- approval and execution of non-guaranteed corporate bonds;
- approval and execution of financing through securitization of assets;

- approval and execution of financing through overdrafts;
- approval and execution of general loans, facility loans and credit lines;
- approval and execution of financing through commercial papers;
- approval and execution of contracts regarding financial derivatives associated with financing; and
- other matters specifically delegated by the Board.

The Steering Committee currently consists of two members, Mr. Wook Sohn and Mr. Yoo-No Hwang.

Executives Recommendation Committee

The responsibility of the Executives Recommendation Committee is to review and monitor the composition and diversity of the Board and recommend potential candidates for Outside Directors. As of the date of this Offering Circular, the Committee consists of three directors, Mr. Yoo-No Hwang, Mr. Kyoo-Bok Lee and Ms. Hyo-Eun Moon.

Remuneration Committee

The responsibility of the Remuneration Committee is to evaluate the performance and make recommendations on the remuneration packages for the Company's directors, senior management and general staff and evaluate and make recommendations on employee benefit arrangements. As of the date of this Offering Circular, the Committee consists of three directors, Ms. Hyo-Eun Moon, Mr. Wook Sohn and Mr. Yoo-No Hwang.

Risk Management Committee

The responsibility of the Risk Management Committee is to define principles of risk management, provide recommendations on risk management involving the Company's operations and monitors and evaluates compliance with the risk management framework to ensure their adequacy and effectiveness. As of the date of this Offering Circular, the Committee consists of three directors, Mr. In-Tae Hwang, Mr. Sung-Zoon Cho and Mr. Yoo-No Hwang.

Audit Committee

The responsibility of the Audit Committee is to review and supervise the Company's financial reporting process and internal control system and nominate and monitor the Company's independent auditors. Two-thirds of the members of the Audit Committee must be outside auditors. As of the date of this Offering Circular, the Committee consists of three Outside Directors, Mr. In-Tae Hwang, Mr. Sung-Zoon Cho and Mr. Kyoo-Bok Lee.

Special Committees

The Company may establish special committees, such as an Executive Finance Committee or a Compliance Review Board. The role and composition of such committee shall be prescribed by the regulations of the respective committee by a resolution of the Board of Directors. As of this Offering Circular, the Company has an Executive Finance Committee and Compliance Review Board

Senior Management

The Company's executive officers are responsible for the day-to-day operations of the Company and undertake all other matters as directed by the Board. The table below sets out certain information with respect to the Company's senior officers as of 30 September 2020.

Name	Title	Area of Duty
Tae-Young Chung	Vice Chairman	CEO
Myung-Yi Chung	Business Unit Head	Brand Business Unit
Yoo-No Hwang	President	President
Hyun-Joo Kim	Senior Vice President	Corporate Center Business Unit
Phil Oh	Senior Vice President	Digital Business Unit
Byeong-Ku Jeon	Senior Vice President	Corporate Management Unit
Byungsik Jang	Vice President	Risk Management Division
Jin Won Mok	Senior Vice President	Capital Business Unit

Many of the executive officers with specific responsibilities have worked in areas closely related to their respective areas of responsibility before they were appointed to the present positions. Accordingly, the Company believes that they collectively have appropriate expertise and experience to carry out their management responsibilities.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The Company from time to time engages in transactions with its affiliates, including HMC and KMC which as of the date of this Offering Circular held 59.68% and 20.10% of the Company's outstanding common shares, respectively. The Company's policy on transactions with related parties is to conduct such transactions on terms substantially as favorable to the Company as it can obtain at the time in a comparable arm's length transaction with an independent third party, including with respect to the related party transactions described below.

Relationship with Hyundai Motor Group

The Company was established in December 1993 to serve as, among other things, the automotive financing arm for HMC. In July 2001, the Company commenced the automotive leasing business offering primarily HMC and KMC vehicles. The Company continues to operate as the primary automotive financing arm of HMC and HMC's affiliate, KMC, with the predominant share of the Company's business comprised of the financing and leasing of new vehicles manufactured by HMC and KMC. The Company has close business ties with, and receives financial, managerial and operational support from, HMC and KMC.

HMC is Korea's largest motor vehicle manufacturer, producing cars, trucks, buses and special purpose vehicles for sale in Korea and overseas. Together, HMC and KMC had a combined domestic market share of 77.6%, 80.8%, 82.0% and 83.3% based on units of new vehicles sold (excluding imported units) in 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively. HMG was established as a result of its disaffiliation from the Hyundai Group which was one of the largest business groups in Korea in terms of assets and sales. Member companies of HMG, as of 30 September 2020, consisted of the following:

- 12 listed companies: HMC, KMC, Hyundai Mobis, Hyundai Steel, Hyundai BNG Steel Co., Ltd., Hyundai Glovis, Hyundai Motor Securities Co., Ltd., Hyundai WIA, Hyundai Engineering & Construction Co., Ltd., Hyundai-Rotem Co., Innocean Worldwide Inc., and Hyundai Autoever Corporation; and
- 42 unlisted companies: the Company, Hyundai Card Co., Ltd., Hyundai Commercial Co., Ltd., Haevichi Hotels & Resort Co., Ltd., Haevichi Country Club Co., Ltd., HYUNDAI KEFICO, Hyundai Integrated Forging Co., Ltd., HL Green Power Inc., Green Air Co., Ltd., Kia Tigers Co., Ltd., Jeonbuk Hyundai Motors Football Club Co., Ltd., Hyundai IHL Corporation, HYUNDAI MSEAT, HYUNDAI MNSOFT, Inc., PARTECS COMPANY. Ltd., Hyundai NGV, SEORIM DEVELOPMENT CORPORATION, SEORIM ENVIRONMENT TECHNOLOGY Co., Ltd., Seoul PMC Co., WIAMAGNA POWERTRAIN Co., Green Air Co., Ltd., Maintrans Company, Hyundai Engineering Co., Ltd., Hyundai Transys Inc., Hyundai Architects & Engineers Assoc. Co., Ltd., Hyundai Engineering & Steel Industries Co., Ltd, Busan Finance Center AMC, Songdo Landmark City LLC., Hyundai City Corporation, Ltd., Hyundai Farmland & Development Co., Ltd, HYUNDAI MATERIALS CORPORATION, Hyundai Special Steel Co., Ltd., Hyundai Auto Electronics Company Ltd, HYUNDAI WIA TURBO CORPORATION, The 2nd Yulchon Industrial Complex Development, Global Information Technology Co., Ltd., Hyundai Advanced Materials, HYUNDAI ECOENERGY, G-Marine Service Co., Ltd., Atoz Supply Service, Dongbuk LRT, MOCEAN Co., Ltd., PurpleM Co., Ltd. and Bluewalnut Co., Ltd.

The Company currently does not hold any outstanding shares of HMC or any of HMC's affiliates.

Since its inception, the Company's business has been substantially dependent on the sale of new HMC and KMC vehicles. The following table sets out the domestic market penetration rate, based on automobile sales data available from KAMA (excluding imported units) of HMC and KMC vehicles for the years indicated.

	As of 31 December			As of 30 Sep
	2017	2018	2019	2020
HMC	44.2%	46.5%	48.2%	48.7%
KMC	33.4%	34.3%	33.8%	34.6%
Total	**77.6%**	**80.8%**	**82.0%**	**83.3%**

The Company has a contractual arrangement with Glovis (the "**Glovis Agreement**"), which is also a member company of the HMG. Under the Glovis Agreement, Glovis is obligated to pay pre-determined prices for leased domestic vehicles that are returned to the Company at the end of the lease term. The Glovis Agreement has a one-year term that is automatically renewable unless either party provides written notice of its intent to terminate the contract. The Glovis Agreement was entered into in February 2004 and has since been renewed annually. The Company believes that all arrangements with Glovis are made on an arm's length basis.

Settlement Interest Agreements

The Company entered into a Settlement Interest Agreement with each of HMC and KMC in November 2003, which has been amended from time to time. Under these Settlement Interest Agreements, each of HMC and KMC has agreed to provide a fixed interest spread over interest calculated on the basis of (i) a Korean benchmark Won-denominated financial institution bond rated AA0 and (ii) a benchmark commercial paper with a six-month maturity. The Settlement Interest Agreements have 10-year terms and can be renewed for one-year terms thereafter if HMC and KMC can agree on the terms of such renewal. Net interest margin is calculated as the sum of (x) 40% of the interest on a Korean benchmark Wondenominated financial institution bond rated AA0 and (y) 60% of the interest on a benchmark commercial paper with six-month maturity plus a fixed interest spread of 2.3%, which is calculated on every 15th day of each month and may be amended during the 10-year term by HMC or KMC, as the case may be, with consultation with the Company based upon market conditions or the rates of competitors. If the installment interest paid by a customer to the Company on Installment payment dates is less than the agreed settlement interest under the Settlement Interest Agreement, then the Company receives from HMC or KMC, as the case may be, an amount equal to the difference between the installment interest and the settlement interest. If the Installment interest paid by the customer to the Company on installment payment dates is greater than the agreed settlement interest under the Settlement Interest Agreement, then the Company pays to HMC or KMC, as the case may be, an amount equal to the difference between the installment interest and the settlement interest. The Settlement Interest Agreements are currently scheduled to expire in December 2021 subject to an option for continuous renewal for one year terms thereafter. The Company currently believes that it is highly likely that the Settlement Interest Agreements will continue to be renewed on terms commercially acceptable to the Company on or prior to their expiration in December 2021. However, if any of the Settlement Interest Agreements were to be terminated, amended to provide for a lower fixed interest spread, or found to be unenforceable or illegal under Korean law, the Company would be exposed to greater interest rate risks and its return on its financing could be substantially reduced which in turn could have a material adverse effect on the Company's business, financial condition and results of operations.

Relationship with Hyundai Card

Hyundai Card is a leading credit card company in Korea and a member company of HMG. In February 2017, GECC agreed to sell all of its shareholding in Hyundai Card to Hyundai Commercial, Affinity Equity Partners, GIC and Alpinvest, to each, of its 19.01%, 9.99%, 9% and 5% shareholding, respectively. Hyundai Card maintains close ties with the Company as it shares with the Company an integrated collection department and the employees in various departments, including the finance, corporate planning and strategic planning departments. As brand image and corporate advertising is conducted jointly, the Company is able to cost-effectively convey a unified brand image to its consumers. In January 2006, the Company entered into an agreement with Hyundai Card pursuant to which the Company has agreed to purchase all future delinquent and written-off receivables from Hyundai Card. Under this agreement, the Company purchases 60-day overdue and wholly written off receivables on five fixed dates of each month at the market value of such receivables as determined by an independent accountant. Such agreement has centralized the collection department and streamlined the collection process. The sale of receivables that arose during the period from February 2020 to December 2020 is currently put on hold until June 2021 as the Financial Services Commission of Korea has issued a recommendation to refrain from selling off unsecured delinquent individual receivables as a relief measure for individuals impacted by COVID-19. Below is the aggregate amount of the future delinquent and written-off receivables from Hyundai Card that the Company purchased under such agreement.

	For the Year Ended 31 December			For the Period Ended 30 Sep
	2017	2018	2019	2020
	(Billions of Won)			
The aggregate amount of delinquent and written-off receivables	₩372.8	₩405.7	₩349.2	₩145.7
Purchase amount of the receivables	₩159.2	₩159.0	₩119.7	₩ 48.2

Relationship with Hyundai Commercial

Hyundai Commercial is a leading machinery installment financing company in Korea. Hyundai Commercial is a member company of HMG and was established in March 2007 to specialize in corporate finance. Hyundai

Commercial maintains close ties with the Company through sharing collection, risk management and IT departments, and certain employees in such departments as well as the strategic planning and audit departments.

In April 2008, the Company entered into an agreement with Hyundai Commercial pursuant to which the Company has agreed to purchase all future delinquent and written-off receivables from Hyundai Commercial. Although the Financial Services Commission of Korea has issued a recommendation to refrain from selling off delinquent individual receivables, the impact of such recommendation on the arrangement with Hyundai Commercial is expected to be minimal since such recommendation is applicable to unsecured products only while the majority of delinquent receivables held by Hyundai Commercial are secured products. Under this arrangement, the Company purchases 60-day overdue and written off receivables on three fixed dates of each month at the market value of such receivables as determined by an independent accountant. Through this agreement, the Company has centralized the collection department and streamlined the collection process. The aggregate value of delinquent and written-off receivables purchased from Hyundai Commercial was ₩44.8 billion, ₩87.7 billion, ₩174.2 billion and ₩50.2 billion in 2017, 2018, 2019 and the nine months ended 30 September 2020, respectively. The consideration paid by the Company for such receivables was ₩19.0 billion, ₩33.0 billion, ₩95.4 billion and ₩27.6 billion, respectively.

Other Related Party Transactions

For a description of other related party transactions, see Note 27 to the audited financial statements included elsewhere in this Offering Circular.

TAXATION

The following summary contains a description of certain Korean and U.S. federal income tax consequences of the ownership and disposition of Notes, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase or dispose of Notes. This summary is based on the Korean and U.S. federal tax laws in force on the date of this Offering Circular (which are subject to change and which changes may have retroactive effect), and does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the laws of Korea and the federal laws of the United States.

Prospective purchasers of Notes should consult their own tax advisors as to the Korean, U.S. or other tax consequences of the ownership and disposition of Notes, including the effect of any foreign, state or local tax laws.

Korean Taxation

The taxation of non-resident individuals and non-Korean corporations generally depends on whether they have a "Permanent Establishment" (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such relevant Korean source income is effectively connected. Non-residents without such a Permanent Establishment in Korea ("**Non-Residents**") are taxed in the manner described below. Non-residents with such Permanent Establishment are taxed in accordance with different rules.

Income Tax and Corporation Tax on Interest

Interest on the Notes paid to Non-Residents is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "**STTCL**"), subject to the tax consequences with respect to Index Linked Notes set out in the applicable Pricing Supplement, so far as the Notes are "foreign currency denominated bonds issued outside Korea" under the STTCL. With respect to foreign currency denominated bonds issued on or after 1 January 2012, interest is tax-exempt only if such bonds are issued outside Korea under the STTCL. Foreign currency denominated bonds would include straight bonds, convertible bonds, bonds with warrants, floating rate notes and Korean Won-linked foreign currency denominated bonds; provided, however, certain instruments such as notes issuance facilities, commercial paper and banker's acceptances would not be deemed to constitute "foreign currency denominated bonds".

If not exempt under the STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Notes, for a Non-Resident, is currently 14%. In addition, a local income tax is imposed at the rate of 10% of the income or corporation tax (raising the total tax rate to 15.4%).

The tax is withheld by the payer of the interest. As the duty to withhold the tax is on the payer, Korean law does not automatically entitle the person who has suffered the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if he subsequently produces evidence that he was entitled to have his tax withheld at a lower rate or be exempted, although in certain limited circumstances it may be possible to claim withheld tax from the payer.

The tax rates may be reduced by applicable tax treaty, convention or agreement between Korea and the country of the recipient of the interest.

In order to obtain a reduction or exemption of withholding tax under an applicable tax treaty upon any income to which a Korean withholding tax applies, a Non-Resident should submit either an application for exemption or an application for entitlement to reduced tax rate to either the payer or the entity obligated to withhold such tax prior to the date upon which such income is to be paid to the Non-Resident. The foregoing matter is discussed in more detail below.

Index Linked Notes

A detailed description of the tax considerations relevant to Index Linked Notes will be provided in the applicable Pricing Supplement.

Capital Gains Tax

The Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident from the sale of Notes to another non-resident (other than to the other non-resident's Permanent Establishment in Korea). In addition, capital gains earned by a Non-Resident from the transfer outside Korea of the Notes are currently exempt from taxation by virtue of the STTCL, **provided that** the issuance of the Notes is deemed to be an overseas issuance and which is foreign currency denominated.

In the absence of an applicable tax treaty or any other special tax laws reducing or eliminating the capital gains tax, the applicable rate of tax is the lower of 11% (including local income tax) of the gross realization proceeds (the "**Gross Realization Proceeds**") and (subject to the production of satisfactory evidence of the acquisition cost and the transfer cost of the relevant Notes) 22% (including local income tax) of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and the transfer cost (including taxes, dues and brokerage commissions paid in direct connection with the acquisition and transfer of the Notes). If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under the relevant Korean law for offsetting gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of securities of Korean companies.

The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from the tax under an applicable tax treaty or in the absence of the seller producing satisfactory evidence of his acquisition cost and the transfer cost in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the Gross Realization Proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the relevant Korean tax authority no later than the tenth day of the month following the month in which the sale of the relevant Notes occurred. Failure to transmit the withheld tax to the Korean tax authorities in time technically subjects the purchaser or the withholding agent to penalties under Korean tax laws and a Non-Resident who is liable for payment of any Korean tax on gains, either as a seller of Notes or as a purchaser or the withholding agent who is obliged to withhold such tax, is subject to the Korean tax authorities seeking enforcement through attachment of, or other legal proceedings against, payments due to it from its Korean investments and to enforcement against the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In order to obtain a reduction or exemption of withholding tax under an applicable tax treaty upon any income to which a Korean withholding tax applies, a Non-Resident should submit either an application for exemption or an application for entitlement to reduced tax rate to either the payer or the entity obligated to withhold such tax prior to the date upon which such income is to be paid to the Non-Resident. The foregoing matter is discussed in more detail below.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least 183 days immediately prior to his death and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% according to the value of the property and the identity of the parties involved. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under the Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by Non-Resident holders of Notes in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by the Issuer. A securities transaction tax will not be imposed on the transfer of Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with *inter alia* Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America under which the rate of withholding tax on interest is reduced, generally to between 10% and 15% (13.2% under the treaty with the United States) (including local income tax), and the tax on capital gains is often eliminated (as it is generally under the treaty with the United States).

Each Non-Resident holder should enquire for himself whether he is entitled to the benefit of a tax treaty with respect to this transaction. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments and capital gains to file with the Issuer a certificate as to his residence. In the absence of sufficient proof, the Issuer must undertake to withhold taxes in accordance with the above discussion.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder should submit to the payer of such Korean source income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for exemption" along with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("**BO Application**"). Such application should be submitted to the purchaser or the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) ("**OIV**"), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners to the purchaser or the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the purchaser or the withholding agent is required to submit such application (together with the applicable OIV report and the schedule of beneficial owners in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income. However, starting from January 1, 2020, if such OIV is deemed as a beneficial owner pursuant to the Corporate Income Tax Law of Korea, the OIV is required to submit an OIV report including a schedule of investors in each country, together with the aforementioned BO Application, to the purchaser or the withholding agent prior to the payment date of such income.

The special withholding tax system was effected on 1 July 2006. Under the system, there is a special procedure to apply Korea-Malaysia tax treaty on certain Korean source incomes. Payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally, 15.4% for interests and the lower of 11% of the Gross Realization Proceeds or 22% of the gain made for capital gain (including local income tax)) instead of the reduced or exempted rate available under the Korea-Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to receive a refund if it can prove that it was entitled to the benefits of the tax treaty as a beneficial owner of the income and is an actual resident of Labuan in Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "**NTS**") to confirm that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving the Korean source income.

Withholding and Gross-up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL if the Notes are foreign currency denominated bonds issued outside Korea under the STTCL. However, in the event that the Issuer is required by law to make any withholding or deduction for or on account of any Korean taxes, Issuer has agreed, subject to certain customary exceptions, to pay such additional amounts as may be necessary in order that the net amounts received by the Noteholder after such withholding or deduction shall equal the respective amounts received by the Noteholder in the absence of such withholding or deduction.

United States Federal Income Taxation

Except where otherwise stated, the following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Registered Notes by a U.S. Holder that acquired such Registered Notes at initial issuance, that will hold the Registered Notes as capital assets, and whose functional currency is the U.S. dollar. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to the acquisition, ownership or disposition of Registered Notes by particular investors. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks and other financial institutions, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, persons who have ceased to be U.S. citizens or to be taxed as U.S. lawful permanent residents and investors that will hold the Registered Notes as part of straddles, hedging or conversion transactions, or as part of a synthetic security for U.S. federal income tax purposes).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Registered Notes that is, for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organised in or under the laws of the United States, the District of Columbia, or any State thereof; (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership (or any other entity treated as fiscally transparent for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisers as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Notes.

Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Code.

INVESTORS SHOULD CONSULT THEIR TAX ADVISERS TO DETERMINE THE TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF REGISTERED NOTES, INCLUDING THE APPLICATION TO THEIR PARTICULAR SITUATION OF THE U.S. FEDERAL INCOME TAX CONSIDERATIONS DISCUSSED BELOW, AS WELL AS THE APPLICATION OF THE ALTERNATIVE MINIMUM TAX AND ANY STATE, LOCAL, NON-U.S. OR OTHER TAX LAWS.

The Issuer generally intends to treat Notes issued under the Programme as debt. Certain Notes, however, may be treated as equity or some other type of instrument or interest for U.S. federal income tax purposes. The tax treatment of Notes to which a treatment other than debt may apply may be discussed in a supplement to the Offering Circular. This summary does not discuss Notes with a maturity of greater than 30 years, the impact of redenomination of a Note, Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The terms and U.S. federal income tax treatment of certain Notes that the Issuer and the relevant Dealers may agree to issue under the Programme may be set out in a Pricing Supplement (if applicable).

Special Rules Applicable to Certain Accrual Method Taxpayers

Pursuant to recent legislation (which, in the case of debt instruments issued with original issue discount for U.S. federal income tax purposes, applies for taxable years beginning after 31 December 2018), an accrual method taxpayer that reports revenues on an "applicable financial statement" generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in the applicable financial statements. This rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes with respect to Notes prior to the time such income otherwise would be recognized pursuant to the rules described below. U.S. Holders should consult their tax advisors regarding the potential applicability of these rules to their investment in Notes.

Payment of Interest

Interest on a Note, whether payable in U.S. dollars or a currency other than U.S. dollars ("**foreign currency**" interest on a "**Foreign Currency Note**"), other than interest on a Discount Note that is not "qualified stated interest" (each as defined below under "*Original Issue Discount — General*"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the U.S. Holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes and original issue discount ("**OID**"), if any, accrued with respect to the Notes (as described below under "*Original Issue Discount — General*") generally will constitute income from sources outside the United States for the purposes of the rules regarding the foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon). Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of any foreign taxes with respect to the Notes (if applicable).

Original Issue Discount

General

A Note that only provides for the payment of amounts that are qualified stated interest before maturity, other than a Note with a term of one year or less (a "**Short-Term Note**"), will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's stated redemption price at maturity over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "**installment obligation**") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or more than 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of qualified stated interest. A qualified stated interest payment generally is any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described under "— *Variable Interest Rate Notes*"), applied to the outstanding principal amount of the Note (qualified stated interest). Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. If a Note has *de minimis* OID, a U.S. Holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the U.S. Holder makes the election described under "— *Election to Treat All Interest as Original Issue Discount*". A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or the portion of the taxable year in which the U.S. Holder holds the Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Notes as long as: (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of: (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The adjusted issue price of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by: (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**") and that does not make the election described under "— *Election to Treat All Interest as Original Issue Discount*", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant yield method described under "— *General*", with certain modifications. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described under "— *Notes Purchased at a Premium*") or acquisition premium. If a U.S. Holder makes this election for the Note, then, when the constant yield method is applied the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the United States Internal Revenue Service ("**IRS**"). However, if the Note has amortisable bond premium, the U.S. Holder will be deemed to have made an election to apply amortisable bond premium against interest for all debt instruments with amortisable bond premium (other than debt instruments, the interest on which is excludible from gross income) held as of the beginning of the taxable year to which the election applies or any taxable year thereafter. If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note (as defined below under "— *Market Discount*"), the electing U.S. Holder will be treated as having made the election discussed under "— *Market Discount*" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the advisability and consequences of making this election.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight line basis or, if the U.S. Holder so elects, under the constant yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For the purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Market Discount

A Note, other than a Short-Term Note, that is not acquired at its original issue generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's revised issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an installment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes *de minimis* market discount. For this purpose, the revised issue price of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Market discount will accrue on a straight line basis unless the U.S. Holder elects to accrue the market discount on a constant yield method. This constant yield election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount (or, for a Discount Note, the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest) may elect to treat the excess as amortisable bond premium, in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds, (other than bonds, the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Please see also "— *Election to Treat All Interest as Original Issue Discount*". A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will generally recognise a capital loss when the Note matures.

Purchase, Sale and Retirement of Notes

A U.S. Holder's tax basis in a Note generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by: (i) the amount of any payments that are not qualified stated interest payments; and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. Amounts realised on the sale or retirement of a Note are taxable as interest income to the extent of accrued but unpaid interest not previously included in income. Except to the extent described under "*Original Issue Discount — Market Discount*", "*Original Issue Discount — Short-Term Notes*" or "*Contingent Payment Notes*" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and generally will be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation. In the case of a U.S. Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Contingent Payment Notes

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate or rates that do not qualify as "variable rate debt instruments" for purposes of the original issue discount rules) they generally will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Note and the Note's "projected payment schedule" as described below. The comparable yield is determined by the Issuer at the time of issuance of the Notes. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments, unless the Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of the Holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment debt instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a Holder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
  - the amount of all previous interest inclusions under the contingent payment debt instrument over
  - the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the limitations imposed on miscellaneous deductions (which generally cannot be deducted in taxable years beginning prior to 1 January 2026 and are subject to a 2% floor limitation for subsequent taxable years). Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any noncontingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a Holder recognises loss above certain thresholds, the Holder may be required to file a disclosure statement with the IRS.

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument equal to the fair market value of the property, determined at the time of retirement. The Holder's holding period for the property will commence on the day immediately following its receipt. Special rules apply to contingent payment debt instruments that are denominated, or provide for payments, in a currency other than the U.S. dollar ("**Foreign Currency Contingent Payment Notes**"). Very generally, these Notes are accounted for like a contingent payment debt instrument, as described above, but in the currency of the Foreign Currency Contingent Payment Notes. The relevant amounts must then be translated into U.S. dollars. The rules applicable to Foreign Currency Contingent Payment Notes are complex and U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of such Notes.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods.

Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

OID

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "— *Interest*". Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency.

On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder.

Purchase, Sale and Retirement of Notes

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Foreign Currency Note will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note: (i) on the date of sale or retirement; and (ii) on the date on which the U.S. Holder acquired the Note. Any exchange rate gain or loss recognised on the sale or retirement of a Note (including any exchange rate gain or loss with respect to the receipt of accrued but unpaid interest and OID in the transaction) shall be realised only to the extent of the total gain or loss realised on the transaction.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the interest is received or at the time of the sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

Payments of interest and accrued OID on, and the proceeds of a sale, exchange, redemption or other disposition of, Notes, payable to a U.S. Holder by a paying agent or other intermediary, may be subject to information reporting to the IRS. In addition, certain U.S. Holders may be subject to backup withholding tax in respect of such payments if they do not provide an accurate taxpayer identification number or certification of exempt status to a paying agent or other intermediary or otherwise comply with the applicable backup withholding requirements.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, **provided that** the required information is timely furnished to the IRS in the manner required. Certain U.S. Holders (including, among others, corporations) are not subject to information reporting or backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from information reporting and/or backup withholding.

U.S. Holders should consult their own tax advisers regarding any filing or reporting requirements that may apply to their acquisition, ownership and disposition of Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes 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.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase of the Notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any other federal, state, local, non-or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**"), and entities whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement (each, a "**Plan**").

General Fiduciary Matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an "**ERISA Plan**") and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the Notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited Transaction Issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are "parties in interest," within the meaning of ERISA, or "disqualified persons," within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of Notes by an ERISA Plan with respect to which the Bank or a Dealer is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions ("**PTCEs**") that may apply to the acquisition and holding of the Notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide limited relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, **provided that** neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and **provided further that** the ERISA Plan pays no more than adequate consideration in connection with the transaction. Furthermore, newly issued class exemptions, such as the "Best Interest Contract Exemption" (PTCE 2016-01), once they become effective, may provide relief for certain transactions involving certain investment advisers who are fiduciaries. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the Notes should not be purchased or held by any person investing "**plan assets**" of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a Note or any beneficial interest therein, each purchaser and subsequent transferee of a Note or any beneficial interest therein will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Note or any beneficial interest therein constitutes assets of any Plan or (ii) the purchase and holding of the Note or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the Notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Arranger, any Dealer nor any party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.*

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 1 November 2007, as supplemented and amended from time to time (the "**Programme Agreement**"), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase or procure purchasers for Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may to the extent permitted by applicable laws and regulations engage in transactions that stabilize, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilize or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilizing or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilization activities are subject to certain prescribed time limits in certain jurisdictions.

The Dealers and certain affiliates of the Dealers may have performed banking and advisory services (which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities) for the Issuer from time to time for which they have received customary fees and expenses. The Dealers and certain of their affiliates may, from time to time, engage in transactions with and perform services for the Issuer in the ordinary course of their business. In the ordinary course of their various business activities, the Dealers 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.

The Dealers or certain of their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Dealers and/or their affiliates may purchase Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes, and/or other securities of the Issuer or its respective subsidiaries or associates at the same time as the offer and sale of the Notes, 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 Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealer or any affiliate of the Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor, that, prior to its purchase of the Notes has delivered to the Registrar an IAI Investment Letter in the form as set forth below or (c) it is the beneficial owner of such Notes and (a) it is outside the United States and is not a U.S. person and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;

(ii) that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iii) that, unless it holds an interest in a Regulation S Global Note, is a person located outside the United States and is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is one year after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;

(iv) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;

(v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "**INSTITUTIONAL ACCREDITED INVESTOR**"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTE, OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO NON-U.S. PERSONS OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH NOTE SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(vii) that the Notes offered in reliance on Rule 144A will be represented by the Restricted Note. Before any interest in the Restricted Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;

(viii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. state securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS A PART.";

(ix) that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Note. Prior to the expiration of the distribution compliance period, before any interest in the Restricted Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and

(x) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by Regulation D of the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see "*Form of the Notes*".

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of this Offering Circular and such other information as it deems necessary in order to make its investment decision;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this Offering Circular and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States of America

The Notes 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 (i) to QIBs in reliance on Rule 144A, (ii) to Institutional Accredited Investors, that, prior to their purchase of the Notes have furnished an IAI Investment Letter and (iii) in accordance with Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**") each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, except as permitted by the Programme Agreement, it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified to the Principal Paying Agent by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period (other than resales pursuant to another exemption from the registration requirements of the Securities Act) a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer and sale is made otherwise than in accordance with Rule 144A or another exemption from the requirements of the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$200,000 (or the approximate equivalent thereof in any other currency).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

To the extent the Dealers intend to make any offers or sales of the Notes in the United States, or to nationals or residents of the United States, they will do so only through one or more registered broker-dealers in compliance with applicable securities laws and regulations, as well as with applicable laws of the various states.

European Economic Area

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or

   (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each member state of the European Economic Area (each a "**Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(i) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;

(ii) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iii) *Other exempt offers*: at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation,

provided that no such offer of Notes referred to in (i) to (iii) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression "an offer of Notes to the public" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Unless the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the pricing supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or

  (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes specifies the "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

(b) *Approved prospectus*: if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a Public Offer), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by pricing supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(c) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(d) *Fewer than 150 offerees*: at any time to fewer than 150 persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(e) *Other exempt offers*: at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in 4.2(b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other UK regulatory restrictions

Each Dealer has represented, warranted and agreed that:

(a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:

  (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

(b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes 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 "**FIEA**") and, accordingly, each Dealer has represented and agreed that has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes 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 the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes 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 or securities-based derivatives contracts (each term defined in Section 2(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 Notes pursuant to an offer made under Section 275 of the SFA except:

1. to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

2. where no consideration is or will be given for the transfer;

3. where the transfer is by operation of law;

4. as specified in Section 276(7) of the SFA; or

5. as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Dealer has represented, warranted and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (the "**SFO**") other than (a) to "professional investors" as defined in the SFO and any rules made under the SFO; 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 (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) 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 Notes, 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 Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act of Korea (the "**FSCMA**"). Accordingly, each Dealer severally but not jointly has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes 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 Transaction Law of Korea and its Enforcement Decree) except as otherwise permitted under applicable Korean laws and regulations. Furthermore, a holder of the Notes will be prohibited from offering, delivering or selling any Notes, directly or indirectly, in Korea or to any Korean resident for a period of one year from the date of issuance of the Notes except (i) in the case where the Notes are issued as bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, and where the other relevant requirements are further satisfied, the Notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of qualified institutional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, or (ii) as otherwise permitted under applicable Korean laws and regulations. Each Dealer severally but not jointly undertakes, and each further Dealer appointed under the Programme will be required to undertake, to use commercially reasonable best measures as a Dealer in the ordinary course of its business so that any securities dealer to which it sells the Notes confirms that it is purchasing such Notes as principal and agrees with such Dealer that it will comply with the restrictions described above.

Republic of Italy

No offering of any Notes issued under this Programme has been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that any offer, sale or delivery of any Notes or distribution of copies of this Offering Circular and any pricing supplement or any other document relating to any Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of any Notes or distribution of copies of this Offering Circular and any pricing supplement or any other document relating to any Notes in the Republic of Italy must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time);

(ii) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

No action has been or will be taken in any jurisdiction by the Issuer or the Dealers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Notes, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Notes or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

Authorization

The establishment of the Programme has been duly authorized by a resolution of the Board of Directors of the Issuer dated 31 October 2007. Each issue of Notes under the Programme will be authorized by the Board of Directors of the Issuer at the time of issue or at a meeting held annually to approve the issue of Notes to be issued in the following fiscal year.

Listing of Notes on the SGX-ST

Approval in-principle has been received from the SGX-ST for the listing and quotation of Notes that may be issued under the Program and which are agreed, at or prior to the time of issue thereof, to be so listed on the SGX-ST. Such permission will be granted when such Notes have been admitted to the Official List of the SGX-ST. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in another currency).

Documents Available

From the date hereof and so long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(i) the Articles of Incorporation (together with English translations) of the Issuer;

(ii) the most recently published English version of audited consolidated annual financial statements of the Issuer and the most recently published English version of unaudited condensed consolidated interim financial statements of the Issuer;

(iii) the Programme Agreement, the Agency Agreement and any supplements and amendments thereto, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(iv) a copy of this Offering Circular;

(v) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (except that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and

(vi) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes in bearer form have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC.

The CUSIP and/or CINS numbers (if any) for each Tranche of Registered Notes, together with the relevant ISIN and common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Independent Auditors

The consolidated financial statements of the Company as of and for the year ended 31 December 2017, 2018 and 2019 and for each of the years in the three-year period ended 31 December 2019, included in this Offering Circular, have been audited by KPMG Samjong Accounting Corp, independent auditors, as stated in their report appearing herein.

With respect to the unaudited condensed consolidated interim financial statements of the Company as of 30 September 2020 and for the nine-month periods ended 30 September 2019 and 2020, included in this Offering

Circular, KPMG Samjong Accounting Corp has reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report appearing herein states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their separate report on such information should be restricted in light of the limited nature of the review procedures applied.

INDEX TO FINANCIAL STATEMENTS

Condensed Consolidated Interim Financial Statements as of and for the nine months ended 30 September 2019 and 2020

Consolidated Financial Statements as of and for the years ended 31 December 2017, 2018 and 2019

KPMG

KPMG Samjong Accounting Corp.
27th Floor, Gangnam Finance Center,
152 Teheran-ro, Gangnam-gu, Seoul 06236
Republic of Korea

Tel +82 2 2112 0100
Fax +82 2 2112 0101
www.kpmg.com/kr

Independent Auditors' Review Report

To The Board of Directors and Shareholders of
Hyundai Capital Services, Inc.:

Reviewed Financial Statements

We have reviewed the accompanying condensed consolidated interim financial statements of Hyundai Capital Services, Inc. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of September 30, 2020, the condensed consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2020 and 2019, changes in equity and cash flows for the nine-month periods ended September 30, 2020 and 2019, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards (K-IFRS) No.1034, *Interim Financial Reporting*, 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.

Auditors' Responsibility for the Review of the Consolidated Financial Statements

Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034, *Interim Financial Reporting*.

Other matters

The procedures and practices utilized in the Republic of Korea to review such condensed consolidated interim financial statements may differ from those generally accepted and applied in other countries.

The consolidated statement of financial position of the Group as of December 31, 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated March 12, 2020, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2019, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG Samjong Accounting Corp.

Seoul, Republic of Korea
November 13, 2020

This report is effective as of November 13, 2020, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

As of September 30, 2020 and December 31, 2019

(in millions of Korean won)

	Notes		September 30, 2020	December 31, 2019
Assets				
Cash and due from other financial institutions				
Cash and cash equivalents	4,28	₩	440,216	351,085
Due from banks	4		26,745	77,157
Short-term financial investments	5		753,109	1,218,913
			1,220,070	1,647,155
Securities				
Investments in associates and joint ventures	8		1,280,172	870,199
Measured at fair value through profit or loss	6		11,591	33,597
Measured at fair value through other comprehensive income	7		59,292	64,666
			1,351,055	968,462
Loans receivable	9,31			
Loans receivable			9,679,928	10,068,367
Allowance for loan losses			(472,109)	(530,457)
			9,207,819	9,537,910
Installment financial assets	9,31			
Automobile installment financing receivables			14,462,029	14,084,257
Allowance for loan losses			(141,211)	(126,220)
Durable goods installment financing receivables			1	1
Allowance for loan losses			(1)	(1)
Mortgage installment financing receivables			661	798
Allowance for loan losses			(106)	(35)
			14,321,373	13,958,800
Lease receivables	9			
Finance lease receivables			2,487,215	2,720,244
Allowance for loan losses			(42,378)	(43,758)
Cancelled lease receivables			34,149	35,850
Allowance for loan losses			(27,404)	(28,535)
			2,451,582	2,683,801
Leased assets	10			
Operating lease assets			4,261,807	3,233,317
Accumulated depreciation			(979,519)	(892,130)
Accumulated impairment losses			(744)	(702)
Cancelled lease assets			27,204	38,016
Accumulated impairment losses			(6,268)	(7,368)
			3,302,480	2,371,133
Property and equipment, net	12		199,857	215,541
Right-of-use assets, net	11		37,290	42,881
Other assets				
Non-trade receivables			108,985	133,210
Allowance for doubtful accounts	9		(10,867)	(11,232)
Accrued revenues			157,929	141,998
Allowance for doubtful accounts	9		(17,400)	(17,809)
Advance payments			75,983	75,493
Prepaid expenses			120,426	96,680
Intangible assets	13		114,950	136,834
Derivative assets	17,32		240,374	138,799
Leasehold deposits			21,899	21,993
Net defined benefit assets	15		4,090	7,046
			816,369	723,012
Assets held for sale	18		5,751	11,493
Total assets		₩	32,913,646	32,160,188

See accompanying notes to the condensed consolidated interim financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Financial Position (Unaudited) (Continued)

As of September 30, 2020 and December 31, 2019

(in millions of Korean won)

	Notes		September 30, 2020	December 31, 2019
Liabilities				
Borrowed funds	*14*			
Borrowings		₩	3,654,100	2,835,017
Bonds issued			23,284,676	23,549,212
			26,938,776	26,384,229
Other liabilities				
Non-trade payables			243,673	320,210
Accrued expenses			86,904	107,530
Unearned revenue			15,035	14,255
Withholdings			277,216	237,568
Derivative liabilities	*17,32*		194,067	125,428
Lease liabilities	*11*		35,417	38,472
Current tax liabilities			46,597	47,462
Employee benefit liabilities	*15*		7,510	6,994
Deposits received			247,032	269,160
Deferred income tax liabilities			109,282	96,488
Provisions	*16*		78,675	60,811
			1,341,408	1,324,378
Total liabilities			28,280,184	27,708,607
Equity				
Equity attributable to the owners of the Company				
Issued capital			496,537	496,537
Capital Surplus			388,613	388,613
Accumulated other comprehensive loss	*27*		(81,158)	(62,453)
Retained earnings	*19*		3,829,470	3,628,884
			4,633,462	4,451,581
Non-controlling interests			—	—
Total equity			4,633,462	4,451,581
Total liabilities and equity		₩	32,913,646	32,160,188

See accompanying notes to the condensed consolidated interim financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

For the three-month and nine-month periods ended September 30, 2020 and 2019

(in millions of Korean won)

	Notes	Three-month periods ended September 30, 2020	Three-month periods ended September 30, 2019	Nine-month periods ended September 30, 2020	Nine-month periods ended September 30, 2019
Operating revenue					
Interest income	*20*	₩ 3,930	11,642	14,329	26,228
Gain on valuation and sale of securities		288	113	803	411
Income on loans	*20, 21*	201,523	222,147	607,185	681,055
Income on installment financial assets	*20, 21*	155,262	151,681	466,774	444,180
Income on leases	*20, 21, 22*	298,575	270,484	829,237	777,223
Gain on sale of loans		6,715	20,748	70,555	72,143
Gain on foreign currency transactions		21,556	1,515	35,267	3,768
Dividend income		84	9	1,144	616
Other operating income	*23*	(54,169)	235,644	271,283	533,015
Total operating revenue		633,764	913,983	2,296,577	2,538,639
Operating expenses					
Interest expense	*20*	145,852	157,278	443,696	462,597
Lease expense	*21, 22*	209,675	164,961	623,820	489,927
Loss on valuation and sale of securities		(15)	94	1,600	224
Provision for loan losses	*9*	52,536	91,970	187,966	282,939
Loss on sale of loans		1,099	2,154	4,791	10,118
Loss on foreign currency transactions		(86,207)	197,974	154,518	412,520
General and administrative expenses	*24*	153,082	162,637	460,445	486,546
Other operating expenses	*23*	45,195	19,826	107,833	69,139
Total operating expenses		521,217	796,894	1,984,669	2,214,010
Operating income		112,547	117,089	311,908	324,629
Non-operating income					
Share in net income of associates and joint ventures under the equity method	*8*	20,729	17,285	59,665	47,739
Gain on sale of property and equipment		190	67	254	149
Gain on sale of intangible assets		—	—	89	—
Gain on sale of assets held-for-sale		—	—	3,324	20,751
Other		1,247	1,712	8,736	7,093
Total non-operating income		22,166	19,064	72,068	75,732
Non-operating expenses					
Share in net loss of associates and joint ventures under the equity method	*8*	323	3,139	485	4,881
Loss on sale of property and equipment		604	1	655	2
Loss on sale of intangible assets		71	—	73	—
Donation		38	332	194	565
Other		—	21	333	348
Total non-operating expenses		1,036	3,493	1,740	5,796
Profit before income taxes		133,677	132,660	382,236	394,565
Income tax expense	*25*	29,878	31,019	92,174	93,259
Profit for the period		₩ 103,799	101,641	290,062	301,306

See accompanying notes to the condensed consolidated interim financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)(Continued)

For the three-month and nine-month periods ended September 30, 2020 and 2019

(in millions of Korean won)

	Notes		Three-month periods ended September 30, 2020	Three-month periods ended September 30, 2019	Nine-month periods ended September 30, 2020	Nine-month periods ended September 30, 2019
Other comprehensive income (expense), net of income taxes	*27*					
Items that will never be reclassified to profit or loss:						
Remeasurements of defined benefit plans		₩	(791)	(883)	(2,665)	(2,209)
Net change in unrealized gains and losses on equity securities measured at fair value through other comprehensive income			2,587	(6,875)	8,299	636
Items that are or may be reclassified subsequently to profit or loss:						
Share in other comprehensive income of associates and joint ventures under the equity method			10,677	745	15,695	38,577
Net change in effective portion of cash flow hedges			28,242	(22,038)	(37,137)	(4,189)
Net change in foreign currency translation adjustments			(1,635)	(7,767)	(2,458)	(7,282)
Net change in unrealized valuation gains and losses on debt securities measured at fair value through other comprehensive income			(309)	(33)	(439)	533
Total other comprehensive income (expense), net of income taxes			38,771	(36,851)	(18,705)	26,066
Total comprehensive income for the period		₩	142,570	64,790	271,357	327,372
Profit attributtable to:						
Owners of the Company		₩	103,799	101,641	290,062	301,750
Non-controlling interests			—	—	—	(444)
		₩	103,799	101,641	290,062	301,306
Total comprehensive income attributtable to:						
Owners of the Company		₩	142,570	64,790	271,357	327,878
Non-controlling interests			—	—	—	(506)
		₩	142,570	64,790	271,357	327,372
Earnings per share						
Basic and diluted earnings per share (in won)	*26*	₩	1,045	1,023	2,921	3,039

See accompanying notes to the condensed consolidated interim financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)

For the nine-month periods ended September 30, 2020 and 2019

(in millions of Korean won)

	Equity attributable to owners of the Company								
		Share premium							
	Share capital	Additional paid-in capital	Other capital surplus	Accumulated other compre-hensive income (expense)	Equity relating to a disposal group classified as held for sale	Retained earnings	Total	Non-controlling interests	Total equity
Balances as of January 1, 2019	₩ 496,537	369,339	39,008	(146,569)	1,122	3,364,865	4,124,302	32,568	4,156,870
Total comprehensive income (expense)									
Profit for the period	—	—	—	—	—	301,750	301,750	(444)	301,306
Other comprehensive income (expense):									
Share in other comprehensive income of associates and joint ventures under the equity method	—	—	—	38,577	—	—	38,577	—	38,577
Net change in effective portion of cash flow hedges	—	—	—	(4,189)	—	—	(4,189)	—	(4,189)
Net change in foreign currency translation adjustments	—	—	—	(6,098)	75	—	(6,023)	(62)	(6,085)
Remeasurements of defined benefit plans	—	—	—	(2,209)	—	—	(2,209)	—	(2,209)
Net change in unrealized gains and losses on equity securities measured at fair value through other comprehensive income	—	—	—	636	—	—	636	—	636
Net change in unrealized valuation gains and losses on debt securities measured at fair value through other comprehensive income	—	—	—	533	—	—	533	—	533
Total comprehensive income (expense)	—	—	—	27,250	75	301,750	329,075	(506)	328,569
Transaction with owners of the Company									
Changes in subsidiaries from paid-in capital increase and others	—	—	(19,734)	—	—	—	(19,734)	19,734	—
Sale of investments in subsidiary	—	—	—	—	(1,197)	—	(1,197)	(51,796)	(52,993)
Annual dividends	—	—	—	—	—	(87,291)	(87,291)	—	(87,291)
Total transaction with owners of the Company	—	—	(19,734)	—	(1,197)	(87,291)	(108,222)	(32,062)	(140,284)
Balances as of September 30, 2019	₩ 496,537	369,339	19,274	(119,319)	—	3,579,324	4,345,155	—	4,345,155
Balances as of January 1, 2020	₩ 496,537	369,339	19,274	(62,453)	—	3,628,884	4,451,581	—	4,451,581
Total comprehensive income (expense)									
Profit for the period	—	—	—	—	—	290,062	290,062	—	290,062
Other comprehensive income (expense):									
Share in other comprehensive income of associates and joint ventures under the equity method	—	—	—	15,695	—	—	15,695	—	15,695
Net change in effective portion of cash flow hedges	—	—	—	(37,137)	—	—	(37,137)	—	(37,137)
Net change in foreign currency translation adjustments	—	—	—	(2,458)	—	—	(2,458)	—	(2,458)
Remeasurements of defined benefit plans	—	—	—	(2,665)	—	—	(2,665)	—	(2,665)
Net change in unrealized gains and losses on equity securities measured at fair value through other comprehensive income	—	—	—	8,299	—	—	8,299	—	8,299
Net change in unrealized valuation gains and losses on debt securities measured at fair value through other comprehensive income	—	—	—	(439)	—	—	(439)	—	(439)
Total comprehensive income (expense)	—	—	—	(18,705)	—	290,062	271,357	—	271,357
Transaction with owners of the Company									
Annual dividends	—	—	—	—	—	(89,476)	(89,476)	—	(89,476)
Balances as of September 30, 2020	₩ 496,537	369,339	19,274	(81,158)	—	3,829,470	4,633,462	—	4,633,462

See accompanying notes to the condensed consolidated interim financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

For the nine-month periods ended September 30, 2020 and 2019

(in millions of Korean won)

	Notes		2020	2019
Cash flows from operating activities				
Cash generated from (used in) operations	28	₩	569,223	(986,189)
Interest received			14,432	25,280
Interest paid			(447,602)	(465,741)
Dividends received			1,144	616
Income taxes paid			(75,577)	(51,031)
Net cash provided by (used in) operating activities			61,620	(1,477,065)
Cash flows from investing activities				
Dividends received from associates and joint ventures			70	105
Acquisition of investments in associates and joint ventures			(330,158)	(69,253)
Acquisition of property and equipment			(6,335)	(7,086)
Proceeds from sale of property and equipment			4,059	202
Acquisition of intangible assets			(14,836)	(17,048)
Proceeds from sale of intangible assets			354	—
Increase in leasehold deposits			(1,719)	(1,298)
Decrease in leasehold deposits			2,107	2,245
Increase in non-current assets held for sale			—	(32,316)
Proceeds from sale of non-current assets held for sale			15,000	29,437
Net cash used in investing activities			(331,458)	(95,012)
Cash flows from financing activities	28			
Proceeds from borrowings			2,642,302	1,945,533
Repayments of borrowings			(1,826,065)	(2,217,732)
Proceeds from issue of bonds			4,491,477	6,543,125
Repayments of bonds			(4,868,670)	(4,576,056)
Net decrease (increase) in derivative financial instruments			20,952	(25,943)
Repayments of lease liabilities			(11,551)	(11,044)
Dividends paid			(89,476)	(87,291)
Net cash provided by financing activities			358,969	1,570,592
Net increase (decrease) in cash and cash equivalents			89,131	(1,485)
Cash and cash equivalents at beginning of the period	28		351,085	873,041
Cash and cash equivalents in the statements of financial position at end of the period	28	₩	440,216	871,556

See accompanying notes to the condensed consolidated interim financial statements.

1. Reporting Entity

Hyundai Capital Services, Inc. (the "Company") was established on December 22, 1993, to engage in installment financing, facilities leasing and new technology financing. The Company changed its trade name from Hyundai Auto Finance Co., Ltd. to Hyundai Financial Services Co. on April 21, 1995, and changed its trade name once again to Hyundai Capital Services, Inc. on December 30, 1998. In accordance with the Monopoly Regulation and Fair Trade Act, the Company is incorporated into Hyundai Motor Company Group. As of September 30, 2020, the Company's operations are headquartered at 3 Uisadang-daero, Yeongdeungpo-gu, Seoul, Korea. Its major shareholders are Hyundai Motor Company and Kia Motors with 59.68% and 20.10% ownership, respectively.

The consolidated financial statements include the accounts of the Company and its subsidiaries, including Autopia 59^{th} Asset Back Securities Special Purpose Company(ABS SPC) with trust for the securitization, and other subsidiaries as summarized below (collectively, the "Group"). Investments in Beijing Hyundai Auto Finance Co., Ltd. and seven other associates are accounted for using the equity method.

(1) The Group's subsidiaries

Subsidiaries as of September 30, 2020 and December 31, 2019 are as follows.

Location	Ownership (%)	September 30, 2020	December 31, 2019
ABS SPCs:			
Korea	0.5	Autopia 59^{th}, 60^{th}, 62^{nd}, 63^{rd}, 64^{th}, 65^{th}, 66^{th}, 67^{th} 68^{th} 69^{th} 70^{th} ABS SPCs (*2)	Autopia 57^{th}, 58^{th}, 59^{th}, 60^{th}, 61^{st}, 62^{nd}, 63^{rd}, 64^{th}, 65^{th}, 66^{th}, 67^{th} and 68^{th} ABS SPCs (*2)
Structured Entity:			
Korea	—	Zavurov First Co., Ltd. (*3)	—
Limited liability companies:			
Germany	100	Hyundai Capital Europe GmbH (*1)	Hyundai Capital Europe GmbH (*1)
India	100	Hyundai Capital India Private Ltd.	Hyundai Capital India Private Ltd.
Brazil	100	Hyundai Capital Brasil LTDA	Hyundai Capital Brasil LTDA
Stock company:			
Australia	100	Hyundai Capital Australia Pty Limited	Hyundai Capital Australia Pty Limited
Trusts:			
Korea	100	Specified money trust (6 trusts)	Specified money trust (21 trusts)

(*1) Hyundai Capital Europe GmbH holds 100% ownership interests of Hyundai Capital Services Limited Liability Company in Russia.

(*2) ABS SPCs are established for asset liquidation purposes. Although the Group owns less than 50% of the shares of subsidiaries, it is considered that the Group has control over the companies as it is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

(*3) It is established to finance real estate project. Although the Group owns less than 50% of the shares of subsidiary, it is considered that the Group has control over the company as it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(2) Changes in subsidiaries

Except for any changes in specified money trust accounts, the list of subsidiaries that are newly included in and excluded from the Group's consolidated financial statements during the nine-month period ended September 30, 2020 is as follows:

(a) Subsidiaries newly included in the consolidated financial statements during the nine-month period ended September 30, 2020

- Autopia 69th, and 70th ABS SPCs (including trust for asset securitization): SPCs newly established for the Autopia asset securitization program.
- Zavurov First Co., Ltd.: structured entity newly established to finance real estate project.

(b) Subsidiaries excluded from the consolidated financial statements during the nine-month period ended September 30, 2020

- Autopia 57th, 58th and 61st ABS SPCs (including trusts for asset securitization): SPCs dissolved.

(3) Key financial information of subsidiaries

Key financial information of subsidiaries as of and for the nine-month period ended September 30, 2020 is summarized as follows:

(in millions of Korean won)		Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the period	Total compre-hensive income (loss)
Hyundai Capital Europe GmbH	₩	20,855	1,547	19,308	9,031	2,306	19
Hyundai Capital India Private Ltd.		792	167	625	976	59	47
Hyundai Capital Brasil LTDA		335	—	335	38	(232)	(410)
Hyundai Capital Australia Pty Limited		1,044	71	973	823	58	77
Autopia ABS SPCs		3,392,359	3,418,283	(25,924)	83,667	24	(35,067)
Autopia ABS trusts		5,138,990	5,105,753	33,237	136,697	7,074	7,074
Zavurov First Co., Ltd.		40,245	40,245	—	404	—	—
Specified money trusts		220,064	—	220,064	64	64	64

(4) Nature of risks related to structured entities consolidated into the group

As of September 30, 2020, the Company provides guarantees to the counterparties of currency swaps in relation to asset backed securitized notes issued by Autopia 68th and 69th ABS SPCs, structured entities that the Group consolidates. These guarantees would require the Company to reimburse the swap counterparties for losses that they incur if these structured entities do not perform in accordance with the contractual terms of the swaps.

2. Basis of Preparation

(1) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards (K-IFRS), as prescribed in the Act on External Audits of Stock Companies, Etc. in the Republic of Korea.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting*, as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2019. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Covid-19 pandemic has had a negative impact on the global economy, and the Group believes it will affect the business in most of the areas the Group is operating in. The Covid-19 impact on the macroeconomic factors is reflected in the forward-looking information in calculation of the expected credit loss (ECL) allowance in the nine-month period ended September 30, 2020. The Group has been monitoring the impact of the pandemic on the global economy, the Group's business and its financial position. The effect of Covid-19 on allowance for loan losses of the Group for the nine-month period ended September 30, 2020 is included in the Note 9.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty except for changes described in Note 3. (1) were the same as those that were applied to the consolidated financial statements as of and for the year ended December 31, 2019.

(3) Measurement of fair value

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used in measuring fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used in measuring the fair value of an asset or a liability are from the different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 33.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its condensed consolidated interim financial statements are included below.

(1) Changes in accounting policies

Except for the changes as described below, the accounting policies applied by the Group in these consolidated financial statements are as same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2019. The Group has applied the following new standards, with initial application date of January 1, 2020.

K-IFRS No.1103, 'Business Combinations'

The definitions of input and process have been amended to clarify that a business can exist without including all inputs and processes required to create outputs. Also, the definition of the output of 'business combinations' has been narrower and more clearly defined, and the intensive test has been added to assess whether an acquired set of activities and assets is not a business. If it passes the test, the set of activities and assets is determined not to be a business and no further assessment is needed.

K-IFRS No.1001, 'Presentation of Financial Statements', K-IFRS No.1008, 'Accounting Policies, Changes in Accounting Estimates and Errors'

The definition of materiality in K-IFRS No.1001, *'Presentation of Financial Statements'* and K-IFRS No.1008, *'Accounting Policies, Changes in Accounting Estimates and Errors*' has been clarified by aligning the wording in IFRS Standards with the 'Conceptual Framework for Financial Reporting'.

K-IFRS No.1109, 'Financial Instruments', K-IFRS No.1107, 'Financial Instruments: Disclosures'

The interest rate benchmark reform has added an exception that allows hedge accounting to be applied while uncertainty exists. In a hedging relationship, it is assumed that the interest rate benchmark on which the hedged cash flow are based is not changed by the interest rate benchmark reform when reviewing the probability of occurrence of forecast transaction and the prospective assessment of the hedge effectiveness. For hedges of non-contractually specified interest rate risk components, the requirement that the hedged risk should be separately identifiable applies only at the inception of the hedging relationship. This application of exception is ended when the uncertainty arising from interest rate benchmark reform is no longer present with the respect to the timing and the amount of the interest rate benchmark-based cash flow of hedged item, or the hedging relationship is discontinued. The Group's significant interest rate benchmark for hedging relationships is LIBOR rates. The effect of the adoption of this amendment is described in Note 17.

K-IFRS No.1116, 'Leases'

The spread of COVID-19 has led to the frequent case of rent concession by lessors, such as rent reductions or deferrals of lease payments. In order to ease the administrative burden of lease accounting for lessees, the practical expedient has been added in K-IFRS No.1116. The lessee can apply the practical expedient if the rent concessions are a direct consequence of the COVID-19 pandemic, meet certain conditions, and can be recognized in profit or loss for the period in which the change in lease payments occurs.

(2) New accounting standards issued but not yet effective

There is no new standard issued and or effective for annual periods beginning after January 1, 2020.

4. Due from Banks

Restricted accounts due from banks as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019	Restriction
Nonghyup Bank and 2 others	₩	16,400	16,400	Loans secured by saving accounts
Hana Bank and 2 others		10	10	Key money deposits for checking account
Citi Bank and 7 others		34,164	76,775	Deposits in trust of ABS SPCs
	₩	50,574	93,185	

5. Short-term Financial Investments

Short-term financial investments as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)			Carrying amount	
		Acquisition cost	September 30, 2020	December 31, 2019
Commercial paper	₩	495,907	496,271	1,028,450
Bank debenture		175,252	176,411	—
Government and public bonds		80,000	80,427	190,463
	₩	751,159	753,109	1,218,913

For liquidity management, the Group holds surplus funds in excess of immediate funding needs. These surplus funds are invested in short-term, highly liquid and investment grade money market instruments, which provide liquidity for the Group's short-term funding needs and flexibility in the use of other funding sources.

6. Securities Measured at Fair Value through Profit or Loss

Securities measured at fair value through profit or loss as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		Carrying amount	
		September 30, 2020	December 31, 2019
Equity securities (*1)	₩	—	—
Debt securities (*2)			
Multi asset KDB Ocean value up Private Fund Special Asset Trust 8		5,217	5,675
KOTAM SML Private Fund Special Asset Trust 1		—	2,013
Multi asset KDB Ocean value up Private Fund Special Asset Trust PR-2		—	22,433
Asia Pacific No.49 Ship Investment Co., Ltd.		374	476
Wooricard Auto 1st Private Placing Corporate Bond (*3)		3,000	3,000
KB Capital Auto ABS SPC (Equity tranche) (*3)		3,000	—
		11,591	33,597
	₩	11,591	33,597

(*1) The Group recognized impairment losses except for memorandum values before previous year.

(*2) The fair values of the debt securities are quoted from an independent valuation service provider, using the valuation technique based on the NAV (net asset value) approach or the dividend discount model.

(*3) It is measured at acquisition cost as the information is not enough for fair value measurement.

7. Securities Measured at Fair Value through Other Comprehensive Income

Securities measured at fair value through other comprehensive income as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Equity securities (*1)			
Listed equity securities	₩	35,925	29,330
Unlisted equity securities		14,057	9,704
		49,982	39,034
Debt securities			
Government and public bonds		1,693	595
Corporate bonds		7,617	25,037
		9,310	25,632
	₩	59,292	64,666

(*1) The equity securities the Group holds for the purposes of strategic alliance and others are designated as securities measured at fair value through other comprehensive income.

(a) Equity Securities

(in millions of Korean won)	Number of shares	Ownership (%)		Carrying amount September 30, 2020	Carrying amount December 31, 2019
Listed equity securities					
NICE Information Service Co., Ltd.	1,365,930	2.25	₩	26,977	19,055
NICE Holdings Co., Ltd.	491,620	1.30		8,948	10,275
Unlisted equity securities					
HYUNDAI M Partners Co., Ltd. (*1)	1,700,000	9.29		14,057	9,704
			₩	49,982	39,034

(*1) The fair value of HYUNDAI M Partners Co., Ltd. is estimated at the appraisal value quoted from an independent valuation service provider.

(b) Debt Securities

(Consol & Separate)

(in millions of Korean won)	**Issuer**		**Carrying amount September 30, 2020**	**Carrying amount December 31, 2019**
Government and public bonds (*1)	Seoul Metropolitan Rapid Transit Corp. and other Korean municipal bonds	₩	1,693	595
Corporate bonds (*2)	H&C 1st ABS SPC		5,105	5,134
	Veritas 1st ABS SPC		1,007	1,007
	Able View Tower 1st Private Placing Corporate Bond		—	13,869
	WONDERFUL GM 11th Private Placing Corporate Bond 1-1		—	5,027
	KB Capital Auto ABS SPC (Mezzanine tranche)		1,505	—
		₩	9,310	25,632

(*1) The fair value of Seoul Metropolitan Rapid Transit Corp. and other Korean municipal bonds is quoted from securities companies.

(*2) The fair values of H&C 1st ABS SPC and KB Capital Auto ABS SPC (Mezzanine tranche) are quoted from an independent valuation service provider. The fair value of Veritas 1st ABS SPC was measured as acquisition cost due to the low importance of the amount of the acquisition cost.

The following table presents reconciliation of changes in the carrying amount of loss allowance for expected credit losses on debt securities for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		**12-month expected credit losses**	
		Nine-month periods ended September 30,	
		2020	**2019**
Opening balance	₩	227	24
Provision for (release of) allowance		(202)	203
Closing balance	₩	25	227

8. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures

Details of investments in associates and joint ventures as of September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020			
	Ownership (%)	Principal place of business	Date of financial statements	Industry
Korea Credit Bureau (*1)	7.00	Korea	09/30/2020	Credit information service
Hyundai Capital UK Ltd.	29.99	U.K.	09/30/2020	Automobile finance
Beijing Hyundai Auto Finance Co., Ltd. (*3)	46.00	China	09/30/2020	Automobile finance
Hyundai Capital Canada Inc.	20.00	Canada	09/30/2020	Automobile finance
Hyundai Capital Bank Europe GmbH (*4)	49.00	Germany	09/30/2020	Automobile finance
BANCO HYUNDAI CAPITAL BRASIL S.A. (*2)	50.00	Brazil	09/30/2020	Automobile finance
Hyundai Corretora de Seguros LTDA.(*2,3)	50.00	Brazil	09/30/2020	Insurance brokerage
BAIC Hyundai Leasing Co. Ltd. (*3)	40.00	China	09/30/2020	Financial leasing

(*1) While the Group holds less than 20% of the voting rights, it has the ability to exercise significant influence through representation on the board of directors or equivalent governing body of the investee. Therefore, investments in these entities are accounted for using the equity method.

(*2) The Group and other participants have mutual rights to purchase or sell all shares held by each party in case of termination of the joint venture agreement, or violation of any local laws and regulation. The Group judged that the rights are not substantive as of September 30, 2020.

(*3) Beijing Hyundai Auto Finance Co., Ltd., Hyundai Corretora de Seguros LTDA. and BAIC Hyundai Leasing Co. Ltd. are classified as joint ventures.

(*4) Hyundai Capital Bank Europe GmbH acquired 92.07% of shares of Sixt Leasing SE in Germany during the period.

	December 31, 2019			
	Ownership (%)	Principal place of business	Date of financial statements	Industry
Korea Credit Bureau (*1)	7.00	Korea	12/31/2019	Credit information service
Hyundai Capital UK Ltd.	29.99	U.K.	12/31/2019	Automobile finance
Beijing Hyundai Auto Finance Co., Ltd. (*3)	46.00	China	12/31/2019	Automobile finance
Hyundai Capital Canada Inc.	20.00	Canada	12/31/2019	Automobile finance
Hyundai Capital Bank Europe GmbH	49.00	Germany	12/31/2019	Automobile finance
BANCO HYUNDAI CAPITAL BRASIL S.A. (*2)	50.00	Brazil	12/31/2019	Automobile finance
Hyundai Corretora de Seguros LTDA.(*2,3)	50.00	Brazil	12/31/2019	Insurance brokerage
BAIC Hyundai Leasing Co. Ltd. (*3)	40.00	China	12/31/2019	Financial leasing

(*1) While the Group holds less than 20% of the voting rights, it has the ability to exercise significant influence through representation on the board of directors or equivalent governing body of the investee. Therefore, investments in these entities are accounted for using the equity method.

(*2) The Group and other participants have mutual rights to purchase or sell all shares held by each party in case of termination of the joint venture agreement, or violation of any local laws and regulation. The Group judged that the rights are not substantive as of December 31, 2019.

(*3) Beijing Hyundai Auto Finance Co., Ltd., Hyundai Corretora de Seguros LTDA. and BAIC Hyundai Leasing Co. Ltd. are classified as joint ventures.

(2) Summary of financial information of investees

Summary of financial information of investees as of September 30, 2020 and December 31, 2019, for assets and liabilities, and for the nine-month periods ended September 30, 2020 and 2019, for revenue and income, and the reconciliation of investee's net assets to the carrying amount of the investments in the Group's financial statements are as follows:

(in millions of Korean won)	September 30, 2020						
	Total assets	Total liabilities	Share capital	Total equity	The Group's share of net assets	Goodwill	Carrying amount
Korea Credit Bureau	₩ 114,062	34,707	10,000	79,355	5,555	1,037	6,592
Hyundai Capital UK Ltd.	5,311,114	4,920,012	96,055	391,102	117,291	—	117,291
Beijing Hyundai Auto Finance Co., Ltd.	5,993,221	4,779,111	708,965	1,214,110	558,490	—	558,490
Hyundai Capital Canada Inc.	2,451,365	2,226,754	208,608	224,611	44,923	2,257	47,180
Hyundai Capital Bank Europe GmbH	5,470,370	4,463,024	14,282	1,007,346	482,256	24,012	506,268
BANCO HYUNDAI CAPITAL BRASIL S.A.	591,328	525,403	91,529	65,925	32,963	—	32,963
Hyundai Corretora de Seguros LTDA.	556	319	617	237	118	—	118
BAIC Hyundai Leasing Co. Ltd.	28,614	436	28,577	28,178	11,271	—	11,271

(in millions of Korean won)	Nine-month period ended September 30, 2020						
	Operating revenue	Interest income	Interest expense	Net income	Other compre-hensive income	Total compre-hensive income	Dividends
Korea Credit Bureau	₩ 77,957	49	—	13,268	—	13,268	1,000
Hyundai Capital UK Ltd.	118,514	115,890	32,617	44,412	(3,111)	41,301	—
Beijing Hyundai Auto Finance Co., Ltd.	328,657	321,340	139,539	83,190	40,713	123,903	—
Hyundai Capital Canada Inc.	381,198	321,248	275,720	16,807	(6,042)	10,765	—
Hyundai Capital Bank Europe GmbH	246,655	48,643	15,843	2,796	30,116	32,912	—
BANCO HYUNDAI CAPITAL BRASIL S.A.	46,780	46,780	18,988	5,959	(24,462)	(18,503)	—
Hyundai Corretora de Seguros LTDA.	27	—	—	(174)	(128)	(302)	—
BAIC Hyundai Leasing Co. Ltd.	82	—	—	(975)	1,043	68	—

(in millions of Korean won)		December 31, 2019						
		Total assets	Total liabilities	Share capital	Total equity	The Group's share of net assets	Goodwill	Carrying amount
Korea Credit Bureau	₩	96,855	30,289	10,000	66,566	4,660	1,037	5,697
Hyundai Capital UK Ltd.		5,123,938	4,774,137	96,055	349,801	104,905	—	104,905
Beijing Hyundai Auto Finance Co., Ltd.		5,726,446	4,636,239	708,965	1,090,207	501,495	—	501,495
Hyundai Capital Canada Inc.		1,970,909	1,760,110	208,608	210,799	42,160	2,279	44,439
Hyundai Capital Bank Europe GmbH		1,942,896	1,662,886	14,282	280,010	137,205	22,743	159,948
BANCO HYUNDAI CAPITAL BRASIL S.A.		672,278	587,889	91,529	84,389	42,194	—	42,194
Hyundai Corretora de Seguros LTDA.		550	12	617	538	269	—	269
BAIC Hyundai Leasing Co. Ltd.		28,440	309	28,577	28,131	11,252	—	11,252

(in millions of Korean won)		Nine-month period ended September 30, 2019						
		Operating revenue	Interest income	Interest expense	Net income	Other compre-hensive income	Total compre-hensive income	Dividends
Korea Credit Bureau	₩	66,134	257	—	9,960	—	9,960	1,500
Hyundai Capital UK Ltd.		115,644	110,815	31,233	37,049	9,556	46,605	—
Beijing Hyundai Auto Finance Co., Ltd.		319,892	305,903	141,535	71,335	29,884	101,219	—
Hyundai Capital Canada Inc.		310,158	271,208	231,494	15,378	19,219	34,597	—
Hyundai Capital Bank Europe GmbH		51,838	42,305	5,839	(5,902)	7,365	1,463	—
BANCO HYUNDAI CAPITAL BRASIL S.A.		9,029	9,029	4,031	(4,656)	(2,768)	(7,424)	—
Hyundai Corretora de Seguros LTDA.		—	—	—	3	—	3	—

(3) Reconciliation of changes in investments in associates and joint ventures

The following tables present a reconciliation of changes in the carrying amounts of investments in associates and joint ventures for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month period ended September 30, 2020					
		Opening balance	Acquisition	Share in net income	Share in other compre-hensive income (loss)	Dividends	Closing balance
Korea Credit Bureau	₩	5,697	—	965	—	(70)	6,592
Hyundai Capital UK Ltd.		104,905	—	13,319	(933)	—	117,291
Beijing Hyundai Auto Finance Co., Ltd.		501,495	—	38,267	18,728	—	558,490
Hyundai Capital Canada Inc.		44,439	—	3,972	(1,231)	—	47,180
Hyundai Capital Bank Europe GmbH		159,948	330,158	143	16,019	—	506,268
BANCO HYUNDAI CAPITAL BRASIL S.A.		42,194	—	3,000	(12,231)	—	32,963
Hyundai Corretora de Seguros LTDA.		269	—	(87)	(64)	—	118
BAIC Hyundai Leasing Co. Ltd.		11,252	—	(399)	418	—	11,271
	₩	870,199	330,158	59,180	20,706	(70)	1,280,173

(in millions of Korean won)		Nine-month period ended September 30, 2019						
		Opening balance	Acquisition	Share in net income	Share in other compre-hensive income (loss)	Dividends	Others	Closing balance
Korea Credit Bureau	₩	5,657	—	738	—	(105)	—	6,290
Hyundai Capital UK Ltd.		72,744	—	11,111	2,865	—	—	86,720
Beijing Hyundai Auto Finance Co., Ltd.		460,139	—	32,814	13,747	—	—	506,700
Hyundai Capital Canada Inc.		36,088	—	3,076	3,843	—	—	43,007
Hyundai Capital Bank Europe GmbH		—	136,749	(2,553)	31,840	—	—	166,036
BANCO HYUNDAI CAPITAL BRASIL S.A.		14,713	30,375	(2,328)	(1,384)	—	3	41,379
Hyundai Corretora de Seguros LTDA.		—	308	1	(19)	—	—	290
	₩	589,341	167,432	42,859	50,892	(105)	3	850,422

9. Financial Receivables

(1) Carrying amount

Financial receivables measured at amortized costs as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020				
		Unpaid outstanding principal balance	Deferred loan costs, net of fees (Initial direct fees, net of costs on finance leases)	Present value discounts	Allowance for loan losses	Carrying amount
Loans receivable						
Loans	₩	9,632,966	49,054	(2,092)	(472,109)	9,207,819
Installment financial assets						
Automobile		14,818,774	(356,745)	—	(141,211)	14,320,818
Durable goods		1	—	—	(1)	—
Mortgage		660	1	—	(106)	555
		14,819,435	(356,744)	—	(141,318)	14,321,373
Lease receivables						
Finance lease receivables		2,487,422	(207)	—	(42,378)	2,444,837
Cancelled lease receivables		34,149	—	—	(27,404)	6,745
		2,521,571	(207)	—	(69,782)	2,451,582
	₩	26,973,972	(307,897)	(2,092)	(683,209)	25,980,774

(in millions of Korean won)		December 31, 2019				
		Unpaid outstanding principal balance	Deferred loan costs, net of fees (Initial direct fees, net of costs on finance leases)	Present value discounts	Allowance for loan losses	Carrying amount
Loans receivable						
Loans	₩	10,016,975	52,543	(1,151)	(530,457)	9,537,910
Installment financial assets						
Automobile		14,512,402	(428,145)	—	(126,220)	13,958,037
Durable goods		1	—	—	(1)	—
Mortgage		797	1	—	(35)	763
		14,513,200	(428,144)	—	(126,256)	13,958,800
Lease receivables						
Finance lease receivables		2,720,543	(299)	—	(43,758)	2,676,486
Cancelled lease receivables		35,850	—	—	(28,535)	7,315
		2,756,393	(299)	—	(72,293)	2,683,801
	₩	27,286,568	(375,900)	(1,151)	(729,006)	26,180,511

(2) Reconciliation of changes in allowance for loan losses

The following tables present a reconciliation of changes in ECL allowance for loan losses including allowance for doubtful accounts for other assets for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)	Nine-month period ended September 30, 2020											
	Loans receivable				Installment financial assets			Lease receivables				
	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Other assets	Total
Opening balance	₩ 154,645	97,018	217,666	61,128	58,976	27,419	39,861	15,582	9,024	47,687	29,041	758,047
Movements between the three stages												
Transferred to 12-month expected credit losses	20,328	(18,155)	(2,173)	—	8,085	(6,690)	(1,395)	4,642	(2,656)	(1,986)	—	—
Transferred to lifetime expected credit losses	(18,877)	20,218	(1,341)	—	(5,326)	5,968	(642)	(1,177)	2,198	(1,021)	—	—
Transferred to credit-impaired	(3,237)	(8,881)	12,118	—	(449)	(1,803)	2,252	(207)	(844)	1,051	—	—
Disposals	—	—	(76,249)	(38,038)	—	—	(25,528)	(2,241)	(821)	(57)	—	(142,934)
Charge-offs	—	—	(76,367)	(40,399)	—	—	(22,950)	—	—	(731)	(889)	(141,336)
Recoveries	—	—	24,125	31,089	—	—	7,492	—	—	98	1,106	63,910
Unwinding of discounts	—	—	(13,152)	(295)	—	—	(500)	—	—	(230)	—	(14,177)
Provision for (release of) allowance (*1)	(31,227)	(10,513)	147,956	24,722	(409)	5,100	51,857	(2,782)	(1,507)	5,760	(991)	187,966
Closing balance	₩ 121,632	79,687	232,583	38,207	60,877	29,994	50,447	13,817	5,394	50,571	28,267	711,476

(*1) In June 2020, HCS adjusted forward-looking information used in PD estimation to reflect the Covid-19 impact on allowances for loan losses. The Covid-19 impact on the provision is reflected in the financial statements since June 30, 2020 and the amount recognized as at June 30, 2020 is ₩14,100 million. No further adjustment was made to PD estimation based on management's analysis of facts and circumstances at September 30, 2020,

The Group is collecting receivables that were previously charged off for which the statute of limitation has not legally elapsed or due to other reasons. The contractual amounts of such receivables written off but not yet collected as of September 30, 2020 were ₩ 253,902million.

(in millions of Korean won)	Nine-month period ended September 30, 2019											
	Loans receivable				Installment financial assets			Lease receivables				
	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Other assets	Total
Opening balance	₩ 155,259	84,546	215,899	58,970	72,222	18,401	30,302	16,904	8,765	46,150	27,909	735,327
Movements between the three stages												
Transferred to 12-month expected credit losses	18,078	(15,429)	(2,649)	—	4,508	(4,185)	(323)	5,768	(2,778)	(2,990)	—	—
Transferred to lifetime expected credit losses	(18,555)	20,301	(1,746)	—	(5,845)	6,507	(662)	(1,601)	2,330	(729)	—	—
Transferred to credit-impaired	(3,421)	(7,535)	10,956	—	(359)	(969)	1,328	(206)	(706)	912	—	—
Disposals	—	—	(155,560)	(57,157)	—	—	(25,603)	—	—	(54)	—	(238,374)
Charge-offs	—	—	(57,534)	(33,327)	—	—	(17,021)	—	—	(1,168)	(736)	(109,786)
Recoveries	—	—	29,799	39,669	—	—	7,155	—	—	119	1,125	77,867
Unwinding of discounts	—	—	(9,056)	(35)	—	—	(290)	—	—	(146)	—	(9,527)
Provision for (release of) allowance	(3,548)	8,486	181,970	49,973	(6,351)	5,395	39,447	(4,790)	1,151	3,888	7,318	282,939
Others	(70)	—	—	—	—	—	—	(72)	—	—	—	(142)
Closing balance	₩ 147,743	90,369	212,079	58,093	64,175	25,149	34,333	16,003	8,762	45,982	35,616	738,304

The Group is collecting receivables that were previously charged off for which the statute of limitation has not legally elapsed or due to other reasons. The contractual amounts of such receivables written off but not yet collected as of September 30, 2019 were ₩190,366 million.

10. Leased Assets

(1) Carrying amount

Leased assets as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Operating leased assets	₩	4,261,807	(979,519)	(744)	3,281,544
Cancelled leased assets		27,204	—	(6,268)	20,936
	₩	4,289,011	(979,519)	(7,012)	3,302,480

(in millions of Korean won)		December 31, 2019			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Operating leased assets	₩	3,233,317	(892,130)	(702)	2,340,485
Cancelled leased assets		38,016	—	(7,368)	30,648
	₩	3,271,333	(892,130)	(8,070)	2,371,133

(2) Reconciliation of changes in operating leased assets

The following tables present a reconciliation of changes in the carrying amounts of operating leased assets for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month period ended September 30, 2020					
		Opening balance	Addition	Disposal	Depreciation	Impairment	Closing balance
Vehicles	₩	2,338,995	1,507,613	(170,835)	(394,187)	(42)	3,281,544
Machine equipment		1,490	—	(1,134)	(356)	—	—
	₩	2,340,485	1,507,613	(171,969)	(394,543)	(42)	3,281,544

(in millions of Korean won)		Nine-month period ended September 30, 2019					
		Opening balance	Addition	Disposal	Depreciation	Reversal of Impairment	Closing balance
Vehicles	₩	1,999,721	746,482	(218,695)	(308,638)	150	2,219,020
Machine equipment		2,074	—	—	(437)	—	1,637
	₩	2,001,795	746,482	(218,695)	(309,075)	150	2,220,657

11. Lessee

(1) Carrying amount

Amounts recognized for leases in consolidated financial statements as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Right-of-use assets			
Buildings	₩	34,674	39,631
Vehicles		339	42
Fixture and furniture		2,277	3,208
Lease liabilities			
Lease liabilities (*1)	₩	35,417	38,472

(*1) The weighted average incremental borrowing rate the Group used when recognizing and measuring the lease liabilities as of September 30, 2020 was 2.13%.

(2) Reconciliation of changes in right-of-use assets

The following table presents a reconciliation of changes in the carrying amount of the right-of-use assets for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month period ended September 30, 2020				
		Opening balance	Addition	Depreciation	Cancellation or termination	Closing balance
Buildings	₩	39,631	8,652	(13,224)	(385)	34,674
Vehicles		42	384	(87)	—	339
Fixture and furniture		3,208	—	(931)	—	2,277
	₩	42,881	9,036	(14,242)	(385)	37,290

(in millions of Korean won)		Nine-month period ended September 30, 2019				
		Opening balance	Addition	Depreciation	Cancellation or termination	Closing balance
Buildings	₩	40,038	13,082	(12,645)	(1,126)	39,349
Vehicles		188	53	(165)	—	76
Fixture and furniture		770	3,726	(977)	—	3,519
	₩	40,996	16,861	(13,787)	(1,126)	42,944

(3) Expenses on lease

The following table presents expenses on lease liabilities for the three-month and nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2020 (*1)	2019 (*1)	2020 (*1)	2019 (*1)
Interest expense from lease liabilities (belongs to interest expense)	₩	197	221	626	669
Lease payment for leases of low value items (belongs to general and administrative expenses)		95	63	267	195

(*1) The Group had no income from variable lease payment or subleasing right-of-use assets during the nine-month periods ended September 30, 2020 and 2019.

(4) Total cash outflows for lease liabilities

Total cash outflows for lease liabilities for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month periods ended September 30,	
		2020	2019
Total cash outflows for lease liabilities	₩	11,818	11,239

(5) Gains or losses arising from sale and leaseback transactions

Gains or losses arising from sale and leaseback transactions for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month periods ended September 30,	
		2020 (*1)	2019 (*2)
Gains or losses arising from sale and leaseback transactions	₩	2,843	410

(*1) The Group sold the building in a sale and leaseback transaction with a two-year contract during the nine-month period ended September 30, 2020.

(*2) The Group sold the building in a sale and leaseback transaction with a five-year contract during the nine-month period ended September 30, 2019.

12. Property and Equipment

The following tables present a reconciliation of changes in the carrying amounts of property and equipment for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)	Nine-month period ended September 30, 2020							
	Opening balance	Addition	Transfer	Disposal	Depreciation	Translation differences	Transferred to assets of a disposal group classified as held for sale	Closing balance
Land	₩ 89,290	—	—	(3,065)	—	—	(1,864)	84,361
Buildings	99,296	12	—	(1,242)	(2,225)	—	(3,887)	91,954
Vehicles	3,371	509	—	(219)	(576)	—	—	3,085
Fixture and furniture	21,155	4,812	894	(10)	(8,964)	(15)	—	17,872
Others	2,429	—	—	—	—	—	—	2,429
Construction in progress	—	1,050	(894)	—	—	—	—	156
	₩ 215,541	6,383	—	(4,536)	(11,765)	(15)	(5,751)	199,857

(in millions of Korean won)	Nine-month period ended September 30, 2019						
	Opening balance(*1)	Addition	Transfer	Disposal	Depreciation	Translation differences	Closing balance
Land	₩ 97,459	—	—	—	—	—	97,459
Buildings	105,712	7	—	—	(2,348)	—	103,371
Vehicles	3,465	734	—	(52)	(577)	1	3,571
Fixture and furniture (*1)	28,521	3,110	3,271	(3)	(12,357)	25	22,567
Others	2,429	—	—	—	—	—	2,429
Construction in progress	2,228	1,179	(3,271)	—	—	—	136
	₩ 239,814	5,030	—	(55)	(15,282)	26	229,533

(*1) Including the adjustment related to the application of K-IFRS No. 1116.

13. Intangible Assets

The following tables present a reconciliation of changes in the carrying amounts of intangible assets for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month period ended September 30, 2020							
		Opening balance	Addition	Transfer	Disposal	Depreciation	Translation differences	Transferred to assets of a disposal group classified as held for sale	Closing balance
Land	₩	89,290	—	—	(3,065)	—	—	(1,864)	84,361
Buildings		99,296	12	—	(1,242)	(2,225)	—	(3,887)	91,954
Vehicles		3,371	509	—	(219)	(576)	—	—	3,085
Fixture and furniture		21,155	4,812	894	(10)	(8,964)	(15)	—	17,872
Others		2,429	—	—	—	—	—	—	2,429
Construction in progress		—	1,050	(894)	—	—	—	—	156
	₩	215,541	6,383	—	(4,536)	(11,765)	(15)	(5,751)	199,857

(in millions of Korean won)		Nine-month period ended September 30, 2019						
		Opening balance(*1)	Addition	Transfer	Disposal	Depreciation	Translation differences	Closing balance
Land	₩	97,459	—	—	—	—	—	97,459
Buildings		105,712	7	—	—	(2,348)	—	103,371
Vehicles		3,465	734	—	(52)	(577)	1	3,571
Fixture and furniture (*1)		28,521	3,110	3,271	(3)	(12,357)	25	22,567
Others		2,429	—	—	—	—	—	2,429
Construction in progress		2,228	1,179	(3,271)	—	—	—	136
	₩	239,814	5,030	—	(55)	(15,282)	26	229,533

14. Borrowed Funds

(1) Borrowings

Borrowings as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)	Lender	Annual interest rate (%)	Maturity		Carrying amount September 30, 2020	Carrying amount December 31, 2019
Short-term borrowings:						
Commercial paper	Shinhan Bank and 4 others	1.01 ~ 2.40	October 20, 2020 through January 18, 2021	₩	430,000	260,000
General loans	Nonghyup Bank and 4 others	0.92 ~ 2.31	March 24, 2021 through September 17, 2021		450,707	80,000
					880,707	340,000
Current portion of long-term borrowings:						
Commercial paper	KTB Investment Co., Ltd. and 4 others	2.24	October 27, 2020		170,000	510,000
General loans	Kookmin Bank and 6 others	1.48 ~ 2.92	November 6, 2020 through September 23, 2021		529,486	632,501
					699,486	1,142,501
Long-term borrowings:						
Commercial paper	Kiwoom Securities Co., Ltd. and 5 others	1.40	March 7, 2022 through September 13, 2024		700,000	200,000
General loans	Kookmin Bank and 11 others	1.16 ~ 4.00	October 1, 2021 through July 10, 2024		1,373,907	1,152,516
					2,073,907	1,352,516
				₩	3,654,100	2,835,017

(2) Bonds issued

Bonds issued as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)	Annual interest rate (%)	Maturity		Carrying amount September 30, 2020	Carrying amount December 31, 2019
Short-term bonds:					
Bonds	0.97 ~	April 9, 2021 through	₩	290,000	210,000
Less: discount on bonds	1.72	August 25, 2021		(213)	(135)
				289,787	209,865
Current portion of long-term bonds:					
Bonds	1.14 ~	October 6, 2020 through		4,887,174	5,347,453
Less: discount on bonds	3.97	September 30, 2021		(1,555)	(2,669)
				4,885,619	5,344,784
Long-term bonds:					
Bonds	0.96 ~	October 1, 2021 through		18,139,050	18,025,234
Less: discount on bonds	3.38	September 24, 2030		(29,780)	(30,671)
				18,109,270	17,994,563
			₩	23,284,676	23,549,212

15. Employee benefit liabilities

(1) Defined contribution plans

The Group recognized ₩1,180 million and ₩1,199 million in the statement of comprehensive income for retirement benefits based on the defined contribution plan for the nine-month periods ended September 30, 2020 and 2019, respectively.

(2) Defined benefit plans

(a) Characteristics of the defined benefit plan

The Group operates a defined benefit plan. The plan assets are mainly comprised of interest rate guaranteed type instruments, and therefore, are exposed to the risk of declining interest rates.

(b) Reconciliation of changes in present value of defined benefit obligations

The following table presents a reconciliation of changes in the present value of defined benefit obligations for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month periods ended September 30,	
		2020	2019
Opening balance	₩	103,766	101,978
Current service costs		10,041	10,743
Interest cost		1,710	1,841
Actuarial losses (gains):			
Experience adjustments		444	(2,635)
Changes in economic assumptions		2,241	4,916
Changes in demographic assumptions		360	—
Transfer of severance benefits from (to) related parties, net		(125)	(697)
Benefits paid		(8,193)	(8,593)
Closing balance	₩	110,244	107,553

(c) Reconciliation of changes in fair value of plan assets

The following table presents a reconciliation of changes in the fair value of plan assets for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month periods ended September 30,	
		2020	2019
Opening balance	₩	110,812	101,787
Contributions		10,500	16,570
Expected return on plan assets		1,782	1,803
Actuarial losses - Changes in economic assumptions		(471)	(633)
Transfer of severance benefits from (to) related parties, net		(149)	(575)
Benefits paid		(8,140)	(8,565)
Closing balance	₩	114,334	110,387

(3) Other long-term employee benefit plans

The following table presents a reconciliation of changes in other long-term benefit liability for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month periods ended September 30,	
		2020	2019
Opening balance	₩	6,994	6,264
Current service costs		407	404
Interest cost		107	109
Actuarial losses		394	346
Benefits paid		(392)	(366)
Closing balance	₩	7,510	6,757

16. Provisions

The following tables present a reconciliation of changes in the provisions for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month period ended September 30, 2020				
		Unused loan commit-ments (*1)	Residual value guaran-tees (*2)	Asset retirement obliga-tions (*3)	Litigations	Total
Opening balance	₩	504	54,447	5,860	—	60,811
Provision for (release of) allowance		(352)	17,883	(860)	—	16,671
Provisions made for AROs and capitalized to related assets (*3)		—	—	1,105	—	1,105
Unwinding of interests		—	—	88	—	88
Closing balance	₩	152	72,330	6,193	—	78,675

(in millions of Korean won)		Nine-month period ended September 30, 2019				
		Unused loan commit-ments (*1)	Residual value guaran-tees (*2)	Asset retirement obliga-tions (*3)	Litigations	Total
Opening balance	₩	1,011	46,752	4,137	3,100	55,000
Provision for (release of) allowance		(122)	4,795	(4,041)	(3,100)	(2,468)
Provisions made for AROs and capitalized to related assets (*3)		—	—	4,084	—	4,084
Unwinding of interests		—	—	98	—	98
Closing balance	₩	889	51,547	4,278	—	56,714

(*1) The Group facilitates credits with limits, under which the Group provides commitments to extend credits. Provision is made for estimated losses arising from unused loan commitments.

(*2) The Group facilitates certain installment financial receivable products which the Group guarantees residual value of used automobiles for consumers. The Group also contracts with third party guarantor to guarantee residual value of automobiles returned by consumers. Provision is made for estimated expected losses arising from these residual value guarantees.

(*3) The Group recognizes provisions for asset retirement obligations (AROs) which represent the estimated costs to restore the existing leased properties which are discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to occur at the end of the lease contract. In order to estimate expected restoration expense, the average actual costs incurred for the past three years and five-year average inflation rate are used.

17. Derivative Financial Instruments and Hedge Accounting

(1) Trading derivatives

The Group had no balance of trading derivatives as of September 30, 2020 and December 31, 2019.

(2) Derivatives designated and qualified as hedging instruments

In the normal course of business, the Group enters into derivative contracts to manage its exposures to changes in future cash flows arising from volatilities in interest rates and foreign currency exchange rates with its borrowings and bonds issued. The Group primarily uses interest rate swaps and currency swaps to manage exposures to fluctuations in future cash flows due to interest rate risk and foreign exchange risk. There was no change in overall strategy of the Group for cash flow hedges.

The Group applies cash flow hedge accountings and the hedging relationship is affected by interest rate benchmark reform. The Group holds interest rate swap contracts with carrying amount of $ 1,346 million to avoid the cash flow variability of borrowings that is attributable to changes in the interest rate benchmark, the one-month and three-month USD LIBOR. However, the USD LIBOR will be replaced by SOFR (Secured Overnight Financing Rate) from 2022. The Group assumes that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

The hedge ratio of nominal cash flows regarding cash flow hedge as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020						
		Less than one year	Less than two years	Less than three years	Less than four years	Less than five years	Over five years	Total
Carrying amount of								
Hedged item	₩	1,957,881	2,494,099	3,164,575	1,457,477	2,322,102	837,051	12,233,185
Hedging instrument		1,957,881	2,494,099	3,164,575	1,457,477	2,322,102	837,051	12,233,185
Hedge ratio		100%	100%	100%	100%	100%	100%	100%

(in millions of Korean won)		December 31, 2019						
		Less than one year	Less than two years	Less than three years	Less than four years	Less than five years	Over five years	Total
Carrying amount of								
Hedged item	₩	1,716,453	1,712,569	2,341,386	2,211,158	1,808,246	902,340	10,692,152
Hedging instrument		1,716,453	1,712,569	2,341,386	2,211,158	1,808,246	902,340	10,692,152
Hedge ratio		100%	100%	100%	100%	100%	100%	100%

Details of cash flow hedged items as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020				
		Carrying amount		Line item	Changes in	Accumulated other comprehensive
		Assets	Liabilities	in the financial statements	fair value	income (loss)
Interest rate risk	₩	—	4,923,000	Borrowings and Bonds issued	—	(82,470)
Foreign exchange risk		30,127	7,280,058	Loans, Borrowings and Bonds issued	(102,881)	(13,714)
	₩	30,127	12,203,058		(102,881)	(96,184)

(in millions of Korean won)		December 31, 2019				
		Carrying amount		Line item	Changes in	Accumulated other comprehensive
		Assets	Liabilities	in the financial statements	fair value	income (loss)
Interest rate risk	₩	—	5,095,000	Borrowings and Bonds issued	—	(49,562)
Foreign exchange risk		28,543	5,568,610	Loans, Borrowings and Bonds issued	(183,316)	(9,485)
	₩	28,543	10,663,610		(183,316)	(59,047)

Derivatives that are designated and qualified as hedging instruments for cash flow hedges as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020				
		Notional principal	Carrying amount		Line item in the financial	Changes in
		amount (*1)	Assets	Liabilities	statements	fair value
Interest rate swaps	₩	4,923,000	68	108,630	Derivative	(43,414)
Currency swaps		7,310,185	240,306	85,437	assets (liabilities)	114,638
	₩	12,233,185	240,374	194,067		71,224

(*1) Notional principal amount represents Korean won equivalent amounts of foreign currencies for won-to-foreign currency transactions and receiving foreign currencies for foreign currency-to-foreign currency transactions that are translated with the benchmark foreign currency exchange rate disclosed by the Bank of Korea as of the reporting date.

(in millions of Korean won)		December 31, 2019				
		Notional principal	Carrying amount		Line item in the financial	Changes in
		amount (*1)	Assets	Liabilities	statements	fair value
Interest rate swaps	₩	5,095,000	1,882	67,137	Derivative	(33,734)
Currency swaps		5,597,152	136,917	58,291	assets (liabilities)	330,098
	₩	10,692,152	138,799	125,428		296,364

(*1) Notional principal amount represents Korean won equivalent amounts of foreign currencies for won-to-foreign currency transactions and receiving foreign currencies for foreign currency-to-foreign currency transactions that are translated with the benchmark foreign currency exchange rate disclosed by the Bank of Korea as of the reporting date

Changes in effective portion of cash flow hedges for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month period ended September 30, 2020			
		Opening balance	Changes in fair value recognized in other comprehensive income	Reclassified to profit or loss	Closing balance
Effective portion of cash flow hedges	₩	(77,898)	71,224	(120,217)	(126,891)
Income tax effects		18,851			30,707
Effective portion of cash flow hedges, net of income taxes	₩	(59,047)			(96,184)

(in millions of Korean won)		Nine-month period ended September 30, 2019			
		Opening balance	Changes in fair value recognized in other comprehensive income	Reclassified to profit or loss	Closing balance
Effective portion of cash flow hedges	₩	(134,975)	405,340	(410,866)	(140,501)
Income tax effects		32,664			34,001
Effective portion of cash flow hedges, net of income taxes	₩	(102,311)			(106,500)

The Group is expected to be exposed to the variability in future cash flows arising from hedged items designated as cash flow hedges, until September 7, 2029. There was no cash flow hedges discontinued during the nine-month periods ended September 30, 2020 and 2019.

There was no ineffective portion recognized in profit or loss related to cash flow hedge for the nine-month periods ended September 30, 2020 and 2019.

18. Assets Held for Sale

Details of assets held for sale as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020			
		Acquisition cost (*1)	Accumulated impairment losses	Carrying amount	Fair value
Land held for sale	₩	1,864	—	1,864	1,896
Buildings held for sale		3,887	—	3,887	3,954
	₩	5,751	—	5,751	5,850

(in millions of Korean won)		December 31, 2019			
		Acquisition cost (*1)	Accumulated impairment losses	Carrying amount	Fair value
Land held for sale	₩	8,169	—	8,169	10,662
Buildings held for sale		3,324	—	3,324	4,338
	₩	11,493	—	11,493	15,000

(*1) Acquisition cost of buildings held for sale is net of accumulated depreciation before classified as assets held for sale.

19. Equity

(1) Regulatory reserve for loan losses

According to the Specialized Credit Finance Business Act 11, the Company makes regulatory reserves for loan losses if there is a shortfall in provisions prepared in accordance with K-IFRS. The amount required by the regulation is 120% of the minimum amount specified in the Specialized Credit Finance Business Act, but less than the total outstanding amount of the loans.

Details of regulatory reserve for loan losses as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Appropriated regulatory reserve for loan losses	₩	218,712	198,594
Expected provision for regulatory reserve for loan losses		4,886	20,118
Regulatory reserve for loan losses (*1)	₩	223,598	218,712

(*1) Regulatory reserve for loan losses as of September 30, 2020 and December 31, 2019 represents the amount which reflects the expected provision for regulatory reserve for loan losses to appropriated regulatory reserve for loan losses at the beginning of the year.

Provision for regulatory reserve for loan losses and profit for the period and earnings per share adjusted with provision for regulatory reserve for loan losses for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month periods ended September 30, 2020	2019
Profit for the period	₩	290,062	301,306
Less: provision for regulatory reserve for loan losses (*1)		4,886	36,875
Profit for the period adjusted with provision for regulatory reserve for loan losses (*2)	₩	285,176	264,431
Basic and diluted earnings per share adjusted with provision for regulatory reserve for loan losses (in won)	₩	2,872	2,663

(*1) Provision for regulatory reserve for loan losses represents additional reserves expected to be made for the nine-month periods ended September 30, 2020 and 2019.

(*2) Profit for the period adjusted with provision for regulatory reserve for losses is not prepared in accordance with K-IFRS, but the amount reflects the expected provision for regulatory reserve for loan losses on a pre-tax basis on profit for the period.

(2) Retained earnings

Details of retained earnings as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Legal reserves:			
Earned surplus reserve (*1)	₩	167,110	158,162
Discretionary reserves:			
Regulatory reserve for loan losses		218,712	198,594
Reserve for electronic financial transactions		100	100
Reserve for business rationalization		74	74
		218,886	198,768
Retained earnings before appropriation		3,443,474	3,271,954
	₩	3,829,470	3,628,884

(*1) Korean Commercial Act requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends declared, until the reserve equals 50% of its issued capital. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

20. Net Interest Income

Net interest income for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2020	2019	2020	2019
Interest income:					
Interest income recognized by using the effective interest method					
Cash and due from other financial institutions	₩	3,105	11,201	11,901	24,653
Securities measured at FVOCI		258	295	814	498
Loans receivable		196,357	216,903	589,151	665,419
Installment financial assets		149,370	146,925	449,278	430,211
Lease receivables (*1)		31,869	48,985	94,463	121,758
Other (*2)		567	146	1,614	1,077
		381,526	424,455	1,147,221	1,243,616
Interest expense:					
Borrowings		16,991	20,769	51,618	64,020
Bonds issued		127,058	134,367	386,363	391,787
Other (*2)		1,803	2,142	5,715	6,790
		145,852	157,278	443,696	462,597
Net interest income	₩	235,674	267,177	703,525	781,019

(*1) Including amortization of unearned revenue for security deposits received for leases under the effective interest method.

(*2) Including amortization of present value discounts under the effective interest method for the security deposits paid for leased offices, amortization of present value discounts for customer deposits received for leases and unwinding of provisions.

21. Net Fee Income

Net fee income for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2020	2019	2020	2019
Fee income:					
Loans receivable	₩	5,166	5,244	18,034	15,636
Installment financial assets		5,892	4,757	17,496	13,969
Lease receivables		30,564	34,873	89,942	105,330
		41,622	44,874	125,472	134,935
Fee expenses:					
Lease expenses		28,830	29,278	91,227	94,637
Net fee income	₩	12,792	15,596	34,245	40,298

22. Net Lease Income

Net lease income for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Three-month periods ended September 30, 2020	Three-month periods ended September 30, 2019	Nine-month periods ended September 30, 2020	Nine-month periods ended September 30, 2019
Income on leases (*1)					
Income on operating leases	₩	179,870	147,748	498,619	431,158
Gain on sale of lease assets		18,723	10,412	43,633	35,261
Fee income on operating leases		37,550	28,466	102,580	83,716
		236,143	186,626	644,832	550,135
Lease expense (*1)					
Depreciation		150,565	107,288	394,543	309,075
Loss on sale of lease assets		6,471	10,431	67,143	33,489
Impairment losses on lease assets		(841)	464	(1,059)	976
Fee expenses on operating leases		20,490	11,858	58,706	36,373
Other		4,160	5,643	13,260	15,377
		180,845	135,684	532,593	395,290
Net lease income	₩	55,298	50,942	112,239	154,845

(*1) Excluding net interest income and net fee income

23. Other Operating Income and Expenses

Other operating income and expenses for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Three-month periods ended September 30, 2020	Three-month periods ended September 30, 2019	Nine-month periods ended September 30, 2020	Nine-month periods ended September 30, 2019
Other operating income:					
Gain on valuation of derivatives	₩	(102,122)	152,487	136,613	360,615
Gain on derivatives transactions		15,437	45,486	17,336	51,901
Gain on valuation of short-term financial investment		(814)	(1,149)	1,949	1,197
Gain on purchased loan		5,226	9,387	24,288	30,612
Shared services income		4,248	5,305	17,446	17,532
Other fee and commission		7,057	4,976	20,992	15,088
Advisory fee		12,781	11,901	35,133	39,255
Release of allowance		382	4,069	1,212	7,280
Other		3,636	3,182	16,314	9,535
	₩	(54,169)	235,644	271,283	533,015
Other operating expenses:					
Loss on valuation of derivatives	₩	21,553	860	33,732	1,651
Shared services expense		5,343	5,238	21,869	20,744
Indirect financing cost		3,137	2,620	8,527	8,238
Provision for allowance		6,323	2,018	17,883	4,812
Other		8,839	9,091	25,822	33,694
	₩	45,195	19,827	107,833	69,139

24. General and Administrative Expenses

General and administrative expenses for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Three-month periods ended September 30,		Nine-month periods ended September 30,	
		2020	2019	2020	2019
Salaries	₩	48,064	46,961	145,049	146,707
Severance benefits		4,003	6,351	12,443	14,233
Employee benefits		10,643	7,797	29,745	26,004
Advertising		10,141	13,350	29,720	42,536
Sales promotion		9,076	19,478	34,276	40,139
Rents		4,558	5,824	14,206	16,602
Utilities		2,315	2,707	7,169	7,979
Communication		3,525	3,362	9,705	10,657
Travel and transportation		486	1,523	2,606	4,457
Professional and other service fees		17,939	13,306	46,674	41,815
Outsourcing service charges		7,422	7,970	22,846	24,223
Commissions and charges		4,699	3,806	14,171	15,430
Depreciation		7,637	9,431	26,007	29,069
Amortization		11,650	10,772	34,550	32,616
Other		10,924	9,999	31,278	34,079
	₩	153,082	162,637	460,445	486,546

25. Income Taxes

(1) Income tax expense

Income tax expense for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month periods ended September 30, 2020	2019
Current income tax expense	₩	74,246	72,985
Change in deferred income tax due to temporary differences		12,795	30,871
Income tax expense recognized directly to equity		5,133	(10,597)
Income tax expense	₩	92,174	93,259

(2) Income tax expense recognized directly to equity

Income tax expense recognized directly to equity for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month period ended September 30, 2020 Opening balance	Closing balance	Changes
Unrealized gains and losses on equity securities measured at FVOCI	₩	(5,406)	(8,056)	(2,650)
Unrealized gains and losses on valuation of debt securities measured at FVOCI		(139)	(52)	87
Share in other comprehensive income of associates and joint ventures under the equity method		765	(4,246)	(5,011)
Effective portion of cash flow hedges		18,851	30,707	11,856
Remeasurements of defined benefit plans		4,468	5,319	851
	₩	18,539	23,672	5,133

(in millions of Korean won)		Nine-month period ended September 30, 2019 Opening balance	Closing balance	Changes
Unrealized gains and losses on equity securities measured at FVOCI	₩	(4,648)	(4,852)	(204)
Unrealized gains and losses on valuation of debt securities measured at FVOCI		(40)	(159)	(119)
Share in other comprehensive income of associates and joint ventures under the equity method		11,152	(1,164)	(12,316)
Effective portion of cash flow hedges		32,664	34,001	1,337
Remeasurements of defined benefit plans		5,659	6,364	705
	₩	44,787	34,190	(10,597)

(3) Effective tax rate reconciliation

The relationship between profit before income tax and income tax expense is as follows:

(in millions of Korean won)		Nine-month periods ended September 30, 2020	Nine-month periods ended September 30, 2019
Profit before income taxes (A)	₩	382,236	394,565
Income taxes at statutory tax rates		94,753	98,143
Adjustments:			
Non-deductible expense		24	132
Changes in estimates for tax provisions of the prior year		294	(630)
Others including tax credits and foreign subsidiaries		(2,897)	(4,386)
Income tax expense (B)	₩	92,174	93,259
Effective tax rate (B/A)		24.11%	23.64%

26. Earnings Per Share

(1) Basic earnings per share

Basic earnings per share attributable to common stock of equity holders for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

		Three-month periods ended September 30, 2020	Three-month periods ended September 30, 2019	Nine-month periods ended September 30, 2020	Nine-month periods ended September 30, 2019
Profit for the period attributable to owners of the Company (in won) (A)	₩	103,798,734,663	101,640,574,231	290,061,999,934	301,749,730,671
Weighted average of number of outstanding common stocks (B)		99,307,435 shares	99,307,435 shares	99,307,435 shares	99,307,435 shares
Basic earnings per share (in won) (A/B)	₩	1,045	1,023	2,921	3,039

(2) Diluted earnings per share

There are no potential common stocks as of September 30, 2020 and 2019. Therefore, the diluted earnings per share is equal to basic earnings per share for the nine-month periods ended September 30, 2020 and 2019.

27. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month period ended September 30, 2020				
			Changes			
		Opening balance	Reclassification to profit or loss	Other changes	Income tax effects	Closing balance
Net change in unrealized gains and losses on equity securities measured at FVOCI	₩	16,934	—	10,949	(2,650)	25,233
Net change in unrealized gains and losses on valuation of debt securities measured at FVOCI		602	(619)	93	87	163
Share in other comprehensive income (loss) of associates and joint ventures under the equity method		(2,398)	—	20,706	(5,011)	13,297
Net change in effective portion of cash flow hedges		(59,047)	(120,217)	71,224	11,856	(96,184)
Net change in foreign currency translation adjustments		(4,550)	—	(2,458)	—	(7,008)
Remeasurements of defined benefit plans		(13,994)	—	(3,516)	851	(16,659)
	₩	(62,453)	(120,836)	96,998	5,133	(81,158)

(in millions of Korean won)		Nine-month period ended September 30, 2019				
			Changes			
		Opening balance	Reclassification to profit or loss	Other changes	Income tax effects	Closing balance
Net change in unrealized gains and losses on equity securities measured at FVOCI	₩	14,560	—	840	(204)	15,196
Net change in unrealized gains and losses on valuation of debt securities measured at FVOCI		137	(64)	766	(169)	670
Share in other comprehensive income (loss) of associates and joint ventures under the equity method		(34,931)	—	50,893	(12,316)	3,646
Net change in effective portion of cash flow hedges		(102,311)	(410,866)	405,340	1,337	(106,500)
Net change in foreign currency translation adjustments		(6,297)	—	(6,097)	—	(12,394)
Remeasurements of defined benefit plans		(17,727)	—	(2,914)	705	(19,936)
	₩	(146,569)	(410,930)	448,828	(10,647)	(119,318)

28. Supplemental Cash Flow Information

(1) Cash and cash equivalents

Details of cash and cash equivalents as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Ordinary deposits (*1)	₩	67,178	129,217
Checking deposits		2,185	2,137
Other cash equivalents (*2)		370,853	219,731
	₩	440,216	351,085

(*1) Ordinary deposits include restricted cash at reserve accounts of Autopia ABS trusts due from other banks in the amount of ₩23,164 million and ₩65,975 million as of September 30, 2020 and December 31, 2019, respectively, for the Autopia asset securitization program.

(*2) Other cash equivalents include demand deposits, certificate of deposits, time deposits, commercial papers, repurchase agreements and other debt instruments with maturities of three months or less from the acquisition date that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Other cash equivalents include restricted cash at reserve accounts of Autopia ABS trusts due from other banks in the amount of ₩11,000 million and ₩10,800 million as of September 30, 2020 and December 31, 2019, respectively, for the Autopia asset securitization program.

(2) Cash generated from operations

Cash generated from operations for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month periods ended September 30,	
		2020	2019
Profit for the period	₩	290,062	301,306
Adjustments:			
Gain on sale of securities measured at FVTPL		(18)	(2)
Loss on sale of securities measured at FVTPL		1,432	20
Gain on valuation of securities measured at FVTPL		—	(31)
Loss on valuation of securities measured at FVTPL		168	1
Gain on sale of debt securities measured at FVOCI		(583)	(378)
Impairment loss on securities measured at FVOCI		—	203
Reversal of impairment loss on securities measured at FVOCI		(202)	—
Income on loans		23,148	41,257
Income on installment financial assets		58,536	50,671
Income on leases		30,172	26,392
Gain on foreign currency translation		(33,731)	(2,449)
Dividend income		(1,144)	(616)
Gain on valuation of derivatives		(136,613)	(360,615)
Gain on valuation of short-term financial investments		(1,949)	(1,197)
Net interest expenses		429,368	436,370
Lease expenses		393,484	310,051
Provision for loan losses		187,966	282,939
Loss on foreign currency translation		137,175	360,615
Severance benefits		11,108	11,979
Long-term employee benefits		908	859
Depreciation		26,007	29,069
Amortization		34,550	32,616
Loss on valuation of derivatives		33,732	1,651
Provision for (release of) allowance		16,671	(2,468)
Share in net income of associates and joint ventures under the equity method		(59,665)	(47,739)
Gain on sale of property and equipment		(254)	(149)
Loss on sale of property and equipment		655	2
Gain on sale of intangible assets		(89)	—
Loss on sale of intangible assets		73	—
Share in net loss of associates and joint ventures under the equity method		485	4,881
Loss on cancellation of lease		315	1,679
Gain on sale of non-current assets held for sale		(3,324)	(20,751)
Income tax expense		92,174	93,259
		1,240,555	1,248,119

(in millions of Korean won)		Nine-month periods ended September 30, 2020	2019
Changes in operating assets and liabilities:			
Decrease in due from banks	₩	50,412	36,647
Decrease (increase) in short-term financial investments		467,754	(267,404)
Decrease in securities measured at FVTPL		20,424	8,916
Decrease (increase) in securities measured at FVOCI		16,529	(20,340)
Decrease (increase) in loans receivable		177,587	(157,614)
Increase in installment financial assets		(477,658)	(1,365,450)
Increase in finance lease receivables		(121,408)	(557,632)
Decrease in cancelled lease receivables		14,313	30,287
Increase in operating lease assets		(1,335,643)	(527,788)
Decrease in cancelled lease assets		318,484	370,956
Decrease (increase) in non-trade receivables		23,880	(10,623)
Increase in accrued revenues		(16,427)	(5,889)
Decrease (increase) in advance payments		(490)	31,973
Increase in prepaid expenses		(23,226)	(23,376)
Decrease in non-trade payables		(75,902)	(81,672)
Increase (decrease) in accrued expenses		(2,461)	1,742
Increase (decrease) in unearned revenue		780	(2,303)
Increase in withholdings		39,648	74,134
Decrease in deposits received		(27,068)	(53,092)
Severance payments		(53)	(28)
Increase in plan assets		(10,501)	(16,570)
Transfer of severance benefits from (to) related parties, net		24	(122)
Decrease in long-term employee benefits		(392)	(366)
		(961,394)	(2,535,614)
	₩	569,223	(986,189)

(3) Changes in liabilities arising from financing activities

Changes in liabilities and assets that hedge liabilities arising from financing activities for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)	Nine-month period ended September 30, 2020					
			Non-cash changes			
	Opening balance	Net cash flows	Changes in foreign exchange rates	Changes in fair value	Other changes	Closing balance
Borrowings	₩ 2,835,017	816,237	2,578	—	268	3,654,100
Bonds issued	23,549,212	(377,194)	101,887	—	10,771	23,284,676
Net derivate liabilities (assets) held to hedge borrowed funds	(13,335)	20,952	(101,297)	48,560	—	(45,120)
Lease liabilities	38,472	(11,551)	—	—	8,496	35,417
	₩ 26,409,366	448,444	3,168	48,560	19,535	26,929,073

(in millions of Korean won)	Nine-month period ended September 30, 2019					
			Non-cash changes			
	Opening balance	Net cash flows	Changes in foreign exchange rates	Changes in fair value	Other changes	Closing balance
Borrowings	₩ 3,526,516	(272,199)	(870)	—	166	3,253,613
Bonds issued	20,761,764	1,967,068	360,615	—	10,708	23,100,155
Net derivate liabilities (assets) held to hedge borrowed funds	258,465	(25,944)	(358,964)	5,525	—	(120,918)
Lease liabilities	37,537	(11,044)	—	—	12,996	39,489
	₩ 24,584,282	1,657,881	781	5,525	23,870	26,272,339

29. Commitments and Contingencies

(1) Line of credit commitments

As of September 30, 2020, the Group has line-of-credit commitments from Shinhan Bank and other banks with up to ₩49,100 million in the aggregate. The Group also has revolving credit facility agreements up to USD 290 million, JPY 70,000 million, EUR 325 million and ₩2,708,000 million with Kookmin Bank and other financial institutions.

The Group offers line-of-credit commitments to a number of customers. The unused amounts of line-of-credit are ₩147,300 million as of September 30, 2020.

(2) Guarantees

Details of guarantees provided to the Group as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won) Guarantor	Details		September 30, 2020	December 31, 2019
Seoul Guarantee Insurance Co., Ltd.	Guarantee for debt collection deposit and others	₩	52,804	48,650

The Group has residual value guarantee insurance policies with DB INSURANCE CO., LTD. and another insurance carrier which cover losses resulting from defaults in mortgage loans where unpaid amounts exceed the recoverable amounts from the collateral of the loans and cover losses resulting from sales of off-lease vehicles returned where the expected residual values exceed the recoverable amounts at the end of the lease terms. Loans and leases insured by the policies and residual value guaranteed by the insurance policies as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Loans and leases insured	₩	746,094	880,374
Residual value guaranteed by the insurance policies		195,611	227,343

(3) Pending litigations

Pending litigations include 23 cases with aggregated claim amounts of ₩19,771 million where the Group is the defendant, 31 cases with aggregated claim amount of ₩3,627 million where the Group is the plaintiff, and litigations against a number of debtors to collect receivables as of September 30, 2020.

(4) Receivables transfer agreement

The Group entered into an agreement with Hyundai Card Co., Ltd., Hyundai Commercial Co., Ltd., and Fubon Hyundai Life Insurance Co., Ltd. to purchase certain delinquent receivables on a regular basis at amount agreed with the transferors.

(5) Borrowed funds agreement

As of September 30, 2020, the Group has agreements including trigger clauses regarding borrowed funds and related credit commitments, ₩1,360,000 million for creditors' credit enhancement. When the Group's credibility declines below certain level, the Group is required for advanced redemption or agreements with creditors can be invalid or cancelled.

(6) Purchase option

The Group can exercise the purchase option regarding the headquarters building which the Group is leasing when the lessor intends to sell the building or at the date when it is 4 years and 5 months from the lease inception date. In case a party with pre-emption decides not to exercise purchase option for the building, then the Group can exercise its purchase option.

(7) Agreement related to asset securitization

As of September 30, 2020, when Autopia 68th and 69th ABS SPCs default on the settlement of derivatives contracts in relation to asset backed securities, the Company has an obligation to compensate counterparties for any losses.

30. Related Party Transactions

(1) Relationships between parents and subsidiaries

The parent company is Hyundai Motor Company. Related parties include associates, joint ventures, members of key management personnel and entities which the Group controls directly or indirectly, or has joint control or significant influence over.

(2) Related parties

Related parties that have transactions, and receivables and payables with the Group as of September 30, 2020 is as follows:

Type	Company
The Parent	Hyundai Motor Company
Associates	Korea Credit Bureau, Hyundai Capital Bank Europe GmbH, Hyundai Capital Canada Inc. and Banco Hyundai Capital Brazil S.A.
Others	Kia Motors Corp., Hyundai Card Co., Ltd., Hyundai Commercial Inc., Hyundai Autoever Corp., Hyundai Glovis Co., Ltd., Hyundai Construction & Engineering Co., Ltd., Hyundai Steel Company, Hyundai Engineering Co., Ltd., Hyundai Mobis Co., Ltd., Hyundai Capital America and 47 others

(3) Transactions with related parties

Significant transactions occurred with related companies during the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)	Nine-month period ended September 30, 2020						
	Operating revenue	Operating expenses (*1)	Non-operating income	Disposal of leased assets	Purchase of leased assets	Purchase of loans and receivables	Others
The Parent							
Hyundai Motor Company	₩ 96,474	365	—	—	1,188,522	—	—
Associates							
Korea Credit Bureau	—	2,245	—	—	—	—	—
Hyundai Capital Bank Europe GmbH	1,001	637	—	—	—	—	—
Hyundai Capital Canada Inc.	13	—	—	—	—	—	—
Banco Hyundai Capital Brazil S.A	5	—	—	—	—	—	—
	1,019	2,882	—	—	—	—	—
Other related parties							
Kia Motors Corp.	73,931	345	—	—	510,443	—	—
Hyundai Card Co., Ltd.	56,179	21,821	1,370	—	—	48,158	—
Hyundai Commercial Inc.	1,543	1,558	100	—	—	44,650	—
Hyundai Glovis Co., Ltd.	291	1,157	—	74,846	—	—	—
Hyundai Autoever Corp.	188	21,573	—	—	—	—	12,690
Hyundai Capital America	26,403	(72)	—	—	—	—	—
Hyundai Engineering Co., Ltd.	798	6,198	24	—	—	—	—
Hyundai Construction & Engineering Co., Ltd.	1,407	(3)	—	—	—	—	—
Hyundai Mobis Co., Ltd.	992	(2)	—	—	—	—	—
Hyundai Steel Company	2,165	(6)	—	—	—	—	—
Others	5,574	828	—	—	—	—	24
	169,471	53,397	1,494	74,846	510,443	92,808	12,714
	₩ 266,964	56,644	1,494	74,846	1,698,965	92,808	12,714

(*1) Including provision for (release of) loan losses.

(in millions of Korean won)	Nine-month period ended September 30, 2019						
	Operating revenue	Operating expenses (*1)	Non-operating income	Disposal of leased assets	Purchase of leased assets	Purchase of loans and receivables	Others
The Parent							
Hyundai Motor Company	₩ 84,828	422	—	—	725,997	—	—
Associates							
Korea Credit Bureau	—	1,748	—	—	—	—	—
Hyundai Capital Canada Inc.	13	(3)	—	—	—	—	—
Hyundai Capital Bank Europe GmbH	771	74	—	—	—	—	—
	784	1,819	—	—	—	—	—
Other related parties							
Kia Motors Corp.	62,076	215	—	—	465,010	—	—
Hyundai Card Co., Ltd.	47,982	20,462	1,613	—	—	91,670	—
Hyundai Commercial Inc.	1,631	1,535	226	—	—	146,997	—
Hyundai Glovis Co., Ltd.	353	1,541	—	83,195	—	—	—
Hyundai Autoever Corp.	201	26,256	—	—	—	—	10,085
Hyundai Capital America	23,716	(56)	—	—	—	—	—
Hyundai Engineering Co., Ltd.	777	5,875	10	—	—	—	—
Hyundai Construction & Engineering Co., Ltd.	1,503	(11)	—	—	—	—	—
Hyundai Mobis Co., Ltd.	861	60	—	—	—	—	—
Hyundai Steel Company	2,213	(27)	—	—	—	—	—
Others	13,723	893	—	—	—	—	—
	155,036	56,743	1,849	83,195	465,010	238,667	10,085
	₩ 240,648	58,984	1,849	83,195	1,191,007	238,667	10,085

(*1) Including provision for (release of) loan losses.

Receivables and payables with related parties as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020				
		Installment financial assets and others	Allowance	Other assets	Allowance	Other liabilities(*1)
The Parent						
Hyundai Motor Company	₩	270,691	(1)	97	—	12,666
Associates						
Hyundai Capital Bank Europe GmbH		30,127	(77)	894	—	—
Other related parties						
Hyundai Card Co., Ltd.		477	(6)	3,790	(33)	24,112
Hyundai Construction & Engineering Co., Ltd.		4,125	(2)	—	—	9
Hyundai Glovis Co., Ltd.		736	(9)	4,819	(24)	6
Kia Motors Corp.		186,334	—	38	—	46,568
Hyundai Capital America		—	—	24,231	(242)	—
Hyundai Steel Company		6,210	(3)	222	—	—
Hyundai Commercial Inc.		206	(3)	1	—	16,070
Hyundai Autoever Corp.		367	—	3	—	26
Hyundai Mobis Co., Ltd.		3,300	(4)	31	—	—
Hyundai Engineering Co., Ltd.		2,557	(1)	—	—	—
Others		3,748	(7)	738	—	1
		208,060	(35)	33,873	(299)	86,792
	₩	508,878	(113)	34,864	(299)	99,458

(*1) The lease payments that the Group made related to the lease liabilities included in other liabilities were ₩485 million for the nine-month period ended September 30, 2020.

(in millions of Korean won)		December 31, 2019				
		Installment financial assets and others	Allowance	Other assets	Allowance	Other liabilities(*1)
The Parent						
Hyundai Motor Company	₩	283,804	—	10,486	(104)	20,611
Associates						
Hyundai Capital Bank Europe GmbH		28,543	(73)	1,255	—	—
Other related parties						
Hyundai Card Co., Ltd.		403	(2)	3,491	(30)	62,422
Hyundai Construction & Engineering Co., Ltd.		4,139	(5)	—	—	9
Hyundai Glovis Co., Ltd.		899	(5)	6,876	(34)	6
Kia Motors Corp.		195,579	—	7,900	(78)	67,707
Hyundai Capital America		—	—	31,416	(314)	—
Hyundai Steel Company		6,264	(9)	218	—	—
Hyundai Commercial Inc.		342	(2)	5	—	90
Hyundai Autoever Corp.		460	(1)	2	—	26
Hyundai Mobis Co., Ltd.		3,018	(5)	25	—	—
Hyundai Engineering Co., Ltd.		2,401	(3)	—	—	—
Others		4,221	(9)	814	—	3
		217,726	(41)	50,747	(456)	130,263
	₩	530,073	(114)	62,488	(560)	150,874

(*1) The lease payments that the Group made related to the lease liabilities included in other liabilities were ₩718 million for the year ended December 31, 2019.

Transactions of lending with related parties for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month period ended September 30, 2020				
		Opening balance	Increase	Decrease	Other changes(*1)	Closing balance
Transactions of lending:						
Associate						
Hyundai Capital Bank Europe GmbH	₩	28,543	—	—	1,584	30,127
Transactions of borrowing:						
Other related parties						
Hyundai Commercial Inc.	₩	—	16,000	—	—	16,000

(*1) Including effects of changes in exchange rate and others.

(in millions of Korean won)		Nine-month period ended September 30, 2019				
		Opening balance	Increase	Decrease	Other changes(*2)	Closing balance
Transactions of lending:						
Associate						
Hyundai Capital Bank Europe GmbH (*1)	₩	28,142	—	—	780	28,922

(*1) The investment in Hyundai Capital Bank Europe GmbH is accounted for using the equity method as the sale procedure was completed during the nine-month period ended September 30, 2019.

(*2) Including effects of changes in exchange rate and others.

Contribution in cash and redemption with related parties for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)		Nine-month period ended September 30, 2020	
Contribution in cash and redemption:		Contribution in cash	Redemption
Associate			
Hyundai Capital Bank Europe GmbH	₩	330,158	—

(in millions of Korean won)		Nine-month period ended September 30, 2019	
Contribution in cash and redemption:		Contribution in cash	Redemption
Associate			
Hyundai Capital Bank Europe GmbH	₩	38,570	—
BANCO HYUNDAI CAPITAL BRASIL S.A		30,375	—
Hyundai Corretora de Seguros LTDA		308	—

(4) Key management's remuneration

Key management's remuneration for the nine-month periods ended September 30, 2020 and 2019 are as follows:

(in millions of Korean won)	Nine-month periods ended September 30, 2020	2019
Short-term employee benefits	₩ 10,926	9,329
Severance benefits	2,903	1,869
Other long-term employee benefits	10	12

The key management above consists of directors (including outside directors), who have significant authority and responsibilities for planning, operating and controlling the Group.

31. Transfer of Financial Assets

The Group issued senior and subordinated asset-backed securities collateralized by loans receivable and installment financial assets and the investors in the securitized notes have recourse only to the cash flows from the transferred financial assets.

Details of financial assets transferred that are not derecognized as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Carrying amount of assets:			
Loans receivable	₩	20,986	136,026
Installment financial assets		4,808,354	4,777,491
		4,829,340	4,913,517
Carrying amount of associated liabilities (*1):	₩	(3,358,352)	(2,942,910)
For those liabilities that have recourse only to the transferred financial assets:			
Fair value of assets	₩	5,051,775	5,158,118
Fair value of associated liabilities (*1)		(3,403,762)	(2,967,769)
Net position	₩	1,648,013	2,190,349

(*1) Excluding derivatives for hedges. The Group enters into currency swaps contracts principally to manage exposures to fluctuations in future cash flows due to interest rate risk and foreign exchange risk of foreign currency denominated asset-backed securities issued.

32. Offsetting of Financial Assets and Liabilities

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognized financial instruments that are subject to the above agreements as of September 30, 2020 and December 31, 2019:

(in millions of Korean won)		September 30, 2020					
		Gross amounts of recognized financial assets /liabilities	Gross amounts of recognized financial assets /liabilities offset in the statement of financial position	Net amounts of financial assets /liabilities in the statement of financial position	Related amounts not offset in the statement of financial position		Net amounts
					Financial instruments	Cash collateral received	
Financial assets:							
Derivative assets	₩	240,374	—	240,374	97,065	—	143,309
Financial liabilities:							
Derivative liabilities		194,067	—	194,067	97,065	—	97,002

(in millions of Korean won)		December 31, 2019					
		Gross amounts of recognized financial assets /liabilities	Gross amounts of recognized financial assets /liabilities offset in the statement of financial position	Net amounts of financial assets /liabilities in the statement of financial position	Related amounts not offset in the statement of financial position		Net amounts
					Financial instruments	Cash collateral received	
Financial assets:							
Derivative assets	₩	138,799	—	138,799	71,333	—	67,466
Financial liabilities:							
Derivative liabilities		125,428	—	125,428	71,333	—	54,095

33. Fair Value Measurements of Financial Instruments

(1) Fair value of financial instruments

The fair values of financial instruments, together with carrying amounts in the statements of financial position, as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)	September 30, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and due from other financial institutions	₩ 1,220,070	1,220,070	1,647,155	1,647,155
Securities measured at FVTPL	11,591	11,591	33,597	33,597
Securities measured at FVOCI	59,292	59,292	64,666	64,666
Loans receivable	9,207,819	9,482,034	9,537,910	9,443,030
Installment financial assets	14,321,373	14,543,538	13,958,800	14,055,037
Lease receivables	2,451,582	2,556,319	2,683,801	2,737,549
Derivative assets	240,374	240,374	138,799	138,799
Non-trade receivables	98,118	98,118	121,978	121,978
Accrued revenues	140,529	140,529	124,189	124,189
Leasehold deposits	21,899	21,436	21,993	21,263
	₩ 27,772,647	28,373,301	28,332,888	28,387,263
Financial liabilities:				
Borrowings	₩ 3,654,100	3,690,003	2,835,017	2,856,921
Bonds issued	23,284,676	23,622,283	23,549,212	23,783,273
Derivative liabilities	194,067	194,067	125,428	125,428
Lease liabilities	35,417	35,417	38,472	38,472
Non-trade payables (*1)	207,492	207,492	278,878	278,878
Accrued expenses	86,904	86,904	107,530	107,530
Withholdings (*1)	240,979	240,979	203,163	203,163
Deposits received	247,032	240,308	269,160	260,828
	₩ 27,950,667	28,317,453	27,406,860	27,654,493

(*1) Excluding liabilities for taxes and dues.

The following methods and assumptions were used in fair value estimation of each class of financial instruments:

Cash and cash equivalents, and Due from banks

The carrying amount and the fair value of cash are identical. As deposits, and other cash equivalent instruments can be easily converted into cash, the carrying amount, at face value or cost plus accrued interest, approximates the fair value due to short maturity of these instruments.

Short-term financial investments and securities measured at fair value through profit or loss

In case that the market of a financial instrument is active, fair value is established at the close quoted price as of the last day for the reporting period. The fair value of investments in money market funds is determined by the sum of acquisition cost and accrued interest. The fair value of the debt securities is determined by an independent valuation service provider, using the valuation technique based on the net asset value approach (NAV model) and the dividend discount model.

Securities measured at fair value through other comprehensive income

When available, the Group measures the fair value of a security using quoted prices in an active market. If a market for a security is not active, the Group establishes fair value by using a highly accredited independent valuation agency. The independent valuation agency utilizes various valuation technique, which includes the discounted cash flow (DCF) model, the imputed market value (IMV) model, the free cash flow to equity (FCFE) model, the dividend discount model, the risk adjusted discount rate method, the market-based valuation method and the net asset valuation approach. Depending on the characteristic and nature of the instrument, the fair value is measured by using at least one valuation technique.

Loans receivable, installment financial assets, and lease receivables (Financial receivables measured at amortized costs)

The fair value is determined by using the discounted cash flow model that incorporates parameter inputs for expected maturity rate/prepayment rate, as appropriate. As the discount rate used for determining the fair value incorporates the time value of money and credit risk, the Group's discount rate system is formed to consider the market risk and the credit risk.

Derivative financial instruments

The fair value of interest rate swaps and currency swaps are determined by using the discounted cash flow (DCF) model based on a current interest rate yield curve appropriate for market interest rate as of the reporting date. The fair value of each derivative instrument measured by discounting and offsetting the probable future cash flows of swap, which are estimated based on the forward rate and the closing foreign exchange price. The fair value of each derivative is measured by offsetting and discounting the expected cash flows of the swap at appropriate discount rate which is based on forward interest rate and exchange rate that is generated by using above method. The fair value of currency forward is measured principally with the forward exchange rate which is quoted in the market at the end of reporting period considering the maturity of the currency forward. The discount rate used in measuring the fair value of currency forward is derived from CRS rate which is determined by using the spot exchange rate and the forward exchange rate based on the interest rate parity theory.

Borrowings

The fair value of borrowings is determined by using the discounted cash flow method; the fair value of a financial instrument is determined by discounting the expected future cash flows at an appropriate discount rate.

Bonds issued

The fair value of bonds is determined by using the discounted cash flow method. The fair value of bonds denominated in won and bonds denominated in foreign currencies are quoted from an reliable independent valuation service provider.

Other financial assets and liabilities

The fair value of other financial assets and other financial liabilities is determined by using the discounted cash flow method. For certain other financial assets and liabilities, carrying amount approximates fair value due to their short term nature and generally negligible credit risk. These instruments include nontrade receivables, accrued interest receivable, nontrade payables, and others.

(2) Fair value hierarchy

(a) Financial assets and liabilities measured at fair value

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)	September 30, 2020				
	Carrying	Fair	Fair value hierarchy		
	amount	value	Level 1	Level 2	Level 3
Financial assets measured at fair value:					
Short-term financial investments	₩ 753,109	753,109	—	753,109	—
Securities measured at FVTPL	11,591	11,591	—	—	11,591
Securities measured at FVOCI	59,292	59,292	35,925	9,310	14,057
Derivative assets					
Designated as hedging instruments for cash flow hedges	240,374	240,374	—	240,374	—
	₩ 1,064,366	1,064,366	35,925	1,002,793	25,648
Financial liabilities measured at fair value:					
Derivative liabilities					
Designated as hedging instruments for cash flow hedges	₩ 194,067	194,067	—	194,067	—

(in millions of Korean won)	December 31, 2019				
	Carrying	Fair	Fair value hierarchy		
	amount	value	Level 1	Level 2	Level 3
Financial assets measured at fair value:					
Short-term financial investments	₩ 1,218,913	1,218,913	—	1,218,913	—
Securities measured at FVTPL	33,597	33,597	—	—	33,597
Securities measured at FVOCI	64,666	64,666	29,330	25,632	9,704
Derivative assets					
Designated as hedging instruments for cash flow hedges	138,799	138,799	—	138,799	—
	₩ 1,455,975	1,455,975	29,330	1,383,344	43,301
Financial liabilities measured at fair value:					
Derivative liabilities					
Designated as hedging instruments for cash flow hedges	₩ 125,428	125,428	—	125,428	—

The valuation techniques and inputs for measuring the fair value of financial assets and liabilities measured at fair value in the statement of financial position and classified as Level 2 as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		Fair value			
		September 30, 2020	December 31, 2019	Valuation technique	Inputs
Financial assets measured at fair value:					
Short-term financial investments	₩	753,109	1,218,913	DCF Model	Discount rate, short-term interest rate and others
Securities measured at FVOCI		9,310	25,632	DCF Model	Discount rate
Derivative assets					
Designated as hedging instruments for cash flow hedges		240,374	138,799	DCF Model	Discount rate, short-term interest rate, foreign exchange rate and others
	₩	1,002,793	1,383,344		
Financial liabilities measured at fair value:					
Derivative liabilities					
Designated as hedging instruments for cash flow hedges	₩	194,067	125,428	DCF Model	Discount rate, short-term interest rate, foreign exchange rate and others

The following table presents a reconciliation of changes in the fair value of Level 3 instruments for the nine-month periods ended September 30, 2020 and 2019:

(in millions of Korean won)		Nine-month periods ended September 30,			
		2020		2019	
		Securities measured at FVTPL	Securities measured at FVOCI	Securities measured at FVTPL	Securities measured at FVOCI
Opening balance	₩	33,597	9,704	38,998	12,119
Acquisition		3,000	—	520	—
Gains (losses) recognized as profit (loss)		(1,582)	—	30	—
Gains (losses) recognized as other comprehensive income (loss)		—	4,353	—	(2,731)
Redemption of principal		(23,424)	—	(9,453)	—
Closing balance	₩	11,591	14,057	30,095	9,388

The valuation techniques and quantitative information of significant unobserved inputs for financial assets and liabilities measured at fair value in the statement of financial position and classified as Level 3 as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)	September 30, 2020				
	Fair value	Valuation technique	Unobservable inputs	Estimated range of unobservable inputs	Impacts on fair value
Financial assets measured at fair value:					
Securities measured at FVOCI					
Equity securities	₩ 14,057	Market-based valuation method	PBR	0.98	Fair value is likely to increase while PBR increases
Securities measured at FVTPL					
Debt securities	11,217	NAV model	Discount rate	4.79%	Fair value is likely to increase while discount rate of loan receivables decreases
	374	Dividend discount model	Discount rate	5.05%	Fair value is likely to increase while discount rate of loan receivables decreases
	₩ 25,648				

(in millions of Korean won)	December 31, 2019				
	Fair value	Valuation technique	Unobservable inputs	Estimated range of unobservable inputs	Impacts on fair value
Financial assets measured at fair value:					
Securities measured at FVOCI					
Equity securities	₩ 9,704	Market-based valuation method	PBR	1.43	Fair value is likely to increase while PBR increases
			PSR	15.16	Fair value is likely to increase while PSR increases
Securities measured at FVTPL					
Debt securities	33,121	NAV model	Discount rate	1.88% ~ 3.53%	Fair value is likely to increase while discount rate of loan receivables decreases
	476	Dividend discount model	Discount rate	8.73%	Fair value is likely to increase while discount rate of loan receivables decreases
	₩ 43,301				

(b) Financial assets and liabilities measured at amortized cost

The fair value hierarchy of financial assets and liabilities measured at amortized cost in the statement of consolidated financial position as of September 30, 2020 and December 31, 2019 is as follows:

(in millions of Korean won)	September 30, 2020				
	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets measured at amortized cost:					
Cash and cash equivalents	₩ 440,216	440,216	—	440,216	—
Due from banks	26,745	26,745	—	26,745	—
Loan receivables	9,207,819	9,482,034	—	—	9,482,034
Installment financial assets	14,321,373	14,543,538	—	—	14,543,538
Lease receivables	2,451,582	2,556,319	—	—	2,556,319
Non-trade receivables	98,118	98,118	—	—	98,118
Accrued revenues	140,529	140,529	—	—	140,529
Leasehold deposits	21,899	21,436	—	21,436	—
	₩ 26,708,281	27,308,935	—	488,397	26,820,538
Financial liabilities measured at amortized cost:					
Borrowings	₩ 3,654,100	3,690,003	—	3,690,003	—
Bonds issued	23,284,676	23,622,283	—	23,622,283	—
Lease liabilities	35,417	35,417	—	35,417	—
Non-trade payables (*1)	207,492	207,492	—	—	207,492
Accrued expenses	86,904	86,904	—	—	86,904
Withholdings (*1)	240,979	240,979	—	—	240,979
Deposits received	247,032	240,308	—	240,308	—
	₩ 27,756,600	28,123,386	—	27,588,011	535,375

(*1) Excluding liabilities for taxes and dues.

(in millions of Korean won)	December 31, 2019				
	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets measured at amortized cost:					
Cash and cash equivalents	₩ 351,085	351,085	—	351,085	—
Due from banks	77,157	77,157	—	77,157	—
Loan receivables	9,537,910	9,443,030	—	—	9,443,030
Installment financial assets	13,958,800	14,055,037	—	—	14,055,037
Lease receivables	2,683,801	2,737,549	—	—	2,737,549
Non-trade receivables	121,978	121,978	—	—	121,978
Accrued revenues	124,189	124,189	—	—	124,189
Leasehold deposits	21,993	21,263	—	21,263	—
	₩ 26,876,913	26,931,288	—	449,505	26,481,783
Financial liabilities measured at amortized cost:					
Borrowings	₩ 2,835,017	2,856,921	—	2,856,921	—
Bonds issued	23,549,212	23,783,273	—	23,783,273	—
Lease liabilities	38,472	38,472	—	38,472	—
Non-trade payables (*1)	278,878	278,878	—	—	278,878
Accrued expenses	107,530	107,530	—	—	107,530
Withholdings (*1)	203,163	203,163	—	—	203,163
Deposits received	269,160	260,828	—	260,828	—
	₩ 27,281,432	27,529,065	—	26,939,494	589,571

(*1) Excluding liabilities for taxes and dues.

The valuation techniques and inputs related to cash and cash equivalents, non-trade receivables, accrued revenues, non-trade payables, accrued expenses, withholdings are not disclosed as the Group estimates the fair value of these items equal to the carrying amount as the carrying amount is a reasonable approximation of the fair value because of short maturity of these instruments.

The valuation techniques and inputs for the fair value measurements for financial assets and liabilities measured at amortized cost in the statement of financial position and classified as Level 2 as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		Fair value			
		September 30, 2020	December 31, 2019	Valuation technique	Inputs
Financial assets measured at amortized cost:					
Due from banks	₩	26,745	77,157	DCF model	Market benchmark interest rate
Leasehold deposits		21,436	21,263	DCF model	Market benchmark interest rate
	₩	48,181	98,420		
Financial liabilities measured at amortized cost:					
Borrowings	₩	3,690,003	2,856,921	DCF model	Financing interest rate, other spreads
Bonds issued		23,622,283	23,783,273	DCF model	Discount rate
Lease liabilities		35,417	38,472	DCF model	Financing interest rate
Deposits received		240,308	260,828	DCF model	Market benchmark interest rate
	₩	27,588,011	26,939,494		

The valuation techniques and inputs for the fair value measurements of financial assets and liabilities measured at amortized cost in the statement of financial position and classified as Level 3 as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		Fair value			
		September 30, 2020	December 31, 2019	Valuation technique	Inputs
Financial assets measured at amortized cost:					
Loans and receivables	₩	9,482,034	9,443,030	DCF model	Financing interest rate, credit spread and other spreads
Installment financial assets		14,543,538	14,055,037	DCF model	Financing interest rate, credit spread and other spreads
Lease receivables		2,556,319	2,737,549	DCF model	Financing interest rate, credit spread and other spreads
	₩	26,581,891	26,235,616		

34. Financial Risk Management

The Group is exposed to credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). In order to manage these factors, the Group operates risk management policies and programs that monitor closely and respond to each of the risk factors. The Group primarily utilizes derivatives to manage specific risks.

There was no material change in the Group's risk management operations and policies subsequent to December 31, 2019.

35. Capital Management

The objective of the Group's capital management is to maintain sound capital structure. The Group uses the adjusted capital adequacy ratio under the Article 8 of Regulation on Supervision of Specialized Credit Finance Business (the Regulation) mandated by the Financial Services Commission as a capital management indicator. The ratio is calculated as adjusted equity divided by adjusted total assets based on the Company's financial position in the separate financial statements.

Adjusted capital adequacy ratios of the Company as of September 30, 2020 and December 31, 2019 are as follows:

(in millions of Korean won)		September 30, 2020	December 31, 2019
Adjusted total assets (A)	₩	31,960,736	31,459,028
Adjusted equity (B)		4,495,951	4,340,607
Adjusted capital adequacy ratio (B/A) (*1)		14.07%	13.80%

(*1) Adjusted capital adequacy ratio is calculated in accordance with Regulations on Supervision of Specialized Credit Finance Business and Detailed Regulations on Supervision of Specialized Credit Finance Business. The Company should maintain the adjusted capital adequacy ratio at 7% or above in accordance with the Regulation.

KPMG

KPMG Samjong Accounting Corp.
27th Floor, Gangnam Finance Center,
152 Teheran-ro, Gangnam-gu, Seoul 06236
Republic of Korea

Tel +82 2 2112 0100
Fax +82 2 2112 0101
www.kpmg.com/kr

Independent Auditors' Report

To the Board of Directors and Shareholders of
Hyundai Capital Services, Inc.:

Opinion

We have audited the consolidated financial statements of Hyundai Capital Services, Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the three-years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019, 2018 and 2017 of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Samjong Accounting Corp.

Seoul, Republic of Korea
March 12, 2020

This report is effective as of March 12, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2019, 2018 and 2017

(In millions of Korean won)

	Notes	December 31, 2019	December 31, 2018	December 31, 2017
Assets				
Cash and due from other financial institutions				
Cash and cash equivalents	*4,28*	₩ 351,085	873,041	609,510
Due from banks	*4*	77,157	113,902	233,238
Short-term financial investments	*5*	1,218,913	744,185	1,289,046
		1,647,155	1,731,128	2,131,794
Securities				
Available-for-sale securities	*6,8*	—	—	82,650
Investments in associates	*7*	870,199	589,341	517,431
Measured at fair value through profit or loss	*6,8*	33,597	38,998	—
Measured at fair value through other comprehensive income	*6,8*	64,666	43,240	—
		968,462	671,579	600,081
Loans receivable	*8,9,31*			
Loans receivable		10,068,367	10,292,140	10,060,627
Allowance for loan losses		(530,457)	(514,674)	(403,691)
		9,537,910	9,777,466	9,656,936
Installment financial assets	*8,9,31*			
Automobile installment financing receivables		14,084,257	12,201,880	10,135,656
Allowance for loan losses - automobile		(126,220)	(120,896)	(95,861)
Durable goods installment financing receivables		1	2	2
Allowance for loan losses - durable goods		(1)	(1)	(2)
Mortgage installment financing receivables		798	930	1,099
Allowance for loan losses - mortgage		(35)	(28)	(25)
		13,958,800	12,081,887	10,040,869
Lease receivables	*9,10*			
Finance lease receivables		2,720,244	2,606,110	2,458,555
Allowance for loan losses - finance lease		(43,758)	(44,933)	(44,824)
Cancelled lease receivables		35,850	43,793	36,631
Allowance for loan losses - cancelled lease		(28,535)	(26,886)	(26,980)
		2,683,801	2,578,084	2,423,382
Leased assets	*11*			
Operating lease assets		3,233,317	2,862,709	2,685,771
Accumulated depreciation		(892,130)	(859,995)	(797,676)
Accumulated impairment losses		(702)	(919)	(379)
Cancelled lease assets		38,016	16,747	17,421
Accumulated impairment losses		(7,368)	(5,990)	(5,345)
		2,371,133	2,012,552	1,899,792
Property and equipment, net	*12*	215,541	242,716	260,761
Right-of-use assets, net	*3*	42,881	—	—
Other assets				
Non-trade receivables		133,210	118,019	124,978
Allowance for doubtful accounts	*9*	(11,232)	(9,992)	(9,914)
Accrued revenues		141,998	133,044	119,050
Allowance for doubtful accounts	*9*	(17,809)	(17,917)	(15,984)
Advance payments		75,493	63,400	47,674
Prepaid expenses		96,680	97,391	97,818
Intangible assets	*13*	136,834	153,654	176,202
Derivative assets	*17,32*	138,799	26,542	24,670
Leasehold deposits		21,993	23,310	25,639
Net defined benefit assets	*15*	7,046	—	4,399
		723,012	587,451	594,532
Assets held for sale	*18*	11,493	5,714	—
Assets of a disposal group classified as held for sale	*37*	—	839,752	—
Total assets		₩ 32,160,188	30,528,329	27,608,147

See accompanying notes to the consolidated financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position (Continued)

As of December 31, 2019, 2018 and 2017

(In millions of Korean won)

	Notes	December 31, 2019	December 31, 2018	December 31, 2017
Liabilities				
Borrowed funds	*14*			
Borrowings		₩ 2,835,017	3,526,516	2,872,860
Bonds issued		23,549,212	20,761,764	19,142,152
		26,384,229	24,288,280	22,015,012
Other liabilities				
Non-trade payables		320,210	298,567	297,484
Accrued expenses		107,530	99,272	161,279
Unearned revenue		14,255	17,487	18,981
Withholdings		237,568	189,196	110,509
Derivative liabilities	*17, 32*	125,428	285,007	363,934
Lease liabilities	*3*	38,472	—	—
Current tax liabilities		47,462	36,857	46,026
Employee benefit liabilities	*15*	6,994	6,455	6,345
Deposits received		269,160	329,027	408,842
Deferred income tax liabilities		96,488	46,915	60,505
Provisions	*16*	60,811	55,000	49,751
		1,324,378	1,363,783	1,523,656
Liabilities directly associated with the assets of a disposal group classified as held for sale	*37*	—	719,396	—
Total liabilities		27,708,607	26,371,459	23,538,668
Equity				
Equity attributable to the owners of the Company				
Issued capital	*19*	496,537	496,537	496,537
Capital surplus		388,613	408,347	408,347
Accumulated other comprehensive loss	*27*	(62,453)	(146,569)	(38,237)
Retained earnings	*19*	3,628,884	3,364,865	3,164,079
Accumulated other comprehensive income related to a disposal group classified as held for sale	*37*	—	1,122	—
		4,451,581	4,124,302	4,030,726
Non-controlling interests		—	32,568	38,753
Total equity		4,451,581	4,156,870	4,069,479
Total liabilities and equity		₩ 32,160,188	30,528,329	27,608,147

See accompanying notes to the consolidated financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019, 2018 and 2017

(In millions of Korean won)

	Notes		2019	2018	2017
Operating revenue					
Interest income	*20*	₩	32,798	31,868	29,326
Gain on valuation and sale of securities			2,331	849	729
Income on loans	*20,21*		894,982	981,577	940,037
Income on installment financial assets	*20,21*		598,496	528,292	479,165
Income on leases	*20,21,22*		1,041,664	1,004,340	933,597
Gain on sale of loans			86,303	101,006	96,291
Gain on foreign currency transactions			12,305	42,343	588,855
Dividend income			616	5,288	2,843
Other operating income	*23*		407,889	392,372	172,701
Total operating revenue			3,077,384	3,087,935	3,243,544
Operating expenses					
Interest expense	*20*		616,579	573,720	539,536
Lease expense	*21,22*		664,711	641,141	601,147
Loss on valuation and sale of securities			226	11	100
Provision for loan losses	*9*		384,055	392,857	317,526
Loss on sale of loans			12,726	13,758	7,134
Loss on foreign currency transactions			250,487	223,805	24,978
General and administrative expenses	*24*		674,910	767,965	752,195
Other operating expenses	*23*		100,923	127,243	677,374
Total operating expenses			2,704,617	2,740,500	2,919,990
Operating income			372,767	347,435	323,554
Non-operating income					
Share in net income of associates under the equity method	*7*		67,752	60,772	68,914
Gain on sale of property and equipment			198	128	100
Gain on sale of assets held for sale			20,751	—	—
Other			8,737	10,921	9,841
Total non-operating income			97,438	71,821	78,855
Non-operating expenses					
Share in net loss of associates under the equity method	*7*		8,575	—	10
Loss on sale of property and equipment			24	121	93
Donation			1,475	3,370	1,403
Other			348	279	5
Total non-operating expenses			10,422	3,770	1,511
Profit before income taxes			459,783	415,486	400,898
Income tax expense	*25*		108,916	104,205	100,995
Profit for the year		₩	350,867	311,281	299,903

See accompanying notes to the consolidated financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Continued)

For the years ended December 31, 2019, 2018 and 2017

(In millions of Korean won)

	Notes		2019	2018	2017
Other comprehensive income (loss), net of income taxes	*27*				
Items that will never be reclassified to profit or loss:					
Remeasurements of defined benefit plans		₩	3,733	(1,250)	7,702
Net change in unrealized gains and losses on equity securities measured at fair value through other comprehensive income			2,374	3,544	—
Items that are or may be reclassified subsequently to profit or loss:					
Net change in unrealized gains and losses on available-for-sale securities			—	—	827
Share in other comprehensive loss of associates under the equity method			32,534	(5,213)	(17,409)
Net change in effective portion of cash flow hedges			43,264	(102,951)	32,592
Net change in foreign currency translation adjustments			562	(1,295)	(306)
Net change in unrealized valuation gains and losses on debt securities measured at fair value through other comprehensive income			465	134	—
Total other comprehensive income (loss), net of income taxes			82,932	(107,031)	23,406
Total comprehensive income for the year		₩	433,799	204,250	323,309
Profit attributtable to:					
Owners of the Company			351,310	318,177	310,672
Non-controlling interests			(443)	(6,896)	(10,769)
			350,867	311,281	299,903
Total comprehensive income attributtable to:					
Owners of the Company			434,304	211,039	333,553
Non-controlling interests			(505)	(6,789)	(10,244)
			433,799	204,250	323,309
Earnings per share					
Basic and diluted earnings per share (in won)	*26*	₩	3,538	3,204	3,128

See accompanying notes to the consolidated financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(In millions of Korean won)

		Equity attributable to owners of the Company								
			Capital surplus							
		Issued Capital	Additional paid-in capital	Other capital surplus	Accumulated other comprehensive income	Equity relating to a disposal group classified as held for sale	Retained earnings	Total	Non-controlling interests	Total equity
Balances as of January 1, 2017	₩	496,537	369,339	36,959	(61,118)	—	2,936,329	3,778,046	7,551	3,785,597
Total comprehensive income										
Profit for the year		—	—	—	—	—	310,672	310,672	(10,769)	299,903
Other comprehensive income (loss):										
Net change in unrealized gains and losses on available-for-sale securities		—	—	—	827	—	—	827	—	827
Share in other comprehensive income of associates under the equity method		—	—	—	(17,409)	—	—	(17,409)	—	(17,409)
Net change in effective portion of cash flow hedges		—	—	—	32,592	—	—	32,592	—	32,592
Net change in foreign currency translation adjustments		—	—	—	(831)	—	—	(831)	525	(306)
Remeasurements of defined benefit plans		—	—	—	7,702	—	—	7,702	—	7,702
Total comprehensive income		—	—	—	22,881	—	310,672	333,553	(10,244)	323,309
Transaction with owners of the Company										
Changes in subsidiaries from paid-in capital increase and others		—	—	2,049	—	—	—	2,049	41,446	43,495
Annual dividends		—	—	—	—	—	(82,922)	(82,922)	—	(82,922)
Total transaction with owners of the Company		—	—	2,049	—	—	(82,922)	(80,873)	41,446	(39,427)
Balances as of December 31, 2017	₩	496,537	369,339	39,008	(38,237)	—	3,164,079	4,030,726	38,753	4,069,479
Balances as of January 1, 2018	₩	496,537	369,339	39,008	(38,237)	—	3,164,079	4,030,726	38,753	4,069,479
Adjustment upon adoption of K-IFRS 1109 (Including tax effects)		—	—	—	(72)	—	(45,079)	(45,151)	604	(44,547)
Adjustment upon adoption of K-IFRS 1115 (Including tax effects)		—	—	—	—	—	12,794	12,794	—	12,794
Restated balances as of January 1, 2018		496,537	369,339	39,008	(38,309)	—	3,131,794	3,998,369	39,357	4,037,726
Total comprehensive income										
Profit for the year		—	—	—	—	—	318,177	318,177	(6,896)	311,281
Other comprehensive income (loss):										
Share in other comprehensive income of associates under the equity method		—	—	—	(5,213)	—	—	(5,213)	—	(5,213)
Net change in effective portion of cash flow hedges		—	—	—	(102,951)	—	—	(102,951)	—	(102,951)
Net change in foreign currency translation adjustments		—	—	—	(1,402)	—	—	(1,402)	107	(1,295)
Remeasurements of defined benefit plans		—	—	—	(1,250)	—	—	(1,250)	—	(1,250)
Net change in unrealized gains and losses on equity securities measured at fair value through other comprehensive income		—	—	—	3,544	—	—	3,544	—	3,544
Net change in unrealized valuation gains and losses on debts securities measured at fair value through other comprehensive income		—	—	—	134	—	—	134	—	134
Total comprehensive income		—	—	—	(107,138)	—	318,177	211,039	(6,789)	204,250
Other										
Transfer of equity relating to disposal group classified as held for sale		—	—	—	(1,122)	1,122	—	—	—	—
Transaction with owners of the Company										
Annual dividends		—	—	—	—	—	(85,106)	(85,106)	—	(85,106)
Balances as of December 31, 2018	₩	496,537	369,339	39,008	(146,569)	1,122	3,364,865	4,124,302	32,568	4,156,870

See accompanying notes to the consolidated financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2019

(In millions of Korean won)

	Equity attributable to owners of the Company								
		Capital surplus							
	Issued Capital	Additional paid-in capital	Other capital surplus	Accumulated other comprehensive income	Equity relating to a disposal group classified as held for sale	Retained earnings	Total	Non-controlling interests	Total equity
Balances as of January 1, 2019	₩ 496,537	369,339	39,008	(146,569)	1,122	3,364,865	4,124,302	32,568	4,156,870
Total comprehensive income									
Profit for the year	—	—	—	—	—	351,310	351,310	(443)	350,867
Other comprehensive income (loss):									
Share in other comprehensive income of associates under the equity method	—	—	—	32,534	—	—	32,534	—	32,534
Net change in effective portion of cash flow hedges	—	—	—	43,264	—	—	43,264	—	43,264
Net change in foreign currency translation adjustments	—	—	—	1,746	75	—	1,821	(62)	1,759
Remeasurements of defined benefit plans	—	—	—	3,733	—	—	3,733	—	3,733
Net change in unrealized gains and losses on equity securities measured at fair value through other comprehensive income	—	—	—	2,374	—	—	2,374	—	2,374
Net change in unrealized valuation gains and losses on debt securities measured at fair value through other comprehensive income	—	—	—	465	—	—	465	—	465
Total comprehensive income	—	—	—	84,116	75	351,310	435,501	(505)	434,996
Transaction with owners of the Company									
Changes in subsidiaries from paid-in capital increase and others	—	—	(19,734)	—	—	—	(19,734)	19,734	—
Sale of investments in subsidiary	—	—	—	—	(1,197)	—	(1,197)	(51,797)	(52,994)
Annual dividends	—	—	—	—	—	(87,291)	(87,291)	—	(87,291)
	—	—	(19,734)	—	(1,197)	(87,291)	(108,222)	(32,063)	(140,285)
Balances as of December 31, 2019	₩ 496,537	369,339	19,274	(62,453)	—	3,628,884	4,451,581	—	4,451,581

See accompanying notes to the consolidated financial statements.

HYUNDAI CAPITAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019, 2018 and 2017

(In millions of Korean won)

	Notes		2019	2018	2017
Cash flows from operating activities					
Cash generated from operations	*28*	₩	(1,544,558)	(1,550,458)	(1,623,284)
Interest received			31,529	30,981	29,666
Interest paid			(587,232)	(600,159)	(519,490)
Dividends received			616	5,288	2,843
Income taxes paid			(67,824)	(83,375)	(98,354)
Net cash used in operating activities			(2,167,469)	(2,197,723)	(2,208,619)
Cash flows from investing activities					
Dividends received from associates			105	5,480	3,895
Acquisition of investments in associates			(80,684)	(15,389)	(34,461)
Acquisition of property and equipment			(9,145)	(12,546)	(18,971)
Proceeds from sale of property and equipment			252	148	115
Acquisition of intangible assets			(27,742)	(31,411)	(33,097)
Proceeds from sale of intangible assets			—	—	61
Increase in leasehold deposits			(1,855)	(741)	(6,929)
Decrease in leasehold deposits			2,897	3,018	6,122
Increase in non-current assets held for sale			(32,316)	—	—
Proceeds from sale of non-current assets held for sale			29,437	—	—
Net cash used in investing activities			(119,051)	(51,441)	(83,265)
Cash flows from financing activities	*28*				
Proceeds from borrowings			2,545,540	3,515,871	2,722,442
Repayments of borrowings			(3,234,230)	(2,209,947)	(1,401,859)
Proceeds from issue of bonds			8,542,487	7,879,635	8,732,008
Repayments of bonds			(5,956,000)	(6,425,047)	(7,686,481)
Net increase in derivative financial instruments			(31,443)	(65,661)	55,857
Repayment of lease liabilities			(14,499)	—	—
Cash received from capital contribution from non-controlling interest			—	—	43,494
Dividends paid			(87,291)	(85,106)	(82,922)
Net cash provided by financing activities			1,764,564	2,609,745	2,382,539
Effect of exchange rate fluctuations on cash and cash equivalents held			—	—	—
Net increase (decrease) in cash and cash equivalents			(521,956)	360,581	90,655
Cash and cash equivalents at beginning of the year	*28*		873,041	609,510	518,855
Cash and cash equivalents at end of the year	*28*		351,085	970,091	609,510
Less: Cash and cash equivalents classified as assets of a disposal group held for sale	*37*		—	(97,050)	—
Cash and cash equivalents in the statements of financial position at end of the year	*27*	₩	351,085	873,041	609,510

See accompanying notes to the consolidated financial statements.

1. Reporting Entity

Hyundai Capital Services, Inc. (the "Company") was established on December 22, 1993, to engage in installment financing, facilities leasing and new technology financing. The Company changed its trade name from Hyundai Auto Finance Co., Ltd. to Hyundai Financial Services Co. on April 21, 1995, and changed its trade name once again to Hyundai Capital Services, Inc. on December 30, 1998. In accordance with the Monopoly Regulation and Fair Trade Act, the Company is incorporated into Hyundai Motor Company Group. As of December 31, 2019, the Company's operations are headquartered at 3 Uisadang-daero, Yeongdeungpo-gu, Seoul, Korea. Its major shareholders are Hyundai Motor Company and Kia Motors with 59.68% and 20.10% ownership, respectively.

The consolidated financial statements include the accounts of the Company and its subsidiaries, including Autopia 57th Asset Securitization Specialty Company (ABS SPC) with trust for the securitization, and other subsidiaries as summarized below (collectively, the "Group"). Investments in Beijing Hyundai Auto Finance Co., Ltd. and four other associates are accounted for under the equity method.

(1) The Group's subsidiaries

Subsidiaries as of December 31, 2019, 2018 and 2017 are as follows. Asset securitization vehicles are special purpose vehicles which are sponsored by the Group under its securitization program. The Group is exposed to variability of returns of the vehicles through its holding of debt securities in the vehicles and by issuing financial guarantees to the vehicles; and the Group manages key decisions that significantly affect these vehicles' returns. As a result, the Group has concluded that it controls these vehicles even though its ownership interests over these securitization vehicles do not exceed 50%.

Location	Ownership (%)	December 31, 2019	December 31, 2018	December 31, 2017
Asset securitization vehicles:				
Korea	0.5	Autopia 57th, 58th, 59th, 60th, 61st, 62nd, 63rd, 64th, 65th, 66th, 67th and 68th ABS SPCs (*1)	Autopia 55th, 56th, 57th, 58th, 59th, 60th, 61st, 62nd, 63rd, 64th, and 65th ABS SPCs (*1)	Autopia 52nd, 54th, 55th, 56th, 57th, 58th , 59th, 60th, 61st, 62nd, 63rd, and 64th ABS SPCs (*1)
Limited liability companies				
Germany	100	Hyundai Capital Europe GmbH (*2)	Hyundai Capital Europe GmbH (*2)	Hyundai Capital Europe GmbH (*2)
	65	-	Hyundai Capital Bank Europe GmbH(*3)	Hyundai Capital Bank Europe GmbH
India	100	Hyundai Capital India Private Ltd.	Hyundai Capital India Private Ltd.	Hyundai Capital India Private Ltd.
Brazil	100	Hyundai Capital Brasil LTDA	Hyundai Capital Brasil LTDA	Hyundai Capital Brasil LTDA
Stock company:				
Australia	100	Hyundai Capital Australia Pty Limited	Hyundai Capital Australia Pty Limited	Hyundai Capital Australia Pty Limited
Trusts				
Korea	100	Specified money trust (21 trusts)	Specified money trust (24 trusts)	Specified money trust (31 trusts)

(*1) Including trusts for asset securitization

(*2) Hyundai Capital Europe GmbH holds 100% ownership interests of Hyundai Capital Services Limited Liability Company located at Russia.

(*3) As the sale of 16% out of 65% shares the Group held was determined, all assets and liabilities of Hyundai Capital Bank Europe GmbH were classified as assets and liabilities of a disposal group held for sale as of December 31, 2018. (See Note 37) As of December 31, 2019, the investment in Hyundai Capital Bank Europe GmbH is accounted for using the equity method with 49% ownership as the sale of 16% ownership was completed during 2019.

(Continued)

(2) Changes in subsidiaries

Subsidiaries that were included in and excluded from the Group's consolidated financial statements, except for changes in the number of specified money trust accounts in which the Group invests, during the year ended December 31, 2019 are as follows:

(a) Subsidiaries newly included in the consolidated financial statements during the year ended December 31, 2019

- Autopia 66th, 67th, and 68th ABS SPCs (including trusts for asset securitization): structured entities newly established for the Autopia asset securitization program

(b) Subsidiaries excluded from the consolidated financial statements during the year ended December 31, 2019

- Autopia 55th and 56th ABS SPCs (including trust for asset securitization): structured entities dissolved
- Hyundai Capital Bank Europe GmbH : loss of control upon partial sale of shares.

(3) Key financial information of subsidiaries

Key financial information of subsidiaries as of and for the year ended December 31, 2019, 2018, and 2017 is summarized as follows:

(in millions of Korean won)		December 31, 2019					
		Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year	Total compre-hensive income (loss)
Hyundai Capital Europe GmbH	₩	21,220	1,931	19,289	13,607	4,716	6,241
Hyundai Capital India Private Ltd.		756	177	579	1,081	65	72
Hyundai Capital Brasil LTDA		745	—	745	2,016	717	908
Hyundai Capital Australia Pty Limited		947	51	896	1,046	36	60
Autopia ABS SPCs		2,963,234	2,954,276	8,958	81,108	3	9,363
Autopia ABS trusts		5,269,996	5,226,915	43,081	201,824	(21,662)	(21,662)
Specified money trusts		575,905	—	575,905	805	805	805

(in millions of Korean won)		December 31, 2018					
		Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year	Total compre-hensive income (loss)
Hyundai Capital Europe GmbH	₩	14,465	7,421	7,044	8,469	4,528	3,866
Hyundai Capital Bank Europe GmbH		847,846	748,013	99,833	60,131	(19,703)	(19,412)
Hyundai Capital India Private Ltd.		693	186	507	1,167	14	(9)
Hyundai Capital Brasil LTDA		8,058	—	8,058	5,045	1,774	905
Hyundai Capital Australia Pty Limited		887	51	836	1,051	86	37
Autopia ABS SPCs		2,249,630	2,250,007	(377)	85,007	(1,232)	(3,173)
Autopia ABS trusts		4,503,884	4,419,820	84,064	229,517	21,318	21,318
Specified money trusts		800,212	—	800,212	312	312	312

(Continued)

(in millions of Korean won)		December 31, 2017					
		Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year	Total compre-hensive income (loss)
Hyundai Capital Europe GmbH	₩	8,845	7,340	1,505	7,903	(2,763)	(3,456)
Hyundai Capital Bank Europe GmbH		475,203	357,685	117,518	26,337	(28,014)	(26,780)
Hyundai Capital India Private Ltd.		689	173	516	1,090	(417)	(455)
Hyundai Capital Brasil LTDA		7,154	—	7,154	6,084	2,533	1,718
Hyundai Capital Australia Pty Limited		892	93	799	1,037	89	54
Autopia ABS SPCs		3,170,278	3,167,470	2,808	206,782	(1,853)	5,961
Autopia ABS trusts		5,749,685	5,264,652	485,033	390,910	49,626	49,626
Specified money trusts		1,019,676	—	1,019,676	1,376	1,376	1,376

(4) Nature of risks related to consolidated structured entities

As of December 31, 2019, the Company provides guarantees to the counterparties of currency swaps at Autopia 59th, 60th, and 68th ABS SPCs, structured entities that the Group consolidates, in relation to asset backed securitized notes issued. These guarantees would require the Company to reimburse the swap counterparties for losses that they incur if these structured entities do not perform in accordance with the contractual terms of the swaps.

2. Basis of Preparation

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (K-IFRS), as prescribed in the Act on External Audits of Stock Companies, Etc. in the Republic of Korea.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

- Derivative financial instruments measured at fair value
- Financial instruments to be measured at fair value through profit or loss
- Financial instruments to be measured at fair value through other comprehensive income
- Liabilities for defined benefit plans that are recognized at net of the total present value of defined benefit obligations less the fair value of plan assets

(3) Functional and presentation currency

These consolidated financial statements are presented in Korean won (₩), which is the Company's functional currency and the currency of the primary economic environment in which the Group operates.

(4) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(Continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 1. (1) – Consolidation of structured entities
- Note 3. (5) – Financial assets
- Note 3. (7) – Leases
- Note 3. (13) – Employee benefits

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 7 –Investments in associates
- Note 9 – Allowance for loan losses
- Note 15 – Employment benefit liabilities
- Note 16 – Provisions
- Note 25 – Income taxes - recognition of deferred tax assets
- Note 29 – Commitments and contingencies
- Note 33 – Fair value measurements of financial instruments

(5) Measurement of fair value

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 33.

(Continued)

(6) Approval of financial statements

The Group's consolidated financial statements were approved by the board of directors on February 13, 2020 and will be submitted for approval at the annual meeting of shareholders on March 27, 2020.

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below.

(1) Changes in accounting policies

(a) ***Change in accounting policies from January 1, 2019***

Changes in accounting policies from 2018 to 2019 are described below. Except for the changes listed below, all other accounting policies applied in 2019 are consistent with the accounting policies applied in 2018

K-IFRS No. 1116, Leases

K-IFRS No. 1116, *Leases* which was published in May 2017, is effective for annual period beginning on January 1, 2019. K-IFRS No. 1116 has replaced K-IFRS No. 1017, *Leases*, K-IFRS No. 2014, *Determining whether an Arrangement contains a Lease*, K-IFRS No. 2015, *Operating Leases-Incentives* and K-IFRS No. 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Based on K-IFRS No.1116, a single lessee accounting model was adopted, thus the Group recognizes a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments. An accounting model for lessors is similar as the previous model

The Group recognized the cumulative effect of initially applying K-IFRS No. 1116 as an adjustment to the opening balance of retained earnings as of January 1, 2019 (the date of initial application). Thus, the comparative financial information was prepared applying K-IFRS No. 1017 and the related interpretation and not restated retrospectively. The items of the change in accounting for leases in detail are as follows.

1) Definition

Previously, the Group determined whether an arrangement is a lease or contains a lease at an inception date, applying K-IFRS No. 2104, *Determining whether an Arrangement contains a Lease*. Under K-IFRS No. 1116, the Group shall assess, based on the new definition of a lease, whether the contract is, or contains, a lease. According to K-IFRS No. 1116, the contract is, or contains, the lease if the contract conveys the rights to control the use of an identified asset for a period of time in exchange for consideration.

At the date of initial application of K-IFRS No. 1116, the Group decided to apply practical expedients. The Group was not required to reassess whether contracts which were previously identified as leases are, or contain, leases. Contracts which were not previously identified as leases according to K-IFRS No. 1017 and K-IFRS No. 2104 were not reassessed. Therefore, the definition of the lease according to K-IFRS No. 1116 is only applied to contracts that the Group newly enters into or which are revised after January 1, 2019.

(Continued)

2) A lessee

The Group previously classified a lease as an operating lease or a finance lease depending on whether the lease transferred substantially all the risks and rewards identical to ownership of an underlying asset as a lessee. According to K-IFRS No. 1116, the Group has recognized right-of-use assets and lease liabilities related to most of leases. Therefore, most of leases are recognized in the statement of financial position.

All lease contracts the Group has entered into were classified as operating leases applying K-IFRS No. 1017. The Group measured the lease liabilities at the present value of the lease payments that are not paid using the Group's incremental borrowing rate and the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that leases as of January 1, 2019.

When the Group applies K-IFRS No. 1116, the Group excludes initial direct costs from the measurement of the right-of-use assets at the date of initial application, using the practical expedients.

3) A lessor

The accounting the Group applies as a lessor is not different from the accounting requirements in K-IFRS No. 1017.

4) Financial effect

At the date of initial application of K-IFRS No. 1116, the Group recognized the following right-of-use assets and the lease liabilities, and there is no adjustment to the opening balance of retained earnings.

(in millions of Korean won)		January 1, 2019
Right-of-use assets		
Lease liabilities	₩	37,537
Prepayment of lease payments		557
Restoration costs		2,902
	₩	40,996
Gross amount of minimum lease payments before discount(*1)	₩	41,126
Lease liabilities at the date of initial application		37,537

(*1) Excluding short-term leases and leases for which the underlying asset is of low value.

(Continued)

The Group used the incremental borrowing rate as of January 1, 2019 to discount the lease payments. The weighted average incremental borrowing rate the Group used when recognizing and measuring the lease liabilities was 2.42%.

(in millions of Korean won)

		January 1, 2019
Operating lease agreement as of December 31, 2018	₩	41,855
Discounted amount using incremental borrowing rate as of January 1,		38,266
2019 - Application of exemption rule for leases for low value assets		(729)
Lease liabilities at the date of initial application	₩	37,537

Amounts recognized for leases in consolidated financial statements as of December 31, 2019 and January 1, 2019 are as follows:

(in millions of Korean won)

		December 31, 2019	January 1, 2019
Right-of-use assets			
Buildings	₩	39,631	40,038
Vehicles		42	188
Fixture and furniture		3,208	770
Lease liabilities			
Lease liabilities(*1)	₩	38,472	37,537

(*1) The incremental borrowing rate on weighted average the Group used when recognizing and measuring the lease liabilities as of December 31, 2019 was 2.18%.

The following table presents a reconciliation of changes in the carrying amount of the right-of-use assets for the year ended December 31, 2019.

(in millions of Korean won)		Opening balance	Addition	Depreciation	or termination	Closing balance
Buildings	₩	40,038	17,408	(16,645)	(1,170)	39,631
Vehicles		188	53	(199)	—	42
Fixture and furniture		770	3,726	(1,288)	—	3,208
	₩	40,996	21,187	(18,132)	(1,170)	42,881

The following table presents income and expenses on lease liabilities for the year ended December 31, 2019 are as follows.

(in millions of Korean won)		2019
Interest expense from lease liabilities (belongs to interest expense)	₩	886
Lease payment for leases of low value items (belongs to general and administrative expenses)		297

Total cash outflows for lease liabilities for the year ended December 31, 2019 were ₩14,796 million.

(b) Change in accounting policies from January 1, 2018

Changes in accounting policies from 2017 to 2018 are described below. Except for the changes listed below, all other accounting policies applied in 2018 are consistent with the accounting policies applied in 2017.

K-IFRS No. 1109, Financial Instruments

The Group has applied K-IFRS No. 1109, *Financial instruments* which was published in September 2015, for annual period beginning on January 1, 2018. K-IFRS 1109 has replaced K-IFRS No. 1039, *Financial instruments: recognition and measurement*.

Main characteristics of K-IFRS 1109 are followings: classification and measurement of financial instruments based on characteristics of contractual cash flows and business model for financial instrument management, impairment model based on expected credit losses, changes in qualification requirement of hedged items, enlargement of hedging instruments and changes in hedge effectiveness tests.

Pursuant to the transition rules of K-IFRS 1109, the accompanying comparative consolidated financial statements have not been retrospectively restated. Differences between the carrying amounts under K-IFRS 1039 and K-IFRS 1109 as of January 1, 2018 were recognized in the opening retained earnings (or other component of equity as appropriate). Further information is included in Note 38.

1) Classification and Measurement of Financial Assets

When K-IFRS 1109 is applied, the Group classifies financial assets to be measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”) on the basis of the Group's business model for financial assets and its contractual cash flow characteristics. If a hybrid contract contains financial assets as host contract, its embedded derivatives should not be bifurcated, and the hybrid financial instrument as a whole is assessed for classification.

	Contractual cash flow characteristics	
	Solely Payment of Principal and Interest	**Others(*2)**
Business Model		
To collect contractual cash flows	measured at amortised costs (*1)	measured at FVTPL
To collect contractual cash flows and sell financial assets	measured at FVOCI (*1)	measured at FVTPL
To sell financial asset, etc	measured at FVTPL	measured at FVTPL

(*1) The Group can irrevocably elect to classify financial assets to be measured at FVTPL at the date of initial application to eliminate or reduce accounting mismatch.

(*2) The Group can irrevocably elect to classify equity securities not held for short-term trading as to be measured at FVOCI at the date of initial application. In this case, the other comprehensive income recognized may not be recycled as profit or loss subsequently.

Conditions for the classification as financial assets to be measured at amortized costs or FVOCI are stricter under K-IFRS 1109 than K-IFRS 1039. When K-IFRS 1109 is applied, the proportion of financial assets designated as at FVTPL can be increased and the volatility of profit or loss can increase.

2) Classification and Measurement of Financial Liabilities

According to the K-IFRS 1109, changes in fair value of the financial liability designated as at FVTPL that is attributable to changes in the credit risk should be presented as other comprehensive income, not recognized in profit or loss. Recognized other comprehensive income amount will not be

(Continued)

subsequently reclassified as profit or loss. However, if recognizing the changes in fair value as other comprehensive income may create or enlarge accounting mismatch, the amounts should be recognized as profit or loss.

Changes in fair value of the financial liability designated as FVTPL under K-IFRS 1039 can be partially recognized as other comprehensive income. Therefore, volatilities in profit or loss related to fair value measurement of the financial liabilities can decrease.

3) Impairment: Financial assets and contract assets

In accordance with K-IFRS 1039, impairment is recognized only if evidence of impairment based on 'incurred loss model' is identified. In accordance with K-IFRS 1109, impairment should be recognized based on 'expected credit loss impairment model' for debt instruments, lease receivables, contract assets, loan commitments and financial guarantee contracts, measured at amortized costs or FVOCI.

Under K-IFRS 1109, after the initial recognition of financial instruments, the Group shall measure the loss allowance for the financial instruments at an amount equal to 12-month expected credit losses or the lifetime expected credit losses and classify the instruments into three stages as the following table according to the extent of increase in the credit risk on that financial instruments. Therefore, the Group recognized credit losses under K-IFRS 1109 earlier than incurred loss model under K-IFRS 1039.

Category		Description
Stage 1	Credit risk has not increased significantly since the initial recognition.(*1)	12-month expected credit losses : Expected credit loss from possible default of financial products for 12 months after reported period
Stage 2	Credit risk has increased significantly since the initial recognition	Lifetime expected credit losses : Expected credit loss from possible default of financial products for expected period of existence
Stage 3	Credit-impaired financial assets	

(*1) For debt instruments, the Group determines that credit risk has not increased significantly if the assets have low credit risk at the reporting date.

According to K-IFRS 1109, the Group shall only recognize the cumulative changes of expected credit losses since the initial recognition was made for loss allowance for financial assets of which credit was impaired at its initial recognition.

4) Hedge Accounting

Although K-IFRS 1109 maintains mechanics of hedging accounting: fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation as defined in K-IFRS 1039, the standard replaces requirements for hedge accounting defined in complex and rule-based K-IFRS 1039 with a principle-based approach which emphasizes Group's risk management activities. As a result of the changes, scope of hedged items and hedging instruments are expanded and qualifying criteria for hedge accounting are relaxed by eliminating criteria for evaluation of hedge effectiveness (80~125%) and other quantitative evaluation.

When the Group applies K-IFRS 1109, the Group can apply hedge accounting to certain transactions which did not meet conditions for hedge accounting under K-IFRS 1039. Therefore, volatility in profit or loss can decrease upon adoption of K-IFRS 1109.

(Continued)

According to the transition for hedge accounting, when the Group first applies this standard, it may choose as its accounting policy to continue to apply the hedge accounting requirements of K-IFRS 1039 instead of K-IFRS 1109.

K-IFRS No. 1115, Revenue from Contracts with Customers

The Group has applied K-IFRS No. 1115, *Revenue from Contracts with Customers* which was published on November 6, 2015, and effective for annual period beginning on January 1, 2018. It replaces revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue-Barter Transaction Involving Advertising Services,* K-IFRS No. 2113, *Customer Loyalty Programmes*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate* and K-IFRS No. 2118, *Transfers of Assets from Customers*.

K-IFRS 1018 presents criteria for revenue recognition depending on types of transactions such as sale of goods, providing services, loyalty revenue, dividend revenue, and agreements for the construction. However, K-IFRS 1115 recognizes revenue by applying a new model for revenue recognition (Step1. Identify the contract → Step2. Identify performance obligations → Step3. Determine the transaction price → Step4. Allocate the transaction price → Step5. Recognize revenue).

The Group has applied K-IFRS 1115 from January 1, 2018. According to the Group's elected transition approach, cumulative impacts from the initial application of K-IFRS 1115 of contracts not yet completed as of January 1, 2018 were recognized using the modified retrospective approach at the date of initial application.

The Group identifies performance obligations such as elective paid support options by customers in lease contracts as a separate performance obligation. These performance obligations are regarded to be satisfied at a point in time when the service is completed, not over the period of lease term.

At the date of initial application, the impacts of the separation of performance obligations on the consolidated statement of financial position are as follows:

(in millions of Korean won)		January 1, 2018
Increase in		
Accrued revenues	₩	17,187
Allowance for doubtful accounts		(308)
		16,879
Tax effects		(4,085)
Application effects reflected in the opening retained earnings	₩	12,794

The impacts of the separation of performance obligations on the consolidated statement of financial position as of December 31, 2018 are as follows:

(in millions of Korean won)		December 31, 2018	Adjustment	Amount without the application of K-IFRS 1115
Accrued revenues	₩	133,044	(8,200)	124,844
Allowance for doubtful accounts		(17,917)	89	(17,828)
Current tax liabilties		36,857	(1,963)	34,894
Retained earnings before appropriation		3,003,258	(6,148)	2,997,110

(Continued)

The impacts of the separation of performance obligations on the consolidated statement of comprehensive income for the year ended December 31, 2018 are as follows:

(in millions of Korean won)		2018	Adjustment	Amount without the application of K-IFRS 1115
Income on leases	₩	1,004,340	(8,200)	996,140
Provision for loan losses		392,857	(89)	392,768
Tax expense		104,205	(1,963)	102,242

(2) Basis of consolidation

(a) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

If a subsidiary of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are fully eliminated. Where necessary, adjustments are made to bring the accounting policies of subsidiaries in line with those of the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it recognizes the fair value of any investment retained and any surplus or deficit in profit or loss.

(b) Business combination

For acquisitions meeting the definition of a business combination, the acquisition method of accounting is used. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date in fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed and the amount of any non-controlling interest in the acquiree. Costs related to acquisition are recognized as expenses when occurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

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(c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Investments in associates

Associates are all entities over which the Group has significant influence but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. When the investors' share on the fair value of the associates' identifiable assets and liabilities exceeds acquisition cost of the associates' interest, the excess portion is recognized as the current profit for the year of acquisition.

Under the equity method, on initial recognition the investment in an associate is recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. The Group's share of the associate's profit or loss is recognized in the Group's profit or loss. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. Such changes include those arising from the revaluation of available-for-sale financial assets and from foreign exchange translation differences. The Group's share of those changes is recognized in the Group's other comprehensive income. When the Group's share of loss in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further loss, unless it has incurred obligations or made payments on behalf of the associates. The carrying amount of equity method investments and the long term interest which partially consists of investors' net investment are included in interest in the associate.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates are to be adjusted where necessary to ensure consistency with the policies adopted by the Group.

(3) Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or in a qualifying cash flow hedge,

(Continued)

which are recognized in other comprehensive income. When profit or loss incurred from non-monetary items is recognized in other comprehensive income, the effect from changes in exchange rates are also recognized in other comprehensive income, and if the effects from translation of the non-monetary items are recognized in the profit or loss, the effects from changes in exchange rates are recognized in the profits or loss accordingly.

(b) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the closing price of foreign currencies on the reporting date.

(4) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(5) Financial assets

(a) Classification

The Group classifies financial assets as financial assets measured at fair value through profit or loss, amortized costs or fair value through other comprehensive income. The classification depends on the Group's business model for managing financial instruments and the contractual cash flow characteristics of the financial instrument at initial recognition.

Financial assets measured at fair value through profit or loss

A Financial asset held for trading and a financial asset designated as at fair value through profit or loss are classified in this category. A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized costs or at fair value through other comprehensive income. Regarding a derivative, it shall be classified as a financial asset measured at fair value through profit or loss unless hedge accounting is applied.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on difference bases.

Financial assets measured at amortized costs

If financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows and meets the condition that the contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, the financial asset is measured at amortized costs.

Financial assets measured at fair value through other comprehensive income

Debt instruments shall be measured at fair value through other comprehensive income if the instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset and the contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity instruments held by the Group not for trading but for the purposes of strategic alliance can be designated as a financial asset measured at fair value through other comprehensive income.

(b) Recognition and measurement

Standardized transactions of financial assets are recognized on the transaction date. Upon initial recognition, financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance. Financial assets measured at fair value through profit or loss are measured at fair value upon initial recognition and changes therein are recognized in profit or loss. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Subsequently, financial assets measured at fair value through profit or loss and other comprehensive income are measured at fair value. Subsequent to initial recognition, financial assets measured at amortized costs are measured at their amortized cost using the effective interest rate method.

Gains or losses arising from a change in fair value, dividends on the financial assets and interest income are recognized in profit or loss.

Interest income on financial assets measured at amortized costs using the effective interest rate method is recognized in profit or loss.

Gains or losses arising from a change in fair value, other than interest income using the effective interest rate method, dividend income and exchange differences arising on monetary items which are recognized in profit or loss are recognized as other comprehensive income in equity. Upon disposal of financial assets at fair value through other comprehensive income, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss at disposal. The cumulative gain or loss previously recognized in other comprehensive income of equity instrument designated as at fair value through other comprehensive income is not reclassified to profit or loss at disposal.

Financial assets measured at fair value through other comprehensive income denominated in foreign currencies are translated at the closing date. Exchange differences resulting from changes in amortized costs are recognized in profit or loss, and other changes are recognized as equity.

(c) Derecognition of financial assets

The Group de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a consolidated asset or liability.

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If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(d) Expected credit losses

Recognition of expected credit losses (loss allowance)

The Group measures expected credit loss and recognizes loss allowance at the end of the reporting period for financial assets measured at amortized costs and fair value through other comprehensive income.

Expected credit losses are estimated at present value of probability-weighted amount that is determined by evaluating a range of possible outcomes. The Group measures expected credit losses by reflecting reasonable and supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions.

The approaches of measuring expected credit losses in accordance with K-IFRS 1109 are as follows:

- General approach: for financial assets not subject to the below approaches and unused loan commitments off-balance sheet

- Simplified approach: for financial assets that are trade receivables, contract assets and lease receivables

- Credit-impaired approach: for financial assets that are credit-impaired at the time of acquisition

Application of general approach is differentiated depending on whether credit risk has increased significantly after initial recognition. After initial recognition, loss allowances for the assets without significant increase in credit risk are measured at the amount of 12 month expected credit losses, whereas the loss allowances for the assets with significant increase in credit risk are measured at the amount of lifetime expected credit losses. Lifetime is presumed to be a period to the contractual maturity date of financial assets (the expected life of financial assets).

In simplified approach, loss allowances are measured at an amount equal to lifetime expected credit losses. In case of credit-impaired approach, only the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance are recognized.

The Group determines whether the credit risk has increased significantly using the following information, and if one or more of the following conditions are met, it is deemed as significant increase in credit risk.

- More than 30 days past due

- Decline in credit rating at the end of period by more than certain notches as compared to that at initial recognition

- At certain internal credit rating or below at the end of period

- Classification of asset soundness as certain grade or below in accordance with Regulations on Supervision of Specialized Credit Finance Business

- Correspond to other qualitative indicator which the Group defines as indices of significant increase in credit risk upon consideration of borrower, loan, market characteristic and others

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The Group defines default same with bankruptcy in accordance with risk management policies. If one or more of the following items are met, it is deemed as that a borrower is in default.

- More than 90 days past due

- Charge-off of a loan resulted from deterioration of credit

- Sale of a credit loan according as deterioration of credit rating notwithstanding significant economic losses

- Decrease in an amount of a loan resulted from exemption of principal, interest or related fees or an extension of debt maturity due to debt restructuring

- Being declared bankruptcy or the Group filing a related lawsuit against a borrower

- Declaration of bankruptcy or taking similar measure in order for a borrower to delay or suspend payment schedule

- Correspond to other indicators defined as impairment upon consideration of characteristics for borrower, loan, market and others not subject to the above items

The Group judges the recognition of loss allowance is the best estimation which is consistent with risk management policies of the Group.

Forward-looking information

The Group uses forward-looking information, when it measures the expected credit losses. The Group assumes the risk component has a certain correlation with the economic cycle, and calculates the expected credit loss by reflecting the forward-looking information using modeling of macroeconomic variables and the risk component. The Group periodically reviews the methodology and hypothesis in order to decrease the gap between actual and estimated components, and the primary macro-economic variables the Group uses are as follows:

- GDP growth rate

- Unemployment rates

- Consumer price index

- Credit spread

- Housing transaction price index

- OECD leading index

- Credit risk index

- Leading economic index

Measuring expected credit losses on financial assets measured at amortized costs

The expected credit losses on financial assets at amortized cost are measured as the difference between the asset's contractual terms of cash flow and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The Group estimates expected future cash flows for financial assets that are individually significant (individual assessment of impairment).

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For financial assets that are not individually significant, the Group collectively estimates expected credit loss by grouping loans with homogeneous credit risk profile (collective assessment of impairment).

Individual assessment of impairment

Individual assessment of impairment losses is 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 the borrower and net realizable value of any collateral held.

Collective assessment of impairment

Collective assessment of impairment is performed by using estimation model based on historical loss experience and reflecting forward-looking information in order to measure expected credit losses inherent in portfolio. The estimation model applies probability of default estimated for assets (or each group of assets) and loss given default by type of collateral by considering factors such as product and borrowers, credit rating, portfolio size and recovery period. Additionally, consistent assumptions are applied to form a formula-based model in estimating expected credit loss and to determine factors on the basis of historical loss experience and forward-looking information. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between estimated and actual losses.

The Group shall recognize a loss allowance for expected credit losses on financial assets measure at amortized costs. When the Group has no reasonable expectations of recovering the financial assets in its entirety or a portion thereof, the Group shall directly reduce the gross carrying amount and the loss allowance recognized. If the portion of financial assets the Group already write-offs is recovered, the Group shall increase the loss allowance and recognize changes of the loss allowance amount in profit or loss.

Recognition of expected credit losses on financial assets measured at fair value through other comprehensive income

The Group measures expected credit losses on financial assets measured at fair value through other comprehensive income in the same with the measurement for financial assets measured at amortized costs. Changes in loss allowances shall be recognized in other comprehensive income. When the financial assets are derecognized due to disposal or repayments, the cumulative loss allowance previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Write-off policy

The Group writes off loans and receivables when the assets are deemed unrecoverable. This decision considers the information about significant changes of financial position such when a borrower or an obligor is in default, or the amount recoverable from security is insufficient. In general, the decision for write-offs for homogenous consumer loans with relatively smaller balances is made based on the delinquent status of the loan.

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(6) Deferral of loan origination fees and loan origination costs

Loans are reported at the principal amount outstanding, net of deferred loan fees and costs and unamortized premium or discount and direct write-downs. Loan origination fees, which include processing fees in relation to the loan origination process and upfront interests, if any, are deferred, and amortized over the expected life of the loan based on the effective interest rate method. Loan origination costs, which relate to activities performed by the lender such as soliciting potential borrowers, are deferred and amortized over the life of the loan based on the effective interest rate method when the future economic benefit in connection with the cost incurred can be identified on a per loan basis.

(7) Leases

The Group determines whether a contract is a lease or contains a lease at an inception date. The contract is, or contains, the lease if the contract conveys the rights to control the use of an identified asset for a period of time in exchange for consideration. The Group shall assess, based on K-IFRS No.1116, whether the contract is, or contains, a lease.

(a) Lessee

The Group allocates the consideration to those components on the basis of the relative stand-alone price at the inception date or the date of reassessment.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The Group initially measures the right-of-use asset at cost which comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located of restoring the underlying asset to the condition required by the terms and conditions.

The right-of-use assets are depreciated on a straight-line basis over the lease term. However, in case the ownership of the right-of-use assets transfer to at the ended date of the lease term, or the exercise price of purchase option reflected in the price of the right-of-use assets, the right-of-use assets are depreciated over useful lives on the same basis as property and equipment. Also, the right-of-use asset could be subsequently deducted or adjusted due to depreciation or impairment losses.

At the commencement date, the Group shall recognize the lease liability at the present value of the lease payments that are not paid at the date. The lease payments shall be discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, the Group's incremental borrowing rate shall be used. The Group uses the incremental borrowing rate.

The Group calculates the incremental borrowing interest rate by adjusting the interest rate obtained from various external financial information to reflect the conditions of the lease and the characteristics of the leased asset.

Lease payments included in the measurement of the lease liabilities consist of the following:

- Fixed lease payments (including substantial fixed payments)

- Variable lease payments depending on an index or a rate. (Initially, measured using the index or rate of the lease at an inception date.)

- The amounts expected to be payable under a residual value guarantee

- The exercise price of a purchase option if the lessee is reasonably certain to exercise a purchase option, payments of extended term if the lessee is reasonably certain to exercise an option to extend the

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lease, and payments of penalties for early termination of lease unless the lessee is reasonably certain not to terminate early.

Lease liabilities are amortized under the effective interest method. The Group remeasures the lease liability when there is a change in future lease payments resulting from changes in an index or a rate used to determine those payments, the amounts expected to be payable under a residual value guarantee, an assessment whether the Group is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease or a change in substantial fixed lease payments. When the lease liabilities are remeasured, the right-of-use assets related to the lease liabilities are adjusted, and if the carrying amount of the right-of-use assets decreases under zero (0), remeasurements are recognized in profit or loss.

The Group decided to apply the practical expedient not to recognize a right-of-use asset and a lease liability for short-term leases and leases for which the underlying asset is of low value. The Group shall recognize the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

K-IFRS No. 1116 requires the lessee to allocate the consideration to those components on the basis of the relative stand-alone price of each of lease component and non-lease component at the inception date or the date of reassessment. As the Group decided to apply the practical expedient, the Group elects not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

The Group determines the lease term as the non-cancellable period of a lease with periods covered by an option to extend the lease. The assessment whether the Group is reasonably certain to exercise the option to extend the lease or not affects the determination of the lease term. The carrying amounts of the right-of-use asset and the lease liability are significantly affected by the assessment.

(b) Lessor

Classification

The Group classifies leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor.

The following factors indicate that substantially all of the risks and rewards incidental to the ownership of the asset are transferred to the lessee, resulting in classification as a financial lease:

The lease arrangement classified as a financial lease is where: the lease transfers ownership of the asset to the lessee by the end of the lease term, the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the lease term is for the major part of the economic life of the asset even if the title is not transferred, at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, or the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Minimum lease payments include that part of the residual value that is guaranteed by the lessee, by a party related to the lessee or by a third party unrelated to the Group that is financially capable of discharging the obligations under the guarantee.

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Finance leases

Where the Group has transferred substantially all the risks and rewards of ownership, leases of property, plant and equipment are classified as finance lease. An amount equal to the net investment in the lease is presented as a receivable. Expenses that are incurred with regard to the lease contract made but not executed at the date of the consolidated statement of financial position are accounted for as prepaid leased assets and are reclassified as finance lease receivables at the inception of the lease. Lease receivables include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. Each lease payment is allocated between principal and finance income. Financial income on an uncollected part of net investment shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

If a lease agreement is cancelled in the middle of its lease term, the Group reclassifies the amount of financial lease receivables into cancelled leased receivables, while the amount of financial lease receivables not yet due is reclassified as cancelled leased assets for returned off-lease vehicles. The Group's policy is to promptly sell returned off-lease vehicles for cancelled finance leases as soon as practical.

Operating leases

The property on operating leases where the Group is the lessor is stated at acquisition cost, net of accumulated depreciation and impairment. Expenditures that are incurred for the lease contract made but not executed at the date of the consolidated statement of financial position are accounted for as prepaid leased assets and are reclassified as operating lease assets at the inception of the lease term. Rentals from operating lease other than any guaranteed residual value are reported as revenues on a straight-line basis over the lease term. Initial direct costs incurred during the period of preparing the lease contract are recognized as operating leased assets and are amortized over the lease term in proportion to the recognition of income on leased assets. Operating leased assets are depreciated over the period of the lease using the straight-line method down to their expected residual value at the end of the lease term.

The Group's policy is to promptly sell returned off-lease vehicles for cancelled operating leases as soon as practical.

(8) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation method and estimated useful lives used by the Group are as follows:

Type	Depreciation method	Useful life
Buildings	Straight-line	40 years
Structures	Straight-line	40 years
Fixtures and furniture	Straight-line	3-4 years
Vehicles	Straight-line	4 years
Other tangible assets	Straight-line	5 years

Work of art classified under other tangible assets is not depreciated due to their indefinite useful life in nature.

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within non-operating income (expenses) in the consolidated statements of comprehensive income.

(9) Intangible assets

Intangible assets are initially recognized at cost, which includes acquisition cost and directly related costs required to prepare the asset for its intended use. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred.

Intangible assets are stated at cost net of accumulated amortization and impairment. Amortization is calculated based on the following amortization method and estimated useful lives:

Type	Amortization method	Useful life
Software development costs	Straight-line	5 years
Trademark	Straight-line	5 years
Other intangible assets	Straight-line	5 years

Memberships classified under other intangible assets are not amortized due to their indefinite useful life in nature. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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(10) Non-current assets (or disposal groups) held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale. The asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Immediately before the classification of the asset (or disposal group) as held for sale, the carrying amount of the asset (or components of a disposal group) is remeasured in accordance with applicable K-IFRS. Thereafter, generally the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss.

If the non-current asset is classified as asset held for sale or part of a disposal group, the asset is no longer depreciated.

(11) Impairment of non-financial assets

Goodwill or assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The Group reviews possible reversal of the impairment at each reporting date.

(12) Financial liability

The Group classifies non-derivative financial liabilities into financial liabilities measured at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities measured at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities include deposits, debts, debentures and others. Upon of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method and interest expenses calculated by using the effective interest rate method are recognized in profit or loss.

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(c) Derecognition of financial liabilities

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

(13) Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are expected to be settled wholly before 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that the employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits

The Group operates various retirement benefits plans, including both defined benefit and defined contribution pension plans.

Defined contribution plan

A defined contribution plan is a plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. If the plan allows for early retirement, payments are recognized as employee benefits. If the contribution already paid amounts that exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess amount as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

Defined benefit plan

A defined benefit plan defines the amount of pension benefit that an employee will receive on retirement and is usually dependent on one or more factors such as years of service and compensation. The liability recognized in the consolidated statement of financial position in respect to the defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits

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will be paid, and that have terms to maturity similar to the terms of the related pension liability. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized as other comprehensive income in the current year.

(d) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(14) Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, 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.

Where there are a number of similar obligations (e.g. loan commitments, guarantees or similar contracts), the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized if the other recognition criteria are met.

Provisions are the best estimate of the expenditure required to settle the present obligation that consider the risks and uncertainties inevitably surrounding many events and circumstances as of the reporting date. 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.

For a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events, or a present obligation that arises from past events but is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the consolidated financial statements.

(15) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(a) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, and currency swaps contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(b) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid instrument is not with financial asset hosts and not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(c) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(Continued)

(16) Current and deferred income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax assets and liabilities are not recognized if they arise 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 income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is recognized on temporary differences arising on investments in subsidiaries, associates and joint ventures except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(17) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares in the consolidated statements of comprehensive income. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potential dilutive ordinary shares.

(18) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

According to K-IFRS No. 1108, *Operating Segments*, the Group's segments are organized into the Capital segment for its financial services business in Korea and the foreign subsidiaries segment. Operating revenue, operating expenses and total assets of foreign subsidiaries segment are immaterial as they are approximately 2% compared with the corresponding amounts in the consolidated financial statements. All income (interest income and commission income) from the Capital segment is generated from domestic operation for the years ended December 31, 2019, 2018 and 2017.

(19) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

(20) Interest income and interest expense

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit loss. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized on the rate of interest that was used to discount future cash flow for the purpose of measuring impairment loss.

For presentation purposes, for each of the principal lending products, interest income and fees and commission income are presented together in the Statements of Comprehensive Income.

(Continued)

(21) Fees and commission income

Fees and commission income are classified as follows according to related regulations:

- The Group transfers control of a good or service over time, therefore, fees and commission income charged in exchange for performance obligations satisfied over time are recognized over time.
- Fees and commission charged in exchange for performance obligation satisfied at a point in time are recognized at the time at which a customer obtains control of a promised asset and the Group satisfies a performance obligation.
- Fees that are an integral part of the effective interest of a financial instrument are generally treated as adjustments of effective interest. However, fees and commission related to the creation or acquisition of a financial instrument measured at fair value through profit or loss are recognized as revenue immediately.

For presentation purposes, for each of the principal lending products, interest income and fees and commission income are presented together in the Statement of Comprehensive Income

(22) Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

(23) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or loss from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

The non–controlling interest refers to equity in a subsidiary not attributable, directly or indirectly, to a parent. The non-controlling interest consists of the minority interest net income calculated under K-IFRS No. 1103, *Business Combinations*, at the date of the initial combination, and minority interest of changes in equity after the business combination.

(24) New accounting standards issued but not yet effective

A number of new standards and amendments are required to be effective starting from annual period beginning on January 1, 2020, and early adoption is allowed. The followings are newly required standards and amendments that the Group decided not to early adopt in preparation of these consolidated financial statements and they are not expected to have a significant impact on consolidated financial statements.

- Amendment to *Conceptual Framework for Financial Reporting*

- Definition of Business (Amendment to K-IFRS No. 1103, *Business Combinations*)

- Definition of Material (Amendments to K-IFRS No. 1001, *Presentation of Financial Statements*, K-IFRS No. 1008, *Accounting Policies, Changes in Accounting Estimates and Errors*)

(Continued)

4. Due from Banks

Restricted accounts in due from banks as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017	Restriction
Shinhan Bank and 2 others	₩	16,400	16,400	5,700	Loans secured by saving accounts
KEB Hana Bank and 2 others		10	10	12	Key money deposits for checking account
Citi Bank and 9 others		76,775	145,443	129,171	Deposits in trust of ABS SPCs
	₩	93,185	161,853	134,883	

5. Short-term Financial Investments

Short-term financial investments as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		Carrying amount		
		December 31, 2019	December 31, 2018	December 31, 2017
Commercial paper	₩	1,028,450	573,998	1,223,999
Bank debenture		—	60,154	29,973
Special bond		—	—	30,133
Asset backed short-term bond		—	—	4,941
Government and public bonds		190,463	110,033	—
	₩	1,218,913	744,185	1,289,046

For liquidity management, the Group holds short-term investments in excess of immediate funding needs. These excess funds are invested in short-term, highly liquid and investment grade money market instruments, which provide liquidity for the Group's short-term funding needs and flexibility in the use of other funding sources.

(Continued)

6. Securities Measured at Fair Value through Profit or Loss, Securities Measured at Fair Value through Other Comprehensive Income and Available-for-sale Securities

(1) Securities Measured at Fair Value through Profit or Loss

Securities measured at fair value through profit or loss as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)		Carrying amount	
		December 31, 2019	December 31, 2018
Equity securities (*1)	₩	—	—
Debt securities (*2)			
Hi Ocean PCTC PF Special Asset Ship 2		—	1,002
Multi asset KDB Ocean value up Private Fund Special Asset Trust 8		5,675	5,725
KOTAM SML Private Fund Special Asset Trust 1		2,013	2,803
Multi asset KDB Ocean value up Private Fund Special Asset Trust PR-2		22,433	20,995
Asia Pacific No.49 Ship Investment Co., Ltd.		476	—
Hyundai Ship Special Asset Investment Trust III		—	3,581
Multi asset VLOC Private Fund Special Asset Trust 1		—	4,892
Wooricard Auto 1st Private Placing Corporate Bond(*3)		3,000	—
		33,597	38,998
	₩	33,597	38,998

(*1) The Group recognized impairment losses except for memorandum values before previous year.

(*2) The fair values of the debt securities are quoted from an independent valuation service provider, using the valuation technique based on the NAV (net asset value) approach or the dividend discount model.

(*3) Wooricard Auto 1st Private Placing Corporate Bond was measured as acquisition cost because sufficient information was not available for measuring fair values.

(2) Securities Measured at Fair Value through Other Comprehensive Income

Securities measured at fair value through other comprehensive income as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018
Equity securities (*1)			
Listed equity securities	₩	29,330	23,782
Unlisted equity securities		9,704	12,119
		39,034	35,901
Debt securities			
Government and public bonds		595	1,248
Corporate bonds		25,037	6,091
		25,632	7,339
	₩	64,666	43,240

(*1) The equity securities the Group holds for the purposes of strategic alliance and others are designated as securities measured at fair value through other comprehensive income.

(Continued)

(a) Equity Securities

(in millions of Korean won)	Number of shares	Ownership (%)		Carrying amount December 31, 2019	Carrying amount December 31, 2018
Listed equity securities					
NICE Information Service Co., Ltd.	1,365,930	2.25	₩	19,055	14,957
NICE Holdings Co., Ltd.	491,620	1.30		10,275	8,825
Unlisted equity securities					
HYUNDAI M Partners Co., Ltd. (*1)	1,700,000	9.29		9,704	12,119
			₩	39,034	35,901

(*1) The fair value of HYUNDAI M Partners Co., Ltd. is estimated at the appraisal value quoted from an independent valuation service provider.

Dividend income occurred from equity securities measured at fair value through other comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)		2019 Eliminated securities	2019 Holding securities	2018 Eliminated securities	2018 Holding securities
Listed equity securities	₩	—	589	—	255
Unlisted equity securities		—	—	—	4,996
	₩	—	589	—	5,251

There is no equity security measured at fair value through other comprehensive income which was derecognized for the year ended December 31, 2019 and 2018.

(b) Debt Securities

(in millions of Korean won)	Issuer		Carrying amount December 31, 2019	Carrying amount December 31, 2018
Government and public bonds (*1)	Seoul Metropolitan Rapid Transit Corp. and other Korean municipal bonds	₩	595	1,248
Corporate bonds (*2)	H&C 1st ABS SPC		5,134	5,084
	Veritas 1st ABS SPC		1,007	1,007
	Able View Tower 1st Private Placing Corporate Bond		13,869	—
	WONDERFUL GM 11st Private Placing Corporate Bond 1-1		5,027	—
		₩	25,632	7,339

(*1) The fair value of Seoul Metropolitan Rapid Transit Corp. and other Korean municipal bonds is quoted from broker and dealer companies.

(*2) The fair values of H&C 1st ABS SPC, Able View Tower 1st Private Placing Corporate Bond and WONDERFUL GM 11 st Private Placing Corporate Bond 1-1 are quoted from an independent valuation service provider. The fair value of Veritas 1st ABS SPC was measured as acquisition cost due to the low importance of the amount of the acquisition cost.

(Continued)

The following table presents roll-forward of the carrying amount of loss allowance for expected credit losses on debt securities for the years ended December 31, 2019 and 2018.

(in millions of Korean won)		12-month expected credit losses	
		2019	2018
Opening balance	₩	24	18
Provision for allowance		203	6
Closing balance	₩	227	24

(c) Changes in Loss Allowance for Expected Credit Losses on Debt Securities

The following table presents roll-forwad of the carrying amount of loss allowance for expected credit losses on debt securities for the years ended December 31, 2019 and 2018.

(in millions of Korean won)		12-month expected credit losses	
		2019	2018
Opening balance	₩	24	18
Provision for allowance		203	6
Closing balance	₩	227	24

(3) Available-for-sale Securities

Available-for-sale securities as of December 31, 2017 are as follows:

(a) Equity securities

(in millions of Korean won)	Number of shares	Ownership (%)		Acquisition cost	Carrying amount December 31, 2017
Listed equity securities					
NICE Information Service Co., Ltd.	1,365,930	2.25	₩	3,312	11,870
NICE Holdings Co., Ltd.	491,620	1.30		3,491	7,202
Unlisted equity securities					
HYUNDAI M Partners Co., Ltd.(*1)	1,700,000	9.29		9,888	12,153
Korean Egloan, Inc.(*2)	4,000	3.12		100	—
Golfclub Lich AG	14	0.59		60	69
			₩	16,851	31,294

(*1) The fair value of HYUNDAI M Partners Co., Ltd. is estimated at the average of appraisal value quoted from two independent valuation service providers, using the valuation technique based on the net asset value approach (NAV model), and the market approach. Under the net asset value approach, a technique generally considered to be under cost approach, the fair value of unlisted equity securities is measured based on the investee's assets and liabilities. Under the market approach, comparable entity valuation multiples (one-year average price-to-book ratio and price to sale ratio) derived from quoted prices in exchange markets is used in applying valuation technique.

(*2) The Group recognized an impairment loss of ₩100 million for the year ended December 31, 2017.

(Continued)

(b) Debt securities

(in millions of Korean won)				Carrying amount
	Issuer		Acquisition cost	December 31, 2017
Government and public bonds	Seoul Metropolitan Rapid Transit Corp. and other Korean municipal bonds	₩	799	830
Corporate bonds	H&C 1st ABS SPC		5,000	4,955
		₩	5,799	5,785

The fair value of Seoul Metropolitan Rapid Transit Corp. and other Korean municipal bonds is quoted from broker and dealer companies. The fair value of H&C 1st ABS SPC is quoted from an independent valuation service provider, using the valuation technique based on the net asset value approach (NAV model).

(c) Beneficiary certificates

(in millions of Korean won)			Carrying amount
		Acquisition cost	December 31, 2017
Hyundai Ship Special Asset Investment Trust III	₩	4,293	4,315
Hi Ocean PCTC PF Special Asset Ship 1		913	924
Hi Ocean PCTC PF Special Asset Ship 2		1,000	1,001
Hi Ocean Tanker Prof PF SA Ship 1		8,715	8,795
Multi asset KDB Ocean value up Private Fund Special Asset Trust 8		5,938	5,937
KOTAM SML Private Fund Special Asset Trust 1		3,600	3,603
Multi asset KDB Ocean value up Private Fund Special Asset Trust PR-2		21,000	20,996
	₩	45,459	45,571

The fair value of the beneficiary certificate is quoted from an independent valuation service provider, using the valuation technique based on the net asset value approach (NAV model).

(Continued)

7. Investments in Associates

(1) Details of investments in associates

Details of investments in associates as of December 31, 2019, 2018 and 2017 are as follows:

	December 31, 2019			
	Ownership (%)	Principal place of business	Date of financial statements	Industry
Korea Credit Bureau (*1)	7.00	Korea	12/31/2019	Credit information service
Hyundai Capital UK Ltd.	29.99	U.K.	12/31/2019	Automobile finance
Beijing Hyundai Auto Finance Co., Ltd.	46.00	China	12/31/2019	Automobile finance
Hyundai Capital Canada Inc.	20.00	Canada	12/31/2019	Automobile finance
Hyundai Capital Bank Europe GmbH	49.00	Germany	12/31/2019	Automobile finance
BANCO HYUNDAI CAPITAL BRASIL S.A. (*2)	50.00	Brazil	12/31/2019	Automobile finance
Hyundai Corretora de Seguros LTDA.(*2)	50.00	Brazil	12/31/2019	Insurance brokerage
BAIC Hyundai Leasing Co. Ltd.	40.00	China	12/31/2019	Financial leasing

(*1) While the Group holds less than 20% of the voting rights, it has the ability to exercise significant influence through representation on the board of directors or equivalent governing body of the investee. Therefore, investments in these entities are accounted for using the equity method.

(*2) Both the Group and the other joint venturer have rights to purchase or sell all shares held by the parties in the cases of termination of the joint venture agreement, violation of any Brazilian Law or others. The Group judged that the rights are not substantive as of December 31, 2019.

	December 31, 2018			
	Ownership (%)	Principal place of business	Date of financial statements	Industry
Korea Credit Bureau (*1)	7.00	Korea	12/31/2018	Credit information service
Hyundai Capital UK Ltd.	29.99	U.K.	12/31/2018	Automobile finance
Beijing Hyundai Auto Finance Co., Ltd.	46.00	China	12/31/2018	Automobile finance
Hyundai Capital Canada Inc.	20.00	Canada	12/31/2018	Automobile finance
BANCO HYUNDAI CAPITAL BRASIL S.A. (*2)	50.00	Brazil	12/31/2018	Automobile finance

(*1) While the Group holds less than 20% of the voting rights, it has the ability to exercise significant influence through representation on the board of directors or equivalent governing body of the investee. Therefore, investments in these entities are accounted for using the equity method.

(*2) Both the Group and the other joint venturer have rights to purchase or sell all shares held by the parties in the cases of termination of the joint venture agreement, violation of any Brazilian Law or others. The Group judged that the rights are not substantive as of December 31, 2018.

(Continued)

	December 31, 2017			
	Ownership (%)	Principal place of business	Date of financial statements	Industry
Korea Credit Bureau (*1)	7.00	Korea	12/31/2017	Credit information service
Hyundai Capital UK Ltd.	29.99	U.K.	12/31/2017	Automobile finance
Beijing Hyundai Auto Finance Co., Ltd.	46.00	China	12/31/2017	Automobile finance
Hyundai Capital Canada Inc.	20.00	Canada	12/31/2017	Automobile finance

(*1) While the Group holds less than 20% of the voting rights, it has the ability to exercise significant influence through representation on the board of directors or equivalent governing body of the investee. Therefore, investments in these entities are accounted for using the equity method.

(2) Summary of financial information of investees

Summary of financial information of investees as of December 31, 2019, 2018 and 2017, for assets and liabilities, for the years ended December 31, 2019, 2018 and 2017, for revenue and income, and the reconciliation of investee's net assets to the carrying amount of the investments in the Group's financial statements are as follows:

(in millions of Korean won)		December 31, 2019						
		Total assets	Total liabilities	Issued capital	Total equity	The Group's share in net assets	Goodwill	Carrying amount
Korea Credit Bureau	₩	96,855	30,289	10,000	66,566	4,660	1,037	5,697
Hyundai Capital UK Ltd.		5,123,938	4,774,137	96,055	349,801	104,905	—	104,905
Beijing Hyundai Auto Finance Co., Ltd.		5,726,446	4,636,239	708,965	1,090,207	501,495	—	501,495
Hyundai Capital Canada Inc.		1,970,909	1,760,110	208,608	210,799	42,160	2,279	44,439
Hyundai Capital Bank Europe GmbH		1,942,896	1,662,886	14,282	280,010	137,205	22,743	159,948
BANCO HYUNDAI CAPITAL BRASIL S.A.		672,278	587,889	91,529	84,389	42,194	—	42,194
Hyundai Corretora de Seguros LTDA.		550	12	617	538	269	—	269
BAIC Hyundai Leasing Co. Ltd.		28,440	309	28,577	28,131	11,252	—	11,252

(in millions of Korean won)		2019						
		Operating revenue	Interest income	Interest expense	Net income	Other compre-hensive income	Total compre-hensive income	Dividends
Korea Credit Bureau	₩	91,200	303	—	1,480	—	1,480	1,500
Hyundai Capital UK Ltd.		116,362	111,504	31,427	88,605	18,637	107,242	—
Beijing Hyundai Auto Finance Co., Ltd.		430,862	413,328	188,154	78,068	11,836	89,904	—
Hyundai Capital Canada Inc.		426,975	374,457	319,671	25,617	15,468	41,085	—
Hyundai Capital Bank Europe GmbH		75,416	60,417	21,575	(11,175)	3,667	(7,508)	—
BANCO HYUNDAI CAPITAL BRASIL S.A.		23,944	23,944	11,081	(2,720)	(3,074)	(5,794)	—
Hyundai Corretora de Seguros LTDA.		—	—	—	(38)	(41)	(79)	—
BAIC Hyundai Leasing Co. Ltd.		—	—	—	(45)	(401)	(446)	—

(Continued)

(in millions of Korean won)	December 31, 2018						
	Total assets	Total liabilities	Issued capital	Total equity	The Group's share in net assets	Goodwill	Carrying amount
Korea Credit Bureau	₩ 88,797	22,788	10,000	66,009	4,620	1,037	5,657
Hyundai Capital UK Ltd.	4,117,794	3,875,236	96,055	242,558	72,744	—	72,744
Beijing Hyundai Auto Finance Co., Ltd.	5,143,183	4,142,880	708,965	1,000,303	460,139	—	460,139
Hyundai Capital Canada Inc.	1,385,284	1,215,570	208,608	169,714	33,943	2,145	36,088
BANCO HYUNDAI CAPITAL BRASIL S.A.	29,875	448	30,779	29,427	14,713	—	14,713

(in millions of Korean won)	2018						
	Operating revenue	Interest income	Interest expense	Net income	Other compre-hensive income	Total compre-hensive income	Dividends
Korea Credit Bureau	₩ 78,018	500	—	9,901	—	9,901	1,250
Hyundai Capital UK Ltd.	131,754	125,477	32,998	47,368	(4,206)	43,162	—
Beijing Hyundai Auto Finance Co., Ltd.	448,670	427,317	190,968	95,210	(7,138)	88,072	11,716
Hyundai Capital Canada Inc.	394,762	308,122	268,529	8,333	(6,654)	1,679	—
BANCO HYUNDAI CAPITAL BRASIL S.A.	1,241	1,241	—	656	(2,003)	(1,347)	6

(in millions of Korean won)	December 31, 2017						
	Total assets	Total liabilities	Issued capital	Total equity	The Group's share in net assets	Goodwill	Carrying amount
Korea Credit Bureau	75,504	19,323	10,000	56,181	3,933	1,037	4,970
Hyundai Capital UK Ltd.	2,782,808	2,583,411	96,055	199,397	59,799	—	59,799
Beijing Hyundai Auto Finance Co., Ltd.	4,961,986	4,055,661	708,965	906,325	416,910	—	416,910
Hyundai Capital Canada Inc.	1,412,557	1,244,523	208,608	168,034	33,607	2,145	35,752

(in millions of Korean won)	2017						
	Operating revenue	Interest income	Interest expense	Net income	Other compre-hensive income	Total compre-hensive income	Dividends
Korea Credit Bureau	68,750	538	—	3,580	—	3,580	1,650
Hyundai Capital UK Ltd.	125,187	118,853	27,022	41,301	(4,927)	36,374	—
Beijing Hyundai Auto Finance Co., Ltd.	492,331	470,765	180,524	120,981	(49,181)	71,800	6,483
Hyundai Capital Canada Inc.	321,885	260,759	236,396	(2,765)	3,440	675	—

(Continued)

(3) Roll-forward of investments in associates

The following tables present a roll-forward of the carrying amounts of investments in associates for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)

		2019						
		Opening balance	Acquisition	Share in net income	Share in other compre-hensive income (loss)	Disposal and others	Dividends	Closing balance
Korea Credit Bureau	₩	5,657	—	145	—	—	(105)	5,697
Hyundai Capital UK Ltd.		72,744	—	26,572	5,589	—	—	104,905
Beijing Hyundai Auto Finance Co., Ltd.		460,139	—	35,911	5,445	—	—	501,495
Hyundai Capital Canada Inc.		36,088	—	5,123	3,228	—	—	44,439
Hyundai Capital Bank Europe GmbH		—	136,749	(7,177)	30,376	—	—	159,948
BANCO HYUNDAI CAPITAL BRASIL S.A.		14,713	30,375	(1,360)	(1,537)	3	—	42,194
Hyundai Corretora de Seguros LTDA.		—	308	(19)	(20)	—	—	269
BAIC Hyundai Leasing Co. Ltd.		—	11,431	(18)	(161)	—	—	11,252
	₩	589,341	178,863	59,177	42,920	3	(105)	870,199

(in millions of Korean won)

		2018						
		Opening balance(*1)	Acquisition	Share in net income	Share in other compre-hensive income (loss)	Disposal and others	Dividends	Closing balance
Korea Credit Bureau	₩	4,970	—	775	—	—	(88)	5,657
Hyundai Capital UK Ltd.		59,799	—	14,206	(1,261)	—	—	72,744
Beijing Hyundai Auto Finance Co., Ltd.		425,016	—	43,796	(3,284)	—	(5,389)	460,139
Hyundai Capital Canada Inc.		35,752	—	1,667	(1,331)	—	—	36,088
BANCO HYUNDAI CAPITAL BRASIL S.A.		—	15,389	328	(1,001)	—	(3)	14,713
	₩	525,537	15,389	60,772	(6,877)	—	(5,480)	589,341

(*1) Including the adjustment related to the application of K-IFRS 1109.

(in millions of Korean won)

		2017						
		Opening balance	Acquisition	Share in net income	Share in other compre-hensive income (loss)	Disposal and others	Dividends	Closing balance
Korea Credit Bureau		4,812	—	274	—	—	(116)	4,970
Hyundai Capital Germany GmbH		935	—	(10)	61	(15)	(971)	—
Hyundai Capital UK Ltd.		48,891	—	12,386	(1,478)	—	—	59,799
Beijing Hyundai Auto Finance Co., Ltd.		386,864	—	55,651	(22,623)	—	(2,982)	416,910
Hyundai Capital Canada Inc.		—	34,461	603	688	—	—	35,752
	₩	441,502	34,461	68,904	(23,352)	(15)	(4,069)	517,431

(Continued)

8. Unconsolidated structured entities

(1) Type of interests in unconsolidated structured entities

The nature, purpose and principal activities of structured entities that the Group does not consolidate but in which it holds an interest and how the structured entities are financed are summarized as follows:

Asset securitization vehicles

Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or providing commitment to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.

The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.

Project financing

Structured entities for project financing are established to raise funds and invest in a specific project such as commercial or residential real estate constructions, M&A (Mergers and Acquisitions), BTL (Build-Transfer-Lease), and etc. The Group is involved in the structured entities by lending money, investing in equity, or providing credit enhancement.

Investment fund

Investment fund is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in investment fund by investing in various investment funds.

(2) Size of unconsolidated structured entities

Total assets of unconsolidated structured entities that the Group sponsors as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019			
		Asset securitization vehicles	Project financing	Investment fund	Total
Total assets(*1)	₩	3,798,951	10,697,740	608,189	15,104,880

(in millions of Korean won)		December 31, 2018			
		Asset securitization vehicles	Project financing	Investment fund	Total
Total assets(*1)	₩	2,579,738	6,657,283	277,255	9,514,276

(in millions of Korean won)		December 31, 2017			
		Asset securitization vehicles	Project financing	Investment fund	Total
Total assets(*1)	₩	1,318,767	8,285,718	187,341	9,791,826

(*1) Total assets are not audited by KPMG Samjong Accounting Corp.

(3) Income from unconsolidated structured entities

Income from unconsolidated structured entities for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019			
		Asset securitization vehicles	Project financing	Investment fund	Total
Operating revenue					
Interest income	₩	—	—	2,156	2,156
Income on loans		2,204	15,302	—	17,506
	₩	2,204	15,302	2,156	19,662

(in millions of Korean won)		2018			
		Asset securitization vehicles	Project financing	Investment fund	Total
Operating revenue					
Interest income	₩	—	—	2,260	2,260
Income on loans		3,492	24,617	—	28,109
	₩	3,492	24,617	2,260	30,369

(in millions of Korean won)		2017			
		Asset securitization vehicles	Project financing	Investment fund	Total
Operating revenue					
Interest income	₩	—	—	1,442	1,442
Income on loans		3,310	18,165	—	21,475
	₩	3,310	18,165	1,442	22,917

(Continued)

(4) Risks related to unconsolidated structured entities

The carrying amounts of interests held by the Group in unconsolidated structured entities and the exposure to loss as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019			
		Asset securitization vehicles	Project financing	Investment fund	Total
Assets					
Securities measured at fair value through profit or loss	₩	—	—	30,597	30,597
Securities measured at fair value through other comprehensive income		—	—	28,038	28,038
Loans receivable		39,486	384,349	—	423,835
		39,486	384,349	58,635	482,470
Lending and other commitments					
Unused commitments		22,464	364,951	—	387,415
Maximum exposure to loss(*1)	₩	61,950	749,300	58,635	869,885

(in millions of Korean won)		December 31, 2018			
		Asset securitization vehicles	Project financing	Investment fund	Total
Assets					
Securities measured at fair value through profit or loss	₩	—	—	38,998	38,998
Securities measured at fair value through other comprehensive income		—	—	6,091	6,091
Loans receivable		64,867	525,929	—	590,796
		64,867	525,929	45,089	635,885
Lending and other commitments					
Unused commitments		59,683	382,821	—	442,504
Maximum exposure to loss(*1)	₩	124,550	908,750	45,089	1,078,389

(in millions of Korean won)		December 31, 2017			
		Asset securitization vehicles	Project financing	Investment fund	Total
Assets					
Short-term financial investments	₩	—	—	—	—
Available-for-sale securities		—	—	50,526	50,526
Loans receivable		78,933	432,191	—	511,124
		78,933	432,191	50,526	561,650
Lending and other commitments					
Unused commitments		74,031	522,259	—	596,290
Maximum exposure to loss(*1)	₩	152,964	954,450	50,526	1,157,940

(*1) The maximum exposure to loss is the sum of the carrying amount of the assets held and the amounts of lending and other commitments provided.

(Continued)

9. Financial Receivables

Financial receivables measured at amortized costs as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019				
		Unpaid outstanding principal balance	Deferred loan costs, net of fees (Initial direct fees, net of costs on finance leases)	Present value discounts	Allowance for loan losses	Carrying amount
Loans receivable						
Loans	₩	10,016,975	52,543	(1,151)	(530,457)	9,537,910
Installment financial assets						
Automobile		14,512,402	(428,145)	—	(126,220)	13,958,037
Durable goods		1	—	—	(1)	—
Mortgage		797	1	—	(35)	763
		14,513,200	(428,144)	—	(126,256)	13,958,800
Lease receivables						
Finance lease receivables		2,720,543	(299)	—	(43,758)	2,676,486
Cancelled lease receivables		35,850	—	—	(28,535)	7,315
		2,756,393	(299)	—	(72,293)	2,683,801
	₩	27,286,568	(375,900)	(1,151)	(729,006)	26,180,511

(in millions of Korean won)		December 31, 2018				
		Unpaid outstanding principal balance	Deferred loan costs, net of fees (Initial direct fees, net of costs on finance leases)	Present value discounts	Allowance for loan losses	Carrying amount
Loans receivable						
Loans	₩	10,231,864	61,836	(1,560)	(514,674)	9,777,466
Installment financial assets						
Automobile(*1)		12,565,271	(363,391)	—	(120,896)	12,080,984
Durable goods		2	—	—	(1)	1
Mortgage		928	2	—	(28)	902
		12,566,201	(363,389)	—	(120,925)	12,081,887
Lease receivables						
Finance lease receivables		2,606,401	(291)	—	(44,933)	2,561,177
Cancelled lease receivables		43,793	—	—	(26,886)	16,907
		2,650,194	(291)	—	(71,819)	2,578,084
	₩	25,448,259	(301,844)	(1,560)	(707,418)	24,437,437

(*1) The amount of installment financial assets for automobile had been restated to reflect correction of error for subvention received from the manufacturer.

(Continued)

(in millions of Korean won)		December 31, 2017				
		Unpaid outstanding principal balance	Deferred loan costs, net of fees (Initial direct fees, net of costs on finance leases)	Present value discounts	Allowance for loan losses	Carrying amount
Loans receivable						
Loans	₩	10,012,666	49,874	(1,913)	(403,691)	9,656,936
Installment financial assets						
Automobile		10,082,011	53,645	—	(95,861)	10,039,795
Durable goods		2	—	—	(2)	—
Mortgage		1,097	2	—	(25)	1,074
		10,083,110	53,647	—	(95,888)	10,040,869
Lease receivables						
Finance lease receivables		2,458,875	(320)	—	(44,824)	2,413,731
Cancelled lease receivables		36,631	—	—	(26,980)	9,651
		2,495,506	(320)	—	(71,804)	2,423,382
	₩	22,591,282	103,201	(1,913)	(571,383)	22,121,187

(Continued)

The following tables present a roll-forward of in allowance for loan losses including allowance for doubtful accounts for other assets for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019											
		Loans receivable				Installment financial assets			Lease receivables				
		12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Other assets	Total
Opening balance	₩	155,259	84,546	215,899	58,970	72,222	18,401	30,302	16,904	8,765	46,150	27,909	735,327
Movements between the three stages													
Transferred to 12-month expected credit losses		16,982	(14,133)	(2,849)	—	4,032	(3,696)	(336)	6,652	(3,137)	(3,515)	—	—
Transferred to lifelime expected credit losses		(17,558)	18,259	(701)	—	(8,616)	9,025	(409)	(1,701)	2,315	(614)	—	—
Transferred to credit-impaired		(4,102)	(7,978)	12,080	—	(512)	(1,122)	1,634	(290)	(815)	1,105	—	—
Disposals		—	—	(192,678)	(70,045)	—	—	(34,273)	—	—	(62)	—	(297,058)
Charge-offs		—	—	(86,205)	(43,787)	—	—	(22,815)	—	—	(1,168)	(1,005)	(154,980)
Recoveries		—	—	39,616	53,012	—	—	9,738	—	—	131	1,319	103,816
Unwinding of discounts		—	—	(12,337)	(48)	—	—	(395)	—	—	(191)	—	(12,971)
Provision for (release of) allowance		4,134	16,324	244,841	63,026	(8,150)	4,811	56,415	(5,911)	1,896	5,851	818	384,055
Others		(70)	—	—	—	—	—	—	(72)	—	—	—	(142)
Closing balance	₩	154,645	97,018	217,666	61,128	58,976	27,419	39,861	15,582	9,024	47,687	29,041	758,047

The Group is collecting receivables that were previously charged off for which the statute of limitation has not legally elapsed or due to other reasons. The contractual amounts of such receivables written off but not yet collected as of December 31, 2019 were ₩208,901 million.

(Continued)

(in millions of Korean won)	2018											
	Loans receivable				Installment financial assets			Lease receivables				
	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Other assets	Total
Opening balance (*1)	₩ 162,728	70,889	164,201	55,384	64,552	18,657	26,784	22,187	8,624	44,275	26,586	664,867
Movements between the three stages												
Transferred to 12-month expected credit losses	14,546	(12,764)	(1,782)	—	5,143	(5,039)	(104)	7,571	(3,349)	(4,222)	—	—
Transferred to lifelime expected credit losses	(15,038)	16,964	(1,926)	—	(3,282)	3,741	(459)	(2,058)	2,332	(274)	—	—
Transferred to credit-impaired	(4,150)	(6,687)	10,837	—	(363)	(839)	1,202	(228)	(818)	1,046	—	—
Disposals	—	—	(108,872)	(70,768)	—	—	(22,929)	—	—	(37)	—	(202,606)
Charge-offs	—	—	(110,973)	(71,869)	—	—	(24,917)	—	—	(585)	(853)	(209,197)
Recoveries	—	—	41,864	51,855	—	—	9,072	—	—	199	1,081	104,071
Unwinding of discounts	—	—	(10,061)	(57)	—	—	(412)	—	—	(173)	—	(10,703)
Provision for (release of) allowance	368	16,144	232,611	94,425	6,172	1,881	42,065	(9,801)	1,976	5,921	1,095	392,857
Others	(52)	—	—	—	—	—	—	(10)	—	—	—	(62)
Trasnsferred to assets of a disposal group classified as held for sale	(3,143)	—	—	—	—	—	—	(757)	—	—	—	(3,900)
Closing balance	₩ 155,259	84,546	215,899	58,970	72,222	18,401	30,302	16,904	8,765	46,150	27,909	735,327

(*1) Restated according to K-IFRS 1109.

The Group is collecting receivables that were previously charged off for which the statute of limitation has not legally elapsed or due to other reasons. The contractual amounts of such receivables written off but not yet collected as of December 31, 2018 were ₩199,171 million.

(Continued)

(in millions of Korean won)		2017				
		Loans receivable	Installment financial assets	Lease receivables	Other assets	Total
Opening balance	₩	377,249	80,600	71,224	27,464	556,537
Disposals		(133,869)	(17,175)	(119)	—	(151,163)
Charge-offs		(193,908)	(23,800)	(1,522)	(1,042)	(220,272)
Recoveries		88,709	8,319	225	1,733	98,986
Unwinding of discounts		(3,986)	(243)	(111)	—	(4,340)
Provision for (release of) allowance		269,479	48,187	2,117	(2,257)	317,526
Others		17	—	(10)	—	7
Closing balance	₩	403,691	95,888	71,804	25,898	597,281

The following table presents roll-forward of the carrying amount of financial receivables measured at amortized costs that significantly affects changes in allowances for loan losses for the years ended December 31, 2019 and 2018.

(in millions of Korean won)		2019											
		Loans receivable				Installment financial assets			Lease receivables				
		12-month expected credit losses	Lifetime expected credit losses		Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses		12-month expected credit losses	Lifetime expected credit losses			
			Not credit-impaired	Credit-impaired			Not credit-impaired	Credit-impaired		Not credit-impaired	Credit-impaired	Other assets	Total
Financial receivables newly originated (*1)	₩	6,103,405	556,611	64,305	232,148	7,846,495	371,691	11,354	1,311,362	117,118	5,437	6,878	16,626,804
Disposals		—	—	(232,720)	(100,301)	—	—	(39,967)	—	—	(204)	—	(373,192)
Charge-offs		—	—	(86,205)	(43,787)	—	—	(22,815)	—	—	(1,168)	(1,005)	(154,980)

(*1) The amount of financial receivables newly originated of other assets are net increase (decrease) amount during the year ended December 31, 2019.

(in millions of Korean won)		2018											
		Loans receivable				Installment financial assets			Lease receivables				
		12-month expected credit losses	Lifetime expected credit losses		Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses		12-month expected credit losses	Lifetime expected credit losses			
			Not credit-impaired	Credit-impaired			Not credit-impaired	Credit-impaired		Not credit-impaired	Credit-impaired	Other assets	Total
Financial receivables newly originated (*1)	₩	7,321,711	552,672	94,018	231,305	8,055,540	145,612	9,213	1,451,925	131,117	4,684	(9,297)	17,988,500
Disposals		—	—	(109,784)	(79,908)	—	—	(23,800)	—	—	(74)	—	(213,566)
Charge-offs		—	—	(110,973)	(71,869)	—	—	(24,917)	—	—	(585)	(853)	(209,197)

(*1) The amount of financial receivables newly originated of other assets are net increase (decrease) amount during the year ended December 31, 2018.

(Continued)

10. Finance Lease Receivables

(1) Minimum lease payments

Details of total lease investments and present value of minimum lease payments as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019		December 31, 2018		December 31, 2017	
		Gross investment in the lease	Present value of minimum lease payments	Gross investment in the lease	Present value of minimum lease payments	Gross investment in the lease	Present value of minimum lease payments
Less than one year	₩	1,152,932	1,022,087	1,191,219	1,063,496	1,185,855	1,062,343
One to five years		1,814,843	1,688,982	1,657,729	1,537,301	1,498,994	1,394,212
Over five years		5,225	5,030	3,045	2,986	281	277
	₩	2,973,000	2,716,099	2,851,993	2,603,783	2,685,130	2,456,832

(2) Unearned interest income

Details of unearned interest income as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Gross investment in the lease	₩	2,973,000	2,851,993	2,685,130
Net lease investments:				
Present value of minimum lease payments		2,716,099	2,603,783	2,456,832
Present value of unguaranteed residual value		4,145	2,327	1,723
		2,720,244	2,606,110	2,458,555
Unearned interest income	₩	252,756	245,883	226,575

(Continued)

11. Leased Assets

(1) Carrying amount

All operating leased assets where the Group is the lessor consist of vehicles and the details as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Operating leased assets	₩	3,233,317	(892,130)	(702)	2,340,485
Cancelled leased assets		38,016	—	(7,368)	30,648
	₩	3,271,333	(892,130)	(8,070)	2,371,133

(in millions of Korean won)		December 31, 2018			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Operating leased assets	₩	2,862,709	(859,995)	(919)	2,001,795
Cancelled leased assets		16,747	—	(5,990)	10,757
	₩	2,879,456	(859,995)	(6,909)	2,012,552

(in millions of Korean won)		December 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Operating leased assets	₩	2,685,771	(797,676)	(379)	1,887,716
Cancelled leased assets		17,421	—	(5,345)	12,076
	₩	2,703,192	(797,676)	(5,724)	1,899,792

(2) Roll-forward schedule

The following tables present a roll-forward of the carrying amounts of leased assets for the years ended December 31, 2019 and 2018:

(in millions of Korean won)		2019					
		Opening balance	Addition	Disposal	Depreciation	Impairment	Closing balance
Vehicles	₩	1,999,721	1,046,895	(294,141)	(413,698)	217	2,338,994
Machine equipment		2,074	—	—	(583)	—	1,491
	₩	2,001,795	1,046,895	(294,141)	(414,281)	217	2,340,485

(in millions of Korean won)		2018					
		Opening balance	Addition	Disposal	Depreciation	Impairment	Closing balance
Vehicles	₩	1,885,059	779,534	(268,828)	(395,504)	(540)	1,999,721
Machine equipment		2,657	—	—	(583)	—	2,074
	₩	1,887,716	779,534	(268,828)	(396,087)	(540)	2,001,795

(Continued)

(3) Minimum lease payments

Future minimum lease payments under operating lease as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Less than one year	₩	543,253	496,536	484,105
One to five years		847,018	695,845	659,095
Over five years		3	8	7
	₩	1,390,274	1,192,389	1,143,207

12. Property and Equipment

(1) Carrying amount

Property and equipment as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019			December 31, 2018			December 31, 2017		
		Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩	89,290	—	89,290	97,459	—	97,459	97,883	—	97,883
Buildings		119,545	(20,249)	99,296	124,403	(18,691)	105,712	128,852	(16,276)	112,576
Vehicles		6,376	(3,004)	3,372	6,355	(2,890)	3,465	6,407	(2,471)	3,936
Fixture and furniture		164,491	(143,337)	21,154	163,813	(132,390)	31,423	158,184	(115,412)	42,772
Others		2,429	—	2,429	2,429	—	2,429	2,292	—	2,292
Construction in progress		—	—	—	2,228	—	2,228	1,302	—	1,302
	₩	382,131	(166,590)	215,541	396,687	(153,971)	242,716	394,920	(134,159)	260,761

(2) Roll-forward schedule

The following tables present a roll-forward of the carrying amounts of property and equipment for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019							
		Opening balance(*1)	Addition	Transfer	Disposal	Depreciation	Translation differences	Transferred to aasets of a disposal group classified as held for sale	Closing balance
Land	₩	97,459	—	—	—	—	—	(8,169)	89,290
Buildings		105,712	28	—	—	(3,120)	—	(3,324)	99,296
Vehicles		3,465	734	—	(52)	(776)	1	—	3,372
Fixture and furniture(*1)		28,521	5,262	3,472	(25)	(16,100)	24	—	21,154
Others		2,429	—	—	—	—	—	—	2,429
Construction in progress		2,228	1,244	(3,472)	—	—	—	—	—
	₩	239,814	7,268	—	(77)	(19,996)	25	(11,493)	215,541

(*1) Including the adjustment related to the application of K-IFRS No. 1116.

(Continued)

(in millions of Korean won)		2018							
		Opening balance	Addition	Transfer	Disposal	Depreciation	Translation differences	Transferred to aasets of a disposal group classified as held for sale	Closing balance
Land	₩	97,883	—	1,303	—	—	—	(1,727)	97,459
Buildings		112,576	332	27	—	(3,236)	—	(3,987)	105,712
Vehicles		3,936	305	—	(17)	(758)	(1)	—	3,465
Fixture and furniture		42,772	7,829	2,989	(125)	(19,742)	(1)	(2,299)	31,423
Others		2,292	—	137	—	—	—	—	2,429
Construction in progress		1,302	5,382	(4,456)	—	—	—	—	2,228
	₩	260,761	13,848	—	(142)	(23,736)	(2)	(8,013)	242,716

(in millions of Korean won)		2017							
		Opening balance	Addition	Transfer	Disposal	Depreciation	Translation differences	Transferred to aasets of a disposal group classified as held for sale	Closing balance
Land	₩	97,883	—	—	—	—	—	—	97,883
Buildings		89,040	447	26,128	—	(3,039)	—	—	112,576
Vehicles		4,475	300	—	(7)	(829)	(3)	—	3,936
Fixture and furniture		48,072	7,355	7,758	(101)	(20,329)	17	—	42,772
Others		2,116	—	176	—	—	—	—	2,292
Construction in progress		28,939	8,105	(35,754)	—	—	12	—	1,302
	₩	270,525	16,207	(1,692)	(108)	(24,197)	26	—	260,761

13. Intangible Assets

(1) Carrying amount

Intangible assets as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019			December 31, 2018			December 31, 2017		
		Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount	Acquisition cost	Accumulated amortization	Carrying amount
Software development costs	₩	299,911	(207,733)	92,178	275,152	(169,257)	105,895	247,727	(134,145)	113,582
Trademark		69	(69)	—	69	(69)	—	69	(69)	—
Memberships		28,811	—	28,811	28,673	—	28,673	28,689	—	28,689
Other intangible assets		56,493	(47,453)	9,040	54,237	(42,325)	11,912	64,509	(39,103)	25,406
Software under development		6,805	—	6,805	7,173	—	7,173	8,525	—	8,525
	₩	392,089	(255,255)	136,834	365,304	(211,651)	153,653	349,519	(173,317)	176,202

(Continued)

(2) Roll-forward schedule

The following tables present a roll-forward of the carrying amounts of intangible assets for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)	2019							
	Opening balance	Addition	Transfer	Disposal	Amortization	Classified as disposal group held for sale	Translation differences	Closing balance
Software development costs	₩ 105,895	106	24,653	—	(38,476)	—	—	92,178
Memberships	28,673	142	—	—	—	—	(4)	28,811
Other intangible assets	11,912	423	1,831	—	(5,128)	—	2	9,040
Software under development	7,173	26,116	(26,484)	—	—	—	—	6,805
	₩ 153,653	26,787	—	—	(43,604)	—	(2)	136,834

(in millions of Korean won)	2018							
	Opening balance	Addition	Transfer	Disposal	Amortization	Classified as disposal group held for sale	Translation differences	Closing balance
Software development costs	₩ 113,582	1,004	26,421	—	(35,112)	—	—	105,895
Memberships	28,689	—	—	—	—	—	(16)	28,689
Other intangible assets	25,406	2,100	814	—	(7,745)	(8,697)	34	11,878
Software under development	8,525	27,872	(27,235)	—	—	(1,987)	(2)	7,175
	₩ 176,202	30,976	—	—	(42,857)	16	(10,684)	153,637

(in millions of Korean won)	2017							
	Opening balance	Addition	Transfer	Disposal	Amortization	Classified as disposal group held for sale	Translation differences	Closing balance
Software development costs	₩ 112,966	994	31,585	—	(31,963)	—	—	113,582
Memberships	27,370	1,328	—	—	—	—	(9)	28,689
Other intangible assets	26,443	6,152	1,306	(61)	(8,483)	—	49	25,406
Software under development	15,084	24,635	(31,199)	—	—	—	5	8,525
	₩ 181,863	33,109	1,692	(61)	(40,446)	—	45	176,202

(Continued)

14. Borrowed Funds

(1) Borrowings

Borrowings as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	Lender	Annual interest rate (%)	Maturity		Carrying amount December 31, 2019	December 31, 2018	December 31, 2017
Short-term borrowings:							
Commercial paper	Shinhan Bank and 4 others	1.97 ~ 2.10	January 23, 2020 through April 9, 2020	₩	260,000	1,220,000	530,000
General loans	Jeonbuk Bank and 2 others	2.42 ~ 3.10	January 3, 2020 through September 11, 2020		80,000	225,000	307,114
					340,000	1,445,000	837,114
Current portion of long-term borrowings:							
Commercial paper	Eugene Investment Co., Ltd. and 6 others	2.00 ~ 2.24	July 23, 2020 through October 27, 2020	₩	510,000	190,000	—
General loans	Kookmin Bank and 6 others	2.54 ~ 3.05	February 6, 2020 through December 21, 2020		632,501	769,166	517,777
					1,142,501	959,166	517,777
Long-term borrowings:							
Commercial paper	Kiwoom Securities Co., Ltd. and 1 others	2.12	March 7, 2022		200,000	510,000	700,000
General loans	Kookmin Bank and 11 others	1.23 ~ 3.03	January 25, 2021 through December 2, 2022		1,152,516	612,350	817,969
					1,352,516	1,122,350	1,517,969
				₩	2,835,017	3,526,516	2,872,860

(2) Bonds issued

Bonds issued as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	Annual interest rate (%)	Maturity		Carrying amount December 31, 2019	December 31, 2018	December 31, 2017
Short-term notes:						
Bonds	1.98 ~ 2.11	January 7, 2020 through January 31, 2020	₩	210,000	—	—
Less: discount on bonds				(135)	—	—
				209,865	—	—
Current portion of long-term bonds:						
Bonds	1.32 ~ 3.67	January 3, 2020 through December 22, 2020		5,347,453	4,931,000	5,195,047
Less: discount on bonds				(2,669)	(2,079)	(2,842)
				5,344,784	4,928,921	5,192,205
Long-term bonds:						
Bonds	1.40 ~ 3.97	January 5, 2021 through September 7, 2029		18,025,234	15,865,349	13,982,195
Less: discount on bonds				(30,671)	(32,506)	(32,248)
				17,994,563	15,832,843	13,949,947
			₩	23,549,212	20,761,764	19,142,152

(Continued)

15. Employee benefit liabilities

(1) Defined contribution plans

The Group recognized ₩1,562 million, ₩763 million and ₩381 million in the statement of comprehensive income for retirement benefits based on the defined contribution plan for the years ended December 31, 2019, 2018 and 2017, respectively.

(2) Defined benefit plans

(a) Characteristics of the defined benefit plan

The Group operates a defined benefit plan. Under the plan, eligible employees are paid severance benefits based on average salaries of three months prior to the termination and service periods. The plan assets are mainly comprised of interest rate guaranteed type instruments.

(b) Defined benefit liability

The amounts of net defined benefit liability recognized in the statements of financial position as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	₩	103,766	101,978	101,362
Fair value of plan assets (*1)		(110,812)	(101,787)	(105,761)
Defined benefit liabilites (assets), net	₩	(7,046)	191	(4,399)

(*1) Including contribution to the National Pension Fund of ₩26 million as of December 31, 2019, ₩26 million as of December 31, 2018 and ₩32 million as of December 31, 2017, respectively.

(c) Roll-forward of present value of defined benefit obligations

The following tables present a roll-forward of the present value of defined benefit obligations for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019	2018	2017
Opening balance	₩	101,978	101,362	103,403
Current service costs		14,315	14,904	16,824
Interest cost		2,400	3,094	2,631
Actuarial losses (gains):				
Experience adjustments		(3,410)	(3,687)	(2,560)
Changes in economic assumptions		(2,566)	3,815	(6,539)
Changes in demographic assumptions		496	9	(2,028)
		(5,480)	137	(11,127)
Transfer of severance benefits from (to) related parties, net		(418)	5,434	(3,766)
Benefits paid		(9,029)	(22,953)	(6,603)
Closing balance	₩	103,766	101,978	101,362

(Continued)

(d) Roll-forward of fair value of plan assets

The following tables present a roll-forward of the fair value of plan assets for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019	2018	2017
Opening balance	₩	101,787	105,761	101,244
Contributions		16,570	13,394	12,341
Expected return on plan assets		2,314	3,175	2,502
Actuarial losses - Changes in economic assumptions		(557)	(1,513)	(966)
Transfer of severance benefits from (to) related parties, net		(302)	3,624	(2,757)
Benefits paid		(9,000)	(22,654)	(6,603)
Closing balance	₩	110,812	101,787	105,761

(e) Amounts recognized in profit or loss

Details of severance benefits recognized as profit and loss for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Current service costs	₩	14,315	14,904	16,824
Interest cost		2,400	3,094	2,631
Expected return on plan assets		(2,314)	(3,175)	(2,502)
	₩	14,401	14,823	16,953

(f) Details of plan assets

Details of plan assets as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019		December 31, 2018		December 31, 2017	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Cash and cash equivalents	₩	—	—	1	—	2	—
Deposits		1,754	1.58	4,199	4.13	7,222	6.83
Interest-bearing financial assets with fixed rates		109,058	98.42	97,587	95.87	98,537	93.17
	₩	110,812	100.00	101,787	100.00	105,761	100.00

(g) Actuarial assumptions

The following tables represents the principal actuarial assumptions used to measure defined benefit liabilities:

	December 31, 2019	December 31, 2018	December 31, 2017
Discount rate	2.31%	2.65%	3.15%
Future salary growth	4.01%	4.48%	5.24%

Assumptions regarding future mortality are based on published statistics and mortality tables by the Korean Insurance Development Institute.

(Continued)

(h) Sensitivity analysis

Sensitivity analysis of the present value of defined benefit obligations as of December 31, 2019, 2018 and 2017 is as follows:

(in millions of Korean won)		Effect on present value of defined benefit obligations					
		December 31, 2019		December 31, 2018		December 31, 2017	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Discount rate (1%P movement)	₩	(8,127)	9,300	(8,056)	9,228	(8,059)	9,242
Future salary growth (1%P movement)		9,237	(8,227)	9,173	(8,161)	9,233	(8,200)

(i) Duration and expected contributions

The expected weighted-average duration of the defined benefit obligations as of December 31, 2019 is 8.56 years (2018: 8.67 years, 2017: 8.77 years). The Group is expected to pay contributions of ₩17,480 million to its defined benefit plans in 2020. Due to uncertainty, expected contributions may differ from actual results.

(j) Maturity profiles of defined benefit obligations

Maturity profiles of defined benefit obligation as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Less than one year	₩	6,746	8,117	7,119
One to two years		9,112	6,587	8,746
Two to five years		17,979	18,141	17,278
Five to ten years		30,749	30,156	28,534
Ten years and more		39,180	38,977	39,685
	₩	103,766	101,978	101,362

(3) Other long-term employee benefit plans

(a) Other long-term employee benefit liability

The following tables present a roll-forward of other long-term benefit liability for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019	2018	2017
Opening balance	₩	6,264	6,345	6,779
Current service costs		543	536	642
Interest cost		142	175	176
Actuarial losses (gains)		410	(151)	(656)
Benefits paid		(365)	(641)	(596)
Closing balance	₩	6,994	6,264	6,345

(Continued)

(b) Actuarial assumptions

The following are the principal actuarial assumptions required to measure other long-term employee benefit liabilities as of December 31, 2019, 2018 and 2017:

	December 31, 2019	December 31, 2018	December 31, 2017
Discount rate	1.99%	2.43%	2.60%
Future salary growth	4.01%	4.48%	5.24%

Assumptions regarding future mortality are based on published statistics and mortality tables by the Korean Insurance Development Institute.

16. Provisions

Provisions include the allowance for unused loan commitments, residual value guarantees and asset retirement obligations, litigations and others. A similar approach to the allowance for loan losses is used for calculating a reserve for the estimated credit losses related to unused loan commitments.

The following tables present a roll-forward of the provisions for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019				
		Unused loan commit-ments (*1)	Residual value guaran-tees (*3)	Asset retirement obliga-tions (*4)	Litigations	Total
Opening balance	₩	1,011	46,752	4,137	3,100	55,000
Provision for (release of) allowance		(507)	7,695	(4,484)	(3,100)	(396)
Provisions made for AROs and capitalized to related assets (*4)		—	—	6,088	—	6,088
Unwinding of interests		—	—	119	—	119
Closing balance	₩	504	54,447	5,860	—	60,811

(in millions of Korean won)		2018				
		Unused loan commit-ments (*1)(*2)	Residual value guaran-tees (*3)	Asset retirement obliga-tions (*4)	Litigations	Total
Opening balance	₩	1,277	45,967	2,652	—	49,896
Provision for (release of) allowance		(266)	785	(859)	3,100	2,760
Provisions made for AROs and capitalized to related assets (*4)		—	—	2,244	—	2,244
Unwinding of interests		—	—	100	—	100
Closing balance	₩	1,011	46,752	4,137	3,100	55,000

(Continued)

(in millions of Korean won)		2017				
		Unused loan commit-ments (*1)	Residual value guaran-tees (*3)	Asset retirement obliga-tions (*4)	Litigations	Total
Opening balance	₩	1,185	35,078	4,525	—	40,788
Provision for (release of) allowance		(53)	10,889	(2,409)	—	8,427
Provisions made for AROs and capitalized to related assets (*4)		—	—	484	—	484
Unwinding of interests		—	—	52	—	52
Closing balance	₩	1,132	45,967	2,652	—	49,751

(*1) The Group facilitates credits with limits, under which the Group provides commitments to extend credits. Provision is made for estimated losses arising from unused loan commitments.

(*2) Including the adjustment related to the application of K-IFRS 1109.

(*3) The Group facilitates certain installment financial receivable products which the Group guarantees residual value of used automobiles for consumers. The Group also contracts with third party guarantor to guarantee residual value of automobiles returned by consumers. Provision is made for estimated expected losses arising from these residual value guarantees.

(*4) The Group recognizes provisions for asset retirement obligations (AROs) which represent the estimated costs to restore the existing leased properties which are discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to occur at the end of the lease contract. In order to estimate expected restoration expense, the average actual costs incurred for the past three years and five-year average inflation rate are used.

17. Derivative Financial Instruments and Hedge Accounting

(1) Trading derivatives

The Group had no balance of trading derivatives as of December 31, 2019, 2018 and 2017.

(2) Derivatives designated and qualifying as hedging instruments

In the normal course of business, the Group enters into derivative contracts to manage its exposures to changes in future cash flows arising from volatilities in interest rate and foreign currency exchange rates with its borrowings and bonds issued. The Group primarily uses interest rate swaps and currency swaps to manage exposures to fluctuations in future cash flows due to interest rate risk and foreign exchange risk. The Group also utilizes currency forward contracts to manage exposures to fluctuation in future cash flows related to its lease contracts denominated in foreign currencies. There was no change in overall strategy of the Group for cash flow hedges.

(Continued)

The hedge ratio of nominal cash flows regarding cash flow hedge as of December 31, 2019, 2018, and 2017 are as follows:

(in millions of Korean won)		December 31, 2019						
		Less than one year	Less than two years	Less than three years	Less than four years	Less than five years	Over five years	Total
Carrying amount of								
Hedged item	₩	1,716,453	1,712,569	2,341,386	2,211,158	1,808,246	902,340	10,692,152
Hedging instrument		1,716,453	1,712,569	2,341,386	2,211,158	1,808,246	902,340	10,692,152
Hedge ratio		100%	100%	100%	100%	100%	100%	100%

(in millions of Korean won)		December 31, 2018						
		Less than one year	Less than two years	Less than three years	Less than four years	Less than five years	Over five years	Total
Carrying amount of								
Hedged item	₩	2,041,000	1,686,490	1,434,128	1,756,844	1,971,456	355,430	9,245,348
Hedging instrument		2,041,000	1,686,490	1,434,128	1,756,844	1,971,456	383,572	9,273,490
Hedge ratio		100%	100%	100%	100%	100%	108%	100%

(in millions of Korean won)		December 31, 2017						
		Less than one year	Less than two years	Less than three years	Less than four years	Less than five years	Over five years	Total
Carrying amount of								
Hedged item	₩	1,909,003	2,083,630	1,506,661	996,904	702,840	1,050,246	8,249,284
Hedging instrument		1,909,003	2,083,630	1,506,661	996,904	702,840	1,050,246	8,249,284
Hedge ratio		100%	100%	100%	100%	100%	100%	100%

Details of cash flow hedged items as of December 31, 2019,2018, and 2017 are as follows:

(in millions of Korean won)		December 31, 2019				
		Carrying amount				
		Assets	Liabilities	Line item in the financial statements	Changes in fair value	Accumulated other comprehensive income (loss)
Interest rate risk	₩	—	5,095,000	Borrowings and Bonds issued	—	(49,562)
Foreign exchange risk		28,543	5,568,610	Loans, Borrowings and Bonds issued	(183,316)	(9,485)
	₩	28,543	10,663,610		(183,316)	(59,047)

(in millions of Korean won)		December 31, 2018				
		Carrying amount				
		Assets	Liabilities	Line item in the financial statements	Changes in fair value	Accumulated other comprehensive income (loss)
Interest rate risk	₩	—	3,580,000	Borrowings and Bonds issued	—	(23,992)
Foreign exchange risk		—	5,665,348	Bonds issued	150,765	(78,319)
	₩	—	9,245,348		150,765	(102,311)

(in millions of Korean won)		December 31, 2017				
		Carrying amount				
		Assets	Liabilities	Line item in the financial statements	Changes in fair value	Accumulated other comprehensive income (loss)
Interest rate risk	₩	—	2,330,000	Borrowings and Bonds issued	—	3,733
Foreign exchange risk		—	5,919,284	Bonds issued	443,530	(3,093)
	₩	—	8,249,284		443,530	640

(Continued)

Derivatives that are designated and qualifying as hedging instruments for cash flow hedges as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019				
		Notional principal amount (*1)	Carrying amount: Assets	Carrying amount: Liabilities	Line item in the financial statements	Changes in fair value
Interest rate swaps	₩	5,095,000	1,882	67,137	Derivative	(33,734)
Currency swaps		5,597,153	136,917	58,291	assets (liabilities)	330,098
	₩	10,692,153	138,799	125,428		296,364

(in millions of Korean won)		December 31, 2018				
		Notional principal amount (*1)	Carrying amount: Assets	Carrying amount: Liabilities	Line item in the financial statements	Changes in fair value
Interest rate swaps	₩	3,580,000	1,586	33,237	Derivative	(36,576)
Currency swaps		5,693,490	24,956	251,770	assets (liabilities)	83,934
	₩	9,273,490	26,542	285,007		47,358

(in millions of Korean won)		December 31, 2017			
		Notional principal amount (*1)	Assets	Liabilities	Accumulated other comprehensive income (loss)
Interest rate swaps	₩	2,330,000	6,623	1,698	3,733
Currency swaps		5,919,284	18,047	362,236	(3,093)
	₩	8,249,284	24,670	363,934	640

(*1) Notional principal amount represents Korean won equivalent amounts of foreign currencies for won-to-foreign currency transactions and receiving foreign currencies for foreign currency-to-foreign currency transactions that are translated with the benchmark foreign currency exchange rate disclosed by the Bank of Korea as of the reporting date.

(Continued)

Changes in effective portion of cash flow hedges for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		**2019**			
		Opening balance	**Changes in fair value recognized in other comprehensive income**	**Reclassified to profit or loss**	**Closing balance**
Effective portion of cash flow hedges	₩	(134,975)	296,364	(239,287)	(77,898)
Income tax effects		32,664			18,851
Effective portion of cash flow hedges, net of income taxes	₩	(102,311)			(59,047)

(in millions of Korean won)		**2018**			
		Opening balance	**Changes in fair value recognized in other comprehensive income**	**Reclassified to profit or loss**	**Closing balance**
Effective portion of cash flow hedges	₩	844	47,358	(183,177)	(134,975)
Income tax effects		(204)			32,664
Effective portion of cash flow hedges, net of income taxes	₩	640			(102,311)

(in millions of Korean won)		**2017**			
		Opening balance	**Changes in fair value recognized in other comprehensive income**	**Reclassified to profit or loss**	**Closing balance**
Effective portion of cash flow hedges	₩	(42,154)	(525,231)	568,229	844
Income tax effects		10,202			(204)
Effective portion of cash flow hedges, net of income taxes	₩	(31,952)			640

The Group is expected to be exposed to the variability in future cash flows arising from hedged items designated as cash flow hedges, until September 7, 2029. There were no cash flow hedges discontinued during the years ended December 31, 2019, 2018 and 2017.

There was no ineffective portion recognized in profit or loss related to cash flow hedge for the years ended December 31, 2019, 2018 and 2017.

(Continued)

18. Assets Held for Sale

Details of assets held for sale as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)		December 31, 2019			
		Acquisition cost (*1)	Accumulated impairment losses	Carrying amount	Fair value
Land held for sale	₩	8,169	—	8,169	10,662
Buildings held for sale		3,324	—	3,324	4,338
	₩	11,493	—	11,493	15,000

(in millions of Korean won)		December 31, 2018			
		Acquisition cost (*1)	Accumulated impairment losses	Carrying amount	Fair value
Land held for sale	₩	1,727	—	1,727	2,135
Buildings held for sale		3,987	—	3,987	4,319
	₩	5,714	—	5,714	6,454

(*1) Acquisition cost of buildings held for sale is net of accumulated depreciation before classified as assets held for sale.

19. Equity

(1) Issued capital

Details of issued capital as of December 31, 2019, 2018 and 2017 are as follows:

	December 31, 2019, 2018 and 2017
Type	Common stock
Number of authorized shares to issue	500,000,000
Par value of share (in won)	5,000
Number of issued shares	99,307,435
Issued capital (in won)	496,537,175,000

(2) Legal reserve

Korean Commercial Act requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends declared, until the reserve equals 50% of its issued capital. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(Continued)

(3) Discretionary reserve

The Group appropriates a reserve in accordance with Electronic Financial Transactions Act and a reserve for business rationalization in accordance with Restriction of Special Taxation Act.

In accordance with the Article 11 of Regulation on Supervision of Specialized Credit Finance Business mandated by the Financial Services Commission, the Group appropriates regulatory reserves for loan losses which equal to the difference between allowance for loan losses estimated under K-IFRS and allowance estimated based on regulatory risk grades of loans and receivables and minimum required reserve ratio to each grade. The reserve is not available for the payment of cash dividends.

Details of regulatory reserve for loan losses as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Appropriated regulatory reserve for loan losses	₩	198,594	211,999	208,844
Effects of the changes in accounting policies		—	(66,899)	—
Expected provision for regulatory reserve for loan losses		20,118	53,494	3,155
Regulatory reserve for loan losses (*1)	₩	218,712	198,594	211,999

(*1) Regulatory reserve for loan losses as of December 31, 2019, 2018 and 2017 represents the amount which reflects the expected provision for regulatory reserve for loan losses to appropriated regulatory reserve for loan losses at the beginning of the year.

Provision for regulatory reserve for loan losses and profit for the period and earnings per share adjusted with provision for regulatory reserve for loan losses for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Profit for the year	₩	350,867	311,281	299,903
Less: provision for regulatory reserve for loan losses (*1)		20,118	53,494	3,155
Profit for the period adjusted with provision for regulatory reserve for loan losses (*2)	₩	330,749	257,787	296,748
Basic and diluted earnings per share adjusted with provision for regulatory reserve for loan losses (in won)	₩	3,331	2,596	2,988

(*1) Provision for regulatory reserve for loan losses represents additional reserves expected to be made for the years ended December 31, 2019, 2018 and 2017.

(*2) Profit for the year adjusted with provision for regulatory reserve for losses is not prepared in accordance with K-IFRS, but the amount reflects the expected provision for regulatory reserve for loan losses on a pre-tax basis on profit for the year.

(Continued)

(4) Retained earnings

Details of retained earnings as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Legal reserves:				
Earned surplus reserve	₩	158,162	149,433	140,923
Discretionary reserves:				
Regulatory reserve for loan losses		198,594	211,999	208,844
Reserve for electronic financial transactions		100	100	100
Reserve for business rationalization		74	74	74
		198,768	212,173	209,018
Retained earnings before appropriation		3,271,954	3,003,259	2,814,138
	₩	3,628,884	3,364,865	3,164,079

(5) Dividends

The Company has a plan to declare the year-end dividends for the year ended December 31, 2019 at the expected date of annual meeting of shareholders, March 27, 2020. The dividends payable is not recognized in the accompanying consolidated financial statements as of December 31, 2019. Dividends declared and paid by the Company for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	2019	2018	2017
Interim dividends			
Number of shares eligible for dividends	99,307,435 shares	99,307,435 shares	99,307,435 shares
Par value of share (in won)	5,000	5,000	5,000
Dividends rate	18.02%	17.58%	17.14%
Dividends	89,476	87,291	85,106
Profit for the year	350,867	311,281	299,903
Dividends payout ratio (Dividends/ Profit for the year)	25.50%	28.04%	28.38%

(Continued)

20. Net Interest Income

Net interest income for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)

		2019	2018	2017
Interest income:				
Interest income recognized by using the effective interest method				
Cash and due from other financial institutions	₩	30,776	30,978	27,608
Available-for-sale securities		—	—	1,136
Securities measured at FVOCI		828	291	—
Loans receivable		872,735	956,535	910,458
Installment financial assets		579,492	510,820	463,773
Lease receivables (*1)		161,234	153,992	158,905
Other (*2)		1,194	599	582
		1,646,259	1,653,215	1,562,462
Interest expense:				
Borrowings		83,137	72,685	43,495
Bonds issued		524,610	491,352	483,638
Other (*2)		8,832	9,683	12,403
		616,579	573,720	539,536
Net interest income	₩	1,029,680	1,079,495	1,022,926

(*1) Including amortization of unearned revenue for security deposits received for leases under the effective interest method.

(*2) Including amortization of present value discounts under the effective interest method for the security deposits paid for leased offices, amortization of present value discounts for customer deposits received for leases and unwinding of provisions.

21. Net Fee Income

Net fee income for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Fee income:				
Loans receivable	₩	22,247	25,042	29,579
Installment financial assets		19,004	17,473	15,393
Lease receivables		139,620	139,388	141,144
		180,871	181,903	186,116
Fee expenses:				
Lease expenses		133,377	98,673	92,918
Net fee income	₩	47,494	83,230	93,198

(Continued)

22. Net Lease Income

Net lease income and expenses for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)		2019	2018	2017
Income on leases (*1)				
Income on operating leases	₩	581,090	544,442	513,577
Gain on sale of lease assets		45,708	63,784	21,854
Fee income on operating leases		114,012	102,734	98,117
		740,810	710,960	633,548
Lease expense (*1)				
Depreciation		414,281	396,087	400,237
Loss on sale of lease assets		28,983	53,438	35,100
Impairment losses on lease assets		1,161	1,185	368
Fee expenses on operating leases		65,718	70,580	48,653
Other		21,191	21,178	23,871
		531,334	542,468	508,229
Net lease income	₩	209,476	168,492	125,319

(*1) Excluding interest income and net fee income.

23. Other Operating Income and Expenses

Other operating income and expenses for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Other operating income:				
Gain on valuation of derivatives	₩	194,298	190,192	17,200
Gain on derivatives transactions		55,971	33,596	3,425
Gain on valuation of short-term financial investments		1,714	675	526
Gain on purchased loan		39,462	56,365	42,397
Shared services income		22,545	22,349	23,544
Other fee and commission		20,720	12,556	8,825
Advisory fee		51,865	57,059	55,638
Release of allowance		8,108	1,125	3,663
Other		13,206	18,455	17,483
	₩	407,889	392,372	172,701
Other operating expenses:				
Loss on valuation of derivatives	₩	10,982	39,233	462,237
Loss on derivatives transactions		—	1,378	126,617
Shared services expense		26,764	30,514	25,243
Indirect financing cost		11,352	10,449	10,565
Provision for allowance		7,712	3,885	12,090
Other		44,113	41,784	40,622
	₩	100,923	127,243	677,374

(Continued)

24. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Salaries	₩	214,509	220,258	217,088
Severance benefits		18,892	47,117	17,770
Employee benefits		33,212	35,025	34,767
Advertising		60,414	65,821	71,335
Sales promotion		55,641	71,002	75,251
Rents		21,775	39,250	41,294
Utilities		10,548	10,758	9,619
Communication		14,153	15,022	13,579
Travel and transportation		6,375	5,568	7,199
Professional and other service fees		59,428	76,203	84,704
Outsourcing service charges		32,695	36,338	36,323
Commissions and charges		19,874	33,273	21,446
Depreciation		38,129	23,736	24,197
Amortization		43,604	42,857	40,446
Other		45,661	45,737	57,177
	₩	674,910	767,965	752,195

25. Income Taxes

(1) Income tax expense

Income tax expense for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Current income tax expense	₩	85,592	82,885	86,261
Change in deferred income tax due to temporary differences		49,572	(12,437)	22,305
Deferred income taxes recognized directly to equity		(26,248)	33,757	(7,571)
Income tax expense	₩	108,916	104,205	100,995

(Continued)

(2) Deferred income taxes recognized directly to equity

Deferred income taxes recognized directly to equity for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019		
		Opening balance	Closing balance	Changes
Unrealized gains and losses on equity securities measured at FVOCI	₩	(4,648)	(5,406)	(758)
Unrealized gains and losses on valuation of debt securities measured at FVOCI		(40)	(139)	(99)
Share in other comprehensive income of associates under the equity method		11,152	765	(10,387)
Effective portion of cash flow hedges		32,664	18,851	(13,813)
Remeasurements of defined benefit plans		5,659	4,468	(1,191)
	₩	44,787	18,539	(26,248)

(in millions of Korean won)		2018		
		Opening balance (*1)	Closing balance	Changes
Unrealized gains and losses on equity securities measured at FVOCI	₩	(3,517)	(4,648)	(1,131)
Unrealized gains and losses on valuation of debt securities measured at FVOCI		3	(40)	(43)
Share in other comprehensive income of associates under the equity method		9,488	11,152	1,664
Effective portion of cash flow hedges		(204)	32,664	32,868
Remeasurements of defined benefit plans		5,260	5,659	399
	₩	11,030	44,787	33,757

(*1) Including the adjustment related to the application of K-IFRS 1109.

(in millions of Korean won)		2017		
		Opening balance	Closing balance	Changes
Unrealized gains and losses on valuation of available-for-sale securities	₩	(3,276)	(3,540)	(264)
Share in other comprehensive income of associates under the equity method		3,930	9,488	5,558
Effective portion of cash flow hedges		10,202	(204)	(10,406)
Remeasurements of defined benefit plans		7,719	5,260	(2,459)
	₩	18,575	11,004	(7,571)

(Continued)

(3) Effective tax rate reconciliation

Income tax expense attributable to net income was ₩108,916 million, ₩104,205 million, and ₩100,995 for the years ended December 31, 2019, 2018 and 2017, respectively, and differed from the amounts computed by applying the statutory tax rate to profit before income taxes as a result of the following:

(in millions of Korean won)		2019	2018	2017
Profit before income taxes (A)	₩	459,783	415,485	400,899
Income taxes at statutory tax rates		116,078	103,897	96,555
Adjustments:				
Non-deductible expense		1,032	613	70
Changes in estimates for tax provisions of the prior year		2,884	(3,619)	(153)
Others including tax credits and foreign subsidiaries		(11,078)	3,314	4,523
Income tax expense (B)	₩	108,916	104,205	100,995
Effective tax rate (B/A)		23.69%	25.08%	25.19%

(4) Temporary differences and deferred tax balances

Changes in temporary differences and deferred tax balances for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019				
		Temporary difference			Deferred tax assets (liabilities)	
		Opening balance	Increase (Decrease)	Closing balance	Opening balance	Closing balance
Derivative financial instruments	₩	134,975	(57,076)	77,899	32,664	18,852
Deferred fees		(118,317)	(12,900)	(131,217)	(28,633)	(31,755)
Initial direct costs for lease assets		(66,280)	(26,807)	(93,087)	(16,040)	(22,527)
Accounts payables		17,704	2,708	20,412	4,284	4,940
Depreciation		9,213	(310)	8,903	2,230	2,154
Present value discounts		(11,177)	23,337	12,160	(2,705)	2,943
Provisions		55,000	5,811	60,811	13,310	14,716
Investments in Associates		(180,760)	(101,995)	(282,755)	(43,744)	(68,427)
Plan assets		(77,548)	4,197	(73,351)	(18,767)	(17,751)
Others		43,325	(41,810)	1,515	10,486	367
	₩	(193,865)	(204,845)	(398,710)	(46,915)	(96,488)

The Group did not recognize a deferred tax liability of ₩ 3,494 million as of December 31, 2019 for taxable temporary differences associated with investments in subsidiaries as it is probable that the temporary differences will not reverse in the foreseeable future.

(Continued)

(in millions of Korean won)		2018				
		Temporary difference			Deferred tax assets (liabilities)	
		Opening balance	Increase (Decrease)	Closing balance	Opening balance	Closing balance
Derivative financial instruments	₩	(844)	135,819	134,975	(204)	32,664
Deferred fees		(126,652)	8,335	(118,317)	(30,650)	(28,633)
Initial direct costs for lease assets		(65,688)	(592)	(66,280)	(15,897)	(16,040)
Accounts payables		20,571	(2,867)	17,704	4,978	4,284
Depreciation		7,834	1,379	9,213	1,896	2,230
Present value discounts		(12,452)	1,275	(11,177)	(3,013)	(2,705)
Provisions		49,960	5,040	55,000	12,090	13,310
Allowances for loan losses		29,912	(29,912)	—	7,239	—
Investments in Associates		(132,345)	(48,415)	(180,760)	(32,027)	(43,744)
Plan assets		(84,306)	6,758	(77,548)	(20,402)	(18,767)
Others		68,754	(25,429)	43,325	16,638	10,486
	₩	(245,256)	51,391	(193,865)	(59,352)	(46,915)

The Group did not recognize a deferred tax liability of ₩4,160 million as of December 31, 2018 for taxable temporary differences associated with investments in subsidiaries as it is probable that the temporary differences will not reverse in the foreseeable future.

(in millions of Korean won)		2017				
		Temporary difference			Deferred tax assets (liabilities)	
		Opening balance	Increase (Decrease)	Closing balance	Opening balance	Closing balance
Derivative financial instruments	₩	42,154	(42,998)	(844)	10,201	(204)
Deferred fees		(116,028)	(10,624)	(126,652)	(28,079)	(30,650)
Initial direct costs for lease assets		(84,391)	18,703	(65,688)	(20,423)	(15,897)
Accounts payables		44,313	(23,742)	20,571	10,724	4,978
Depreciation		6,346	1,488	7,834	1,536	1,896
Present value discounts		(17,238)	4,786	(12,452)	(4,172)	(3,013)
Provisions		40,788	9,027	49,815	9,871	12,055
Others		(73,797)	(48,808)	(122,605)	(17,858)	(29,670)
	₩	(157,853)	(92,168)	(250,021)	(38,200)	(60,505)

The Group did not recognize a deferred tax liability of ₩4,368 million as of December 31, 2017 for taxable temporary differences associated with investments in subsidiaries as it is probable that the temporary differences will not reverse in the foreseeable future.

(5) Recognized and unrecognized deferred tax assets

Recognition of deferred tax assets is based on various factors such as the Group's performance, management's profit forecasts (which are based on the available evidence, including historical levels of profitability), overall economic environment, outlook of the industry and others, which indicates that it is probable that the Group's entities will have future taxable profits against which these assets can be used.

Deferred tax assets of ₩23 million as of December 31, 2019 have not been recognized, because it is not probable that the temporary differences would reverse in the foreseeable future.

(Continued)

26. Earnings Per Share

(1) Basic earnings per share

Basic earnings per share attributable to common stock of equity holders for the years ended December 31, 2019, 2018 and 2017 are as follows:

		2019	2018	2017
Profit for the year attributable to owners of the Company (in won) (A)	₩	351,310,297,361	318,176,516,982	310,672,274,035
Weighted average of number of outstanding common stocks (B)		99,307,435	99,307,435	99,307,435
Basic earnings per share (in won) (A/B)	₩	3,538	3,204	3,128

(2) Diluted earnings per share

There are no potential common stocks as of December 31, 2019, 2018 and 2017. Therefore, the diluted earnings per share is equal to basic earnings per share for the years ended December 31, 2019, 2018 and 2017.

27. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019				
			Changes			
		Opening balance	Reclassification to profit or loss	Other changes	Income tax effects	Closing balance
Net change in unrealized gains and losses on equity securities measured at FVOCI	₩	14,560	—	3,132	(758)	16,934
Net change in unrealized gains and losses on valuation of debt securities measured at FVOCI		137	(64)	678	(149)	602
Share in other comprehensive income (loss) of associates under the equity method		(34,931)	—	42,920	(10,387)	(2,398)
Net change in effective portion of cash flow hedges		(102,311)	(239,287)	296,364	(13,813)	(59,047)
Net change in foreign currency translation adjustments		(6,297)	—	1,747	—	(4,550)
Remeasurements of defined benefit plans		(17,727)	—	4,924	(1,191)	(13,994)
	₩	(146,569)	(239,351)	349,765	(26,298)	(62,453)

(Continued)

(in millions of Korean won)		2018					
			Changes				
		Opening balance	Reclassification to profit or loss	Other changes	Income tax effects	Transferred to equity relating a disposal group classified as held for sale	Closing balance
Net change in unrealized gains and losses on equity securities measured at FVOCI (*1)	₩	11,016	—	4,675	(1,131)	—	14,560
Net change in unrealized gains and losses on valuation of debt securities measured at FVOCI		3	(31)	208	(43)	—	137
Share in other comprehensive income (loss) of associates under the equity method		(29,718)	—	(6,877)	1,664	—	(34,931)
Net change in effective portion of cash flow hedges		640	(183,177)	47,358	32,868	—	(102,311)
Net change in foreign currency translation adjustments		(3,773)	—	(1,402)	—	(1,122)	(6,297)
Remeasurements of defined benefit plans		(16,477)	—	(1,649)	399	—	(17,727)
	₩	(38,309)	(183,208)	42,313	33,757	(1,122)	(146,569)

(*1) The opening balance is adjusted for K-IFRS 1109.

(in millions of Korean won)		2017				
			Changes			
		Opening balance	Reclassification to profit or loss	Other changes	Income tax effects	Closing balance
Net change in unrealized gains and losses on available-for-sale securities	₩	10,264	(527)	1,618	(264)	11,091
Share in other comprehensive income (loss) of associates under the equity method		(12,309)	—	(22,967)	5,558	(29,718)
Net change in effective portion of cash flow hedges		(31,952)	568,229	(525,231)	(10,406)	640
Net change in foreign currency translation adjustments		(2,942)	—	(831)	—	(3,773)
Remeasurements of defined benefit plans		(24,179)	—	10,161	(2,459)	(16,477)
	₩	(61,118)	567,702	(537,250)	(7,571)	(38,237)

(Continued)

28. Supplemental Cash Flow Information

(1) Cash and cash equivalents

Details of cash and cash equivalents as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Ordinary deposits (*1)	₩	129,217	199,857	239,028
Checking deposits		2,137	1,488	1,980
Other cash equivalents (*2)		219,731	671,696	368,502
	₩	351,085	873,041	609,510

(*1) Ordinary deposits include restricted cash at reserve accounts of Autopia ABS trusts due from other banks in the amount of ₩65,975 million, ₩136,343 million, and ₩115,271 million as of December 31, 2019, 2018 and 2017 respectively, for the Autopia asset securitization program.

(*2) Other cash equivalents include demand deposits, certificate of deposits, time deposits, commercial papers, repurchase agreements and other debt instruments with maturities of three months or less from the acquisition date that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Other cash equivalents include restricted cash at reserve accounts of Autopia ABS trusts due from other banks in the amount of ₩10,800 million as of December 31, 2019, ₩9,100 million as of December 31, 2018 and ₩13,900 million as of December 31, 2017 for the Autopia asset securitization program.

(Continued)

(2) Cash generated from operations

Cash generated from operations for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Profit for the period	₩	350,867	311,281	299,903
Adjustments:				
Gain on sale of available-for-sale securities		—	—	(729)
Impairment loss on available-for-sale securities		—	—	100
Gain on sale of securities measured at FVTPL		(16)	(428)	—
Loss on sale of securities measured at FVTPL		22	—	—
Gain on sale of debt securities measured at FVOCI		(446)	(422)	—
Impairment loss on securities measured at FVOCI		204	6	—
Gain on valuation of securities measured at FVTPL		(1,870)	—	—
Loss on valuation of securities measured at FVTPL		—	5	—
Income on loans		52,757	78,474	66,474
Income on installment financial assets		69,003	76,236	68,045
Income on leases		34,226	41,475	34,412
Gain on foreign currency translation		(10,983)	(39,713)	(462,237)
Dividend income		(616)	(5,288)	(2,843)
Gain on valuation of derivatives		(194,298)	(190,192)	(17,200)
Gain on valuation of short-term financial investments		(1,714)	(675)	(526)
Net interest expenses		583,780	541,852	510,210
Lease expenses		415,442	397,272	395,745
Provision for (release of) loan losses		384,055	392,857	317,526
Loss on foreign currency translation		194,513	190,204	19,114
Severance benefits		15,963	15,586	17,334
Long-term employee benefits		1,095	560	162
Depreciation		38,129	23,736	24,197
Amortization		43,604	42,857	40,446
Loss on valuation of derivatives		10,982	39,233	462,237
Provision for allowance		(396)	2,760	8,427
Share in net income of associates under the equity method		(67,752)	(60,772)	(68,914)
Share in net loss of associates under the equity method		8,575	—	10
Gain on sale of property and equipment		(198)	(128)	(100)
Loss on sale of property and equipment		24	121	93
Loss on cancellation of lease		1,679	—	—
Gain on sale of non-current assets held for sale		(20,751)	—	—
Income tax expense		108,916	104,205	100,995
		1,663,929	1,649,821	1,512,978

(Continued)

(in millions of Korean won)		2019	2018	2017
	₩			
Changes in operating assets and liabilities:				
Decrease (increase) in due from banks		36,746	119,336	(208,186)
Decrease (increase) in short-term financial investments		(473,014)	545,536	(362,812)
Decrease in available-for-sale securities		—	—	3,100
Decrease in securities measured at FVTPL		7,264	6,996	—
Increase in securities measured at FVOCI		(17,438)	(963)	—
Increase in loans receivable		(141,120)	(1,202,676)	(1,303,522)
Increase in installment financial assets		(1,998,994)	(2,181,476)	(860,568)
Increase in finance lease receivables		(683,422)	(716,619)	(474,783)
Decrease in cancelled lease receivables		39,852	4,822	4,124
Increase in operating lease assets		(752,755)	(510,705)	(553,060)
Decrease in cancelled lease assets		480,521	420,946	425,295
Decrease (increase) in non-trade receivables		(15,093)	7,444	19,196
Decrease (increase) in accrued revenues		(8,832)	1,015	(7,228)
Increase in advance payments		(12,093)	(33,072)	(26,303)
Increase in prepaid expenses		(6,973)	(3,308)	(44,256)
Decrease in non-trade payables		24,475	33,987	13,510
Increase (decrease) in accrued expenses		1,072	6,783	(1,526)
Decrease in unearned revenue		(3,231)	(1,494)	(4,814)
Increase in withholdings		48,372	93,784	3,755
Decrease in deposits received		(67,611)	(89,373)	(44,130)
Severance payments		(29)	(299)	—
Contributions to plan assets		(16,570)	(13,394)	(12,341)
Transfer of severance benefits from (to) related parties, net		(116)	1,810	(1,009)
Decrease in long-term employee benefits		(365)	(641)	(596)
Decrease in other liabilities		—	—	(11)
		(3,559,354)	(3,511,561)	(3,436,165)
	₩	(1,544,558)	(1,550,459)	(1,623,284)

(3) Interest received

Cash flows from interest received on interest-bearing assets such as loans receivables, installment financial assets and lease receivables are ₩1,762,905 million ₩1,794,992 million, and ₩1,681,176 million for the years ended December 31, 2019, 2018 and 2017, respectively.

(4) Non-cash transactions

Significant transactions not involving cash flows for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Charge-offs of financial receivables and other assets	₩	154,980	209,197	220,272
Reclassification from Construction in Progress		29,956	31,691	66,953

(Continued)

(5) Changes in liabilities arising from financing activities

Changes in liabilities and assets that hedge liabilities arising from financing activities for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	2019					
			Non-cash changes			
	Opening balance	Net cash flows	Changes in foreign exchange rates	Changes in fair value	Other changes	Closing balance
Borrowings	₩ 3,526,516	(688,690)	(3,045)	—	236	2,835,017
Bonds issued	20,761,764	2,586,487	186,763	—	14,198	23,549,212
Net derivate liabilities (assets) held to hedge borrowed funds	258,465	(31,443)	(182,914)	(56,874)	(569)	(13,335)
Lease liabilities	37,537	(14,499)	—	—	15,434	38,472
	₩ 24,584,282	1,851,855	804	(56,874)	29,299	26,409,366

(in millions of Korean won)	2018					
			Non-cash changes			
	Opening balance	Net cash flows	Changes in foreign exchange rates	Changes in fair value	Other changes	Closing balance
Borrowings	₩ 2,872,860	1,305,924	(12)	—	(652,256)	3,526,516
Bonds issued	19,142,152	1,454,588	150,765	—	14,259	20,761,764
Net derivate liabilities (assets) held to hedge borrowed funds	339,264	(65,661)	(150,959)	135,821	—	258,465
	₩ 22,354,276	2,694,851	(206)	135,821	(637,997)	24,546,745

(in millions of Korean won)	2017					
			Non-cash changes			
	Opening balance	Net cash flows	Changes in foreign exchange rates	Changes in fair value	Other changes	Closing balance
Borrowings	₩ 1,552,182	1,320,583	—	—	95	2,872,860
Bonds issued	18,525,460	1,045,527	(445,037)	—	16,202	19,142,152
Net derivate liabilities (assets) held to hedge borrowed funds	(118,632)	55,857	445,037	(42,998)	—	339,264
	₩ 19,959,010	2,421,967	—	(42,998)	16,297	22,354,276

(Continued)

29. Commitments and Contingencies

(1) Credit Facility Agreement

As of December 31, 2019, the Group has line-of-credit commitments from Shinhan Bank and 2 other banks with up to ₩49,100 million in the aggregate. The Group also has revolving credit facility agreements up to USD 370 million, JPY 70,000 million, EUR 325 million and ₩2,608,000 million with Kookmin Bank and 30 other financial institutions.

The Group offers line-of-credit commitments to a number of customers and an associate company, Hyundai Capital Bank Europe GmbH. The unused amount of line-of-credit is ₩698,700 million and EUR 75 million respectively as of December 31, 2019.

(2) Guarantees

Details of guarantees provided to the Group as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won) Guarantor	Details		December 31, 2019	December 31, 2018	December 31, 2017
Seoul Guarantee Insurance Co., Ltd.	Guarantee for debt collection deposit and others	₩	48,650	37,627	43,161

The Group has residual value guarantee insurance policies with DB INSURANCE CO., LTD. and another insurance carrier which cover losses resulting from defaults in mortgage loans where unpaid amounts exceed the recoverable amounts from the collateral of the loans and cover losses resulting from sales of off-lease vehicles returned where the expected residual values exceed the recoverable amounts at the end of the lease terms. Loans and leases insured by the policies and residual value guaranteed by the insurance policies as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Loans and leases insured	₩	880,374	942,791	845,005
Residual value guaranteed by the insurance policies		227,343	229,321	184,429

(Continued)

(3) Pending litigations

Pending litigations include 21 cases with aggregated claim amounts of ₩1,349 million where the Group is the defendant, 30 cases with aggregated claim amount of ₩3,981 million where the Group is the plaintiff, and litigations against a number of debtors to collect receivables as of December 31, 2019.

(4) Receivables transfer agreement

The Group entered into an agreement with Hyundai Card Co., Ltd., Hyundai Commercial Co., Ltd., and Fubon Hyundai Life Insurance Co., Ltd. to purchase certain delinquent receivables on a regular basis at amount agreed with the transferors.

(5) Borrowed funds agreement

As of December 31, 2019, the Group has agreements including trigger clauses regarding borrowed funds and related credit commitments, ₩1,360,000 million for creditors' credit enhancement. When the Group's credibility declines below certain level, the Group is required for advanced redemption or agreements with creditors can be invalid or cancelled.

(6) Purchase option

The Group can exercise the purchase option regarding the headquarters building which the Group is leasing when the lessor intends to sell the building or at the date when it is 4 years and 5 months from the lease inception date. In case a party with pre-emption decide not to exercise purchase option for the building, then the Group can exercise its purchase option.

(7) Operating leases

In 2018, the Group entered into a lease contract with Kookmin Bank (a trust business of NH-Amundi Private Fund Special Asset Trust 9) for an office building with initial lease terms of ten years.

Future minimum lease payments under non-cancellable operating leases above as of December 31, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2018	December 31, 2017
Less than one year	₩	3,707	971
One to five years		30,889	—
	₩	34,596	971

Rental expenses recognized with the office leases above for the years ended December 31, 2018 and 2017 are ₩4,171 million, ₩6,082 respectively.

(Continued)

30. Related Party Transactions

(1) Relationships between parents and subsidiaries

The parent company is Hyundai Motor Company. Related parties include associates, joint ventures, post-employment benefit plans, members of key management personnel and entities which the Group controls directly or indirectly, has joint control or significant influence over them.

(2) Related parties

The related parties that have transactions, receivables and payables with the Group as of December 31, 2019 are as follows:

Type	Company
The Parent	Hyundai Motor Company
Associates	Korea Credit Bureau, Beijing Hyundai Auto Finance Co., Ltd., Hyundai Capital Bank Europe GmbH, Hyundai Capital UK LTD Hyundai Corretora de Seguros LTDA., BAIC Hyundai Leasing Co. Ltd Hyundai Capital Canada Inc. and BANCO HYUNDAI CAPITAL BRASIL S.A.
Others	Kia Motors Corp., Hyundai Card Co., Ltd., Hyundai Commercial Inc., Hyundai Autoever Corp., Hyundai Glovis Co., Ltd., Hyundai Construction & Engineering Co., Ltd.,Hyundai Steel Company, Hyundai Engineering Co., Ltd., Hyundai Mobis Co., Ltd., Hyundai Capital America and 52 others

(3) Transactions with related parties

Transactions with related parties are occurred in the normal course of business, and the terms and conditions include normal settlement terms.

Significant transactions, which occurred in the normal course of business with related companies during the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019						
		Operating revenue	Operating expenses(*1)	Non-operating income	Disposal of leased assets	Purchase of leased assets	Purchase of loans and receivables	Others
The Parent								
Hyundai Motor Company	₩	115,817	642	—	—	963,344	—	—
Associates								
Korea Credit Bureau		—	2,341	—	—	—	—	—
Hyundai Capital Canada Inc.		155	14	—	—	—	—	—
Hyundai Capital Bank Europe GmbH		1,151	73	—	—	—	—	—
Hyundai Capital UK LTD		13	—	—	—	—	—	—
Beijing Hyundai Auto Finance Co., Ltd.		13	—	—	—	—	—	—
BANCO HYUNDAI CAPITAL BRASIL S.A.		5	—	—	—	—	—	—
		1,337	2,428	—	—	—	—	—
Other related parties								
Kia Motors Corp.		84,940	212	—	—	667,310	—	—
Hyundai Card Co., Ltd.		65,410	26,834	2,214	—	—	119,692	—
Hyundai Commercial Inc.		2,060	1,890	272	—	—	178,113	—
Hyundai Glovis Co., Ltd.		460	1,931	—	109,363	—	—	—
Hyundai Autoever Corp.		272	34,164	—	—	—	—	16,595
Hyundai Capital America		32,649	41	—	—	—	—	—
Hyundai Engineering Co., Ltd.		1,041	8,051	10	—	—	—	—
Hyundai Construction & Engineering Co., Ltd.		2,001	(15)	—	—	—	—	—
Hyundai Mobis Co., Ltd.		1,166	60	—	—	—	—	—
Hyundai Steel Company		2,940	(18)	—	—	—	—	—
Others		15,567	990	—	—	—	—	—
		208,506	74,140	2,496	109,363	667,310	297,805	16,595
	₩	325,660	77,210	2,496	109,363	1,630,654	297,805	16,595

(*1) Including provision for (release of) loan losses.

(Continued)

(in millions of Korean won)		2018						
		Operating revenue	Operating expenses(*1)	Non-operating income	Disposal of leased assets	Purchase of leased assets	Purchase of loans and receivables	Others
The Parent								
Hyundai Motor Company	₩	92,791	1,058	—	—	812,774	—	—
Associates								
Korea Credit Bureau		—	1,842	—	—	—	—	—
Beijing Hyundai Auto Finance Co., Ltd.		5	—	—	—	—	—	—
Hyundai Capital Canada Inc.		344	3	—	—	—	—	—
		349	1,845	—	—	—	—	—
Other related parties								
Kia Motors Corp.		70,570	268	—	—	483,681	—	—
Hyundai Card Co., Ltd.		55,488	29,095	2,521	—	—	158,173	—
Hyundai Commercial Inc.		1,637	2,558	814	—	—	118,101	—
Hyundai Glovis Co., Ltd.		407	3,049	—	100,415	—	—	—
Hyundai Autoever Corp.		263	33,634	—	—	—	—	15,791
Hyundai Capital America		29,657	30	—	—	—	—	—
Fubon Hyundai Life Insurance Co., Ltd.(*2)		74	5,753	39	—	—	11,102	—
Hyundai Engineering Co., Ltd.		978	8,816	4	—	—	—	—
Hyundai Construction & Engineering Co., Ltd.		2,060	10	—	—	—	—	—
Hyundai Mobis Co., Ltd.		1,012	597	—	—	—	—	—
Hyundai Steel Company		2,776	2	—	—	—	—	—
Others		32,806	5,559	—	—	—	—	—
		197,728	89,371	3,378	100,415	483,681	287,376	15,791
	₩	290,868	92,274	3,378	100,415	1,296,455	287,376	15,791

(*1) Including provision for (release of) loan losses.

(*2) Fubon Hyundai Life Insurance Co., Ltd. was excluded from the related party in the current period upon a change in a largest shareholder of the company and others, and the transaction information was produced before the sale.

(in millions of Korean won)		2017						
		Operating revenue	Operating expenses(*1)	Non-operating income	Disposal of leased assets	Purchase of leased assets	Purchase of loans and receivables	Others(*2)
The Parent								
Hyundai Motor Company	₩	75,139	806	—	—	710,909	—	—
Associates								
Korea Credit Bureau		—	1,582	—	—	—	—	—
Beijing Hyundai Auto Finance Co., Ltd.		40	—	—	—	—	—	—
		40	1,582	—	—	—	—	—
Other related parties								
Kia Motors Corp.		61,735	249	—	—	333,218	—	—
Hyundai Card Co., Ltd.		43,991	23,776	2,252	—	—	159,193	—
Hyundai Commercial Inc.		1,383	2,774	777	—	—	132,226	—
Hyundai Glovis Co., Ltd.		395	6,650	—	81,032	—	—	—
Hyundai Autoever Corp.		250	40,263	—	—	—	—	20,379
Hyundai Capital America		29,194	(68)	—	—	—	—	—
Fubon Hyundai Life Insurance Co., Ltd.		316	10,944	112	—	—	13,052	—
Hyundai Engineering Co., Ltd.		1,068	8,814	8	—	—	—	—
Hyundai Construction & Engineering Co., Ltd.		2,171	(11)	40	—	—	—	2,486
Hyundai Mobis Co., Ltd.		840	1,257	—	—	—	—	—
Hyundai Steel co., Ltd		2,615	(19)	—	—	—	—	—
Others		31,269	7,331	13	2	—	—	—
		175,227	101,960	3,202	81,034	333,218	304,471	22,865
	₩	250,406	104,348	3,202	81,034	1,044,127	304,471	22,865

(*1) Including provision for (release of) loan losses.

(*2) Including purchase of property and equipment and intangible assets.

(Continued)

Receivables and payables with related parties as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019				
		Lease receivables and others	Allowance	Other assets	Allowance	Other liabilities(*1)
The Parent						
Hyundai Motor Company	₩	283,804	—	10,486	(104)	20,611
Associates						
Hyundai Capital Bank Europe GmbH		28,543	(73)	1,255	—	—
Other related parties						
Hyundai Card Co., Ltd.		403	(2)	3,491	(30)	62,422
Hyundai Construction & Engineering Co., Ltd.		4,139	(5)	—	—	9
Hyundai Glovis Co., Ltd.		899	(5)	6,876	(34)	6
Kia Motors Corp.		195,579	—	7,900	(78)	67,707
Hyundai Capital America		—	—	31,416	(314)	—
Hyundai Steel Company		6,264	(9)	218	—	—
Hyundai Commercial Inc.		342	(2)	5	—	90
Hyundai Autoever Corp.		460	(1)	2	—	26
Hyundai Mobis Co., Ltd.		3,018	(5)	25	—	—
Hyundai Engineering Co., Ltd.		2,401	(3)	—	—	—
Others		4,221	(9)	814	—	3
		217,726	(41)	50,747	(456)	130,263
	₩	530,073	(114)	62,488	(560)	150,874

(*1) The lease payments that the Group made related to the lease liabilities included in other liabilities were ₩718 million for the year ended December 31, 2019.

(in millions of Korean won)		December 31, 2018				
		Lease receivables and others(*1)	Allowance	Other assets	Allowance	Other liabilities
The Parent						
Hyundai Motor Company	₩	233,919	—	8,468	(84)	24,902
Associates						
BANCO HYUNDAI CAPITAL BRASIL S.A.		—	—	3	—	—
Hyundai Capital Canada Inc		—	—	332	(3)	—
		—	—	335	(3)	—
Other related parties						
Hyundai Card Co., Ltd.		417	(2)	3,034	(24)	53,405
Hyundai Construction & Engineering Co., Ltd.		4,870	(22)	—	—	9
Hyundai Glovis Co., Ltd.		997	(4)	6,201	(31)	6
Kia Motors Corp.		176,351	—	6,556	(65)	70,697
Hyundai Capital America		—	—	30,136	(301)	—
Hyundai Steel Company		6,692	(13)	212	—	—
Hyundai Commercial Inc.		488	(2)	2	—	399
Hyundai Autoever Corp.		610	(1)	2	—	26
Hyundai Mobis Co., Ltd.		2,530	(5)	17	—	84
Hyundai Engineering Co., Ltd.		2,279	(7)	1	—	—
Others		5,476	(18)	2,613	—	29,481
		200,710	(74)	48,774	(421)	154,107
	₩	434,629	(74)	57,577	(508)	179,009

(*1) The Group corrected an error of subvention from manufacturers in 2019. As a result, the Group recognizes the present value of total subvention amount during the installment period as financial assets from manufacturers, and an adjustment of the carrying amount of financial assets (deferred loan costs) from customers at the same time. Receivables with related parties as of December 31, 2018 was also restated reflecting modifications.

(Continued)

(in millions of Korean won)		December 31, 2017				
		Lease receivables and others	Allowance	Other assets	Allowance	Other liabilities
The Parent						
Hyundai Motor Company	₩	220	(1)	6,867	(68)	23,097
Other related parties						
Fubon Hyundai Life Insurance Co., Ltd.(*1)		286	(1)	112,476	—	27
Hyundai Card Co., Ltd.		814	(4)	2,062	(14)	48,501
Hyundai Construction & Engineering Co., Ltd.		4,796	(12)	—	—	—
Hyundai Glovis Co., Ltd.		908	(4)	4,185	(21)	6
Kia Motors Corp.		—	—	5,515	(55)	42,216
Hyundai Capital America		—	—	27,108	(271)	—
Hyundai Steel Company		5,822	(11)	218	—	—
Hyundai Commercial Inc.		376	(2)	3	—	403
Hyundai Autoever Corp.		600	(1)	—	—	26
Hyundai Mobis Co., Ltd.		2,237	(3)	16	—	21
Others		7,731	(32)	9,543	—	4,757
		23,570	(70)	161,126	(361)	95,957
	₩	23,790	(71)	167,993	(429)	119,054

(*1) Other assets include plan assets of ₩105,729 million as of December 31, 2017 related to the Group's defined benefit plan.

Transactions of lending with related parties for the years ended December 31, 2019, and 2018 are as follows:

(in millions of Korean won)		2019				
Transactions of lending:		Opening balance(*1)	Increase	Decrease	Other changes(*2)	Closing balance
Associate						
Hyundai Capital Bank Europe GmbH(*1)	₩	28,142	—	—	401	28,543

(*1) The investment in Hyundai Capital Bank Europe GmbH is accounted for using the equity method as the sale procedure was completed during the year ended December 31, 2019. Thus, the amount of loans was not accounted on the statement of financial position as of January 1, 2019.

(*2) Including effects of changes in exchange rate and others.

(in millions of Korean won)		2018				
Transactions of lending:		Opening balance	Increase	Decrease	Other changes(*2)	Closing balance
Subsidiary						
Hyundai Capital Bank Europe GmbH(*1)	₩	—	28,336	—	(194)	28,142

(*1) The investment in Hyundai Capital Bank Europe GmbH is accounted for using the equity method as the sale procedure was completed during the year ended December 31, 2019.

(*2) Including effects of changes in exchange rate and others.

(Continued)

Contribution in cash and redemption with related parties for the years ended December 31, 2019 and 2018 are as follows:

(in millions of Korean won)		2019	
Contribution in cash and redemption:		Contribution in cash	Redemption
Associate			
Hyundai Capital Bank Europe GmbH	₩	38,570	—
BANCO HYUNDAI CAPITAL BRASIL S.A		30,375	—
Hyundai Corretora de Seguros LTDA.		308	—
BAIC Hyundai Leasing Co. Ltd.		11,431	—

(in millions of Korean won)		2018	
Contribution in cash and redemption:		Contribution in cash	Redemption
Associate			
BANCO HYUNDAI CAPITAL BRASIL S.A	₩	15,389	—

(4) Key management compensation

Compensation to key management for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019	2018	2017
Short-term employee benefits	₩	12,422	14,499	11,669
Severance benefits		2,583	2,055	2,177
Other long-term employee benefits		16	17	16

The key management above consists of directors (including non-permanent directors), who have significant authority and responsibilities for planning, operating and controlling the Group.

31. Transfer of Financial Assets

The Group issued senior and subordinated asset-backed securities collateralized by loans receivable, installment financial assets, and lease receivables; and the investors in the securitized notes have recourse only to the cash flows from the transferred financial assets.

Details of financial assets transferred that are not derecognized as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Carrying amount of assets:				
Loans receivable	₩	136,026	483,596	1,019,571
Installment financial assets		4,777,491	3,614,695	3,888,814
		4,913,517	4,098,291	4,908,385
Carrying amount of associated liabilities (*1):		(2,942,910)	(2,212,321)	(3,050,492)
For those liabilities that have recourse only to the transferred financial assets:				
Fair value of assets		5,158,118	4,253,088	5,097,708
Fair value of associated liabilities (*1)		(2,967,769)	(2,216,460)	(3,047,907)
Net position	₩	2,190,349	2,036,628	2,049,801

(*1) Excluding derivatives for hedges. The Group enters into currency swaps contracts principally to manage exposures to fluctuations in future cash flows due to interest rate risk and foreign exchange risk of foreign currency denominated asset-backed securities issued.

(Continued)

32. Offsetting of Financial Assets and Liabilities

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognized amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognized financial instruments that are subject to the above agreements as of December 31, 2019, 2018 and 2017:

(in millions of Korean won)		December 31, 2019					
		Gross amounts of recognized financial assets /liabilities	Gross amounts of recognized financial assets /liabilities offset in the statement of financial position	Net amounts of financial assets /liabilities in the statement of financial position	Related amounts not offset in the statement of financial position		Net amounts
					Financial instruments	Cash collateral received	
Financial assets:							
Derivative assets	₩	138,799	—	138,799	71,333	—	67,466
Financial liabilities:							
Derivative liabilities		125,428	—	125,428	71,333	—	54,095

(in millions of Korean won)		December 31, 2018					
		Gross amounts of recognized financial assets /liabilities	Gross amounts of recognized financial assets /liabilities offset in the statement of financial position	Net amounts of financial assets /liabilities in the statement of financial position	Related amounts not offset in the statement of financial position		Net amounts
					Financial instruments	Cash collateral received	
Financial assets:							
Derivative assets	₩	26,542	—	26,542	19,021	—	7,521
Financial liabilities:							
Derivative liabilities		285,007	—	285,007	19,021	—	265,986

(Continued)

(in millions of Korean won)		December 31, 2017					
		Gross amounts of recognized financial assets /liabilities	Gross amounts of recognized financial assets /liabilities offset in the statement of financial position	Net amounts of financial assets /liabilities in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amounts
Financial assets:							
Derivative assets	₩	24,670	—	24,670	9,136	—	15,534
Financial liabilities:							
Derivative liabilities		363,934	—	363,934	9,136	—	354,798

33. Fair Value Measurements of Financial Instruments

(1) Fair value of financial instruments

The fair values of financial instruments, together with carrying amounts shown in the statements of financial position, as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019		December 31, 2018		December 31, 2017	
		Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:							
Cash and due from other financial institutions	₩	1,647,155	1,647,155	1,731,128	1,731,128	2,131,794	2,131,794
Available-for-sale securities		—	—	—	—	82,650	82,650
Securities measured at FVTPL		33,597	33,597	38,998	38,998	—	—
Securities measured at FVOCI		64,666	64,666	43,240	43,240	—	—
Loans receivable		9,537,910	9,443,030	9,777,466	10,012,437	9,656,936	9,936,616
Installment financial assets		13,958,800	14,055,037	12,081,887	12,141,312	10,040,869	10,154,575
Lease receivables		2,683,801	2,737,549	2,578,084	2,726,890	2,423,382	2,558,691
Derivative assets		138,799	138,799	26,542	26,542	24,670	24,670
Non-trade receivables		121,978	121,978	108,027	108,027	115,064	115,064
Accrued revenues		124,187	124,187	115,127	115,127	103,066	103,066
Leasehold deposits		21,993	21,263	23,310	22,864	25,639	25,772
	₩	28,332,886	28,387,261	26,523,809	26,966,565	24,604,070	25,132,898
Financial liabilities:							
Borrowings	₩	2,835,017	2,856,921	3,526,516	3,537,901	2,872,860	2,870,953
Bonds issued		23,549,212	23,783,273	20,761,764	20,796,372	19,142,152	19,255,538
Derivative liabilities		125,428	125,428	285,007	285,007	363,934	363,934
Lease liabilities		38,472	38,472	—	—	—	—
Non-trade payables (*1)		278,878	278,878	263,772	263,772	293,485	293,485
Accrued expenses		107,530	107,530	99,272	99,272	161,279	161,279
Withholdings (*1)		203,163	203,163	160,823	160,823	80,748	80,748
Deposits received		269,160	260,828	329,027	316,536	408,842	406,874
	₩	27,406,860	27,654,493	25,426,181	25,459,683	23,323,300	23,432,811

(*1) Excluding liabilities for taxes and dues.

(Continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, cash equivalents and due from banks

The carrying amount and the fair value of cash are identical. As cash, deposits, and other cash equivalent instruments can be easily converted into cash, the carrying amount, at face value or cost plus accrued interest, approximates the fair value due to short maturity of these instruments.

Short-term financial investments and securities measured at fair value through profit or loss

In case that the market of a financial instrument is active, fair value is established at the close quoted price as of the last day for the reporting period. The fair value of investments in money market funds is determined by the sum of acquisition cost and accrued interest. The fair value of the debt securities is determined by an independent valuation service provider, using the valuation technique based on the net asset value approach (NAV model) and the dividend discount model.

Securities measured at fair value through other comprehensive income

When available, the Group measures the fair value of a security using quoted prices in an active market. If a market for a security is not active, the Group establishes fair value by using a highly accredited independent valuation agency. The independent valuation agency utilizes various valuation technique, which include the discounted cash flow model, the imputed market value model, the free cash flow to equity (FCFE) model, the dividend discount model, the risk adjusted discount rate method, and the net asset valuation approach. Depending on the characteristic and nature of the instrument, the fair value is measured by using at least one valuation technique.

Loans receivable, instalment financial assets, and lease receivables (Financial receivables measured at amortized costs)

The fair value is determined by using the discounted cash flow model that incorporates parameter inputs for expected maturity rate/prepayment rate, as appropriate. As the discount rate used for determining the fair value incorporates the time value of money and credit risk, the Group's discount rate system is formed to consider the market risk and the credit risk.

Derivative financial instruments

The fair value of interest rate swaps and currency swaps are determined by using the discounted cash flow model based on a current interest rate yield curve appropriate for market interest rate as of the reporting date. The fair value of each derivative instrument measured by discounting and offsetting the probable future cash flows of swap, which are estimated based on the forward rate and the closing foreign exchange price. The fair value of each derivative is measured by offsetting and discounting the expected cash flows of the swap at appropriate discount rate which is based on forward interest rate and exchange rate that is generated by using above method. The fair value of currency forward is measured principally with the forward exchange rate which is quoted in the market at the end of reporting period considering the maturity of the currency forward. The discount rate used in measuring the fair value of currency forward is derived from CRS rate which is determined by using the spot exchange rate and the forward exchange rate based on the interest rate parity theory.

Borrowings

The fair value of borrowings is determined by using the discounted cash flow method; the fair value of a financial instrument is determined by discounting the expected future cash flows at an appropriate discount rate.

(Continued)

Bonds issued

The fair value of bonds is determined by using the discounted cash flow method. The fair value of bonds denominated in won and bonds denominated in foreign currencies are quoted from a reliable independent valuation service provider.

Other financial assets and liabilities

The fair value of other financial assets and other financial liabilities is determined by using the discounted cash flow method. For certain other financial assets and liabilities, carrying amount approximates fair value due to their short term nature and generally negligible credit risk. These instruments include nontrade receivables, accrued interest receivable, non-trade payables, and others.

(2) Fair value hierarchy

(a) Financial assets and liabilities measured at fair value

The fair value hierarchy of financial assets and liabilities measured at fair value in the statement of financial position as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	December 31, 2019				
	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets measured at fair value:					
Short-term financial investments	₩ 1,218,913	1,218,913	—	1,218,913	—
Securities measured at FVTPL	33,597	33,597	—	—	33,597
Securities measured at FVOCI	64,666	64,666	29,330	25,632	9,704
Derivative assets					
Designated as hedging instruments for cash flow hedges	138,799	138,799	—	138,799	—
	₩ 1,455,975	1,455,975	29,330	1,383,344	43,301
Financial liabilities measured at fair value:					
Derivative liabilities					
Designated as hedging instruments for cash flow hedges	₩ 125,428	125,428	—	125,428	—

(in millions of Korean won)	December 31, 2018				
	Carrying amount	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets measured at fair value:					
Short-term financial investments	₩ 744,185	744,185	—	744,185	—
Securities measured at FVTPL	38,998	38,998	—	—	38,998
Securities measured at FVOCI	43,240	43,240	23,782	7,339	12,119
Derivative assets					
Designated as hedging instruments for cash flow hedges	26,542	26,542	—	26,542	—
	₩ 852,965	852,965	23,782	778,066	51,117
Financial liabilities measured at fair value:					
Derivative liabilities					
Designated as hedging instruments for cash flow hedges	₩ 285,007	285,007	—	285,007	—

(Continued)

(in millions of Korean won)		December 31, 2017				
		Carrying amount	Fair value	Fair value hierarchy		
				Level 1	Level 2	Level 3(*1)
Financial assets measured at fair value:						
Short-term financial investments	₩	1,289,046	1,289,046	—	1,289,046	—
Available-for-sale securities (*1)		82,650	82,650	19,072	5,785	57,793
Derivative assets						
Designated as hedging instruments for cash flow hedges		24,670	24,670	—	24,670	—
	₩	1,396,366	1,396,366	19,072	1,319,501	57,793
Financial liabilities measured at fair value:						
Derivative liabilities						
Designated as hedging instruments for cash flow hedges	₩	363,934	363,934	—	363,934	—

(*1) Equity security for which quoted prices in active markets are not available and fair value of the instrument cannot be estimated reliably is measured at cost and classified as Level 3 instruments. The instrument was amounted to ₩69 million as of December 31, 2017.

The valuation techniques and inputs for measuring the fair value of financial assets and liabilities classified as Level 2 as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		Fair value				
		December 31, 2019	December 31, 2018	December 31, 2017	Valuation technique	Inputs
Financial assets measured at fair value:						
Short-term financial investments	₩	1,218,913	744,185	1,289,046	DCF Model	Discount rate, short-term interest rate and others
Available-for-sale securities		—	—	5,785	DCF Model	Discount rate
Securities measured at FVOCI		25,632	7,339	—	DCF Model	Discount rate
Derivative assets						
Designated as hedging instruments for cash flow hedges		138,799	26,542	24,670	DCF Model	Discount rate, short-term interest rate, foreign exchange rate and others
	₩	1,383,344	778,066	1,319,501		
Financial liabilities measured at fair value:						
Derivative liabilities						
Designated as hedging instruments for cash flow hedges	₩	125,428	285,007	363,934	DCF Model	Discount rate, short-term interest rate, foreign exchange rate and others

The following tables present a roll-forward of the fair value of Level 3 instruments for the years ended December 31, 2019, 2018 and 2017:

(in millions of Korean won)		2019		2018		2017
		Securities measured at FVTPL	Securities measured at FVOCI	Securities measured at FVTPL	Securities measured at FVOCI	Available-for-sale securities
Opening balance	₩	38,998	12,119	45,571	12,222	34,188
Acquisition		3,519	—	6,440	—	25,000
Total profit (loss):						
Gains (losses) recognized as profit (loss)		1,849	—	(5)	—	(100)
Gains (losses) recognized as other comprehensive income (loss)		—	(2,415)	—	(34)	679
Redemption of principal		(10,769)	—	(13,008)	—	(1,974)
Transferred to assets of a disposal group classified as held for sale		—	—	—	(69)	—
Closing balance	₩	33,597	9,704	38,998	12,119	57,793

(Continued)

The valuation techniques and quantitative information of significant unobserved inputs for financial instruments classified as Level 3 as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	December 31, 2019				
	Fair value	Valuation technique	Unobservable inputs	Estimated range of unobservable inputs	Impacts on fair value
Financial assets measured at fair value:					
Securities measured at FVOCI					
Equity securities	₩ 9,704	Market-based valuation method	PBR	1.43	Fair value is likely to increase while PBR increase
			PSR	15.16	Fair value is likely to increase while PSR increase
Securities measured at FVTPL					
Debt securities	33,121	NAV model	Discount rate	1.88% ~ 3.53%	Fair value is likely to increase while discount rate of loan receivables decreases.
	476	Dividend discount model	Discount rate	8.73%	Fair value is likely to increase while discount rate of loan receivables decreases.
	₩ 43,301				

(in millions of Korean won)	December 31, 2018					
	Fair value	Valuation technique	Inputs	Unobservable inputs	Estimated range of unobservable inputs	Impacts on fair value
Financial assets measured at fair value:						
Securities measured at FVOCI						
Equity securities	₩ 12,119	NAV model	Book value of net assets	Book value of net assets	—	—
Securities measured at FVTPL						
Beneficiary certificates	38,998	NAV model	Discount rate	Discount rate	4.82% ~ 7.09%	Fair value is likely to increase while discount rate of loan receivables decreases.
	₩ 51,117					

(in millions of Korean won)	December 31, 2017					
	Fair value	Valuation technique	Inputs	Unobservable inputs	Estimated range of unobservable inputs	Impacts on fair value
Financial assets measured at fair value:						
Available-for-sale securities						
Equity securities	₩ 12,153	NAV model	Book value of net assets	Book value of net assets	—	—
		Market approach	PSR, PBR	PSR, PBR		
Beneficiary certificates	45,571	NAV model	Discount rate	Discount rate	4.69% ~ 6.06%	Fair value is likely to increase while discount rate of loan receivables decreases.
	₩ 57,724					

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable inputs, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable. For fair value measurements classified as Level 3, the sensitivity analysis on change of unobservable inputs as of December 31, 2019, 2018 and 2017 is as follows:

(Continued)

(in millions of Korean won)		Other comprehensive income (loss) December 31, 2019	
		Favorable change	Unfavorable change
Securities measured at FVTPL (*1)	₩	1,068	(1,010)
Securities measured at FVOCI (*2)		(5,494)	5,494

(*1) For securities measured at FVTPL, debt securities, the changes in fair value are calculated by increasing or decreasing discount rate (-1% ~ 1%).

(*2) For equity securities measured at FVOCI using the valuation technique based on the market-based valuation method, the changes in fair value are calculated by increasing or decreasing market multiples (-1 ~ 1 multiple).

(in millions of Korean won)		Other comprehensive income (loss) December 31, 2018	
		Favorable change	Unfavorable change
Securities measured at FVTPL (*1)	₩	729	(705)
Securities measured at FVOCI (*2)		—	—

(*1) For securities measured at FVTPL, beneficiary certificates, the changes in fair value are calculated by increasing or decreasing discount rate (-1%~1%).

(*2) For equity securities measured at FVOCI, the fair value is estimated at the average of appraisal value using the valuation technique based on the net asset value approach (NAV model); sensitivity analysis is not available for the equity securities and excluded from the disclosure above.

(in millions of Korean won)		Other comprehensive income (loss) December 31, 2017	
		Favorable change	Unfavorable change
Available-for-sale securities (*1)	₩	1,000	(966)

(*1) For equity securities, the fair value is estimated at the average of appraisal value using the valuation technique based on the net asset value approach (NAV model) and the market approach; sensitivity analysis is not available for the equity securities and excluded from the disclosure above. For beneficiary certificates, the changes in fair value are calculated by increasing and decreasing discount rate (-1% ~ 1%).

(Continued)

(b) Financial assets and liabilities measured at amortized cost

The fair value hierarchy of financial assets and liabilities measured at amortized cost as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019				
		Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets measured at amortized cost:						
Cash and cash equivalents	₩	351,085	351,085	—	351,085	—
Due from banks		77,157	77,157	—	77,157	—
Loan receivables		9,537,910	9,443,030	—	—	9,443,030
Installment financial assets		13,958,800	14,055,037	—	—	14,055,037
Lease receivables		2,683,801	2,737,549	—	—	2,737,549
Non-trade receivables		121,978	121,978	—	—	121,978
Accrued revenues		124,187	124,187	—	—	124,187
Leasehold deposits		21,993	21,263	—	21,263	—
	₩	26,876,911	26,931,286	—	449,505	26,481,781
Financial liabilities measured at amortized cost:						
Borrowings	₩	2,835,017	2,856,921	—	2,856,921	—
Bonds issued		23,549,212	23,783,273	—	23,783,273	—
Lease liabilities		38,472	38,472	—	38,472	—
Non-trade payables (*1)		278,878	278,878	—	—	278,878
Accrued expenses		107,530	107,530	—	—	107,530
Withholdings (*1)		203,163	203,163	—	—	203,163
Deposits received		269,160	260,828	—	260,828	—
	₩	27,281,432	27,529,065	—	26,939,494	589,571

(in millions of Korean won)		December 31, 2018				
		Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets measured at amortized cost:						
Cash and cash equivalents	₩	873,041	873,041	—	873,041	—
Due from banks		113,902	113,902	—	113,902	—
Loan receivables		9,777,466	10,012,437	—	—	10,012,437
Installment financial assets		12,081,887	12,141,312	—	—	12,141,312
Lease receivables		2,578,084	2,726,890	—	—	2,726,890
Non-trade receivables		108,027	108,027	—	—	108,027
Accrued revenues		115,127	115,127	—	—	115,127
Leasehold deposits		23,310	22,864	—	22,864	—
	₩	25,670,844	26,113,600	—	1,009,807	25,103,793
Financial liabilities measured at amortized cost:						
Borrowings	₩	3,526,516	3,537,901	—	3,537,901	—
Bonds issued		20,761,764	20,796,372	—	20,796,372	—
Non-trade payables (*1)		263,772	263,772	—	—	263,772
Accrued expenses		99,272	99,272	—	—	99,272
Withholdings (*1)		160,823	160,823	—	—	160,823
Deposits received		329,027	316,536	—	316,536	—
	₩	25,141,174	25,174,676	—	24,650,809	523,867

(Continued)

(in millions of Korean won)		December 31, 2017				
		Carrying amount	Fair value	Fair value hierarchy		
				Level 1	Level 2	Level 3
Financial assets measured at amortized cost:						
Cash and cash equivalents	₩	609,510	609,510	—	609,510	—
Due from banks		233,238	233,238	—	233,238	—
Loan receivables		9,656,936	9,936,616	—	—	9,936,616
Installment financial assets		10,040,869	10,154,575	—	—	10,154,575
Lease receivables		2,423,382	2,558,691	—	—	2,558,691
Non-trade receivables		115,064	115,064	—	—	115,064
Accrued revenues		103,066	103,066	—	—	103,066
Leasehold deposits		25,639	25,772	—	25,772	—
	₩	23,207,704	23,736,532	—	868,520	22,868,012
Financial liabilities measured at amortized cost:						
Borrowings	₩	2,872,860	2,870,953	—	2,870,953	—
Bonds issued		19,142,152	19,255,538	—	19,255,538	—
Non-trade payables (*1)		293,485	293,485	—	—	293,485
Accrued expenses		161,279	161,279	—	—	161,279
Withholdings (*1)		80,748	80,748	—	—	80,748
Deposits received		408,842	406,874	—	406,874	—
	₩	22,959,366	23,068,877	—	22,533,365	535,512

(*1) Excluding liabilities for taxes and dues

(Continued)

The valuation techniques and inputs related to cash and cash equivalents, non-trade receivables, accrued revenues, non-trade payables, accrued expenses, and withholdings are not disclosed as the Group estimates the fair value of these items equal to the carrying amount as the carrying amount is a reasonable approximation of the fair value because of short maturity of these instruments.

The valuation techniques and inputs for the fair value measurements for financial assets and liabilities measured at amortized cost in the statement of financial position and classified as Level 2 as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		Fair value				
		December 31, 2019	December 31, 2018	December 31, 2017	Valuation technique	Inputs
Financial assets measured at amortized cost:						
Due from banks	₩	77,157	113,902	233,238	DCF model	Market benchmark interest rate
Leasehold deposits		21,263	22,864	25,772	DCF model	Market benchmark interest rate
	₩	98,420	136,766	259,010		
Financial liabilities: amortized cost:						
Borrowings	₩	2,856,921	3,537,901	2,870,953	DCF model	Lending interest rate, other spreads
Bonds issued		23,783,273	20,796,372	19,255,538	DCF model	Discount rate
Lease liabilities		38,472	—	—	DCF model	Financing interest rate
Deposits received		260,828	316,536	406,874	DCF model	Market benchmark interest rate
	₩	26,939,494	24,650,809	22,533,365		

The valuation techniques and inputs for the fair value measurements of financial assets and liabilities measured at amortized cost in the statement of financial position and classified as Level 3 as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		Fair value				
		December 31, 2019	December 31, 2018	December 31, 2017	Valuation technique	Inputs
Financial assets measured at amortized cost:						
Loans and receivables	₩	9,443,030	10,012,437	9,936,616	DCF model	Financing interest rate, credit spread and other spreads
Installment financial assets		14,055,037	12,141,312	10,154,575	DCF model	Financing interest rate, credit spread and other spreads
Lease receivables		2,737,549	2,726,890	2,558,691	DCF model	Financing interest rate, credit spread and other spreads
	₩	26,235,616	24,880,639	22,649,882		

(Continued)

34. Categories of Financial Assets and Financial Liabilities

(1) Carrying amounts by accounting classification

The carrying amounts of each of the categories of financial assets and financial liabilities as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019					
			Financial assets measured at fair value through other comprehensive income				
		Financial assets measured at fair value through profit or loss	Equity securities	Debt securities	Financial assets measured at amortised costs	Designated as hedging instru-ments for cash flow hedges	Total
Financial assets:							
Cash and due from other financial institutions	₩	1,218,913	—	—	428,242	—	1,647,155
Securities measured at FVTPL		33,597	—	—	—	—	33,597
Securities measured at FVOCI		—	25,632	39,034	—	—	64,666
Loans receivable		—	—	—	9,537,910	—	9,537,910
Installment financial assets		—	—	—	13,958,800	—	13,958,800
Lease receivables		—	—	—	2,683,801	—	2,683,801
Derivative assets		—	—	—	—	138,799	138,799
Non-trade receivables		—	—	—	121,978	—	121,978
Accrued revenues		—	—	—	124,187	—	124,187
Leasehold deposits		—	—	—	21,993	—	21,993
	₩	1,252,510	25,632	39,034	26,876,911	138,799	28,332,886

(in millions of Korean won)		December 31, 2019			
		Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Designated as hedging instru-ments for cash flow hedges	Total
Financial liabilities:					
Borrowings	₩	—	2,835,017	—	2,835,017
Bonds issued		—	23,549,212	—	23,549,212
Derivative liabilities		—	—	125,428	125,428
Lease liabilities		—	38,472	—	38,472
Non-trade payables		—	278,878	—	278,878
Accrued expense		—	107,530	—	107,530
Withholdings		—	203,163	—	203,163
Deposits received		—	269,160	—	269,160
	₩	—	27,281,432	125,428	27,406,860

(Continued)

(in millions of Korean won)		December 31, 2018					
			Financial assets measured at fair value through other comprehensive income				
		Financial assets measured at fair value through profit or loss	Equity securities	Debt securities	Financial assets measured at amortised costs	Designated as hedging instru-ments for cash flow hedges	Total
Financial assets:							
Cash and due from other financial institutions	₩	744,185	—	—	986,943	—	1,731,128
Securities measured at FVTPL		38,998	—	—	—	—	38,998
Securities measured at FVOCI		—	7,339	35,901	—	—	43,240
Loans receivable		—	—	—	9,777,466	—	9,777,466
Installment financial assets		—	—	—	12,081,887	—	12,081,887
Lease receivables		—	—	—	2,578,084	—	2,578,084
Derivative assets		—	—	—	—	26,542	26,542
Non-trade receivables		—	—	—	108,027	—	108,027
Accrued revenues		—	—	—	115,127	—	115,127
Leasehold deposits		—	—	—	23,310	—	23,310
	₩	783,183	7,339	35,901	25,670,844	26,542	26,523,809

(in millions of Korean won)		December 31, 2018			
		Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Designated as hedging instru-ments for cash flow hedges	Total
Financial liabilities:					
Borrowings	₩	—	3,526,516	—	3,526,516
Bonds issued		—	20,761,764	—	20,761,764
Derivative liabilities		—	—	285,007	285,007
Non-trade payables		—	263,772	—	263,772
Accrued expense		—	99,272	—	99,272
Withholdings		—	160,823	—	160,823
Deposits received		—	329,027	—	329,027
	₩	—	25,141,174	285,007	25,426,181

(in millions of Korean won)		December 31, 2017				
		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Designated as hedging instru-ments for cash flow hedges	Total
Financial assets:						
Cash and due from other financial institutions	₩	1,289,046	—	842,748	—	2,131,794
Available-for-sale securities		—	82,650	—	—	82,650
Loans receivable		—	—	9,656,936	—	9,656,936
Installment financial assets		—	—	10,040,869	—	10,040,869
Lease receivables		—	—	2,423,382	—	2,423,382
Derivative assets		—	—	—	24,670	24,670
Non-trade receivables		—	—	115,064	—	115,064
Accrued revenues		—	—	103,066	—	103,066
Leasehold deposits		—	—	25,639	—	25,639
	₩	1,289,046	82,650	23,207,704	24,670	24,604,070

(Continued)

(in millions of Korean won)		December 31, 2017			
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Designated as hedging instruments for cash flow hedges	Total
Financial liabilities:					
Borrowings	₩	—	2,872,860	—	2,872,860
Bonds issued		—	19,142,152	—	19,142,152
Derivative liabilities		—	—	363,934	363,934
Non-trade payables		—	293,485	—	293,485
Accrued expense		—	161,279	—	161,279
Withholdings		—	80,748	—	80,748
Deposits received		—	408,842	—	408,842
	₩	—	22,959,366	363,934	23,323,300

(2) Income, expense, gains or losses by accounting classification

Income, expense, gains or losses of each of the categories of financial assets and financial liabilities for the years ended December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		2019										
		Interest income	Interest expense	Income on loans	Income on installment financial assets	Income on leases	Lease expense	Impairment loss	Gain (loss) on valuation	Gain (loss) on disposal	Gain (loss) on foreign currency translation	Gain (loss) on foreign currency trades
Financial assets:												
Financial assets measured at fair value through profit or loss	₩	1,714	—	—	—	—	—	—	3,584	(6)	—	—
Debt securities measured at fair value through other comprehensive income		828	—	—	—	—	—	204	—	446	—	—
Equity securities measured at fair value through other comprehensive income		—	—	—	—	—	—	—	—	—	—	—
Financial assets measured at amortised costs		31,970	—	894,982	598,496	1,041,664	664,711	384,055	—	73,577	189	1,111
Designated as hedging instruments for cash flow hedges		—	—	—	—	—	—	—	136,855	—	—	—
Financial liabilities:												
Financial liabilities measured at fair value through profit or loss		—	—	—	—	—	—	—	—	—	—	—
Financial liabilities measured at amortised costs		—	616,579	—	—	—	—	—	—	—	(183,718)	(55,765)
Designated as hedging instruments for cash flow hedges		—	—	—	—	—	—	—	46,461	55,971	—	—
	₩	34,512	616,579	894,982	598,496	1,041,664	664,711	384,259	186,900	129,988	(183,529)	(54,654)

(Continued)

(in millions of Korean won)	2018										
	Interest income	Interest expense	Income on loans	Income on inst-allment financial assets	Income on leases	Lease expense	Impair-ment loss	Gain (loss) on valuation	Gain (loss) on disposal	Gain (loss) on foreign currency translation	Gain (loss) on foreign currency trades
Financial assets:											
Financial assets measured at fair value through profit or loss	₩ 2,019	—	—	—	—	—	—	670	428	—	—
Debt securities measured at fair value through other comprehensive income	291	—	—	—	—	—	6	—	422	—	—
Equity securities measured at fair value through other comprehensive income	—	—	—	—	—	—	—	—	—	—	—
Financial assets measured at amortised costs	31,577	—	981,577	528,292	1,004,340	641,141	392,857	—	89,085	274	1,248
Designated as hedging instruments for cash flow hedges	—	—	—	—	—	—	—	36,960	3,027	—	—
Financial liabilities:											
Financial liabilities measured at fair value through profit or loss	—	—	—	—	—	—	—	—	—	—	—
Financial liabilities measured at amortised costs	—	573,720	—	—	—	—	—	—	—	(150,765)	(32,218)
Designated as hedging instruments for cash flow hedges	—	—	—	—	—	—	—	113,999	29,191	—	—
	₩ 33,887	573,720	981,577	528,292	1,004,340	641,141	392,863	151,629	122,153	(150,491)	(30,970)

(in millions of Korean won)	2017										
	Interest income	Interest expense	Income on loans	Income on inst-allment financial assets	Income on leases	Lease expense	Impair-ment loss	Gain (loss) on valuation	Gain (loss) on disposal	Gain (loss) on foreign currency translation	Gain (loss) on foreign currency trades
Financial assets:											
Financial assets at fair value through profit or loss	₩ —	—	—	—	—	—	—	526	—	—	—
Available-for-sale financial assets	1,136	—	—	—	—	—	100	—	729	—	—
Loans and receivables	28,190	—	940,037	479,166	300,049	92,918	317,526	—	89,157	(1,507)	(2,846)
Designated as hedging instruments for cash flow hedges	—	—	—	—	—	—	—	—	—	—	—
Financial liabilities:											
Financial liabilities at fair value through profit or loss	—	—	—	—	—	—	—	—	—	—	—
Financial liabilities measured at amortized cost	—	539,536	—	—	—	—	—	—	—	445,037	123,192
Designated as hedging instruments for cash flow hedges	—	—	—	—	—	—	—	(445,037)	(123,192)	—	—
	₩ 29,326	539,536	940,037	479,166	300,049	92,918	317,626	(444,511)	(33,306)	443,530	120,346

(Continued)

35. Financial Risk Management

(1) Credit Risk

(a) Management of credit risk

The Group is exposed to credit risk, liquidity risk and market risk (foreign exchange risk and interest rate risk). The risk management policies of the Group are decided by the risk management committee. The risk management committee, composed of three directors, is the highest decision-making body which generalizes possible risks occurred from the business. The committee also establishes basic policies and strategies, decides risk level the Group can bear, approve limit of acceptable loss and proper investment and resolve an enactment or revision of risk management regulation. In order to perform risk management efficiently, the committee has risk management operating committee. The operating committee aims to accomplish sound business practices and stabilization of revenues through comprehensive risk management. The operating committee reviews results by product portfolios, decides whether major risk indicators can be permitted and which measures will be taken, performs stress test and examine risk-based capital and contingencies and related actions.

(b) Exposures to credit risk

The Group's exposures to credit risk as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Cash and due from other financial institutions	₩	1,647,155	1,731,128	2,131,794
Available-for-sale securities		—	—	5,785
Securities measured at FVTPL		33,597	38,998	—
Debt securities measured at FVOCI		25,632	7,339	—
Loans receivable		9,537,910	9,777,466	9,656,936
Installment financial assets		13,958,800	12,081,887	10,040,869
Lease receivables		2,683,801	2,578,084	2,423,382
Non-trade receivables		121,978	108,027	115,064
Accrued revenue		124,187	115,127	103,066
Leasehold deposits		21,993	23,310	25,639
Derivative assets		138,799	26,542	24,670
Unused loan commitments		698,685	984,799	896,147
	₩	28,992,537	27,472,707	25,423,352

(Continued)

(c) Credit quality of Financial Assets

Credit quality according to internal credit rating of financial assets as of December 31, 2019 and 2018 are as follows:

(in millions of Korean won)	December 31, 2019										
	Loans receivable				Installment financial assets			Lease receivables			
	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Total
Grade 1 ₩	33	11	—	—	—	—	—	4,392	—	—	4,436
Grade 2	104,763	6,500	5	—	8,960,790	290,459	67	692,670	28,562	24	10,083,840
Grade 3	2,761,530	197,522	2,540	—	2,889,066	353,585	672	1,136,783	98,986	38	7,440,722
Grade 4	2,238,414	299,171	2,155	—	981,498	214,282	371	252,048	61,113	45	4,049,097
Grade 5	1,774,948	691,567	52,840	—	76,591	119,344	3,996	166,720	58,205	67	2,944,278
Grade 6	241,478	359,566	246,206	61,961	15,674	29,436	15,247	29,643	47,977	3,635	1,050,823
No rating	483,822	10,178	779	1,921	7,730	—	(8)	100,994	1,677	222	607,315
₩	7,604,988	1,564,515	304,525	63,882	12,931,349	1,007,106	20,345	2,383,250	296,520	4,031	26,180,511

(in millions of Korean won)	December 31, 2018										
	Loans receivable				Installment financial assets			Lease receivables			
	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Purchased or originated credit-impaired financial assets	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	12-month expected credit losses	Lifetime expected credit losses: Not credit-impaired	Lifetime expected credit losses: Credit-impaired	Total
Grade 1 ₩	36	4	—	—	13	—	—	7,035	—	—	7,088
Grade 2	170,918	2,489	16	—	7,335,855	37,744	57	470,597	17,969	2	8,035,647
Grade 3	2,653,821	38,420	1,060	—	3,012,379	132,517	512	1,180,283	104,844	70	7,123,906
Grade 4	2,573,481	241,342	1,586	—	1,122,843	90,766	347	281,319	63,295	88	4,375,067
Grade 5	1,828,240	630,469	41,692	—	189,984	90,869	2,818	157,436	50,704	51	2,992,263
Grade 6	223,061	370,514	193,994	61,742	32,755	22,415	9,230	42,411	44,939	3,061	1,004,122
No rating	707,898	35,492	390	801	790	—	(7)	148,876	4,467	637	899,344
₩	8,157,455	1,318,730	238,738	62,543	11,694,619	374,311	12,957	2,287,957	286,218	3,909	24,437,437

The Group classifies financial assets into six internal credit rating scales based on the rating criteria and the characteristic of receivables. The internal credit rating is assessed based on the expected probability of default in the previous month. Certain financial assets do not have credit ratings as sufficient information is not yet available at the reporting date.

(d) Credit quality of other financial assets

Credit quality according to external credit rating of other major financial assets other than financial receivables as of December 31, 2019and 2018 are as follows:

Cash and due from other financial institutions

(in millions of Korean won)	December 31, 2019				December 31, 2018			
	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total
AAA ₩	252,999	—	—	252,999	439,181	—	—	439,181
AA+	372,281	—	—	372,281	290,889	—	—	290,889
AA	400,706	—	—	400,706	150,002	—	—	150,002
AA-	130,093	—	—	130,093	240,046	—	—	240,046
A+	370,327	—	—	370,327	470,590	—	—	470,590
A	110,084	—	—	110,084	130,047	—	—	130,047
No rating	10,665	—	—	10,665	10,373	—	—	10,373
₩	1,647,155	—	—	1,647,155	1,731,128	—	—	1,731,128

Average rating of three domestic credit rating agencies is applied.

(Continued)

Derivative assets

(in millions of Korean won)		December 31, 2019				December 31, 2018			
		12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total
AA	₩	33,184	—	—	33,184	991	—	—	991
AA-		5,962	—	—	5,962	—	—	—	—
A+		72,281	—	—	72,281	18,743	—	—	18,743
A		27,372	—	—	27,372	6,240	—	—	6,240
A-		—	—	—	—	—	—	—	—
BBB+		—	—	—	—	568	—	—	568
	₩	138,799	—	—	138,799	26,542	—	—	26,542

(*) Credit rating based on Standard & Poor's is applied.

Unused loan commitments

(in millions of Korean won)		December 31, 2019				December 31, 2018			
		12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Total
Grade 1	₩	52,956	7,168	—	60,124	86,104	6,389	—	92,493
Grade 2		519,393	25,753	3	545,149	708,847	27,466	—	736,313
Grade 3		73,172	482	—	73,654	148,254	16	—	148,270
Grade 4		885	632	—	1,517	1,299	458	—	1,757
Grade 5		1,267	293	—	1,560	2,491	1,605	—	4,096
Grade 6		37	54	914	1,005	210	149	48	407
No rating		15,676	—	—	15,676	1,463	—	—	1,463
	₩	663,386	34,382	917	698,685	948,668	36,083	48	984,799

(e) Credit quality of financial assets and other financial assets under K-IFRS 1039

Credit quality of financial assets and other financial assets exposed to credit risk under K-IFRS 1039 as of December 31, 2017 is as follows:

(in millions of Korean won)		December 31, 2017		
		Current	Past due	Impaired
Cash and due from other financial institutions	₩	2,131,794	—	—
Available-for-sale securities		5,785	—	—
Financial receivables:				
Loans receivable		9,071,763	450,912	134,261
Installment financial assets		9,865,872	166,974	8,023
Lease receivables		2,377,599	43,894	1,889
		21,315,234	661,780	144,173
Non-trade receivables		115,064	—	—
Accrued revenue		94,410	8,208	448
Leasehold deposits		25,639	—	—
Derivative assets		24,670	—	—
Unused loan commitments		896,147	—	—
	₩	24,608,743	669,988	144,621

(Continued)

1) Financial receivables neither past due nor impaired

Credit quality according to internal credit rating of financial receivables which are neither past due nor impaired as of December 31, 2017 is as follows:

(in millions of Korean won)		December 31, 2017		
		Gross amount	Allowance for loan losses	Carrying amount
Grade 1	₩	5,594	—	5,594
Grade 2		6,580,151	(10,201)	6,569,950
Grade 3		6,382,250	(35,715)	6,346,535
Grade 4		3,638,067	(49,270)	3,588,797
Grade 5		2,803,896	(93,605)	2,710,291
Grade 6		1,031,888	(106,583)	925,305
No rating		1,176,432	(7,670)	1,168,762
	₩	21,618,278	(303,044)	21,315,234

The Group classifies financial receivables into six internal credit rating scales based on the rating criteria and the characteristic of receivables. The internal credit rating is assessed based on the expected probability of default in the previous month. Certain financial receivables do not have credit ratings as sufficient information is not yet available at the reporting date.

2) Financial receivables past due but not impaired

Financial receivables past due but not impaired as of December 31, 2017 is as follows:

(in millions of Korean won)		December 31, 2017			
		Less than 1 month	Between 1 ~ 2 months	Between 2~3 months	Total
Loans receivable	₩	382,892	72,950	48,062	503,904
Installment financial assets		151,692	16,908	6,591	175,191
Lease receivables		37,771	6,075	2,024	45,870
		572,355	95,933	56,677	724,965
Allowance for loan losses		(29,199)	(13,594)	(20,392)	(63,185)
Carrying amount	₩	543,156	82,339	36,285	661,780

3) Impaired financial receivables

Impaired financial receivables as of December 31, 2017 is as follows:

(in millions of Korean won)		December 31, 2017		
		Gross amount	Allowance for loan losses	Carrying amount
Loans receivable	₩	275,069	(140,808)	134,261
Installment financial assets		27,753	(19,730)	8,023
Lease receivables		46,506	(44,617)	1,889
	₩	349,328	(205,155)	144,173

(Continued)

4) *Credit quality of other financial assets and unused loan commitments*

For exposures neither past due nor impaired, credit quality of cash and due from other financial institutions and derivative assets obtained from external credit rating agencies and internal credit rating of unused loan commitments as of December 31, 2017 is as follows:

Cash and due from other financial institutions and derivative assets

(in millions of Korean won)		December 31, 2017 Cash and cash equivalents(*1)	Derivative assets (*2)
AAA	₩	190,020	—
AA+		260,437	—
AA		642,710	8,121
AA-		250,147	—
A+		437,310	1,571
A		296,158	14,978
A-		—	—
BBB+		—	—
No rating		55,012	—
	₩	2,131,794	24,670

(*1) Average rating of three domestic credit rating agencies is applied.

(*2) Credit rating based on Standard & Poor's is applied.

Unused loan commitments

(in millions of Korean won)		December 31, 2017
Grade 1	₩	103,508
Grade 2		688,906
Grade 3		92,393
Grade 4		4,749
Grade 5		4,463
Grade 6		1,285
No rating		843
	₩	896,147

(Continued)

(f) Collateral held and other credit enhancements

The assets pledged as collateral for financial receivables as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019				
		12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Total
Total financial receivables	₩	22,919,587	2,868,141	328,901	63,882	26,180,511
Assets pledged as collateral :						
Automobiles		3,112,249	579,376	65,747	—	3,757,372
Real estates		11,807	8,771	5,007	—	25,585
	₩	3,124,056	588,147	70,754	—	3,782,957

(in millions of Korean won)		December 31, 2018				
		12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets	Purchased or originated credit-impaired financial assets	Total
Total financial receivables	₩	22,140,031	1,979,259	255,604	62,543	24,437,437
Assets pledged as collateral :						
Automobiles		3,262,717	386,892	61,223	—	3,710,832
Real estates		18,225	7,891	4,654	—	30,770
	₩	3,280,942	394,783	65,877	—	3,741,602

(in millions of Korean won)		December 31, 2017			
			Not impaired		
		Impaired	Past due	Current	Total
Total financial receivables	₩	144,173	661,780	21,315,234	22,121,187
Assets pledged as collateral (*1):					
Automobiles		38,417	170,642	3,669,018	3,878,077
Real estates		2,812	2,565	35,105	40,482
	₩	41,229	173,207	3,704,123	3,918,559

(*1) The collateral value is calculated on the basis of its value at origination.

(Continued)

(g) Concentrations of credit risk

An analysis of concentrations of credit risk from financial receivables by debtors as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)	December 31, 2019			
	Gross carrying amount	Ratio	Allowance for loan losses	Carrying amount
Individual	₩ 23,252,883	86.41%	(663,049)	22,589,834
Corporate:				
Financial services	156,981	0.58%	(1,814)	155,167
Manufacturing	504,636	1.88%	(41)	504,595
Business services	678,152	2.52%	(12,903)	665,249
Public	536,119	1.99%	(12,022)	524,097
Others	1,780,746	6.62%	(39,177)	1,741,569
	3,656,634	13.59%	(65,957)	3,590,677
	₩ 26,909,517	100.00%	(729,006)	26,180,511

(in millions of Korean won)	December 31, 2018 (*1)			
	Gross carrying amount	Ratio	Allowance for loan losses	Carrying amount
Individual	₩ 21,354,908	84.93%	(640,546)	20,714,362
Corporate:				
Financial services	212,786	0.85%	(1,722)	211,064
Manufacturing	437,646	1.74%	(41)	437,605
Business services	765,198	3.04%	(13,139)	752,059
Public	503,523	2.00%	(12,548)	490,975
Others	1,870,794	7.44%	(39,422)	1,831,372
	3,789,947	15.07%	(66,872)	3,723,075
	₩ 25,144,855	100.00%	(707,418)	24,437,437

(*1) The amount of installment financial assets for automobile had been restated to reflect correction of error for subvention received from the manufacturer.

(in millions of Korean won)	December 31, 2017			
	Gross carrying amount	Ratio	Allowance for loan losses	Carrying amount
Individual	₩ 19,405,632	85.52%	(503,775)	18,901,857
Corporate:				
Financial services	241,500	1.06%	(2,565)	238,935
Manufacturing	12,641	0.06%	(38)	12,603
Business services	753,817	3.32%	(13,648)	740,169
Public	433,284	1.91%	(10,027)	423,257
Others	1,845,697	8.13%	(41,331)	1,804,366
	3,286,939	14.48%	(67,609)	3,219,330
	₩ 22,692,571	100.00%	(571,384)	22,121,187

(Continued)

(2) Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations arising from financial liabilities as they fall due or that the Group undergoes a liquidity crisis arising from unexpected capital outflow. Liquidity risk is managed based on liquidity ratio, representing the difference between maturities of assets and liabilities. In addition, the emergency funding plans by a crisis scenario are provided against emergency. The current state of liquidity is reported to management periodically and frequently, and the Group is able to take immediate action to release emergency condition through a crisis scenario.

Cash flows of financial liabilities based on remaining contractual maturities as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019					
		On demand	Up to three months	Three months to one year	One year to five years	Over five years	Total
Borrowings	₩	—	381,572	1,139,766	1,384,439	—	2,905,777
Bonds issued		—	1,535,781	4,501,018	16,837,510	2,260,426	25,134,735
Lease liabilities		—	3,270	6,786	19,219	12,170	41,445
Other liabilities		22,332	485,797	77,597	175,121	165	761,012
Derivative liabilities subject to net settlement		—	(164,964)	(191,348)	(299,195)	(30,925)	(686,432)
Derivative liabilities subject to gross settlement							
Inflow		—	(66,314)	(908,069)	(444,744)	(378,818)	(1,797,945)
Oufolw		—	59,174	935,972	450,740	366,770	1,812,656
	₩	22,332	2,234,316	5,561,722	18,123,090	2,229,788	28,171,248

(in millions of Korean won)		December 31, 2018					
		On demand	Up to three months	Three months to one year	One year to five years	Over five years	Total
Borrowings	₩	—	790,927	1,648,642	1,131,692	—	3,571,261
Bonds issued		—	1,361,148	4,019,601	15,617,148	1,239,901	22,237,798
Other liabilities		27,016	468,859	91,303	213,442	223	800,843
Derivative liabilities subject to net settlement		—	2,201	6,984	26,531	29	35,745
Derivative liabilities subject to gross settlement							
Inflow		—	(182,579)	(815,725)	(3,814,409)	(384,067)	(5,196,780)
Oufolw		—	181,142	821,845	3,883,987	381,736	5,268,710
	₩	27,016	2,621,698	5,772,650	17,058,391	1,237,822	26,717,577

(in millions of Korean won)		December 31, 2017					
		On demand	Up to three months	Three months to one year	One year to five years	Over five years	Total
Borrowings	₩	—	750,916	630,786	1,532,097	—	2,913,799
Bonds issued		—	1,495,365	4,165,127	13,773,355	1,000,817	20,434,664
Other liabilities		29,479	392,107	113,665	271,364	177	806,792
Derivative liabilities subject to net settlement		—	850	1,355	46	—	2,251
Derivative liabilities subject to gross settlement							
Inflow		—	(169,465)	(756,668)	(4,217,226)	(379,677)	(5,523,036)
Oufolw		—	172,926	812,403	4,400,855	391,685	5,777,869
	₩	29,479	2,642,699	4,966,668	15,760,491	1,013,002	24,412,339

(Continued)

Amounts shown in the analysis above are based on undiscounted cash flows including the principal and future interest payments according to contractual terms, and are not equal to the amounts in the statement of financial position based on the discounted cash flows.

Outstanding unused loan commitment balances may be withdrawn immediately on customers' request.

The carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months and within 12 months after the reporting date as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019			December 31, 2018			December 31, 2017		
		Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total	Within 12 months	More than 12 months	Total
Financial assets:										
Cash and due from other financial institutions	₩	1,646,400	755	1,647,155	1,723,391	7,738	1,731,129	2,125,165	6,629	2,131,794
Available-for-sale securities		—	—	—	—	—	—	830	81,820	82,650
Securities measured at FVTPL		—	33,597	33,597	—	38,998	38,998	—	—	—
Securities measured at FVOCI		595	64,071	64,666	1,248	41,992	43,240	—	—	—
Financial receivables		9,429,927	16,750,584	26,180,511	8,064,363	16,373,073	24,437,436	8,351,000	13,770,187	22,121,187
Non-trade receivables		121,978	—	121,978	108,027	—	108,027	115,064	—	115,064
Accrued revenues		124,187	—	124,187	115,127	—	115,127	103,066	—	103,066
Leasehold deposits		11,522	10,471	21,993	12,769	10,541	23,310	17,491	8,148	25,639
	₩	11,334,609	16,859,478	28,194,087	10,024,925	16,472,342	26,497,267	10,712,616	13,866,784	24,579,400
Financial liabilities:										
Borrowings	₩	1,482,501	1,352,516	2,835,017	2,404,166	1,122,350	3,526,516	1,354,891	1,517,969	2,872,860
Bonds issued		5,554,649	17,994,563	23,549,212	4,928,921	15,832,843	20,761,764	5,192,205	13,949,947	19,142,152
Lease liabilities		9,314	29,158	38,472	—	—	—	—	—	—
Non-trade payables(*1)		278,878	—	278,878	263,772	—	263,772	293,485	—	293,485
Accrued expenses		107,530	—	107,530	99,272	—	99,272	161,279	—	161,279
Withholdings(*1)		203,163	—	203,163	160,823	—	160,823	80,748	—	80,748
Deposits received		99,372	169,788	269,160	122,345	206,682	329,027	145,023	263,819	408,842
	₩	7,735,407	19,546,025	27,281,432	7,979,299	17,161,875	25,141,174	7,227,631	15,731,735	22,959,366

(*1) Excluding liabilities for taxes and dues.

(3) Market Risk

(a) Interest rate risk

The Group monitors and manages its interest rate risk by measuring Value at Risk (VaR) and Earning at Risk (EaR), and analyzing Interest Rate Gap which represents the difference in maturities of the interest revenue-generating assets and the interest-bearing liabilities in each maturity bucket.

VaR is estimated under the standard framework in accordance with the Bank for International Settlements (BIS). Based on the standard framework, the Group utilizes the proxy of modified duration per re-pricing interval proposed by the BIS, and applies hypothetical change in benchmark interest rate curve of parallel shifts by 100 basis points.

The interest rate risk measure in VaR as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Interest rate VaR	₩	67,977	52,575	92,732

VaR is a common market risk measurement technique but the model has certain limitations. VaR estimates the expected loss under the specific reliability based on the historical changes in the market data. However, the past changes in market cannot reflect all conditions and environments that may occur in the future. Therefore, in the process of calculating, the timing and size of the actual loss may vary according to changes in assumptions.

(Continued)

(b) Foreign exchange risk

The Group holds financial instruments and borrowings that are denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures. The Group enters into derivative contracts to manage its exposures to changes in future cash flows arising from volatilities in interest rate and foreign currency exchange rates with its borrowings and bonds issued.

Exposures to foreign exchange risk of the Group as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Cash and due from other financial institutions:				
EUR	₩	17,679	99,574	101,145
RUB		578	8,418	4,758
INR		79	70	197
BRL		743	8,057	7,149
AUD		736	682	729
		19,815	116,801	113,978
Finance lease receivables:				
EUR		—	726,338	348,613
Borrowings and bonds issued:				
USD		4,336,540	4,387,983	4,203,977
JPY		233,963	222,900	54,099
CHF		657,536	340,866	—
AUD		607,755	590,858	623,370
EUR		—	652,362	825,116
SGD		128,783	122,742	120,095
		5,964,577	6,317,711	5,826,657
Other assets:				
USD		31,416	30,136	27,108
EUR		31,016	2,854	7,188
RUB		95	3,176	2,578
INR		132	118	99
AUD		184	181	155
		62,843	36,465	37,128
Other liabilities:				
EUR	₩	1,261	51,301	37,176
RUB		43	643	369
INR		140	140	135
AUD		4	4	2
		1,448	52,088	37,682

The Group's exposures to foreign exchange risk is being hedged by derivatives. Foreign exchange risk of the Group is not significant.

(Continued)

36. Capital Management

The objective of the Group's capital management is to maintain sound capital structure. The Group uses the adjusted capital adequacy ratio under the Article 8 of Regulation on Supervision of Specialized Credit Finance Business (the Regulation) mandated by the Financial Services Commission as a capital management indicator. The ratio is calculated as adjusted total assets divided by adjusted equity based on the Company's financial position in the separate financial statements.

Adjusted capital adequacy ratios of the Company as of December 31, 2019, 2018 and 2017 are as follows:

(in millions of Korean won)		December 31, 2019	December 31, 2018	December 31, 2017
Adjusted total assets (A)	₩	31,459,028	29,169,298	26,728,943
Adjusted equity (B)		4,340,607	4,157,623	4,065,290
Adjusted capital adequacy ratio (B/A) (*1)		13.80%	14.25%	15.21%

(*1) Adjusted capital adequacy ratio is calculated in accordance with Regulations on Supervision of Specialized Credit Finance Business and Detailed Regulations on Supervision of Specialized Credit Finance Business. The Company should maintain the adjusted capital adequacy ratio 7% or above in accordance with the Regulation.

37. Disposal Group Classified as Held for Sale

In May 2018, the Company decided to sell a portion of its investment in Hyundai Capital Bank Europe GmbH, a subsidiary of the Company. The sale procedure was completed in March 2019. Upon execution of the planned sale, the Group would lose control of the subsidiary. Therefore, the Group reclassified all assets and liabilities of Hyundai Capital Bank Europe GmbH as assets and liabilities of a disposal group held for sale as of December 31, 2018.

Assets and liabilities classified as a disposal group held for sale as of December 31, 2018 are as follows:

(in millions of Korean won)		December 31, 2018
Assets of a disposal group classified as held for sale:		
Cash and cash equivalents	₩	97,050
Securities measured at fair value through other comprehensive income		69
Loans receivable		610,418
Lease receivables		93,969
Property and equipment, net		2,299
Intangible assets		10,684
Non-trade receivables		212
Accrued revenues		2,541
Advance payments		17,345
Prepaid expenses		5,064
Leasehold deposits		101
	₩	839,752
Liabilities directly associated with the assets of a disposal group classified as held for sale:		
Borrowings	₩	652,362
Non-trade payables		31,523
Accrued expenses		20,413
Withholdings		15,098
	₩	719,396

The Group measured the assets and liabilities of a disposal group classified as held for sale at the lower of carrying amount and fair value less costs to sell.

Cumulative income or expense recognized in accumulated other comprehensive income relating to this disposal group classified as held for sale as of December 31, 2018 are as follows:

(in millions of Korean won)		December 31, 2018
Net change in foreign currency translation adjustments	₩	1,122

38. Application of K-IFRS No.1109, Financial Instruments

The Group has applied K-IFRS No. 1109, *Financial Instruments* published on September 25, 2015 in its consolidated financial statements for annual period beginning on January 1, 2018. Effects of the application as of the date of initial application on the Group's consolidated financial statements are as follows:

(1) Measurement Category and Carrying Amount of Financial Assets

The details of the original measurement categories and carrying amount determined in accordance with K-IFRS 1039 and the new measurement categories and carrying amount determined in accordance with K-IFRS 1109 are as follows:

(in millions of Korean won)

Classification			Carrying amount (*1)			
December 31, 2017 (K-IFRS 1039)	January 1, 2018 (K-IFRS 1109)		December 31, 2017 (K-IFRS 1039)	Reclassification	Remeasurement	January 1, 2018 (K-IFRS 1109)
Loans and Receivables						
Cash and due from other financial institutions and others	Measured at amortised costs	₩	842,748	—	—	842,748
Loans receivable			9,656,936	—	(49,511)	9,607,425
Installment financial assets			10,040,869	—	(14,105)	10,026,764
Lease receivables			2,423,382	—	(3,283)	2,420,099
Other financial assets			243,769	—	(380)	243,389
			23,207,704	—	(67,279)	23,140,425
Financial assets at fair value through profit or loss						
Cash and due from other financial institutions and others	Measured at FVTPL (*2)		1,289,046	—	—	1,289,046
Available-for-sale Financial Assets						
Equity securities	Measured at FVOCI (*3)		76,865	(45,571)	—	31,294
Debt Instruments	Measured at FVTPL (*4)		—	45,571	—	45,571
	Measured at FVOCI		5,785	—	—	5,785
			82,650	—	—	82,650
Financial assets designated as hedging instruments for cash flow hedges						
Derivative assets	Designated as hedging instruments for cash flow hedges		24,670	—	—	24,670
		₩	24,604,070	—	(67,279)	24,536,791

(*1) Including impairment allowances.

(*2) Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets were classified as financial assets measured at fair value through profit or loss.

(*3) Equity securities the Group holds for the purposes of strategic alliance and others were designated as financial assets measured at fair value through other comprehensive income.

(*4) Beneficiary certificates, equity securities of ₩45,571 million classified as available-for-sale securities under K-IFRS 1039 should be classified as debt securities under K-IFRS 1109. However, the beneficiary certificates were classified as financial assets measured at fair value through profit or loss with a date of initial application since they did not meet solely payment of principal and interest (SPPI) criteria.

(2) Measurement Category and Carrying Amount of Financial Liability

Financial liabilities the Group holds are classified as measured at amortized costs and there is no change in accordance with K-IFRS 1109.

(3) Reclassification of Financial Instruments

There is no financial instruments reclassified as financial assets (liabilities) measured at amortized costs or fair value through other comprehensive income from financial assets (liabilities) measured at fair value through profit or loss. Additionally, there is no change in subsequent measurement category of financial instruments from the other categories to financial assets (liabilities) measured at amortized costs.

(4) Categories of Financial Assets and Financial Liabilities

The carrying amounts of each of the categories of financial assets and financial liabilities in accordance with K-IFRS 1109 as of the date of initial application are as follows:

(in millions of Korean won)		January 1, 2018					
			Financial assets measured at fair value through other comprehensive income				
		Financial assets at fair value through profit or loss	Debt securities measured at fair value through other comprehen-sive income	Equity securities measured at fair value through other comprehen-sive income	Financial assets measured at amortised costs	Designated as hedging instru-ments for cash flow hedges	Total
Financial assets:							
Cash and due from other financial institutions	₩	1,289,046	—	—	842,748	—	2,131,794
Securities measured at FVTPL		45,571	—	—	—	—	45,571
Securities measured at FVOCI		—	5,785	31,294	—	—	37,079
Loans receivable		—	—	—	9,607,425	—	9,607,425
Installment financial assets		—	—	—	10,026,764	—	10,026,764
Lease receivables		—	—	—	2,420,099	—	2,420,099
Derivative assets		—	—	—	—	24,670	24,670
Non-trade receivables		—	—	—	115,064	—	115,064
Accrued revenues (*1)		—	—	—	119,564	—	119,564
Leasehold deposits		—	—	—	25,639	—	25,639
	₩	1,334,617	5,785	31,294	23,157,303	24,670	24,553,669

(*1) Including carrying amount adjustment of ₩16,879 million due to the application of K-IFRS 1115.

(in millions of Korean won)		January 1, 2018			
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Designated as hedging instru-ments for cash flow hedges	Total
Financial liabilities:					
Borrowings	₩	—	2,872,860	—	2,872,860
Bonds issued		—	19,142,152	—	19,142,152
Derivative liabilities		—	—	363,934	363,934
Non-trade payables		—	293,485	—	293,485
Accrued expense		—	161,279	—	161,279
Withholdings		—	80,748	—	80,748
Deposits received		—	408,842	—	408,842
	₩	—	22,959,366	363,934	23,323,300

(5) Reconciliation of impairment allowance

Information of the reconciliation of the ending impairment allowances in accordance with K-IFRS 1039 to the opening impairment allowances in accordance with K-IFRS 1109 is as follows:

(in millions of Korean won)

Classification			Allowance (Provision)			
December 31, 2017 (K-IFRS 1039)	January 1, 2018 (K-IFRS 1109)		December 31, 2017 (K-IFRS 1039)	Reclassification	Remeasurement	January 1, 2018 (K-IFRS 1109)
Loans and Receivables						
Loans receivable	Measured at amortised costs	₩	403,691	—	49,511	453,202
Installment financial assets			95,888	—	14,105	109,993
Lease receivables			71,804	—	3,283	75,087
Other financial assets			25,898	—	380	26,278
			597,281	—	67,279	664,560
Available-for-sale securities						
Debt securities	Measured at FVOCI		—	—	18	18
		₩	597,281	—	67,297	664,578
Unused loan commitments	Unused loan commitments	₩	1,132	—	145	1,277

(6) Effects on Equity

The effects on accumulated other comprehensive income are as follows:

(in millions of Korean won)

		Impact of application
December 31, 2017 (K-IFRS 1039)	₩	(38,237)
Changes in subsequent measurement from available-for-sale securities to financial assets measured at fair value through profit or loss		(112)
Recognition of expected credit losses on debt securities measured at fair value through other comprehensive income		18
Tax effect		22
January 1, 2018 (K-IFRS 1109)	₩	(38,309)

The effects on retained earnings are as follows:

(in millions of Korean won)

		Impact of application
December 31, 2017 (K-IFRS 1039)	₩	3,164,079
Changes in subsequent measurement from available-for-sale securities to financial assets measured at fair value through profit or loss		112
Recognition of expected credit losses on debt securities measured at fair value through other comprehensive income		(18)
Increase in expected credit losses on financial assets measured at amortised costs		(67,883)
Changes in net income (loss) of associates under the equity method		8,106
Chnages in the allowance for unused loan commitments		(145)
Tax effect		14,750
January 1, 2018 (K-IFRS 1109)	₩	3,119,001

The effects on non-controlling interest are as follows:

(in millions of Korean won)

		Impact of application
December 31, 2017 (K-IFRS 1039)	₩	38,753
Decrease in expected credit losses on financial assets measured at amortised costs		604
January 1, 2018 (K-IFRS 1109)	₩	39,357

THE COMPANY

Hyundai Capital Services, Inc.
3 Uisadang-daero
Yeongdeungpo-gu
Seoul 07237
Korea

FISCAL AGENT, PRINCIPAL PAYING AGENT AND PRINCIPAL TRANSFER AGENT

Citibank, N.A., London Branch
c/o Citibank Europe
plc 1 North Wall Quay
Dublin 1
Ireland

REGISTRAR

Citigroup Global Markets Europe AG
Reuterweg 16
60323 Frankfurt
Germany

LEGAL ADVISORS

To the company as to Korean law
Shin & Kim LLC
23F, D-Tower (D2)
17 Jongno 3-gil, Jongno-gu
Seoul 03155
Korea

To the Arranger and Dealers as to U.S. law
Clifford Chance
27th Floor
Jardine House
One Connaught Place
Central
Hong Kong

INDEPENDENT AUDITORS

KPMG Samjong Accounting Corp.
27th Floor, Gangnam Finance Center
152 Teheran-ro, Gangnam-gu
Seoul, 06236
Korea

SINGAPORE LISTING AGENT

Clifford Chance Pte. Ltd.
25th Floor, Marina Bay Financial Centre, Tower 3
12 Marina Boulevard
Singapore 018982