

## IMPORTANT NOTICE

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

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

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

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

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

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

The following offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the issuer, the guarantor nor BNP Paribas (the “**Manager**”), nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from the Manager.

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



**Korean Air Lines Co., Ltd.**  
**U.S.\$300,000,000 Guaranteed Senior Capital Securities**  
**Unconditionally and Irrevocably Guaranteed by**



**The Export-Import Bank of Korea**

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

**Issue Price: 99.963%**

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

The Securities confer a right to receive cumulative interest at the following interest rates: (i) from (and including) November 25, 2015 (the "Issue Date") to (but excluding) November 25, 2018 (the "First Call Date"), at 2.50% per annum, (ii) from (and including) the First Call Date to (but excluding) November 25, 2020 at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the First Step Up Margin, (iii) from (and including) November 25, 2020 to (but excluding) the immediately following Reset Date at a fixed rate equivalent to the 3-year Treasury Rate as at the First Call Date plus the Initial Credit Spread plus the Second Step Up Margin and (iv) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the Second Step Up Margin, in each case on the Principal Amount of each Security. Terms relating to the Securities and not otherwise defined have the meanings given to them in "*Terms and Conditions of the Securities*."

Subject to the provisions of the Securities relating to deferral of interest payments at the sole discretion of the Issuer (see "*Terms and Conditions of the Securities — Interest — Optional deferral of interest payments*"), interest shall be payable semi-annually in arrear on May 25 and November 25 of each year (each an "Interest Payment Date," with the first Interest Payment Date falling on May 25, 2016 in respect of the period from and including the Issue Date to but excluding such Interest Payment Date).

Unless redeemed or purchased and cancelled earlier in accordance with the terms of the Securities, the Issuer may redeem the Securities on November 25, 2045 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments and, if not redeemed, at the end of each subsequent 30-year period (each of such dates, an "Issuer Redemption Date") provided that, if the Securities are not redeemed at the option of the Issuer on an Issuer Redemption Date, the Securities will automatically be extended for 30 years from such date. The Issuer may redeem the Securities (in whole but not in part), on the First Call Date or on any Interest Payment Date thereafter at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments upon giving the Holders of the Securities, the Agents and the Guarantor not less than 30 and not more than 60 calendar days' irrevocable notice of redemption. The Securities may, subject to applicable laws, also be redeemed (in whole but not in part) at any time, on giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders of the Securities and the Agents, at the option of the Issuer at the Principal Amount of the Securities plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, if (i) a Gross-up Event occurs or (ii) a Tax Event or an Accounting Event occurs.

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

**Investing in the Securities involves certain risks. See "Risk Factors" beginning on page 6.**

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

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

The Securities are expected to be rated "Aa3" by Moody's Investor Service. ("Moody's"). Such rating of the Securities does not constitute a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by such rating organization. Such rating should be evaluated independently of any other rating of the Securities, the Issuer's or Guarantor's other securities or the Issuer or Guarantor.

The Securities will initially be represented by beneficial interests in a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about November 25, 2015 with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Securities will not be issued in exchange for interests in the Global Certificate.

**Global Coordinator and Sole Bookrunner**



**BNP PARIBAS**

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

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

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

The Issuer and the Guarantor have furnished the information contained in this Offering Circular. No representation, undertaking or warranty, express or implied, is made by the Manager, the Agents or any of their respective affiliates or advisers as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Manager, the Agents or any of their respective affiliates or advisers. Neither the Manager nor the Agents assume responsibility for the accuracy, adequacy, reasonableness or completeness of any of the information contained in this Offering Circular or any other information (financial, legal or otherwise) provided by the Issuer or the Guarantor in connection with the issue or distribution of the Securities, the issue of the Guarantee or the future performance of the Securities or the Guarantee. Each person receiving this Offering Circular acknowledges that such person has not relied on the Manager, the Agents or any of their respective affiliates or advisers in connection with investigation of the accuracy of such information or such person’s investment decisions.

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

This Offering Circular is confidential. This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Securities described in this Offering Circular. This Offering Circular is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Securities. Distribution of this Offering Circular

to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized and any disclosure of any of its contents or use of such information for any purpose other than making an investment decision, without the prior written consent of the Issuer and the Guarantor, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

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

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

#### **ENFORCEABILITY OF CIVIL LIABILITIES**

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

The Issuer is a corporation with limited liability organized under the laws of Korea. All of the officers and directors of the Issuer named in this Offering Circular reside in Korea, and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States.

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

#### **AVAILABLE INFORMATION**

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

## **PRESENTATION OF FINANCIAL INFORMATION**

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

## **CERTAIN DEFINED TERMS AND CONVENTIONS**

All references to the “Issuer” in this Offering Circular are references to Korean Air Lines Co., Ltd. or Korean Air Lines Co., Ltd. and its consolidated subsidiaries collectively, as required or as indicated by the context. All references to the “Guarantor” or the “Bank” in this Offering Circular are references to The Export-Import Bank of Korea or The Export-Import Bank of Korea and its consolidated subsidiaries collectively, as required or as indicated by the context.

In this Offering Circular, all references to “Korea” or the “Republic” are to the Republic of Korea, all references to “U.S.” or the “United States” are to the United States of America, all references to the “PRC” are to the People’s Republic of China, all references to “Hong Kong” are to the Hong Kong Special Administrative Region of the PRC, all references to the “EU” are to the European Union and all references to the “Government” are to the government of Korea.

Unless otherwise indicated, all references to “won,” “Won,” “Korean Won” or “W” contained in this Offering Circular are to the currency of Korea, references to “U.S. dollars,” “Dollars,” “U.S.D.,” “\$,” “US\$” or “U.S.\$” are to the currency of the United States of America, references to “Euro,” “EUR” or “€” are to the currency of the European Union, references to “Japanese Yen,” “JPY” or “¥” are to the currency of Japan, references to “Renminbi,” “Chinese Yuan” or “CNY” are to the currency of the People’s Republic of China, references to “Swiss Franc” or “CHF” are to the currency of Switzerland, references to “British Pound,” “£” or “GBP” are to the currency of the United Kingdom, references to “Hong Kong dollar” or “HKD” are to the currency of Hong Kong, S.A.R., references to “Singapore dollar” or “SGD” are to the currency of Singapore, references to “Turkish Lira” or “TRY” are to the currency of Turkey, references to “Malaysia Ringgit” or “MYR” are to the currency of Malaysia, references to “Brazilian Real” or “BRL” are to the currency of Federative Republic of Brazil, references to “Mexican Peso” or “MXN” are to the currency of the United Mexican States, references to “New Zealand Dollar” or “NZD” are to the currency of New Zealand, references to “Taiwan Dollar” or “TWD” are to the currency of Taiwan, references to “Thai Baht” or “THB” are to the currency of Thailand, references to “Australian Dollar” or “AUD” are to the currency of Australia, references to “Indian Rupee” or “INR” are to the currency of India, references to “Indonesian Rupiah” or “IDR” are to the currency of Indonesia, references to “Philippine Peso” or “PHP” are to the currency of the Republic of the Philippines, references to “Saudi Riyal” or “SAR” are to the currency of Saudi Arabia, references to “Russian Ruble” or “RUB” are to the currency of the Russian Federation, references to “Swedish Krona” or “SEK” are to the currency of Sweden, references to “South African Rand” or “ZAR” are to the currency of South Africa, references to “Danish Krone” or “DKK” are to the currency of Denmark, references to “Norwegian Krone” or “NOK” are to the currency of Norway, references to “Canadian Dollar” or “CAD” are to the currency of Canada, references to “Czech Koruna” or “CZK” are to the currency of the Czech Republic and references to “Peruvian Nuevo Sol” or “PEN” are to the currency of Peru.

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

## FORWARD-LOOKING STATEMENTS

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

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

- continuing difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;
- adverse conditions and volatility in the U.S. and worldwide credit and financial markets and the general weakness of the global economy;
- financial difficulties and resulting ratings downgrades experienced by the governments of Greece and other countries in Europe;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates and stock markets;
- substantial decreases in the market prices of Korean real estate;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- declines in consumer confidence and a slowdown in consumer spending;
- adverse developments in the economies of countries that are important export markets for the Republic, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;
- the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from the Republic to China);
- social and labor unrest;
- a decrease in tax revenues and a substantial increase in the Government’s expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;

- the economic impact of any pending or future free trade agreements;
- geo-political uncertainty and risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea and other parts of the world;
- deterioration in economic or diplomatic relations between the Republic and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;
- political uncertainty or increasing strife among or within political parties in the Republic;
- hostilities or unrest involving oil producing countries in the Middle East and Northern Africa and any material disruption in the supply of oil or increase in the price of oil;
- the occurrence of severe earthquakes, tsunamis or other natural disasters in Korea and other parts of the world, particularly in trading partners; and
- an increase in the level of tension or an outbreak of hostilities between North Korea and the Republic or the United States.

## SUMMARY

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

<b>Issuer</b>	Korean Air Lines Co, Ltd., a corporation with limited liability established under the laws of Korea.
<b>Securities</b>	U.S.\$300,000,000 Guaranteed Senior Capital Securities.
<b>Issue Price</b>	99.963%
<b>Issue Date</b>	November 25, 2015.
<b>Form and Denomination</b>	The Securities will be issued in registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Status of the Securities</b>	The Securities constitute unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank <i>pari passu</i> without any preference among themselves and <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer, except as may be required by mandatory provisions of law.
<b>Guarantor</b>	The Export-Import Bank of Korea, a statutory juridical entity established under The Export-Import Bank of Korea Act of 1969, as amended, in Korea.
<b>Guarantee</b>	<p>The Guarantor has given for the benefit of the Holders of the Securities an unconditional and irrevocable guarantee for the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities as and when the same shall become due according to the Conditions.</p> <p>The Guarantee relating to the Securities constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law). The Guarantee will remain in full effect until the earlier of (i) the payment of all sums payable in respect of the relevant Securities having been paid in full and (ii) the First Call Date.</p>
<b>Interest</b>	<p>Each Security will entitle the Holder thereof to receive cumulative interest. The Interest on the Securities will accrue:</p> <ul style="list-style-type: none"><li>(a) from (and including) the Issue Date to (but excluding) the First Call Date at 2.50% per annum; and</li><li>(b) from (and including) the First Call Date to (but excluding) November 25, 2020 at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the First Step Up Margin;</li></ul>

- (c) from (and including) November 25, 2020 to (but excluding) the immediately following Reset Date at a fixed rate equivalent to the 3-year Treasury Rate as at the First Call Date plus the Initial Credit Spread plus the Second Step Up Margin; and
- (d) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate plus the Initial Credit Spread plus the Second Step Up Margin,

in each case on the Principal Amount of each Security, which interest will be payable semi-annually in arrear in U.S. dollars on May 25 and November 25 of each year (each an “Interest Payment Date”).

**Optional Deferral of Interest Payments**

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

Additional interest will accrue on each Deferred Interest Payment as set out in Condition 5.3(a) and will be added to such Deferred Interest Payment (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Each Deferred Interest Payment and additional interest thereon will be payable in accordance with Condition 5.5.

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

**Restrictions in the Case of Deferral**

If (a) some or all of an Interest Amount is deferred pursuant to Condition 5.3(a); and (b) such Interest Amount has not been paid in full by the date which is 20 Business Days following the Interest Payment Date on which it would otherwise have been due, the Issuer will not:

- (i) declare or pay any discretionary dividends, distributions, interest, capital return or make any other discretionary payment, and will procure that no discretionary dividend, distribution, interest, capital return or other discretionary payment is made on any of its Equity Obligations (as defined in “*Terms and Conditions of the Securities*”); or
- (ii) redeem, reduce, cancel, purchase, buy-back or acquire for any consideration any of its Equity Obligations,

(other than in respect of employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors

or consultants of the Issuer) until the date on which all Deferred Interest Payments have been paid in full.

**Payment of Deferred Interest Payments**

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

The Issuer must pay such Deferred Interest Payment, on the earliest to occur of:

- (i) the date on which any discretionary dividend, distribution, interest, capital return is declared or paid on, any redemption, reduction, cancellation, purchase, buy-back or acquisition is made of any Equity Obligations of the Issuer (other than in respect of employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors or consultants of the Issuer);
- (ii) the date on which all of the Securities are redeemed pursuant to the provisions of Condition 6; and
- (iii) the date on which an order is made or a resolution is passed for the Winding-Up of the Issuer.

**Maturity Date**

Unless redeemed or purchased and cancelled earlier in accordance with the Conditions, the Securities may be redeemed on November 25, 2045 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments and, if not redeemed on such date, at each Issuer Redemption Date; provided that, if the Securities are not redeemed at the option of the Issuer on an Issuer Redemption Date, the Securities will automatically be extended for 30 years from such Issuer Redemption Date.

**Early Redemption at the Option of the Issuer**

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

**Early Redemption Due to a Cross-Up Event**

The Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents, if, as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws,

rules or regulations, which change or amendment becomes effective on or after November 25, 2015, the Issuer pays or will become obliged to pay an Additional Amount under Condition 8.

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

If a Tax Event or an Accounting Event occurs, the Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at the Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments on the giving of not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Holders and the Agents. Prior to giving such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an Authorized Signatory of the Issuer stating that a Tax Event or an Accounting Event (as the case may be) has occurred and stating in the case of a Tax Event that the relevant loss of deduction cannot be avoided by the Issuer taking reasonable measures available to it and, in the case of a Tax Event, the opinion referred to in Condition 6.4(b) and, in the case of an Accounting Event, the opinion referred to in Condition 6.4(c).

**Bankruptcy Put Option**

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

**No Call Put Right**

If the Issuer elects not to redeem the Securities on the First Call Date as provided for in Condition 6.2, to the extent permitted by law, each Holder will be deemed to have exercised its right to require the Guarantor to purchase on the First Call Date (such date, the "No Call Put Date") all of the Securities held by such Holder at their Principal Amount plus any interest accrued up to (but excluding) the No Call Put Date and any outstanding Deferred Interest Payments.

**Governing Law**

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

**Rating**

The Securities are expected to be rated "Aa3" by Moody's. A rating is not a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

**Fiscal Agent, Paying Agent,  
Transfer Agent and Calculation  
Agent**

Deutsche Bank AG, Hong Kong Branch.

**Registrar**

Deutsche Bank Luxembourg S.A.

**Listing**

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. There can be no assurance, however, that the Securities will be admitted to the Official List of, or listed and quoted on, the SGX-ST. For as long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities will be traded on the SGX-ST in a minimum board lot size of SGD200,000 (or its equivalent in foreign currencies). Accordingly, the Securities will be traded on the SGX-ST in a minimum board lot size of U.S.\$200,000.

**Use of Proceeds**

The Issuer expects to use the net proceeds from the Offering for general corporate purposes. See "Use of Proceeds."

**Clearance and Settlement**

The Securities have been accepted for clearance by Euroclear and Clearstream under the following codes:

ISIN: XS1317710884

Common Code: 131771088

## RISK FACTORS

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

### **Risks Relating to the Securities**

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

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

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

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

#### **Payments under the Guarantee may be restricted under certain circumstances.**

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

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

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

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

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

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

**The Securities may be redeemed or purchased under certain circumstances.**

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

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

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

**There is no limitation on issuing *pari passu* securities.**

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

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

If a Bankruptcy Event (as defined in “*Terms and Conditions of the Securities*”) occurs with respect to the Issuer at any time between the issue date of the Securities to 30 days prior to the First Call Date, the Securities will be

purchased by the Guarantor at their principal amount (plus any interest accrued up to (but excluding) such date and any outstanding Deferred Interest Payments). Because the Issuer is incorporated under the laws of Korea, any bankruptcy proceeding relating to the Issuer would involve Korean bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local bankruptcy laws of jurisdictions with which Holders are familiar.

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

The Securities are expected to be rated “Aa3” by Moody’s. The rating assigned to the Securities will have been based primarily on the Guarantee to be issued by the Guarantor with respect to the Securities. Pursuant to the Guarantee, the Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities as and when such sums become due (the “Guaranteed Amounts”). The payment of the Guaranteed Amounts will, therefore, depend on the Guarantor performing its obligations under the Guarantee, and the likelihood of payment of the Guaranteed Amounts will depend on the creditworthiness of the Guarantor. Consequently, investors are relying not only on the creditworthiness of the Issuer but also on the creditworthiness of the Guarantor to perform its obligations under the Guarantee. A significant deterioration in the financial condition of the Guarantor could adversely affect the likelihood of investors receiving Guaranteed Amounts under the Guarantee and could result in a downgrade or withdrawal of the rating of the Securities.

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

**The liquidity and price of the Securities may be volatile.**

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

**An active trading market for the Securities may not develop.**

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

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

The Conditions of the Securities and the Fiscal Agency Agreement contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind

all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. The Conditions of the Securities also provide that the Fiscal Agent may agree, without the consent of Holders, to the waiver or authorization of any breach or proposed breach of, any of the Conditions of the Securities or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Fiscal Agent, materially prejudicial to the interests of the Holders, or may agree, among other things, to make any modifications to the Securities or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Fiscal Agent to correct a manifest error or to comply with mandatory provisions of the laws of Korea so long as such modification does not adversely affect the rights of any Holder in any material respect.

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

Securities issued will be represented by the Global Certificate. Such Global Certificate will be deposited with a common depository for Euroclear and Clearstream (each of Euroclear and Clearstream, a “Clearing System”). Except in the circumstances described in the relevant Global Certificate, Holders will not be entitled to receive definitive note certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Securities are represented by the Global Certificate, Holders will be able to trade their beneficial interests only through the Clearing Systems.

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

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

## TERMS AND CONDITIONS OF THE SECURITIES

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

The U.S.\$300,000,000 Guaranteed Senior Capital Securities (the “**Securities**”, which expression, unless the context otherwise requires, includes any further Securities issued pursuant to Condition 10 and forming a single series with the Securities) of Korean Air Lines Co., Ltd. (the “**Issuer**”) are issued under a fiscal agency agreement dated November 25, 2015 (as amended from time to time, the “**Fiscal Agency Agreement**”), among the Issuer, The Export-Import Bank of Korea as the guarantor (the “**Guarantor**”) and Deutsche Bank AG, Hong Kong Branch, as fiscal agent (the “**Fiscal Agent**”, which expression shall include its successor(s)), paying agent (the “**Paying Agent**,” which expression shall include its successor(s)), transfer agent (the “**Transfer Agent**”, which expression shall include its successor(s)) and calculation agent (the “**Calculation Agent**,” which expression shall include its successor(s)) and Deutsche Bank Luxembourg S.A. as registrar (the “**Registrar**”, which expression shall include its successor(s)). References herein to the “**Agents**” are to the Fiscal Agent, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar, and any reference to an “**Agent**” is to any one of them. The Securities are issued, and may or must be redeemed by the Issuer, on the terms set out in these Terms and Conditions (the “**Conditions**”).

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

### 1 Form and transfer

#### 1.1 Form and Principal Amount

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

#### 1.2 Title

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

### 2 Transfers of Securities and Issue of Definitive Certificates

#### 2.1 Transfers

Subject as provided in Condition 2.4, a Security may be transferred by depositing the Definitive Certificate issued in respect of that Security, with the form of transfer on the back duly completed

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

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

## **2.2 Delivery of new Definitive Certificates**

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

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

## **2.3 Formalities free of charge**

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

## **2.4 Closed periods**

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

# **3 Status and Negative Pledge**

## **3.1 Status of the Securities**

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

## **3.2 Negative pledge**

So long as there are any Outstanding Securities (as defined in the Fiscal Agency Agreement), the Guarantor will not create or permit to subsist any mortgage, charge, pledge or other security interest

upon or over the whole or any part of its property, assets or revenues (whether present or future) to secure for the benefit of the holders of any International Investment Securities (as defined below):

- (i) payment of any sum due in respect of any such International Investment Securities;
- (ii) payment under any guarantee in respect of any such International Investment Securities; or
- (iii) payment under any indemnity or other like obligation in respect of any such International Investment Securities,

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

“**International Investment Securities**” means notes, bonds, debentures, certificates of deposit or investment securities of any person which (i) by their terms either are payable, or confer a right to receive payment, in any currency other than Korean won or are denominated in Korean won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Guarantor and (ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

### **3.3 No set-off**

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

### **3.4 No voting right**

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

## **4 Guarantee**

Pursuant to the guarantee set out in Section 3 of the Fiscal Agency Agreement as evidenced by the notation of guarantee dated November 25, 2015 (the “**Guarantee**”), the Guarantor has given for the benefit of the Holders an unconditional and irrevocable guarantee for the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Securities, including without limitation the principal of, and interest on, such Securities, as and when the same shall become due according to these Conditions. For the avoidance of doubt, any Deferred Interest Payment will not be deemed due until it becomes due and payable in accordance with Condition 5.5(b). The Guarantee relating to the Securities constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law). The Guarantee will remain in full effect until the earlier of (i) the payment of all sums payable in respect of the relevant Securities having been paid in full and (ii) the First Call Date.

## **5 Interest**

### **5.1 Interest**

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

## 5.2 Interest Rate

Interest on the Securities will accrue:

- (a) from (and including) the Issue Date to (but excluding) November 25, 2018 (the “**First Call Date**”) at 2.50% per annum;
- (b) from (and including) the First Call Date to (but excluding) November 25, 2020 at a fixed rate equivalent to the prevailing 3-year Treasury Rate (as defined below) plus the Initial Credit Spread (as defined below) plus the First Step Up Margin (as defined below) (such rate, the “**First Step Up Rate**”);
- (c) from (and including) November 25, 2020 to (but excluding) the immediately following Reset Date at a fixed rate equivalent to the 3-year Treasury Rate (as defined below) as at the First Call Date plus the Initial Credit Spread (as defined below) plus the Second Step Up Margin (as defined below) (such rate, the “**Second Step Up Rate**”); and
- (d) thereafter from (and including) each Reset Date to (but excluding) the next following Reset Date, at a fixed rate equivalent to the prevailing 3-year Treasury Rate (as defined below) plus the Initial Credit Spread (as defined below) plus the Second Step Up Margin (as defined below) (such rate, the “**Reset Rate**”),

(each an “**Interest Rate**”) in each case on the Principal Amount of each Security, which interest will be payable semi-annually in arrear in U.S. dollars on May 25 and November 25 of each year (each an “**Interest Payment Date**”).

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

## 5.3 Optional deferral of interest payments

- (a) The Issuer may determine in its sole discretion (not less than five Business Days prior to the relevant Interest Payment Date) not to pay all or part of the Interest Amount falling due on that Interest Payment Date. If the Issuer determines not to pay all or part of the Interest Amount falling due on an Interest Payment Date, such interest (or part thereof, as the case may be) will not be due and payable, or be paid, until the relevant Payment Reference Date and for so long as the same remains unpaid will constitute a “**Deferred Interest Payment**”. Additional interest will accrue on each Deferred Interest Payment:
  - (i) at the same Interest Rate as the Principal Amount of the Securities bears from time to time; and
  - (ii) from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to (but excluding) the date the Deferred Interest Payment is paid,

and will be added to such Deferred Interest Payment (and thereafter accumulate additional interest accordingly) on each Interest Payment Date. Each Deferred Interest Payment and additional interest accrued thereon will be payable in accordance with Condition 5.5.

- (b) The Issuer will notify the Holders, the Guarantor, the Agents and (if and for so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require) the SGX-ST of any determination by it not to pay all or part of the Interest Amount which would otherwise fall due on an Interest Payment Date, not less than five Business Days prior to the relevant Interest Payment Date. Deferral of Interest Amounts pursuant to this Condition will not constitute a default of the Issuer or a breach of its obligations under the Securities or for any other purpose.
- (c) The Issuer is not subject to any limits as to the number of times the Interest Amount and Deferred Interest Payment can be deferred, except as specified in Condition 5.5.

#### **5.4 Restrictions in the case of deferral**

If:

- (a) some or all of an Interest Amount is deferred pursuant to Condition 5.3(a); and
- (b) such Interest Amount has not been paid in full by the date which is 20 Business Days following the Interest Payment Date on which it would otherwise have been due,

the Issuer will not:

- (i) declare or pay any discretionary dividends, distributions, interest, capital return or make any other discretionary payment, and will procure that no discretionary dividend, distribution, interest, capital return or other discretionary payment is made on any of its Equity Obligations; or
- (ii) redeem, reduce, cancel, purchase, buy-back or acquire for any consideration any of its Equity Obligations,

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

#### **5.5 Payment of Deferred Interest Payments**

- (a) The Issuer may elect to pay any Deferred Interest Payment at any Interest Payment Date on the giving of at least five and not more than 15 Business Days' prior notice to the Agents.
- (b) The Issuer must pay such Deferred Interest Payment, on the earliest to occur of:
  - (i) the date on which any discretionary dividend, distribution, interest or capital return is declared or paid on, any redemption, reduction, cancellation, purchase, buy-back or acquisition is made of any Equity Obligations of the Issuer (other than in respect of employee benefit plans or similar arrangements with or for the benefits of employees, officers, directors or consultants of the Issuer);
  - (ii) the date on which all of the Securities are redeemed pursuant to the provisions of Condition 6; and
  - (iii) the date on which an order is made or a resolution is passed for the Winding-Up of the Issuer.
- (c) Any partial payment of outstanding Deferred Interest Payment (and any additional interest accrued thereon) by the Issuer shall be shared by the holders of all outstanding Securities on a pro rata basis.

#### **5.6 Accrual**

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

#### **5.7 Determination and publication of the First Step Up Rate, the Second Step Up Rate and the Reset Rate**

The First Step Up Rate, the Second Step Up Rate and the Reset Rate will be determined by the Calculation Agent on November 20, 2020 (in the case of the Second Step Up Rate) or the relevant

Reset Determination Date (in the case of the First Step Up Rate or the Reset Rate) and promptly notified by the Calculation Agent to the Issuer, the Guarantor and the other Agents and, if required by the rules of any stock exchange on which the Securities are listed from time to time, to such stock exchange, and to the Holders, without undue delay but, in any case, not later than the First Call Date, November 25, 2020 or the relevant Reset Date, in relation to the First Step Up Rate, the Second Step Up Rate and the Reset Rate, respectively.

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

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

## **6 Redemption, Purchase and Put**

### **6.1 Maturity**

Unless redeemed or purchased and cancelled earlier in accordance with these Conditions, the Securities may be redeemed on November 25, 2045 at their Principal Amount plus any Interest Amount accrued up to (but excluding) such date and any outstanding Deferred Interest Payments and, if not redeemed on such date, at the end of each subsequent 30-year period (each of such dates, an “**Issuer Redemption Date**”); provided that, if the Securities are not redeemed at the option of the Issuer on an Issuer Redemption Date, the maturity date of the Securities will automatically be extended for 30 years from such Issuer Redemption Date.

### **6.2 Early redemption at the option of the Issuer**

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

### **6.3 Early redemption due to a Gross-Up Event**

- (a) If a Gross-Up Event occurs, the Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at their Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments, on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Holders and the Agents.
- (b) In such event:
  - (i) no such notice of redemption may be given earlier than 90 calendar days prior to the earliest calendar day on which the Issuer would for the first time be obliged to pay the Additional Amounts in question on payments due in respect of the Securities; and
  - (ii) prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent:
    - (A) a certificate signed by an Authorized Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting out a statement of facts showing that the

conditions to the exercise of the right of the Issuer to redeem have been satisfied and that the obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it; and

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

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

- (c) “**Gross-Up Event**” means that as a result of any change in, or amendment to, the laws (or any rules or regulations thereunder) of the Relevant Jurisdiction, or any change in or amendment to any official interpretation or application of those laws, rules or regulations, which change or amendment becomes effective on or after November 19, 2015, the Issuer pays or will become obliged to pay an Additional Amount under Condition 8 in respect of the Securities.

#### **6.4 Early redemption due to a Tax Event or an Accounting Event**

- (a) If a Tax Event or an Accounting Event occurs, the Issuer may, subject to applicable laws, redeem the Securities (in whole but not in part) at any time at the Principal Amount plus any interest accrued up to (but excluding) the relevant Redemption Date and any outstanding Deferred Interest Payments on the giving of not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Holders and the Agents. Prior to giving such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent a certificate signed by an Authorized Signatory of the Issuer stating that a Tax Event or an Accounting Event (as the case may be) has occurred and stating in the case of a Tax Event that the relevant loss or deduction cannot be avoided by the Issuer taking reasonable measures available to it and, in the case of a Tax Event, the opinion referred to in Condition 6.4(b) and, in the case of an Accounting Event, the opinion referred to in Condition 6.4(d). The Fiscal Agent shall be entitled, without liability to any person, to accept such certification and, in the case of a Tax Event or an Accounting Event, opinion as sufficient evidence that a Tax Event or an Accounting Event (as the case may be) has occurred, in which event it shall be conclusive and binding on the Holders.
- (b) “**Tax Event**” means that, in the opinion of a recognized independent tax adviser, on or after November 19, 2015 as a result of:
  - (i) any amendment to, or change in, the laws (or any rules or regulations thereunder) of the Relevant Jurisdiction which is enacted, promulgated, issued or becomes effective otherwise on or after November 19, 2015; or
  - (ii) any amendment to, or change in, an official and binding interpretation of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) which is enacted, promulgated, issued or becomes effective otherwise on or after November 19, 2015; or
  - (iii) any generally applicable official interpretation or pronouncement that provides for a position with respect to such laws or regulations that differs from the previous generally accepted position which is issued or announced on or after November 19, 2015,

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

- (c) An “**Accounting Event**” will occur if after November 19, 2015 the Issuer has received an opinion from internationally recognized independent auditors, which may be the Issuer’s independent auditors, stating that the Securities, in whole or in part, will no longer be recorded as “equity” in the consolidated financial statements of the Issuer prepared in accordance with Korean International Financial Reporting Standards or any other accounting regime that is the primary accounting regime under which the Issuer presents such financial statements.

## **6.5 Purchase of Securities**

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

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

## **6.6 Cancellations**

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

## **6.7 Put Options**

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

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

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

## **6.8**

### **(a) Bankruptcy within Three Years of the Issue Date**

If a Bankruptcy Event (as defined below) occurs at any time from the Issue Date to 30 days prior to the First Call Date, to the extent permitted by applicable law, each Holder will have the right (the “**Bankruptcy Put Option**”) to require the Guarantor to purchase on the Bankruptcy Put Date (as defined below) the Securities held by such Holder (in whole but not in part) at their Principal Amount plus any interest accrued up to (but excluding) the Bankruptcy Put Date and

any outstanding Deferred Interest Payments. If a Bankruptcy Event giving rise to such right has occurred during such period, it shall be deemed that the Bankruptcy Put Option has been irrevocably exercised by all Holders without the delivery of any written notice by the Holders of their intention to exercise the Bankruptcy Put Option.

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

“**Bankruptcy Event**” means adjudication by a court of competent jurisdiction in Korea that the Issuer is bankrupt pursuant to the provisions of the Debtor Rehabilitation and Bankruptcy Act or any successor legislation.

For the avoidance of doubt, the Bankruptcy Event that triggers the Bankruptcy Put Option does not include any reorganization proceedings (*hwoe saeng jeol cha*) under the Debtor Rehabilitation and Bankruptcy Act or any similar event under Korean law.

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

**(b) Issuer’s Election Not to Redeem on the First Call Date**

If the Issuer elects not to redeem the Securities on the First Call Date as provided for in Condition 6.2, to the extent permitted by law, each Holder shall be deemed to have exercised its right (the “**No Call Put Right**”) to require the Guarantor to purchase on the First Call Date (such date, the “**No Call Put Date**”) all of the Securities held by such Holder at their Principal Amount plus any interest accrued up to (but excluding) the No Call Put Date and any outstanding Deferred Interest Payments.

“**Put Date**” means the Bankruptcy Put Date or the No Call Put Date, as applicable.

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

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

Payment by the Guarantor of the Principal Amount plus any interest accrued up to (but excluding) the Put Date and any outstanding Deferred Interest Payments will be in U.S. dollars and will be made simultaneously with delivery of the Securities into the designated securities account of the Guarantor (i) with respect to a holder of the Global Certificate, by wire transfer to the registered

account of such holder or (ii) with respect to a holder of individual Definitive Certificates, by check drawn on a bank in New York mailed to the registered address of the holder of the individual Definitive Certificate.

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

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

## 7 Payments

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

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

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

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

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

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

## 8 Taxation and gross-up

### 8.1 Payment without withholding

All payments in respect of the Securities by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction (“**Relevant Taxes**”), unless the withholding or deduction of such Relevant Taxes is required by law. In that event, the Issuer will pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts received by the Holders after the withholding or deduction (including any withholding or deduction in respect of such payment of Additional Amounts) will equal the respective amounts which would otherwise have been receivable in respect of the Securities in the absence of withholding or deduction; except that no Additional Amounts will be payable in relation to any Relevant Taxes imposed on, withheld or deducted from any payment in respect of any Security:

- (a) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of such Security by reason of having some connection with the Relevant Jurisdiction other than the mere holding of the Security or the receipt of payments or enforcement of rights thereunder; or
- (b) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of the Security by reason of having some relationship with the Issuer for Korean tax purposes other than the mere holding of such Security; or
- (c) where such withholding or deduction is imposed by reason of a failure of a Holder or any other person to (i) comply with any certification, identification, information-provision or documentation requirement concerning the nationality, residence, identity or connection with the Relevant Jurisdiction of the Holder or beneficial owner or (ii) comply with any other certification, identification, information-provision or documentation requirement, or enter into any agreement with any taxing authority, provided that (x) the Issuer or the Fiscal Agent has given the Holder at least 30 calendar days prior notice of an opportunity to satisfy such a requirement and (y) compliance is required or imposed by a statute, treaty, rule, regulation, agreement or administrative practice of the Relevant Jurisdiction as a condition or precondition to relief or exemption from all or part of such Relevant Taxes; or
- (d) where such withholding or deduction is imposed on a payment and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) where such withholding or deduction is imposed on a Security presented for payment (where presentation is required) by a Holder or any other person if such Holder or other person could have avoided such Relevant Tax by presenting such Security to another paying agent; or
- (f) where such withholding or deduction is imposed only by virtue of a Holder or any other person not having presented the Security (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such Holder or other person would be entitled to Additional Amounts had the Security been surrendered during such 30-day period; or
- (g) in the event that a Holder or any other person who holds an interest in the Security is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, where such withholding or deduction would not have been imposed had the beneficiary or

settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual Holder of the Security; or

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

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

## **8.2 Additional Amounts**

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

## **8.3 Documentation**

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

## **8.4 Other Taxes**

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

## **9 Prescription**

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

## **10 Further issues**

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

## 11 Non-Payment

If:

- (a) the Issuer (or failing which, the Guarantor) does not pay any principal or any interest or other amount due and payable in respect of the Securities or any of them, in each case in full within 30 days of its due date; or
- (b) an order is made (other than an order successfully appealed or permanently stayed within 60 days) by a court in the Republic of Korea or a resolution is passed by the shareholders of the Issuer, for the Winding-Up of the Issuer (other than for the purposes of Solvent Reorganization of the Issuer),

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

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

- (A) the non-payment by the Issuer of any amount due and payable in respect of any of the Securities:
  - (i) in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment; or
  - (ii) during any period where there is doubt as to the validity or applicability of any such law, regulation or order, in accordance with advice given by an independent law firm as to such validity or applicability; or
  - (iii) to the extent such amount is paid in full within 30 days of its due date by the Guarantor; or
- (B) the deferral of any Interest Amount pursuant to Condition 5.3; or
- (C) the automatic extension of the term of the Securities as a result of non-redemption at the option of the Issuer on November 25, 2045 or any subsequent Issuer Redemption Dates pursuant to Condition 6.1.

## 12 Variation of Rights

### 12.1 Variation without consent

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

- (a) of a formal, minor or technical nature;
- (b) made to correct an error which, in the opinion of the Fiscal Agent, is proven;
- (c) not materially prejudicial to the interests of Holders as a whole; or
- (d) required to comply with mandatory provisions of law.

### 12.2 Substitution

- (a) Subject to applicable laws, the Issuer may, without the authority, assent or approval of Holders (but subject to the prior written consent of the Guarantor), substitute all (but not some only) of the Securities for other securities issued directly or indirectly by the Issuer, provided that such securities:
  - (i) have terms not materially less favorable to Holders than the terms of the Securities (as reasonably determined by the Issuer);

- (ii) have a rating ascribed to them by Moody's Investor Service;
  - (iii) are guaranteed by the Guarantor to the same extent that the Securities are guaranteed pursuant to the Guarantee; and
  - (iv) are listed on the SGX-ST or another internationally recognized stock exchange selected by the Issuer.
- (b) The Fiscal Agent shall (at the expense of the Issuer and following receipt by the Fiscal Agent of a certificate signed by an Authorized Signatory of the Issuer confirming (i) to (iii) above) use reasonable efforts to assist the Issuer in such substitution of the Securities (including, but not limited to, entering into such documents or deeds as may be necessary to give effect thereto), provided that the Fiscal Agent shall not be obliged to participate in, or assist with, any such substitution if the substitution, or the securities into which the Securities are to be substituted, or if the assistance with such substitution, would impose, in the Fiscal Agent's opinion, more onerous obligations upon it, expose it to liabilities or reduce its protections.
- (c) The Fiscal Agent may, without the consent of the Holders (but subject to the prior written consent of the Guarantor), agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition 12.2(c)) as the principal debtor under the Securities, subject to:
- (i) the Fiscal Agent being satisfied that the interests of the Holders will not be materially prejudiced by the substitution; and
  - (ii) compliance with certain other conditions set out in the Fiscal Agency Agreement.

### **12.3 Meetings**

- (a) The Fiscal Agency Agreement contains provisions for convening meetings of the Holders to consider any matter relating to the Securities and/or the Fiscal Agency Agreement, including the modification or abrogation of any of these Conditions or any of the provisions of the Fiscal Agency Agreement, upon either the written consent of the Holders of not less than a majority in Principal Amount of the outstanding Securities or the approval of persons entitled to vote not less than a majority of the Principal Amount of such Securities represented and voting at a meeting of the Holders duly called. The quorum at such meeting shall be one or more persons entitled to vote a majority in Principal Amount of the outstanding Securities, or at an adjourned meeting, one or more persons entitled to vote 25% in Principal Amount of the outstanding Securities.
- (b) Notwithstanding Condition 12.3(a) above, for the purposes of passing a resolution at a meeting the business of which includes a Special Matter, no amendment, modification or abrogation shall be made to the Securities (including these Conditions) or the Fiscal Agency Agreement without the approval or written consent of the Holders of not less than 90% in Principal Amount of the then outstanding Securities or the approval of persons entitled to vote not less than 75% of the Principal Amount of such Securities represented and voting at a meeting of the Holders duly called, and where at such meeting a special quorum shall be required comprising one or more persons entitled to vote two-thirds in Principal Amount of the then outstanding Securities, or at an adjourned meeting, one or more persons entitled to vote one-third in Principal Amount of the then outstanding Securities.
- (c) On a poll each Holder of a Security present in person or by proxy and entitled to vote shall have one vote in respect of each U.S.\$1,000 in Principal Amount of such Holder's Securities.
- (d) The Issuer, the Guarantor and the Fiscal Agent may, at any time and from time to time, without the consent of any Holders, amend or supplement the Fiscal Agency Agreement or these Conditions: (i) to evidence the succession of another person to the Issuer or the Guarantor and

the assumption by any such successor of the covenants of the Issuer or the Guarantor, as applicable, in the Fiscal Agency Agreement and the Securities; (ii) to add to the covenants of the Issuer or the Guarantor for the benefit of the Holders or to surrender any right or power conferred on the Issuer or the Guarantor; (iii) to provide for the issuance of additional Securities in accordance with the limitations set forth in these Conditions and the Fiscal Agency Agreement; (iv) to cure any ambiguity or to correct or supplement any provision in the Fiscal Agency Agreement or these Conditions, which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Fiscal Agency Agreement that are not inconsistent with the provisions of the Fiscal Agency Agreement; provided that such action shall not adversely affect the interests of the Holders in any material respect; or (v) to make any other modifications to the Securities or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Fiscal Agent to correct a manifest error or, in reliance on an opinion of counsel delivered to the Fiscal Agent, to comply with mandatory provisions of the laws of Korea so long as such modification does not adversely affect the rights of any Holder in any material respect.

#### **12.4 Waiver, authorization and determination**

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

#### **12.5 Notification to the Holders**

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

#### **12.6 Compliance with stock exchange rules**

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

### **13 Notices**

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

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system appointed in accordance with the terms of the Securities and the Fiscal Agency Agreement, notices to Holders may be given by delivery of

the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system as aforesaid.

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

## **14 Agents**

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

- (a) at least one paying agent, provided that:
  - (i) so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for Definitive Certificates, and unless the Issuer obtains an exemption from the SGX-ST, the Issuer will appoint and maintain a paying agent in Singapore where the Definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that a Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore; and
  - (ii) there shall be a paying agent that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (b) a fiscal agent;
- (c) a registrar;
- (d) a transfer agent; and
- (e) a calculation agent.

## **15 Governing law and submission to jurisdiction**

### **15.1 Governing law**

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

### **15.2 Jurisdiction**

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

### **15.3 Appointment of process agent**

The Issuer has irrevocably and unconditionally appointed Korean Air Lines Co., Ltd., New York Office at 609 5<sup>th</sup> Ave., Suite 1108, New York, NY 10017, United States as its agent for service of process in respect of any suit, legal action or proceedings arising out of or in connection with the Securities and has undertaken that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

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

## 16 Definitions

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

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

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

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

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

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

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

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

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

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

“**Calculation Amount**” means U.S.\$1,000 in Principal Amount of Securities.

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

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

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

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

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

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

“**Equity Obligations**” means, in relation to the Issuer, any class of the Issuer’s share capital or any other securities qualifying as equity under the International Financial Reporting Standards as adopted in the Republic of Korea (“**Korea**”, and such standards, “**K-IFRS**”) or under any other accounting regime that is the primary accounting regime under which the Issuer presents its financial statements at the time such discretionary dividend, distribution or other payment is paid or declared, except for the Securities.

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

“**First Step Up Rate**” has the meaning specified in Condition 5.2(b).

**“First Step Up Margin”** means 4% per annum.

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

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

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

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

**“Guarantee”** has the meaning specified in Condition 4.

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

**“Holder”** has the meaning specified in Condition 1.2.

**“Initial Credit Spread”** means 1.30% per annum.

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

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

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

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

**“Issue Date”** means November 25, 2015.

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

**“Issuer”** means Korean Air Lines Co., Ltd.

**“Issuer Redemption Date”** has the meaning specified in Condition 6.1.

**“No Call Put Date”** has the meaning specified in Condition 6.8(b).

**“No Call Put Right”** has the meaning specified in Condition 6.8(b).

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

**“Payment Business Day”** has the meaning specified in Condition 7.4.

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

**“Principal Amount”** has the meaning specified in Condition 1.1.

**“Put Date”** has the meaning specified in Condition 6.8(b).

**“Put Options”** has the meaning specified in Condition 6.7.

**“Record Date”** has the meaning specified on the face of the applicable Global Certificate or Definitive Certificate.

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

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

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

“**Register**” has the meaning specified in Condition 1.1.

“**registered account**” has the meaning specified in Condition 7.1.

“**registered address**” has the meaning specified in Condition 7.1.

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

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

“**Relevant Jurisdiction**” means the Republic of Korea or any political subdivision or any authority thereof or therein having power to tax the Issuer or, in the event of any substitution, Solvent Reorganization or other corporate action resulting in the Issuer being tax resident in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax the Issuer.

“**Relevant Taxes**” has the meaning specified in Condition 8.1.

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

“**Reset Determination Date**” means the second Business Day prior to the relevant Reset Date.

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

“**Reset Rate**” has the meaning specified in Condition 5.2(d).

“**Second Step Up Rate**” has the meaning specified in Condition 5.2(c).

“**Second Step Up Margin**” means 7% per annum.

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

“**SGX-ST**” means Singapore Exchange Securities Trading Limited.

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

“**Special Matter**” means each of the following matters:

- (i) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Fiscal Agent bound to result in an increase of any principal or interest (including Deferred Interest Payments) in respect of the Securities;
- (ii) modification of the date of payment in respect of any principal or interest (including Deferred Interest Payments) in respect of the Securities;
- (iii) alteration of the currency in which payments under the Securities are to be made;
- (iv) modification or waiver of the provisions regarding the negative pledge of the Guarantor referred to in Condition 3.2 (Negative Pledge);
- (v) alteration of the obligations of the Issuer under Conditions 6 (Redemption, Purchase and Put) or 8 (Taxation and Gross-up);
- (vi) reduction of any of the percentage voting and quorum provisions in Condition 12.3 (Meetings); or
- (vii) modification of any of the above matters constituting the Special Matters.

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

**“Tax Event”** has the meaning specified in Condition 6.4(b).

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

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

**“Winding-Up”** means, with respect to the Issuer, a final and effective order or resolution for the bankruptcy (as set forth in Part 3 of the Debtor Rehabilitation and Bankruptcy Act of Korea), winding up, liquidation or any other proceedings in respect of the Issuer, which commences with a view to liquidation of the Issuer.

## THE GLOBAL CERTIFICATE

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

### **Meetings**

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

### **Cancellation**

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

### **Transfers**

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

### **Notices**

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

## **USE OF PROCEEDS**

The Issuer intends to use the net proceeds from this offering for general corporate purposes.

## THE ISSUER

### Overview

The Issuer is one of the leading airlines in Korea and a member company of the Hanjin Group (the “Group”), a Korean conglomerate with strengths in the airline and shipping industries. The Issuer is the largest company within the Group measured in terms of assets. Excluding guarantees arising from previous financing transactions, the Issuer and the other Group companies have each managed their financial affairs independently since the Asian financial crisis of 1997. As of June 30, 2015, the Issuer had a fleet of 153 aircraft with passenger and cargo routes to 128 cities in 45 countries. Between July 1, 2014 and June 30, 2015, the Issuer carried approximately 24.10 million passengers and 1.56 million tons of cargo. According to the World Air Transport Statistics for 2014, the Issuer was one of the world’s top five cargo airlines in terms of scheduled freight ton-kilometers (“FTK”) in both categories of international routes and international and domestic routes. As of June 30, 2015, the Issuer had 20,874 employees, 31% of whom were cabin crew, 25% of whom were engineers and 22% of whom were a part of administration. The Issuer generates revenues primarily through its passenger business and cargo business, which together constituted 90.5% of its total sales volume between January 1, 2015 and June 30, 2015. The Issuer’s other main businesses include its aerospace business and catering business.

### Passenger

The Issuer is a leading passenger airline in Korea measured in both international passenger market share and domestic passenger market share. In 2014, the passenger business of the Issuer served 24.10 million passengers flying to and from 117 cities (12 domestic and 105 international) in 41 countries. The Issuer operates its passenger business through its fleet, which, as of June 30, 2015, comprised 125 passenger planes consisting of 39 B737-800/900/900ER aircraft, 35 B777-300ER/300/200 aircraft, 28 A330-200/300 aircraft, 10 A380-800 aircraft and 13 B747-400 aircraft.

Recently, the Issuer has concentrated on building a base for long-term growth by introducing next-generation aircraft such as the A380 aircraft used for long-haul routes such as Seoul to Frankfurt, Seoul to New York and Seoul to Los Angeles and expanding into new markets with new destinations such as Colombo, Male, Nanjing, Houston, Hefei, Nanning and Guiyang. The Issuer’s customer service has been recognized through awards such as the “excellence in service award” from the *World Travel Awards* in 2012, “best airlines award” from *Travel & Leisure (China)* in 2013 and the “best airline service award” from the *Global Customer Satisfaction Index, Japan* through 2005 to 2015.

### Cargo

The Issuer is also a leading cargo carrier by both international and domestic standards. Between 2004 and 2009, the Issuer maintained the status of being the world’s top cargo carrier and was recognized as a top-five cargo carrier by scheduled FTK in 2014. Based on international cargo FTK, the Issuer carried 4,159 million FTK in the first half of 2015, making it one of three largest international cargo carriers in the world. The cargo business of the Issuer carried approximately 1.56 million tons of cargo to 43 cities (1 domestic and 42 international) in 26 countries between July 1, 2014 and June 30, 2015. The Issuer operates its cargo business through its fleet, which, as of June 30, 2015, comprised 28 cargo planes consisting of 17 B747-400 aircraft, six B747-8F aircraft and five B777-F aircraft.

China and Japan are some of the Issuer’s primary target markets, with 0.26 million tons of cargo carried to and from the neighboring countries semi-annually. The Issuer recently started China-Americas direct flights to expand its network and influence in the Chinese cargo market and more effectively compete with Chinese carriers. In Japan, the Issuer’s Narita Airport slot has helped solidify Japanese routes and enhance its flight schedule to support route competitiveness.

Globally, the Issuer’s cargo business has benefited from expanded services to Latin American destinations such as São Paulo, Brazil and Lima, Peru. It has been promoting Navoi International Airport in Uzbekistan as its cargo

services hub by expanding its Southeast Asian and European route structure to countries in the Middle East and Central Asia. In 2013, the Issuer inaugurated a flight route from Hanoi to Europe via Navoi. The Issuer has also been promoting customized cargo service for specialized cargo. The Issuer provides specialized cargo service for perishable cargo and is in the process of developing services for high-yield cargo such as pharmaceuticals and e-commerce goods. In order to enhance customer satisfaction, the Issuer actively promotes its e-Freight service that does not require paper transportation documents.

### **Aerospace**

The Issuer's aerospace business is based on its experience and expertise accumulated over the past 39 years in the design and production of manned aircraft for both domestic and foreign clients. It includes the designing and manufacturing of aircraft, maintenance services for commercial and military aircraft and research and development on satellites. The Issuer has played a major role in the Korean aerospace industry beginning in 1976 with the Issuer's production of the 500MD helicopter. Since then, the Issuer's Aerospace Division has achieved a well-respected reputation within the global aerospace industry by producing the F-5 fighter (*Jegong-ho*) and the UH-60 helicopter, as well as developing the Chang-Gong 91, the first indigenous commercial aircraft in Korean aerospace history. The Issuer's aerospace business comprised 8.65% of its total sales volume between January 1, 2015 and June 30, 2015.

### **Catering**

The Issuer's catering business augments its passenger business by providing food and beverage menus which are initially prepared at production centers in Seoul and Incheon served to passengers in-flight. The catering portion of the business comprised 0.84% of the Issuer's total sales volume between January 1, 2015 and June 30, 2015.

### **History**

The Issuer was incorporated by the Government on June 19, 1962 as Korean National Airline Corporation under the Investment Promotion Law of the Republic of Korea and was subsequently listed on the Korean Stock Exchange through an initial public offering on March 18, 1966 and was acquired by the Group in 1969. In 1971, the first scheduled cargo route to North America from Seoul (via Tokyo) was established, while in 1972, the first passenger route, from Seoul to Los Angeles, commenced operation. In 1973 and 1979, the Issuer established passenger routes from Seoul to Paris and New York, respectively. In 2000, global oversupply and intensifying competition in the airline industry led the Issuer to form the global airline alliance SkyTeam along with Aeroméxico, Air France and Delta Airlines. *See "— Alliances — SkyTeam alliance."*

In August 2013, the Issuer's investment business was spun-off into a new holding company within the Group, Hanjin KAL Co., Ltd. ("Hanjin KAL"). Hanjin KAL was incorporated under the laws of Korea on August 1, 2013. Post-spin-off, Hanjin KAL solely focuses on the management of its subsidiaries and investment in new businesses, allowing the Issuer to focus on the operation of its air transportation business and related businesses and thereby enhance efficiency in operations. The principal shareholders of the Issuer's common shares are Hanjin KAL Co., Ltd., National Pension Fund, the Employee Stock Ownership Association and Jungseock-Inha School's Foundation, the Group's affiliate entity, who collectively own 43.49% of the outstanding common shares. The Issuer is a core entity of the Group, representing the largest company within the Group measured in terms of assets.

### **Safety**

The Issuer completed its fifteenth consecutive fatal-accident-free year of operation in 2014. In October 2009, the Issuer established the integrated Safety Management IT System named "SafeNet" which supports company-wide standardization of safety data management through (a) encouraging active safety reporting by all employees, (b) identifying, analyzing and correcting any safety hazard before it becomes an issue and (c) accumulating and utilizing safety data. The Issuer's safety culture is enhanced through safety policy revisions, activation of safety

reporting and the encouragement of employees' participation in safety education activities. The Issuer also relies on close cooperation with governmental agencies such as the Office of Civil Aviation, the Federal Aviation Administration, the European Aviation Safety Agency and the Department of Defense to ensure safety in its businesses.

## **Maintenance**

The Issuer's Maintenance & Engineering Division is dedicated to the maintenance of civil aircraft and engines and performs line and heavy maintenance for all types of aircraft operated from its aircraft maintenance bases located at Gimpo Airport, Incheon International Airport and Gimhae Airport. Engine overhaul maintenance is performed for most engine types operated by the Issuer including the PW4056 (B747-400), PW4090 (B777-200/300), CFM56-7B (B737) and PW4168 (A330) models from its engine maintenance center in Bucheon city near the Gimpo Airport maintenance base. The Issuer is currently developing GE90 (B777-300ER & B777F) engine overhaul capability and provides GEnx (B747-8I/F) and GP7270 (A380) engine repair services through a subcontractor. The 2.5 bay hangars at the Gimpo Airport and Incheon International Airport maintenance bases are capable of conducting maintenance activities for aircraft types equivalent to two Boeing 747 and one Airbus A300 aircraft simultaneously, while the maintenance base at Gimhae Airport has specialized facilities for Boeing 747 aircraft maintenance. The Issuer has been recognized for its operational performance through awards from Airbus and Boeing, including the "Top Operational Excellence Award" from Airbus for A330 and A380 maintenance in 2012 and "Best in B747-8 Reliability" from Boeing in 2014.

## **Government Support**

The Korean civil aviation industry is subject to a high degree of regulation by the Ministry of Land, Infrastructure and Transport (the "MOLIT") and is governed by the Aviation Law of Korea. The aviation industry is also subject to the Convention on International Civil Aviation Organization. Regulations issued or implemented by the MOLIT encompass nearly all aspects of airline operations, including the approval of the establishment of airlines, domestic and international route allocations, licensing of pilots, operational safety standards, aircraft acquisitions, aircraft airworthiness certification, aircraft registration standards, aircraft maintenance, air traffic control and standards for airport operations.

The MOLIT strives to prepare a foundation for safe and convenient air travel while enhancing Korea's aviation industry. The MOLIT plans to conclude strategic air services liberalization agreements with major countries including China and Japan while continuing route expansion to support expansion of the national carriers including the Issuer. The MOLIT actively cooperates with International Civil Aviation Organization and related governmental organizations of other nations as shown through the recent "open skies" agreements with Panama, Paraguay and Hong Kong, among others.

## **Alliances**

### ***SkyTeam alliance***

In 2000, the Issuer founded the SkyTeam global alliance with Aeroméxico, Air France and Delta Airlines to enhance its competitiveness against other airlines amid global oversupply in the airline industry. Today, SkyTeam's 20 member airlines share a system for managing revenue and expenses, co-operate on frequent flyer schemes, share airport facilities and lounges, share resources and information technology and provide seamless services around the world.

As of June 30, 2015, SkyTeam is the world's second-largest airline alliance measured by number of passengers and number of member airlines, serving 1,057 destinations in 179 countries with approximately 16,270 daily flights. SkyTeam Cargo is also the world's largest global cargo alliance, providing more than 14,500 daily flights to over 175 countries. At present, SkyTeam is focusing on customer products such as mileage sharing and ticket redemption among members' frequent flyer programs and a global distribution system which prioritizes the display of alliance members' schedules on the systems of alliance members' agents.

The Issuer views the SkyTeam alliance as an important revenue source. The overall revenue benefit from SkyTeam is estimated by the Issuer to have been approximately U.S.\$205.7 million in 2014 from codeshare flights, lounge sharing, and mileage sharing. The overall cost-saving benefit from SkyTeam is estimated by the Issuer to have been approximately U.S.\$3.55 million in 2014 from areas such as joint cargo operations and joint purchase of spare parts.

### ***Codesharing and bilateral agreements***

The Issuer utilizes codesharing (operation under which an airline's flights are marketed by a non-operating airline, thereby allowing two or more carriers to sell seats on one aircraft) to offer its customers an expanded number of destinations. Most of the Issuer's codeshare agreements are free flow codeshare, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory but takes no inventory risk.

The Government has actively negotiated for increased bilateral agreements with governments of other countries, including China and Japan, in order to create the legal framework for the establishment of air links between Korea and other countries to enable Korea's airlines to diversify their markets. As of June 30, 2015, the Issuer had codeshare arrangements with 35 airlines on over 400 routes operated by the Issuer and other airlines.

### **Competition**

#### ***Passenger Services Business***

The Issuer competes in the airline passenger service market based on price, quality of service, brand recognition and loyalty, effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences. The Issuer believes its main competitors are Asiana Airlines in the domestic market and Singapore Airlines and Cathay Pacific Airlines in the international markets. Recently, low-cost carriers targeting price-sensitive customers such as AirAsia in the international market and Jeju Air in the domestic market have gained market share.

#### ***Cargo Services Business***

Between 2004 and 2009, the Issuer maintained the status of being the world's top cargo carrier by scheduled FTK. From 2010 to 2011, however, the Issuer was the second-largest cargo carrier after Cathay Pacific Airlines increased its supply in order to match increasing demand in the Chinese market and today the Issuer is a top-five cargo carrier. The Issuer believes its main competitors in the cargo services business are Emirates Airlines and Cathay Pacific Airlines.

### **Risk Management**

The Issuer has focused on risk management since the early 2000s and continues to actively minimize or eliminate risks associated with volatility of fuel prices, foreign exchange rates and interest rates. The Issuer's fuel hedging strategy utilizes a mixture of regular basic hedges of its fuel consumption regardless of market conditions and additional hedges of its fuel consumption when market conditions are favorable. The Issuer minimizes its currency risk through natural hedging of its balance sheet by increasing its Won, Chinese Renminbi and Yen denominated borrowings to match the currency of its cash balances. The Issuer hedges its interest rate risk by increasing fixed rate financing, keeping its fixed rate debt portion at approximately half of its total debt, with differing fixed/floating rate debt proportions depending on the currency.

### **Legal Proceedings**

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

## THE GUARANTOR

### Overview

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

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

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

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

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

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

- increase the Bank’s authorized capital from ₩8,000 billion to ₩15,000 billion;
- expand the Bank’s operation scope that enables it, among other things, to invest in (i) funds intended to support export and import transactions by small- and medium-sized enterprises and (ii) special purpose companies that carry out value added overseas development projects in a flexible way; and
- reduce restrictions on the Bank’s financing and investment activities by providing additional flexibility to the Bank to cope with changes in market conditions.

## Capitalization

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

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

### Notes:

- (1) Except as described in this Offering Circular, there has been no material adverse change in the Bank's capitalization since June 30, 2015.
- (2) The Bank translated borrowings in foreign currencies as of June 30, 2015 into Won at the rate of ₩1,124.1 to U.S.\$1.00, which was the market average exchange rate as announced by the Seoul Monetary Brokerage Services Ltd., on June 30, 2015.
- (3) As of June 30, 2015, the Bank had contingent liabilities totaling ₩65,194 billion, which consisted of ₩52,129 billion under confirmed guarantees and ₩13,065 billion under unconfirmed guarantees issued on behalf of its clients. For further information relating to the Bank's contingent liabilities under outstanding guarantees as of June 30, 2015, see Note 36 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.
- (4) As of June 30, 2015, the Bank had 260 interest rate related derivative contracts with a notional amount of ₩19,240 billion and 290 currency related derivative contracts with a notional amount of ₩20,900 billion in accordance with its policy to hedge interest rate and currency risks. See Note 20 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.
- (5) See "— Description of Assets and Liabilities — Sources of Funding" for an explanation of these sources of funds. All the Bank's borrowings, whether domestic or international, are unsecured and unguaranteed.
- (6) As of June 30, 2015, the Bank's authorized ordinary share capital is ₩15,000 billion and issued fully-paid ordinary share capital is ₩7,788 billion. In August and September 2015, the Government contributed ₩75 billion in cash and ₩15 billion in cash, respectively, to the Bank's capital. As of September 30, 2015, the Bank's paid-in capital was ₩7,878 billion compared to ₩7,788 billion as of June 30, 2015. See "— Business — Government Support and Supervision."
- (7) See "— Business — Government Support and Supervision" for a description of the manner in which annual net income is transferred to the legal reserve and may be transferred to the voluntary reserve.
- (8) If the Bank's provision for bad loans is deemed insufficient for regulatory purposes, the Bank compensates for the difference by recording a regulatory reserve for bad loans, which is shown as a separate item included in retained earnings.
- (9) See Note 22 of the notes to the Bank's separate financial statements as of and for the six months ended June 30, 2015 and 2014.

## **Business**

### ***Purpose and Authority***

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

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

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

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

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

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

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

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

### ***Government Support and Supervision***

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

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

As of December 31, 1996, the capital contribution from the Government was approximately ₩686 billion, all in cash. Since 1997, the Government has made capital contributions not only in cash but also in the form of shares

of common stock of Government-affiliated entities. In 1997, the Government contributed ₩185 billion in cash and in the form of shares of common stock of KT&G (formerly known as Korea Tobacco & Ginseng). In 1998, the Government contributed ₩805 billion in cash and in the form of shares of common stock of KT&G, Korea Electric Power Corporation and Korea Expressway Corporation (formerly known as Korea Highway Corporation). From 1999 to 2004, the Government contributed ₩1,100 billion in cash to the Bank's capital, directly and indirectly through The Bank of Korea and the Korea Development Bank.

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

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

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

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

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

- second, if the Minister of Strategy and Finance approves such distribution, the balance of any such net income, after such transfer to the legal reserve, is distributed to the institutions, other than the Government, that have contributed to the Bank's capital (up to a maximum 15% annual dividend rate); and
- third, the remaining balance of any such net income is distributed in whatever manner the Bank's Operations Committee determines and the Minister of Strategy and Finance approves, such as additions to the Bank's voluntary reserve.

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

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

- the President of the Republic appoints the Bank's President upon the recommendation of the Minister of Strategy and Finance;
- the Minister of Strategy and Finance appoints the Bank's Deputy President and Executive Directors upon the recommendation of the Bank's President;
- the Minister of Strategy and Finance appoints the Bank's Auditor;
- one month prior to the beginning of each fiscal year, the Bank must submit its proposed program of operations and budget for the fiscal year to the Minister of Strategy and Finance for his approval and immediately after the approval of the Minister of Strategy and Finance, it must report such program to the National Assembly;
- the Minister of Strategy and Finance must approve the Bank's operating manual, which sets out guidelines for all principal operating matters, including the range of permitted financings;
- the Board of Audit and Inspection, a Government department, examines the Bank's settlement of accounts annually;
- each of the Minister of Strategy and Finance and the Financial Services Commission has broad authority to require reports from the Bank on any matter and to examine its books, records and other documents. On the basis of the reports and examinations, the Minister of Strategy and Finance may issue any orders it deems necessary to enforce the KEXIM Act or delegate examinations to the Financial Services Commission;
- the Financial Services Commission may supervise the Bank's operations to ensure managerial soundness based upon the KEXIM Decree and the Supervisory Regulations of Banking Business legislated by the Financial Services Commission and may issue orders deemed necessary for such supervision;
- the Bank must submit its annual report to the Ministry of Strategy and Finance (formerly, the Ministry of Finance and Economy) within two months after the end of each fiscal year and to the National Assembly within nine months after the end of each fiscal year outlining its operations and analyzing its activities during the relevant fiscal year; and
- the Bank may amend its By-laws and operating manual only with the approval of the Minister of Strategy and Finance.

## Selected Financial Statement Data

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

## Recent Developments

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

	<b>Six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(billions of Won)</i> <i>(unaudited)</i>	
<b>Income Statement Data</b>		
Total Interest Income .....	₩888	₩822
Total Interest Expense .....	602	645
Net Interest Income .....	287	177
Operating Income .....	55	105
Income before Income Tax .....	60	108
Income Tax Expense .....	(24)	(31)
Net Income .....	36	77
	<b>As of</b>	<b>As of</b>
	<b>June 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<i>(billions of Won)</i>	
<b>Balance Sheet Data</b>		
Total Loan Credits <sup>(1)</sup> .....	₩66,650	₩63,287
Total Borrowings <sup>(2)</sup> .....	62,088	57,310
Total Assets .....	76,622	73,074
Total Liabilities .....	66,679	63,194
Total Shareholders’ Equity <sup>(3)</sup> .....	9,943	9,880

Notes:

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

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

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

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

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

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

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

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

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

### **Results of Operations**

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

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

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

Notes:

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

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

- a decrease in net loss on hedging derivatives to ₩623 billion in 2014 from ₩1,859 billion in 2013, primarily due to a decline in the U.S. dollar LIBOR in 2014; and
- an increase in net gain on foreign exchange transaction to ₩1,610 billion in 2014 from ₩1,189 billion in 2013, primarily due to the appreciation of the Won against foreign currencies in the first half of 2014.

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

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

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

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

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

## Operations

### *Loan Operations*

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

Before approving a credit, the Bank considers:

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

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

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

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

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

Notes:

(1) Includes steel and nonferrous metal products, general machinery, service sector, etc.

(2) Includes loans for debt-equity swap, advances for customers, etc.

Source: Internal accounting records

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

#### New Loan Credit Commitments by Type of Credit

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

Note:

(1) Includes steel and nonferrous metal products, general machinery, service sector, etc.

Source: Internal accounting records

### *Export Credits*

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

Export Credits to domestic suppliers include:

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

Export credits to foreign buyers include:

- direct loans to foreign buyers that purchase Korean goods and services;
- project finance to foreign companies that intend to import industrial plants, facilities and technical services from Korea for large-scale projects, of which the cash flows from such projects are the main source for repayment;
- structured finance to foreign shipping companies that purchase ships from Korean shipyards, of which the repayment usually depends on the cash flows generated by the operation of ships; and
- interbank export loans to creditworthy banks in foreign countries to help foreign buyers obtain credit for the purchase of goods and services of Korean origin.

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

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

The Bank offers export credits to Korean manufacturers and exporters in order to provide them with the funds required for the construction and export of Korean capital goods and technical services designated in the Bank's

operating manual. Capital goods eligible for export credit financings currently include ships, industrial plants, industrial machinery and overseas construction projects. With respect to eligible items supported by the Bank's export credits, ships have traditionally had the largest share of the Bank's export credit operations. In September 1998, the Government amended the KEXIM Act to expand the types of goods eligible for the Bank's export credits to include non-capital goods.

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

#### *Overseas Investment Credits*

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

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

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

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

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

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

### *Import Credits*

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

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

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

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

### *Guarantee Operations*

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

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

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

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

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

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

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

### ***Government Account Operations***

#### *Economic Development Cooperation Fund*

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

#### *Inter-Korea Cooperation Fund*

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

### ***Other Operations***

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

Activities in which the Bank currently engages include:

- country information services performed by the Overseas Economic Research Institute, which conducts country studies and country risk evaluation to assist in the efficient utilization of the Bank's financial resources;
- export credit advisory services, which are aimed at bringing about a larger share of overseas bidding by giving Korean exporters a wide range of knowledge on the country, industry, market and financial situation of the importing country in the early stage of the tendering process or contract negotiations;

- consulting services by in-house professionals including lawyers, accountants and regional experts who consult on international transactions; and
- management of Korea's foreign direct investment database.

## Description of Assets and Liabilities

### Total Credit Exposure

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

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

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

### Loan Credits by Geographic Area

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

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

Note:

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

Source: Internal accounting records

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

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

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

### ***Individual Exposure***

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

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

The following table sets out the Bank’s five largest Credit Exposures as of June 30, 2015<sup>(1)</sup>:

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

Note:

(1) Includes loans and guarantees extended to affiliates.

Source: Internal accounting records

### *Asset Quality*

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

- Normal** . . . . . Credits extended to customers which, in consideration of their business and operations, financial conditions and future cash flows, do not raise concerns regarding their ability to repay the credits.
- Precautionary** . . . . . Credits extended to customers (1) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have potential risks with respect to their ability to repay the credits in the future, although there have not occurred any immediate risks of default in repayment; or (2) which are in arrears for one month or more but less than three months.
- Substandard** . . . . . (1) Credits extended to customers, which in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred considerable risks for default in repayment as the customers’ ability to repay has deteriorated; or (2) that portion which is expected to be collected of total credits (a) extended to customers which have been in arrears for three months or more, (b) extended to customers which are judged to have incurred serious risks due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses or (c) of “Doubtful Customers” or “Estimated-loss Customers” (each as defined below).
- Doubtful** . . . . . That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers (“Doubtful Customers”) which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have incurred serious risks of default in repayment due to noticeable deterioration in their ability to repay; or (2) customers which have been in arrears for three months or more but less than twelve months.
- Estimated Loss** . . . . . That portion of credits in excess of the amount expected to be collected of total credits extended to (1) customers (“Estimated-loss Customers”), which, in consideration of their business and operations, financial conditions and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; (2) customers which have been in arrears for twelve months or more; or (3) customers which are judged to have incurred serious risks of default in repayment due to the occurrence of final refusal to pay their promissory notes, liquidation or bankruptcy proceedings, or closure of their businesses.

Under K-IFRS, the Bank establishes provisions for credit losses with respect to loans using either a case-by-case or collective approach. The Bank assesses individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if the Bank determines that no objective evidence of impairment exists for a loan, it includes such loan in a group of loans with similar credit risk characteristics and assesses them collectively for impairment regardless of whether such loan is significant. If there is objective evidence that an impairment loss has been incurred for individually significant loans, the amount of the loss is measured as the difference between the financial asset’s carrying amount and the present value of the estimated future cash flows discounted at such asset’s original effective interest rate. Future cash flows are estimated through a case-by-case

analysis of individually assessed assets, which takes into account the benefit of any guarantee or other collateral held. The value and timing of future cash flow receipts are based on available estimates in conjunction with facts available at the time of review and reassessed on a periodic basis as new information becomes available. For collectively assessed loans, the Bank bases the level of provisions for credit losses on a portfolio basis in light of the homogenous nature of the assets included in each portfolio. The provisions are determined based on a quantitative review of the relevant portfolio, taking into account such factors as the level of arrears, the value of any security, and historical and projected cash recovery trends over the recovery period. For more detailed information regarding the Bank's loan loss provisioning policy, see Note 3(8) of the notes to the Bank's separate financial statements as of and for the years ended December 31, 2014 and 2013.

#### Asset Classifications

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

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

Notes:

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

#### Reserves for Credit Losses

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

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

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

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

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

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

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

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

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

Note:

(1) Non-performing assets.

Source: Internal accounting records

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

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

### **Investments**

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

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

As of June 30, 2015, the Bank's total investment in securities amounted to ₩5,604 billion, representing 7% of the Bank's total assets. The Bank's securities portfolio consists primarily of available-for-sale securities.

Available-for-sale securities mainly comprises marketable securities (including equity securities in Industrial Bank of Korea which was recapitalized by the Government through the Bank) and non-marketable securities (including equity securities in Korea Expressway Corporation which were in-kind contributions made by the Government to the Bank). In 2012, the Bank sold 40,314,387 shares of common stock, which represented all of its holding of common stock in Korea Exchange Bank, for ₩479 billion. In 2013, the Bank sold 9,886,160 shares of common stock, which represented all of its holding of common stock in SK Networks, for ₩63 billion. In 2014, the Bank sold 976,625 shares of common stock, which represented all of its holding of common stock in Kumho Tire, for ₩11 billion.

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

<u>Type of Investment Securities</u>	<u>As of June 30,</u> <u>2015</u>		<u>As of</u> <u>December 31,</u> <u>2014</u>		<u>As of</u> <u>December 31,</u> <u>2013</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<i>(billions of Won, except for percentages)</i>						
Available-for-sale Securities .....	₩4,834	86%	₩4,753	87%	₩4,030	86%
Held-to-maturity Securities .....	111	2	39	1	44	1
Investments in Associates and Subsidiaries .....	659	12	659	12	629	13
<b>Total</b> .....	<u>₩5,604</u>	<u>100%</u>	<u>₩5,451</u>	<u>100%</u>	<u>₩4,703</u>	<u>100%</u>

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

### ***Guarantees and Acceptances and Contingent Liabilities***

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

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

### ***Derivatives***

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

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

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

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

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

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

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

### Sources of Funding

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

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

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

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

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

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

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

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

The KEXIM Act provides that the aggregate outstanding principal amount of all of the Bank's borrowings, including the total outstanding export-import financing debentures the Bank issued in accordance with the KEXIM Decree, may not exceed an amount equal to thirty times the sum of the Bank's paid-in capital plus the Bank's reserves. As of June 30, 2015, the aggregate outstanding principal amount of the Bank's borrowings (including export-import financing debentures), which was ₩62,088 billion, was equal to 21% of the authorized amount of ₩293,819 billion.

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

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

<u>Sources of Fund</u>	<i>(billions of Won)</i>
Capital Contribution .....	40
Borrowings .....	22,890
Net Collection of Loans .....	30,719
Collection of Loans .....	47,807
Repayment of Debts .....	(17,088)
Others .....	2,351
<b>Total</b> .....	<u>56,000</u>

## Debt

### *Debt Repayment Schedule*

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

#### Debt Principal Repayment Schedule

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

Notes:

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

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

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

### **Internal and External Debt of the Bank**

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

#### **Internal Debt of the Bank**

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

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

#### **External Debt of the Bank**

	<b>Amount in original Currency</b>	<b>Equivalent Amount in U.S. Dollars<sup>(1)</sup></b>
	<i>(in billions)</i>	
U.S.\$ .....	U.S.\$ 27.7	U.S.\$27.7
Euro (EUR) .....	EUR 2.7	3.3
Japanese Yen (¥) .....	JPY 252.5	2.1
Brazilian Real (BRL) .....	BRL 3.5	1.3
Australian Dollars (AUD) .....	AUD 3.	2.5
British Pound(GBP) .....	GBP 0.8	1.3
Thai Baht (THB) .....	THB 19.0	0.6
Hong Kong dollar (HKD) .....	HKD 4.2	0.5
Swiss Franc (CHF) .....	CHF 0.7	0.7
Malaysian Ringgit (MYR) .....	MYR 1.6	0.5
Indonesian Rupiah (IDR) .....	IDR 4,410.1	0.4
Chinese Yuan (CNY) .....	CNY 4.8	0.8
Norwegian Krone (NOK) .....	NOK 2.8	0.4
Turkish Lira (TRY) .....	TRY 0.6	0.3
Philippine Peso (PHP) .....	PHP 11.4	0.3
Mexican Peso (MXN) .....	MXN 3.0	0.2
New Zealand Dollar (NZD) .....	NZD 0.6	0.4
Saudi Riyal (SAR) .....	SAR 0.8	0.2
Indian Rupee (INR) .....	INR 6.0	0.1
South African Rand (ZAR) .....	ZAR 1.4	0.1
Peru Nuevo Sol (PEN) .....	PEN 0.3	0.1
Russian Ruble (RUB) .....	RUB 1.3	0.02
Czech Koruna (CZK) .....	CZK 0.7	0.03
Taiwan Dollar (TWD) .....	TWD 0.6	0.02
Canadian Dollar (CAD) .....	CAD 0.3	0.3
		<u>U.S.\$44.2</u>

Note:

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

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

### External Debt of the Bank

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

#### ***Debt Record***

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

### **Credit Policies, Credit Approval and Risk Management**

#### ***Credit Policies***

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

#### ***Credit Approval***

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

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

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

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

### ***Risk Management***

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

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

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

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

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

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

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

### **Capital Adequacy**

Under the Financial Supervisory Service's guidelines on risk-adjusted capital which were introduced in consideration of the standards set by the Bank for International Settlements, all banks in Korea, including the Bank, are required to maintain a capital adequacy ratio (Tier I and Tier II) of at least 8% on a consolidated basis. To the extent that the Bank fails to maintain this ratio, the Korean regulatory authorities may require corrective measures ranging from management improvement recommendations to emergency measures such as disposal of assets. Beginning on January 1, 2008, the Financial Services Commission implemented the new Basel Capital Accord, referred to as Basel II, in Korea, substantially affecting the way risk is measured among Korean financial institutions, including the Bank. Building upon the initial Basel Capital Accord of 1988, which focused primarily on credit risk, market risk, capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operations risk. Basel II also institutes new measures that require the Bank to take into account individual borrower credit risk and operations risk when calculating risk-weighted assets. In July 2013, the Financial Services Commission implemented the Third Basel Capital

Accord, referred to as Basel III, in Korea and promulgated amended regulations, which went into effect from December 1, 2013, pursuant to which Korean banks (including the Bank) are required to maintain a minimum ratio of Tier I common equity capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios are to increase to 4.0% and 5.5%, respectively, from December 1, 2014 and 4.5% and 6.0%, respectively, from December 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. As of June 30, 2015, the Bank's capital adequacy ratio was 10.1%, a decrease from 10.5% as of December 31, 2014, which was primarily due to an increase in total capital which more than offset an increase in risk adjusted assets.

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

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

Source: Internal accounting records

### Overseas Operations

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

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

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

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

## Property

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

## Management and Employees

### Management

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

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

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

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

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

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

The members of the Operations Committee are currently as follows:

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

### ***Employees***

As of December 31, 2014, the Bank had 1,023 employees, among which 662 employees were members of its labor union. The Bank has never experienced a work stoppage of a serious nature. Every year during the fourth

quarter, the management and union negotiate and enter into a collective bargaining agreement that has a one-year duration. The most recent collective bargaining agreement was entered into in December 2014.

### **Financial Statements and the Auditors**

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

The Bank prepares its financial statements annually for submission to the Minister of Strategy and Finance, accompanied by an opinion of the Auditor. Although the Bank is not legally required to have financial statements audited by external auditors, an independent public accounting firm has audited the Bank's separate financial statements since 1983 and consolidated financial statements since 1998. As of the date of this Offering Circular, the Bank's independent auditor is Deloitte Anjin LLC, located at 9th Floor, One IFC Bldg., 23 Youido-dong, Youngdeungpo-gu, Seoul, Korea which has audited the Bank's separate financial statements as of and for the years ended December 31, 2013 and 2014 included in this Offering Circular.

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

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

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

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

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

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

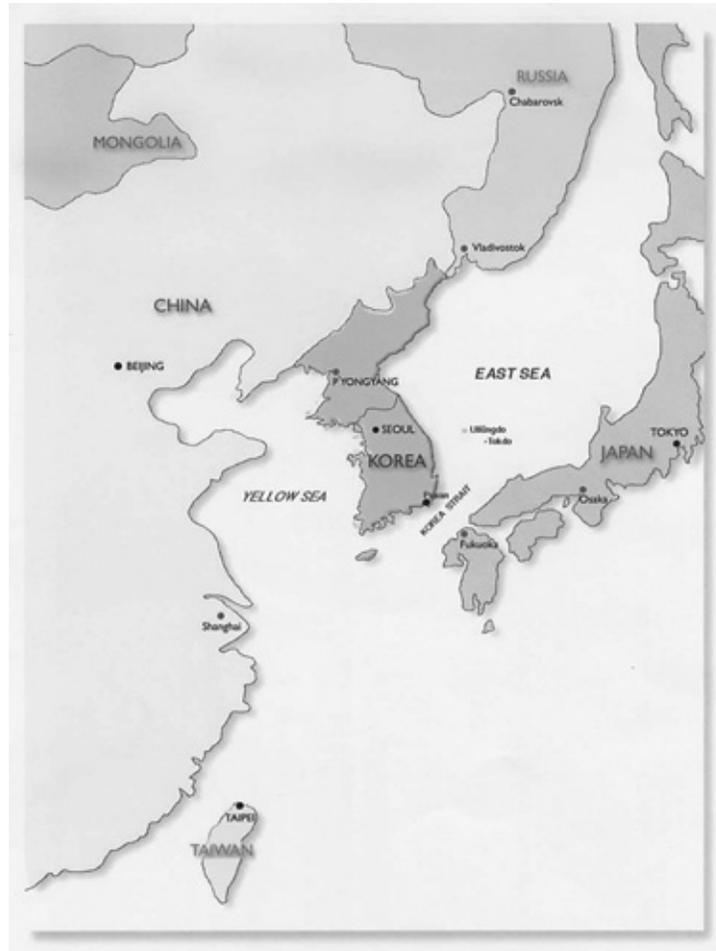
## THE REPUBLIC OF KOREA

### Land and History

#### *Territory and Population*

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

#### *Map of the Republic of Korea*



#### *Political History*

Dr. Rhee Syngman, who was elected President in each of 1948, 1952, 1956 and 1960, dominated the years after the Republic's founding in 1948. Shortly after President Rhee's resignation in 1960 in response to student-led demonstrations, a group of military leaders headed by Park Chung Hee assumed power by coup. The military leaders established a civilian government, and the country elected Mr. Park as President in October 1963.

President Park served as President until his assassination in 1979 following a period of increasing strife between the Government and its critics. The Government declared martial law and formed an interim government under Prime Minister Choi Kyu Hah, who became the next President. After clashes between the Government and its critics, President Choi resigned, and General Chun Doo Hwan, who took control of the Korean army, became President in 1980.

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

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

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

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

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

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

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

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

## **Government and Politics**

### ***Government and Administrative Structure***

Governmental authority in the Republic is centralized and concentrated in a strong Presidency. The President is elected by popular vote and can only serve one term of five years. The President chairs the State Council, which

consists of the prime minister, the deputy prime ministers, the respective heads of Government ministries and the ministers of state. The President can select the members of the State Council and appoint or remove all other Government officials, except for elected local officials.

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

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

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

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

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

### ***Political Organizations***

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

As of November 11, 2015, the parties controlled the following number of seats in the National Assembly:

	<u>SP</u>	<u>NPAD</u>	<u>Others</u>	<u>Total</u>
Number of Seats .....	159	128	10	297

### ***Relations with North Korea***

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

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

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

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

In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. The Republic, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea, and the United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. Subsequently, North Korea announced that it would permanently pull out of the six-party talks and restart its nuclear program, and the International Atomic Energy Agency reported that its inspectors had been ordered to remove surveillance devices and other equipment at the Yongbyon nuclear power plant and to leave North Korea. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range, surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking in May 2010. North Korea denied responsibility for the sinking and threatened retaliation for any attempt to punish it for the act. In November 2010, North Korean forces fired more

than one hundred artillery shells targeting Yeonpyeong Island located near the maritime border between the Republic and North Korea on the west coast of the Korean peninsula, killing two Korean soldiers and two civilians as well as causing substantial property damage. The Republic responded by firing approximately 80 artillery shells and putting the military on its highest alert level. The Government condemned North Korea for the act and vowed stern retaliation should there be further provocation. In April 2012, North Korea launched a long-range rocket over the Yellow Sea. The Republic, Japan and the United States condemned the launch and the United Nations Security Council adopted a chairman's statement condemning North Korea for the launch. In December 2012, North Korea successfully launched a satellite into orbit using a long-range rocket after an unsuccessful attempt in April 2012, despite concerns in the international community that such a launch would be in violation of the United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology. In February 2013, North Korea announced that it had successfully conducted a third nuclear test, which increased tensions in the region. In response, the United Nations Security Council strongly condemned North Korea for the nuclear test. In March 2013, North Korea stated that it had entered "a state of war" with the Republic, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Republic-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests. In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space. From time to time, North Korea has also fired short to medium range missiles from the coast of the Korean peninsula into the sea, most recently in March 2015, in apparent protest of annual joint military exercises being held by the Republic and the United States. In August 2015, two Korean soldiers were seriously wounded in mine explosions while on routine patrol of the southern side of the demilitarized zone. The Republic and the United Nations Command announced that the mines were recently emplaced by North Korea. After high-level talks between the Republic and North Korea, a joint statement was released whereby North Korea expressed regret over the mine explosions that wounded the Korean soldiers.

In addition, North Korea's economy faces severe challenges including chronic food shortages. In November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

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

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

Over the longer term, reunification of the two Koreas could occur. Reunification may entail a significant economic commitment by the Republic. In former President Lee's national address in August 2010, he suggested the possible adoption of a reunification tax as a potential means of alleviating the potential long-term economic burden associated with reunification. Such discussions on reunification are very preliminary, and it has not been

decided whether or when such a reunification tax would be implemented. If a reunification tax is implemented, depending on how it is structured, it may lead to a decrease in domestic consumption, which in turn may have a material adverse effect on the Republic's economy.

### ***Foreign Relations and International Organizations***

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

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

- United Nations;
- the International Monetary Fund, or the IMF;
- the World Bank;
- the Asian Development Bank, or ADB;
- the Multilateral Investment Guarantee Agency;
- the International Finance Corporation;
- the International Development Association;
- the African Development Bank;
- the European Bank for Reconstruction and Development;
- the Bank for International Settlements;
- the World Trade Organization, or WTO;
- the Inter-American Development Bank, or IDB; and
- the Organization for Economic Cooperation and Development, or OECD.

### **The Economy**

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

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

Notes:

(1) Average for year.

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

*Source: The Bank of Korea*

### ***Current Worldwide Economic and Financial Difficulties***

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy.

As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, the value of the Won relative to the U.S. dollar depreciated at an accelerated rate during the fourth quarter of 2008 and first half of 2009. See “— Monetary Policy — Foreign Exchange.” Such depreciation of the Won increased the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. Furthermore, as a result of adverse global and Korean economic conditions, there was a significant overall decline and continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index declined by 27.8% from 1,852.0 on May 30, 2008 to 1,336.7 on April 16, 2009. See “— The Financial System — Securities Markets”. Moreover, gross domestic product, or GDP, in the first quarter of 2009 contracted by 4.3% at chained 2005 year prices compared with the same period in 2008, and exports in the first quarter of 2009 decreased by 24.8% to U.S.\$74.7 billion from U.S.\$99.4 billion in the same period in 2008. In addition, increases in credit spreads, as well as limitations on the availability of credit resulting from heightened concerns about the stability of the markets generally and the strength of counterparties specifically that led many lenders and institutional investors to reduce or cease funding to borrowers, adversely affected Korean banks’ ability to borrow, particularly with respect to foreign currency funding, in the fourth quarter of 2008 and first half of 2009.

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

- in October 2008, the Government implemented a guarantee program to guarantee foreign currency-denominated debt incurred by Korean banks and their overseas branches between October 20, 2008 and June 30, 2009 (subsequently extended to December 31, 2009), up to an aggregate amount of U.S.\$100 billion, for a period of three years (subsequently extended to five years) from the date such debt was incurred;
- in October 2008, The Bank of Korea established a temporary reciprocal currency swap arrangement with the Federal Reserve Board of the United States for up to U.S.\$30 billion, effective until April 30, 2009 (subsequently extended to October 30, 2009). The Bank of Korea provided U.S. dollar liquidity, through competitive auction facilities, to financial institutions established in Korea, using funds from the swap line;
- in December 2008, a ₩10 trillion bond market stabilization fund was established to purchase financial and corporate bonds and debentures in order to provide liquidity to companies and financial institutions;

- in December 2008, The Bank of Korea agreed with the People’s Bank of China to establish a bilateral currency swap arrangement for up to ₩38 trillion, effective for three years, and agreed with the Bank of Japan to increase the maximum amount of their bilateral swap arrangement from U.S.\$3 billion to U.S.\$20 billion, effective until April 30, 2009;
- in December 2008 and March 2009, the Government, through Korea Asset Management Corporation, purchased approximately ₩1.7 trillion of non-performing loans held by savings banks;
- during the first quarter of 2009, the Government, through the Bank of Korea and the Korea Development Bank, purchased from Korean banks approximately ₩4 trillion of hybrid securities and subordinated bonds;
- during the fourth quarter of 2008 and the first quarter of 2009, The Bank of Korea decreased the policy rate by a total of 3.25% points to 2.00% in order to address financial market instability and to help combat the slowdown of the domestic economy;
- in April 2009, the National Assembly authorized the expansion of the 2009 national budget by ₩28.4 trillion to provide stimulus for the Korean economy; and
- in December 2009, the Government, together with the member countries of the Association of Southeast Asian Nations, China and Japan, signed the Chiang Mai Initiative Multilateralization Agreement to address balance-of-payments and short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.

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

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

Furthermore, while many governments worldwide are considering or are in the process of implementing “exit strategies”, in the form of reduced government spending, higher interest rates or otherwise, with respect to the

economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties.

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

- steadily rising household debt consisting of housing loans and merchandise credit, which increased to ₩1,089.0 trillion as of December 31, 2014 from ₩843.2 trillion as of December 31, 2010, primarily due to increases in mortgage loans and purchases with credit cards;
- a slowdown in consumer spending and depressed consumer sentiment, due in part to a decrease in consumer spending following the sinking of the Sewol passenger ferry in April 2014, which led to the death of hundreds of passengers, and the outbreak of Middle East Respiratory Syndrome (“MERS”) in May 2015, which resulted in the death of over 30 people and the quarantine of thousands;
- a decrease in tax revenue and a substantial increase in the Korean government’s expenditures for pension and social welfare programs, due in part to an aging population (defined as the population of people aged 65 years or older) that accounted for 12.7% of the Republic’s total population as of December 31, 2014, an increase from 7.2% as of December 31, 2000, and is expected to surpass 15% in 2020 and 20% in 2026, which could lead to the Korean government’s budget deficit;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- decreases in the market prices of Korean real estate; and
- the occurrence of severe health epidemics, including epidemics that affect the livestock industry.

### ***Gross Domestic Product***

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

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

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

Notes:

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

Source: The Bank of Korea.

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

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

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

Note:

(1) Preliminary.

Source: The Bank of Korea.

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

**Gross Domestic Product per capita  
(at current market prices)**

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

Note:

(1) Preliminary.

Source: The Bank of Korea.

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

**Gross National Income per capita  
(at current market prices)**

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

Note:

(1) Preliminary.

Source: The Bank of Korea.

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

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

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

Notes:

(1) Preliminary.

(2) Under the "chain-linked" measure of GDP, the components of GDP will not necessarily add to the total GDP.

Source: The Bank of Korea.

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

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

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

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

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

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

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

## Principal Sectors of the Economy

### Industrial Sectors

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

#### Industrial Production (2010 = 100)

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

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Notes:

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

Source: *The Bank of Korea; Korea National Statistical Office.*

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

### ***Manufacturing***

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

### ***Automobiles***

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

### ***Electronics***

In 2010, electronics production amounted to ₩309,777 billion, an increase of 22.9% from the previous year, and exports amounted to U.S.\$153.9 billion, an increase of 27.3% from the previous year, primarily due to the recovery of global demand for consumer electronics products. In 2010, export sales of semiconductor memory chips constituted approximately 10.9% of the Republic's total exports. In 2011, electronics production amounted to ₩314,314 billion, an increase of 1.5% from the previous year, and exports amounted to U.S.\$156.6 billion, an increase of 1.8% from the previous year, primarily due to continued increase in global demand for mobile phones

and tablet computers. In 2011, export sales of semiconductor memory chips constituted approximately 9.0% of the Republic's total exports. In 2012, electronics production amounted to ₩314,558 billion, an increase of 0.1% from the previous year, primarily due to increased domestic demand for mobile phones and non-memory semiconductors, and exports amounted to U.S.\$155.2 billion, a decrease of 0.9% from the previous year, primarily due to adverse economic conditions in European countries. In 2012, export sales of semiconductor memory chips constituted approximately 9.2% of the Republic's total exports. In 2013, electronics production amounted to ₩334,402 billion, an increase of 6.3% from the previous year, and exports amounted to U.S.\$169.4 billion, an increase of 9.1% from the previous year, primarily due to increases in demand for mobile phones in emerging markets and global demand for non-memory semiconductors. In 2013, export sales of semiconductor memory chips constituted approximately 10.2% of the Republic's total exports. Based on preliminary data, in 2014, electronics production amounted to ₩339,805 billion, an increase of 1.6% from the previous year, and exports amounted to U.S.\$173.9 billion, an increase of 2.7% from the previous year, primarily due to increases in demand for mobile phones and semiconductors. In 2014, export sales of semiconductor memory chips constituted approximately 10.9% of the Republic's total exports.

### *Iron and Steel*

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

### *Shipbuilding*

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

### ***Agriculture, Forestry and Fisheries***

The Government's agricultural policy has traditionally focused on:

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

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

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

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

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

### ***Construction***

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

## Electricity and Gas

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

### Dependence on Imports for Energy Consumption

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

Note:

(1) Preliminary.

Source: Korea Energy Economics Institute; Korea National Statistical Office.

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

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

### Consumption of Energy by Source

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

Note:

(1) Includes natural gas, hydroelectric power and renewable energy.

Source: Korea Energy Economics Institute; The Bank of Korea.

The Republic's first nuclear power plant went into full operation in 1978 with a rated generating capacity of 587 megawatts. As of December 31, 2014, the Republic has 23 nuclear plants with a total estimated nuclear power generating capacity of 20,716 megawatts and six nuclear plants under construction. In January 2014, the Ministry of Trade, Industry and Energy revised the target proportion of nuclear supply in the Korea's energy supply mix from 41% by 2030 to 29% by 2035 while also approving the construction of two additional plants in line with previously announced plans to build 10 new nuclear plants by 2030 to replace aging nuclear power plants. The

Government plans to expand infrastructure to supply natural gas to households, pursue a long-term strategy of overseas energy development projects to ensure supply stability, increase clean and renewable energy and provide support for research and development pertaining to green technologies.

### **Services Sector**

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

### **Prices, Wages and Employment**

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

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

Notes:

- (1) Average for year.
- (2) Nominal wage index of average earnings in manufacturing industry.
- (3) Expressed as a percentage of the economically active population.

Source: *The Bank of Korea; Korea National Statistical Office.*

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

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

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

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

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

Source: *The Bank of Korea*

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

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

- In December 2010, unionized workers at Hanjin Heavy Industries went on strike when the company laid-off workers. While the company reached an agreement with the majority of workers in June 2011, one worker continued her protest by occupying a shipyard crane until November 2011.

- In July 2011, unionized employees at Standard Chartered Korea (formerly, SC First Bank) engaged in a two-month strike, the longest in the Republic’s banking sector, demanding that the bank scrap performance-related pay reforms.
- In June 2012, unionized taxi drivers went on their first nationwide strike demanding fare increases and protesting against increased fuel costs.
- In August 2012, unionized workers of Hyundai Motor Company went on a series of partial strikes demanding a higher bonus increase and the end of overnight shifts.
- In August 2013, unionized workers at Hyundai Motor Company and Kia Motors Corporation went on partial strikes demanding higher wages.
- In December 2013, unionized workers at the state owned Korea Railroad Corporation (“Korail”) went on strike against Korail’s plan to establish a separate company to operate a new bullet train line fearing that such plan would eventually lead to privatization of Korail and layoffs of existing workers.
- In November 2014, unionized workers at Hyundai Heavy Industries went on a series of partial strikes demanding higher wages.

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

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

## **The Financial System**

### ***Structure of the Financial Sector***

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

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

To increase transparency in financial transactions and enhance the integrity and efficiency of the financial markets, Korean law requires that financial institutions confirm that their clients use their real names when transacting business. To ease the liquidity crisis, the Government altered the real-name financial transactions

system during 1998, to allow the sale or deposit of foreign currencies through domestic financial institutions and the purchase of certain bonds, including Government bonds, without identification. The Government also strengthened confidentiality protection for private financial transactions.

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

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

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

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

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

### ***Banking Industry***

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

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

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

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

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

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

*Source: Financial Supervisory Service.*

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

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

### ***Non-Bank Financial Institutions***

Non-bank financial institutions include:

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

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

As of December 31, 2014, 14 domestic life insurance institutions, two joint venture life insurance institutions and nine wholly-owned subsidiaries of foreign life insurance companies, with assets totaling approximately ₩662.1 trillion as of December 31, 2013, were operating in the Republic.

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

### ***Money Markets***

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

### ***Securities Markets***

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

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

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

December 31, 2009	1,682.8
January 29, 2010	1,602.4
February 26, 2010	1,594.6
March 31, 2010	1,692.9
April 30, 2010	1,741.6
May 31, 2010	1,641.3
June 30, 2010	1,698.3
July 30, 2010	1,759.3
August 31, 2010	1,742.8
September 30, 2010	1,872.8
October 29, 2010	1,883.0
November 30, 2010	1,904.6
December 31, 2010	2,051.0
January 31, 2011	2,069.7
February 28, 2011	1,939.3
March 31, 2011	2,106.7
April 30, 2011	2,192.4
May 29, 2011	2,142.5
June 30, 2011	2,100.7
July 31, 2011	2,133.2
August 31, 2011	1,880.1
September 30, 2011	1,769.7
October 31, 2011	1,909.0
November 30, 2011	1,847.5
December 31, 2011	1,825.7
January 31, 2012	1,955.8
February 29, 2012	2,030.3
March 31, 2012	2,014.0
April 30, 2012	1,982.0
May 31, 2012	1,843.5
June 29, 2012	1,854.0
July 31, 2012	1,882.0
August 31, 2012	1,905.1
September 28, 2012	1,996.2
October 31, 2012	1,912.1
November 30, 2012	1,932.9
December 31, 2012	1,997.1
January 31, 2013	1,961.9
February 28, 2013	2,026.5
March 29, 2013	2,004.9
April 30, 2013	1,964.0
May 30, 2013	2,001.1
June 28, 2013	1,863.3
July 31, 2013	1,914.0
August 30, 2013	1,926.4
September 30, 2013	1,997.0
October 31, 2013	2,030.1
November 29, 2013	2,044.9

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

On December 27, 1997, the last day of trading in 1997, the index stood at 376.3, a sharp decline from 647.1 on September 30, 1997. The fall resulted from growing concerns about the Republic's weakening financial and corporate sectors, the Republic's falling foreign currency reserves, the sharp depreciation of the Won against the U.S. Dollar and other external factors, such as a sharp decline in stock prices in Hong Kong on October 24, 1997 and financial turmoil in Southeast Asian countries. The Korea Composite Stock Price Index recovered to reach 2,064.9 in late 2007 but since then the index declined. As liquidity and credit concerns and volatility in the global financial markets increased significantly since September 2008, there was a significant overall decline in the stock prices of Korean companies during the fourth quarter of 2008 and first half of 2009 and continuing volatility since then. The index was 1,988.9 on November 19, 2015.

### ***Supervision System***

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

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

### ***Deposit Insurance System***

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

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

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

## **Monetary Policy**

### ***The Bank of Korea***

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

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

### ***Interest Rates***

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

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

## Money Supply

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

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

Notes:

- (1) Consists of currency in circulation and demand and instant access savings deposits at financial institutions.
- (2) Includes time and installment savings deposits, marketable instruments, yield-based dividend instruments and financial debentures, excluding financial instruments with a maturity of more than two years.
- (3) Money Supply (M2) is the sum of Money Supply (M1) and quasi-money.

Source: *The Bank of Korea.*

## Exchange Controls

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

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

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

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

- the investment in real property located overseas by Korean companies and financial institutions;
- the establishment of overseas branches and subsidiaries by Korean companies and financial institutions;
- the investment by non-residents in deposits and trust products having more than one year maturities; and
- the issuance of debentures by non-residents in the Korean market.

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

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

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

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

### ***Foreign Exchange***

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

	<b>Won/U.S. Dollar Exchange Rate</b>
December 31, 2009 . . . . .	1,167.6
January 29, 2010 . . . . .	1,156.5
February 26, 2010 . . . . .	1,158.4
March 31, 2010 . . . . .	1,130.8
April 30, 2010 . . . . .	1,115.5
May 31, 2010 . . . . .	1,200.2
June 30, 2010 . . . . .	1,210.3
July 30, 2010 . . . . .	1,187.2
August 31, 2010 . . . . .	1,189.1
September 30, 2010 . . . . .	1,142.0
October 29, 2010 . . . . .	1,126.6
November 30, 2010 . . . . .	1,157.3
December 31, 2010 . . . . .	1,138.9
January 31, 2011 . . . . .	1,114.3
February 28, 2011 . . . . .	1,127.9
March 31, 2011 . . . . .	1,107.2
April 30, 2011 . . . . .	1,072.3
May 31, 2011 . . . . .	1,080.6
June 30, 2011 . . . . .	1,078.1
July 30, 2011 . . . . .	1,052.6
August 31, 2011 . . . . .	1,071.7
September 30, 2011 . . . . .	1,179.5
October 31, 2011 . . . . .	1,104.9
November 30, 2011 . . . . .	1,150.3

	<u>Won/U.S. Dollar Exchange Rate</u>
December 31, 2011 . . . . .	1,153.3
January 31, 2012 . . . . .	1,125.0
February 29, 2012 . . . . .	1,126.5
March 31, 2012 . . . . .	1,137.8
April 30, 2012 . . . . .	1,134.2
May 31, 2012 . . . . .	1,177.8
June 29, 2012 . . . . .	1,153.8
July 31, 2012 . . . . .	1,136.2
August 31, 2012 . . . . .	1,134.6
September 28, 2012 . . . . .	1,118.6
October 31, 2012 . . . . .	1,094.1
November 30, 2012 . . . . .	1,084.7
December 31, 2012 . . . . .	1,071.1
January 31, 2013 . . . . .	1,082.7
February 28, 2013 . . . . .	1,085.4
March 29, 2013 . . . . .	1,112.1
April 30, 2013 . . . . .	1,108.1
May 30, 2013 . . . . .	1,128.3
June 28, 2013 . . . . .	1,149.7
July 31, 2013 . . . . .	1,113.6
August 31, 2013 . . . . .	1,110.9
September 30, 2013 . . . . .	1,075.6
October 31, 2013 . . . . .	1,061.4
November 29, 2013 . . . . .	1,062.1
December 31, 2013 . . . . .	1,055.3
January 29, 2014 . . . . .	1,079.2
February 28, 2014 . . . . .	1,067.7
March 31, 2014 . . . . .	1,068.8
April 30, 2014 . . . . .	1,031.7
May 30, 2014 . . . . .	1,021.6
June 30, 2014 . . . . .	1,014.4
July 31, 2014 . . . . .	1,024.3
August 29, 2014 . . . . .	1,013.6
September 30, 2014 . . . . .	1,059.6
October 31, 2014 . . . . .	1,054.0
November 28, 2014 . . . . .	1,101.1
December 31, 2014 . . . . .	1,099.2
January 30, 2015 . . . . .	1,090.8
February 27, 2015 . . . . .	1,099.2
March 31, 2015 . . . . .	1,105.0
April 30, 2015 . . . . .	1,068.1
May 29, 2015 . . . . .	1,108.0
June 30, 2015 . . . . .	1,124.1
July 31, 2015 . . . . .	1,166.3
August 31, 2015 . . . . .	1,176.3
September 30, 2015 . . . . .	1,194.5
October 30, 2015 . . . . .	1,142.3

Prior to November 1997, the Government had permitted exchange rates to float within a daily range of 2.25%. In response to the substantial downward pressures on the Won caused by the Republic's economic difficulties in

late 1997, in November 1997, the Government expanded the range of permitted daily exchange rate fluctuations to 10%. The Government eliminated the daily exchange rate band in December 1997, and the Won now floats according to market forces. The value of the Won relative to the U.S. dollar depreciated from ₩888.1 to U.S.\$1.00 on June 30, 1997 to ₩1,964.8 to U.S.\$1.00 on December 24, 1997. Due to improved economic conditions and increases in trade surplus, the Won has generally appreciated against the U.S. dollar, although the trend reversed in March 2008. During the period from January 2, 2008 through April 16, 2009, the value of the Won relative to the U.S. dollar declined by approximately 29.9%, due primarily to adverse economic conditions resulting from liquidity and credit concerns and volatility in the global credit and financial markets and repatriations by foreign investors of their investments in the Korean stock market. The market average exchange rate was ₩1,173.4 to U.S.\$1.00 on November 19, 2015.

## Balance of Payments and Foreign Trade

### *Balance of Payments*

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

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

<u>Classification</u>	<b>Balance of Payments<sup>(1)</sup></b>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>(4)</sup></u>
	<i>(millions of dollars)</i>				
Current Account .....	28,850.4	18,655.8	50,835.0	81,148.2	89,220.1
Goods .....	47,915.4	29,089.9	49,406.0	82,781.0	92,687.6
Exports <sup>(2)</sup> .....	463,769.6	587,099.7	603,509.2	618,156.9	621,298.9
Imports <sup>(2)</sup> .....	415,854.2	558,009.8	554,103.2	535,375.9	528,611.3
Services .....	(14,238.4)	(12,279.1)	(5,213.6)	(6,499.2)	(8,163.4)
Income .....	489.9	6,560.6	12,116.7	9,055.7	10,197.7
Current Transfers .....	(5,316.5)	(4,715.6)	(5,474.1)	(4,189.3)	(5,501.8)
Capital and Financial Account .....	(23,253.2)	(24,427.8)	(51,624.1)	(80,131.6)	(90,392.3)
Capital Account .....	(63.2)	(112.0)	(41.7)	(27.0)	(9.0)
Financial Account <sup>(3)</sup> .....	(23,190.0)	(24,315.8)	(51,582.4)	(80,104.6)	(90,383.3)
Net Errors and Omissions .....	(5,597.2)	5,772.0	789	(1,016.6)	1,172.2

Notes:

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

Source: *The Bank of Korea.*

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

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

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

### ***Foreign Direct Investment***

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

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

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

Note:

(1) Includes building new factories and operational facilities.

Source: Ministry of Trade, Industry and Energy

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

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

### Foreign Direct Investment by Region and Country

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

Source: Ministry of Trade, Industry and Energy

### **Trade Balance**

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

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

### Trade Balance

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

Notes:

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

Source: *The Bank of Korea; Korea Customs Service.*

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

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

### Exports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>

	2010	As % of 2010 Total	2011	As % of 2011 Total	2012	As % of 2012 Total	2013	As % of 2013 Total	2014 <sup>(2)</sup>	As % of 2014 Total <sup>(2)</sup>
<i>(billions of dollars, except percentages)</i>										
Foods & Consumer Goods .....	5.3	1.2	6.5	1.2	6.8	1.2	6.7	1.1	7.0	1.2
Raw Materials and Fuels .....	38.5	8.3	61.7	11.1	65.4	11.9	61.2	10.9	59.2	10.3
Petroleum & Derivatives .....	31.9	6.8	52.0	9.4	56.6	10.3	53.2	9.5	51.2	8.9
Others .....	6.6	1.4	9.7	1.7	8.8	1.6	8.0	1.4	8.0	1.4
Light Industrial Products .....	32.7	7.0	38.9	7.0	40.5	7.4	39.0	6.9	38.6	6.7
Heavy & Chemical Industrial Products .....	389.9	83.6	448.0	80.7	435.2	79.3	452.8	77.8	467.9	81.7
Electronic & Electronic Products .....	154.2	33.1	156.9	28.3	156.0	28.5	171.2	30.6	174.4	30.5
Chemicals & Chemical Products .....	47.5	10.2	59.1	10.6	59.6	10.9	64.4	11.5	65.6	11.5
Metal Goods .....	37.7	8.1	48.6	8.8	47.2	8.6	43.6	7.8	47.5	8.3
Machinery & Precision Equipment .....	44.0	9.4	54.5	9.8	55.7	10.2	55.3	9.9	57.9	10.1
Transport Equipment .....	103.4	22.2	124.7	22.5	112.1	20.5	113.1	20.2	116.5	20.3
Passenger Cars .....	31.8	6.8	40.9	7.4	42.4	7.7	44.3	7.9	44.8	7.8
Ship & Boat .....	47.1	10.1	54.6	9.8	38.2	7.0	36.2	6.5	38.7	6.8
Others .....	3.1	0.7	4.2	0.8	4.6	0.8	5.2	0.9	6.0	1.0
Total .....	<u>466.4</u>	<u>100.0</u>	<u>555.2</u>	<u>100.0</u>	<u>547.9</u>	<u>100.0</u>	<u>559.6</u>	<u>100.0</u>	<u>572.7</u>	<u>100.0</u>

Notes:

- (1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.
- (2) Preliminary.

Source: *The Bank of Korea; Korea Customs Service.*

### Imports by Major Commodity Groups (C.I.F.)<sup>(1)</sup>

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

Notes:

- (1) These entries are derived from customs clearance statistics. C.I.F. means that the price of goods includes insurance and freight costs.
- (2) Preliminary.

Source: *The Bank of Korea; Korea Customs Service.*

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

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

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

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

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

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

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

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

Notes:

(1) Preliminary

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service.

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

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

Notes:

(1) Preliminary

(2) Includes more than 200 countries and regions.

Source: The Bank of Korea; Korea Customs Service.

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

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

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

### ***Non-Commodities Trade Balance***

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

### ***Foreign Currency Reserves***

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

#### **Total Official Reserves**

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

Notes:

- (1) For this purpose, domestically-owned gold is valued at U.S.\$42.22 per troy ounce (31.1035 grams) and gold deposited overseas is calculated at cost of purchase.
- (2) More than 95% of the Republic's foreign currency reserves are comprised of convertible foreign currencies.

Source: *The Bank of Korea; International Monetary Fund*

The Government's foreign currency reserves increased to U.S.\$262.2 billion as of December 31, 2007 from U.S.\$8.9 billion as of December 31, 1997, primarily due to continued balance of trade surpluses and capital inflows. In 2008, the Government's foreign currency reserves decreased, falling to U.S.\$201.2 billion as of December 31, 2008, partially as a result of the Government's use of the foreign currency reserve to provide foreign currency liquidity to Korean financial institutions. The Government's foreign currency reserves increased to U.S.\$270.0 billion as of December 31, 2009, U.S.\$291.6 billion as of December 31, 2010, U.S.\$306.4 billion as of December 31, 2011, U.S.\$327.0 billion as of December 31, 2012, U.S.\$346.5 billion as of December 31, 2013 and U.S.\$363.6 billion as of December 31, 2014, primarily due to continued trade surpluses and capital inflows. The amount of the Government's foreign currency reserve was U.S.\$369.6 billion as of October 30, 2015.

## Government Finance

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

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

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

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

The following table shows consolidated Government revenues and expenditures:

### Consolidated Central Government Revenues and Expenditures

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

	Actual					Budget		
	2010	2011	2012	2013	2014	2013	2014	2015
	<i>(billions of Won)</i>							
Contributions to government employee pension fund . . . . .	7,213	7,303	8,134	8,776	9,915	9,067	10,034	10,458
Current revenue of non-financial public enterprises . . . . .	2,760	2,393	2,608	3,021	2,292	2,254	2,999	3,415
Capital Revenues . . . . .	2,383	2,527	3,702	3,302	2,710	5,012	4,214	4,502
Total Expenditures and Net Lending . . . . .	254,231	273,694	292,977	300,238	312,394	315,116	325,378	344,174
Total Expenditures . . . . .	251,146	269,768	286,921	302,036	311,507	311,231	320,075	335,397
Current Expenditures . . . . .	216,937	235,458	252,620	268,019	280,466	275,757	287,226	300,963
Expenditure on goods and service . . . . .	49,821	52,989	55,384	57,769	59,616	63,675	64,470	68,865
Interest payment . . . . .	13,387	14,566	14,239	13,386	14,057	13,660	14,439	14,293
Subsidies and other current transfers . . . . .	151,030	165,233	179,433	193,451	203,649	195,048	204,638	214,125
Current expenditure of non-financial public enterprises . . . . .	2,699	2,670	3,564	3,414	3,143	3,373	3,679	3,681
Capital Expenditures . . . . .	34,209	34,310	34,301	34,017	31,041	35,474	32,850	34,433
Net Lending . . . . .	3,084	3,926	6,056	(1,798)	888	3,885	5,303	8,778

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

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

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

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

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

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

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

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

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

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

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

### Debt

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

### External and Internal Debt of the Government

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

	Amount in Original Currency	Equivalent Amount in U.S. Dollars <sup>(1)</sup>
	<i>(millions)</i>	
U.S.\$ .....	U.S.\$4,443.7	U.S.\$ 4,443.7
Japanese Yen (¥) .....	¥ 461.7	3.9
Euro (EUR) .....	EUR 1,625.1	1,976.0
Total .....		<u>U.S.\$ 6,423.6</u>

Note:

(1) Amounts expressed in currencies other than U.S.\$ are converted to U.S.\$ at the arbitrage rate announced by the Seoul Money Brokerage Services, Ltd. in effect on December 31, 2014.

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

	(billions of Won)
2010 .....	360,804.5
2011 .....	390,249.4
2012 .....	414,213.5
2013 .....	453,674.0
2014 .....	493,584.9

The following table sets out all guarantees by the Government of indebtedness of others:

### Guarantees by the Government

	December 31,				
	2010	2011	2012	2013	2014
	<i>(billions of Won)</i>				
Domestic .....	33,291.7	33,799.1	32,783.6	32,978.5	29,158.4
External <sup>(1)</sup> .....	1,508.3	1,258.6	—	—	—
<b>Total</b> .....	<b>34,800.0</b>	<b>35,057.7</b>	<b>32,783.6</b>	<b>32,978.5</b>	<b>29,158.4</b>

Note:

- (1) Converted to Won at foreign exchange banks' telegraphed transfer selling rates to customers or the market average exchange rates in effect on December 31 of each year.

### External Liabilities

The following tables set out certain information regarding the Republic's external liabilities calculated under the criteria based on the sixth edition of Balance of Payment Manual, or BPM6, published by the International Monetary Fund in December 2010 and implemented by the Government in December 2013. Under BPM6, in particular, prepayments received in connection with the construction of ships are excluded from the external debt.

	December 31,				
	2010	2011	2012	2013	2014
	<i>(billions of dollars)</i>				
Long-term Debt .....	219.5	260.3	281.0	311.7	310.1
General Government .....	50.5	59.8	60.8	63.0	65.2
Monetary Authorities .....	18.4	14.2	21.2	29.2	25.9
Banks .....	71.0	93.4	97.8	102.2	104.1
Other Sectors .....	79.6	92.9	101.2	117.4	114.9
Short-term Debt .....	136.5	139.8	128.0	111.8	115.3
General Government .....	0.2	0.5	0.0	0.0	0.0
Monetary Authorities .....	10.3	8.9	14.9	10.8	12.2
Banks .....	101.9	102.9	85.4	77.9	81.9
Other Sectors .....	24.0	27.5	27.7	23.0	21.2
<b>Total External Liabilities</b> .....	<b>355.9</b>	<b>400.0</b>	<b>408.9</b>	<b>423.5</b>	<b>425.4</b>

### Debt Record

The Government has always paid when due the full amount of principal of, interest on, and amortization of sinking fund requirements of, all of its indebtedness.

## TAXATION

### **Korean Taxation**

The taxation of non-resident individuals and non-Korean corporations (“Non-Residents”) depends on whether they have a “Permanent Establishment” (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without such a Permanent Establishment in Korea are taxed in the manner described below. Non-residents with such Permanent Establishments are taxed in accordance with different rules.

Furthermore, it is not entirely clear how the Securities are treated for Korean tax purposes. In this regard, the Korean tax authorities have issued a tax ruling confirming that the payments made in accordance with the terms and conditions of the capital securities issued in the form of bonds should be treated as interest income. Relying upon this tax ruling, it is likely that the Securities should be taxed in the same manner applicable to bonds. If the Securities are taxed in the same manner applicable to bonds, the Non-Residents are taxed in the manner described below. If the Securities are not taxed in the same manner applicable to bonds, the Non-Residents are taxed in accordance with different rules.

### **Income Tax and Corporation Tax on Interest**

Interest on the Securities 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”), provided that the Securities are “foreign currency denominated bonds issued outside of Korea” under the STTCL. The term “foreign currency denominated bonds issued outside of Korea” in this context is not defined under the STTCL.

It is not clear under the Korean tax law whether any premium (which is the difference between (A) the redemption amount of the Securities to be paid pursuant to the terms and conditions of the Securities upon the early redemption of the Securities and (B) the issuance price of the Securities) paid upon the redemption of the Securities will be treated as interest income (which is exempt from Korean income taxation by virtue of the STTCL as discussed above), capital gains or possibly “other income.” However, the Korean tax authorities have issued a tax ruling confirming that the premium paid with respect to the early redemption in whole is interest income. Based on this and several other similar rulings, it is likely that the premium paid with respect to the early redemption of the Securities will be treated as interest income by the Korean tax authorities. As a result, unless the Korean tax authorities change their position on the previous rulings regarding the above matter, it is likely that the premium on the Securities paid to a Non-Resident holder will not be subject to withholding of Korean income tax or corporation tax under the STTCL.

If not exempt under the STTCL, the rate of income tax or corporation tax applicable to interest or any premium on the Securities, for a Non-Resident, is currently 14%. In addition, a tax surcharge, called a local income tax, is imposed at the rate of 10% of the income tax or corporation tax (raising the total tax rate to 15.4%).

The tax rates may be reduced or exempted by applicable tax treaty between Korea and the residence country of the beneficial owner of the interest. The relevant tax treaties are discussed below. If the Non-Resident holder could not obtain the benefit of a exempted or reduced rate due to the failure of the timely submission of the below-mentioned application, the Non-Resident holder can get the tax refunded if the application of the claim for tax refund is submitted within three years from the end of the month to which the days of withholding belongs.

### **Capital Gains Tax**

The Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident from the sale of the Securities 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 Securities are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Securities is deemed to be an overseas issuance.

In the absence of an applicable tax treaty or any other special tax laws 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 certain direct transfer cost of the relevant Securities) 22% (including local income tax) of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and certain direct transfer cost. 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 the Securities is obliged under Korean law to withhold the applicable amount of Korean income tax or corporation 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, in the absence of the seller producing satisfactory evidence of his or her acquisition cost and certain direct transfer cost in relation to the Securities 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 Securities 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.

#### **Withholding and Gross Up under the Guarantee**

All payments, other than the payment of the principal amount, under the Guarantee by the Guarantor to a Non-Resident holder of the Securities may be subject to withholding tax at the rate of 15.4% (including local income surtax) or such reduced rate or non-taxation (tax exemption) as applicable under the relevant tax treaty between Korea and the residence country of the beneficial owner of the income. If payment of any interest on the Securities under the Guarantee by the Guarantor to a Non-Resident holder of the Securities is subject to withholding tax in Korea, the Guarantor will be required to pay such additional amounts, in accordance with the terms of the Securities, as may be necessary to ensure that such holder receives the amounts guaranteed under the Guarantee that would otherwise have been receivable in the absence of such deduction or withholding, subject to certain exceptions.

#### **Inheritance Tax and Gift Tax**

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of death the deceased was domiciled in Korea or resided in Korea for at least one year immediately prior to the 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 tax rates vary from 10 to 50% according to the value of the relevant property and the identity of the persons involved. At present, Korea has not entered into any tax treaties on inheritance taxes 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.

#### **Stamp Duty and Securities Transaction Tax**

No stamp, issue or registration duties will be payable in Korea by the holders of the Securities in connection with the issue of the Securities 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 the Securities.

## **Tax Treaties**

As of 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, the People's Republic of China, 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 approximately 5 and 16.5% (including a local income tax), and the tax on capital gains is often eliminated.

Each holder of the Securities should inquire for himself or herself whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Securities. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments to file with the Issuer, the purchaser or the withholding agent, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, the Issuer, the purchaser or the securities company, as applicable, must 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" under a tax treaty 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 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 withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report 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.

## **EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State of the European Union is required to provide to the tax authorities of another such Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. The Savings Directive will, however, be repealed with effect from January 1, 2016 in the case of Member States other than Austria and from January 1, 2017 in the case of Austria.

Austria will, until January 1, 2017 (unless during such period it elects otherwise), operate a withholding system in relation to such payments instead of an information reporting system. The rate of withholding is 35%. However, the beneficial owner of the interest (or similar income) payment may elect that certain provision of information procedures should be applied instead of withholding, provided that certain conditions are met.

The repeal of the Savings Directive is to prevent overlap with the new mandatory automatic exchange of financial account information to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU) (the "**DAC**"). The repeal will also be subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before the effective dates of the repeal.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures to the Savings Directive. Those measures in some or all of those countries and territories may be revised to be aligned with the DAC.

### **The Proposed Financial Transactions Tax**

The European Commission has published a proposal (the “Commission’s Proposal”) for a Directive for a common financial transactions tax (“FTT”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (the “participating Member States”).

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of the Securities should, however, be exempt.

Under the Commission’s Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Joint statements issued by several participating Member States indicate an intention to implement the FTT by January 1, 2016.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

BNP Paribas (the “Manager”) has, pursuant to a Subscription Agreement (the “Subscription Agreement”) dated November 19, 2015, agreed to subscribe and pay for, or to procure subscriptions and payment for, the principal amount of the Securities subject to certain conditions contained therein.

The Issuer will also reimburse the Manager in respect of certain of its expenses, and the Issuer and the Guarantor have agreed to indemnify the Manager against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue and sale of the Securities. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

The initial issue price is set forth on the cover of this Offering Circular. After the Securities are released for sale, the Manager may change the issue price and other selling terms. The offering of the Securities by the Manager is subject to receipt and acceptance and subject to the Manager’s right to reject any order in whole or in part.

The Manager and certain of its affiliates have, from time to time, performed, and may in the future perform, certain investment banking, commercial banking and advisory services for the Issuer, the Guarantor and/or their respective affiliates for which they have received or will receive customary fees and expenses.

The Manager and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer and the Guarantor.

The Manager or its affiliates may subscribe the Securities for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be subscribers of the Securities).

### **Selling Restrictions**

The Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Securities or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor the Manager shall have any responsibility therefor.

If a jurisdiction requires that any offering of Securities be made by a licensed broker or dealer and the Manager or any affiliate of the Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such dealer or such affiliate on behalf of the Issuer in such jurisdiction.

### **United States**

The Securities and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“Regulation S”).

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities and the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities and the Guarantee, an offer or sale of Securities and the Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### **United Kingdom**

The Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

### **Hong Kong**

The Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### **Japan**

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, the Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the

laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

## **Singapore**

The Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, the Manager has represented and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the SFA. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Securities may not be circulated or distributed, nor may any Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **Korea**

The Securities have not been and will not be registered with the FSC under the FSCMA. Accordingly, the Securities have not been and will not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the

account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree) or to others for re-offering or resale, except as otherwise permitted by applicable Korean laws and regulations. In addition, within one year following the issuance of the Securities, the Securities may not be transferred to any resident of Korea other than a qualified institutional buyer (or a “QIB,” as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea) registered with the Korea Financial Investment Association (the “KOFIA”) as a QIB and subject to the requirement of monthly reports with the KOFIA of its holding of QIB bonds as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea, provided that (a) the Securities are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) the amount of the Securities acquired by such QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Securities, (c) the Securities are listed on one of the major overseas securities markets designated by the FSS, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Securities in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Securities to a Korean resident other than a QIB is expressly stated in the Securities, the relevant underwriting agreement, subscription agreement, and the offering circular and (e) the Issuer and the Manager shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor.

### **Transfer Restrictions**

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any offer, resale, pledge or other transfers of the Securities.

### **Transfer Restrictions under Korean Law**

Each purchaser of the Securities, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

- (a) The Securities have not been and will not be registered with the FSC under the FSCMA. Accordingly, the Securities have not been and will not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree) or to others for re-offering or resale, except as otherwise permitted by applicable Korean laws and regulations. In addition, within one year following the issuance of the Securities, the Securities may not be transferred to any resident of Korea other than a QIB registered with the KOFIA as a QIB and subject to the requirement of monthly reports with the KOFIA of its holding of QIB bonds as defined in the Regulation on Issuance, Public Disclosure, etc. of Securities of Korea, provided that (a) the Securities are denominated, and the principal and interest payments thereunder are made, in a currency other than Korean Won, (b) the amount of the Securities acquired by such QIBs in the primary market is limited to less than 20% of the aggregate issue amount of the Securities, (c) the Securities are listed on one of the major overseas securities markets designated by the FSS, or certain procedures, such as registration or report with a foreign financial investment regulator, have been completed for offering of the Securities in a major overseas securities market, (d) the one-year restriction on offering, delivering or selling of Securities to a Korean resident other than a QIB is expressly stated in the Securities, the relevant underwriting agreement, subscription agreement, and the offering circular and (e) the Issuer and the Manager shall individually or collectively keep the evidence of fulfillment of conditions (a) through (d) above after having taken necessary actions therefor.
- (b) The Securities will bear legends to the effect described in paragraph (a) above.

### **Other Transfer Restrictions Applicable to the Securities**

The Securities and the Guarantee have not been and will not be registered under the Securities Act. The Securities and the Guarantee may not be offered or sold to any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Except in certain limited circumstances, interests in the Securities may only be held through interests in the Global Certificates. Such interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream and their respective direct and indirect participants. See “*Terms and Conditions of the Securities*”.

Each purchaser of the Securities, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

- (a) The Securities and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or any other jurisdiction and are subject to significant restrictions on transfer.
- (b) Until forty (40) days after the commencement of offering of the Securities, an offer or sale of Securities and the Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.
- (c) Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Securities or the Guarantee except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.
- (d) The Securities will bear legends to the following effect, unless the Issuer determines otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THE SECURITIES EVIDENCED HEREBY (THE “SECURITIES”) OF KOREAN AIR LINES CO, LTD. (THE “ISSUER”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”).

PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE SECURITIES AND THE LATEST CLOSING DATE (THE “DISTRIBUTION COMPLIANCE PERIOD”), THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY U.S. PERSON OUTSIDE THE UNITED STATES OR ANY PERSON IN THE UNITED STATES. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

THE FOREGOING PARAGRAPH WILL BE NO LONGER EFFECTIVE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD WITH RESPECT TO THE SECURITIES, AFTER WHICH THE SECURITIES EVIDENCED HEREBY WILL NO LONGER BE SUBJECT TO THE RESTRICTIONS SET FORTH THEREIN, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE SECURITIES EVIDENCED HEREBY WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE “FSCMA”). ACCORDINGLY, THE SECURITIES HAVE NOT BEEN OFFERED, SOLD OR DELIVERED 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 THE REGULATIONS THEREUNDER), 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, WITHIN ONE YEAR FOLLOWING THE ISSUANCE OF THE SECURITIES, THE SECURITIES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA

OTHER THAN A QUALIFIED INSTITUTIONAL BUYER (OR A “QIB”, AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION (THE “KOFIA”) AS A QIB AND SUBJECT TO THE REQUIREMENT OF MONTHLY REPORTS WITH THE KOFIA OF ITS HOLDING OF QIB BONDS AS DEFINED IN THE REGULATION ON ISSUANCE, PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA, PROVIDED THAT (A) THE SECURITIES ARE DENOMINATED, AND THE PRINCIPAL AND INTEREST PAYMENTS THEREUNDER ARE MADE, IN A CURRENCY OTHER THAN KOREAN WON, (B) THE AMOUNT OF THE SECURITIES ACQUIRED BY SUCH QIBS IN THE PRIMARY MARKET IS LIMITED TO LESS THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE SECURITIES, (C) THE SECURITIES ARE LISTED ON ONE OF THE MAJOR OVERSEAS SECURITIES MARKETS DESIGNATED BY THE FINANCIAL SUPERVISORY SERVICE OF KOREA, OR CERTAIN PROCEDURES, SUCH AS REGISTRATION OR REPORT WITH A FOREIGN FINANCIAL INVESTMENT REGULATOR, HAVE BEEN COMPLETED FOR OFFERING OF THE SECURITIES IN A MAJOR OVERSEAS SECURITIES MARKET, (D) THE ONE-YEAR RESTRICTION ON OFFERING, DELIVERING OR SELLING OF SECURITIES TO A KOREAN RESIDENT OTHER THAN A QIB IS EXPRESSLY STATED IN THE SECURITIES, THE RELEVANT UNDERWRITING AGREEMENT, SUBSCRIPTION AGREEMENT, AND THE OFFERING CIRCULAR AND (E) THE ISSUER AND THE INITIAL PURCHASERS SHALL INDIVIDUALLY OR COLLECTIVELY KEEP THE EVIDENCE OF FULFILLMENT OF CONDITIONS (A) THROUGH (D) ABOVE AFTER HAVING TAKEN NECESSARY ACTIONS THEREFOR.

## **LEGAL MATTERS**

Certain legal matters relating to the issue and sale of the Securities will be passed upon for the Issuer by Kim & Chang as to matters of Korean law, for the Guarantor by Cleary Gottlieb Steen & Hamilton LLP as to matters of New York law and by Kim & Chang as to matters of Korean law, and for the Manager by Linklaters LLP as matters of New York law. Kim & Chang may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP, and Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP may rely as to all matters of Korean law on the opinion of Kim & Chang.

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## **Independent Auditors' Review Report**

Based on a report originally issued in Korean

The Board of Directors and Stockholders  
Korean Air Lines Co., Ltd.:

### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of Korean Air Lines Co., Ltd. and its subsidiaries (the "Group"), expressed in Korean won, which comprise the condensed consolidated interim statement of financial position as of June 30, 2015, the condensed consolidated interim statement of comprehensive income (loss) for the three-month and six-month periods ended June 30, 2015, the condensed consolidated interim statements of changes in equity and cash flows for the six-month period ended June 30, 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

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' review responsibility**

Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our review.

We conducted our review 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 statements 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 review, 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*'.

The accompanying condensed consolidated interim financial statements as of June 30, 2015 and for the three-month and six-month periods ended June 30, 2015 have been translated into United States dollars solely for the convenience of the reader and such translation does not comply with K-IFRS. We have reviewed the translation and nothing came to our attention that cause us to believe that the condensed consolidated interim financial statements expressed in Korean won have not been translated into dollars on the basis set forth in note 4 to the condensed consolidated interim financial statements.

**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.

As stated in the Note 49 to the accompanying condensed consolidated interim financial statements, the condensed consolidated interim statement of comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 presented for comparative purpose have been retrospectively adjusted to separately present the results of discontinued operations.

The condensed consolidated interim statements of comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014, the condensed consolidated interim statements of changes in equity and cash flows for the six-month period ended June 30, 2014, before the retrospective adjustments described in Note 49, were reviewed by other auditors whose report thereon dated August 14, 2014, expressed that nothing came to their attention that caused them to believe that the accompanying condensed consolidated interim financial information as of June 30, 2014 was not prepared, in all material respects, in accordance with K-IFRS No.1034, '*Interim Financial Reporting*'.

The consolidated statement of financial position of the Group as of December 31, 2014, and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors and accordance with Korean Standards on Auditing, whose report thereon dated March 19, 2015, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2014, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Seoul, Korea  
August 13, 2015

<p>This report is effective as of August 13, 2015, 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.</p>
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KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

**As of June 30, 2015 and December 31, 2014**

*(In millions of won and in thousands of US dollars)*

	<u>Note</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
<b>Assets</b>				<b>(Note 4)</b>
Cash and cash equivalents	6,7,24	₩ 1,619,838	796,604	\$ 1,441,008
Short-term financial instruments	7	76,137	59,018	67,731
Current portion of finance lease receivables	12	13,020	13,014	11,583
Trade and other receivables	8,44	992,973	1,012,299	883,350
Account receivables due from customers for contracts in progress	48	150,568	130,209	133,945
Current portion of held-to-maturity investments	7,10	52	20	46
Inventories	11	458,357	430,180	407,755
Income tax receivables		3,646	5,415	3,244
Current portion of financial derivative assets	29,43	7,372	-	6,558
Other current assets	21,24	548,219	475,862	487,696
Assets held for sale	49	-	2,025,419	-
<b>Total current assets</b>		<u>3,870,182</u>	<u>4,948,040</u>	<u>3,442,916</u>
Long-term financial instruments	7	66,128	60,090	58,827
Long-term trade and other receivables	8,44	281	253	250
Available-for-sale financial assets	7,9,43	224,563	207,492	199,772
Held-to-maturity investments	7,10	918	954	817
Finance lease receivables	12	67,794	72,341	60,309
Investments in associates	14,19,24,44	544,229	467,574	484,147
Property, aircraft and equipment, net	17,19	16,113,081	15,778,074	14,334,206
Investment property, net	15,16,19	228,774	175,570	203,518
Intangible assets, net	18,19	310,850	331,228	276,532
Financial derivative assets	29,43	3,545	5,446	3,154
Other financial assets	20,24	261,095	256,024	232,270
Deferred income tax assets	39	855,970	814,781	761,471
Other non-current assets	21,24	351,074	347,857	312,316
<b>Total non-current assets</b>		<u>19,028,302</u>	<u>18,517,684</u>	<u>16,927,589</u>
<b>Total assets</b>		<u>₩ 22,898,484</u>	<u>23,465,724</u>	<u>\$ 20,370,505</u>

*See accompanying notes to the condensed consolidated interim financial statements.*

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position, Continued  
(Unaudited)

**As of June 30, 2015 and December 31, 2014**

*(In millions of won and in thousands of US dollars)*

	<u>Note</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
<b>Liabilities</b>				<b>(Note 4)</b>
Trade and other payables	22,44,47	₩ 817,196	698,246	\$ 726,978
Short-term borrowings	19,23	662,452	1,634,526	589,318
Current portion of long-term debts	7,19,20, 21,24,44	2,846,738	2,760,824	2,532,460
Current portion of finance lease obligations	19,25	1,027,249	957,218	913,841
Income tax payables		3,085	7,113	2,745
Current portion of financial derivative liabilities	29,43	61,721	205,204	54,907
Deferred revenue due to customers for contracts in progress	48	118,371	148,134	105,303
Other current liabilities	28,30	1,305,394	1,030,621	1,161,278
<b>Total current liabilities</b>		<u>6,842,206</u>	<u>7,441,886</u>	<u>6,086,830</u>
Long-term trade and other payables	22,44,47	88,503	126,277	78,732
Long-term borrowings	19,24	1,208,828	1,602,450	1,075,374
Debentures	24	1,800,567	2,415,489	1,601,785
Asset-backed securitization loans	20,21,24,44	1,574,348	1,388,447	1,400,541
Guaranteed loans	7,19,24,44	26,112	24,896	23,229
Finance lease obligations	19,25	5,861,772	5,547,251	5,214,636
Defined benefit obligations	26	1,022,026	851,071	909,195
Provisions	27,45,47	154,361	142,450	137,320
Deferred revenue	28	1,669,625	1,633,782	1,485,299
Financial derivative liabilities	29,43	6,545	476	5,822
Deferred income tax liabilities		47,956	52,120	42,663
Other non-current liabilities	30	46,839	37,971	41,668
<b>Total non-current liabilities</b>		<u>13,507,482</u>	<u>13,822,680</u>	<u>12,016,264</u>
<b>Total liabilities</b>		<u>20,349,688</u>	<u>21,264,566</u>	<u>18,103,094</u>

*See accompanying notes to the condensed consolidated interim financial statements.*

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Financial Position, Continued  
(Unaudited)

As of June 30, 2015 and December 31, 2014

(In millions of won and in thousands of US dollars)

	Note	June 30, 2015	December 31, 2014	June 30, 2015
<b>Equity</b>				<b>(Note 4)</b>
Capital stock	1,31	₩ 369,753	298,931	\$ 328,932
Other capital surplus	32	477,359	52,562	424,658
Other capital components	17,29,33	390,312	256,248	347,222
Retained earnings	34	1,198,768	1,544,566	1,066,424
Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	49	-	(61,364)	-
<b>Equity attributable to owners of the Parent Company</b>		<u>2,436,192</u>	<u>2,090,943</u>	<u>2,167,236</u>
<b>Non-controlling interests</b>		<u>112,604</u>	<u>110,215</u>	<u>100,175</u>
<b>Total equity</b>		<u>2,548,796</u>	<u>2,201,158</u>	<u>2,267,411</u>
<b>Total liabilities and equity</b>		₩ <u><u>22,898,484</u></u>	<u>23,465,724</u>	\$ <u><u>20,370,505</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)  
(Unaudited)

**For the three-month and six-month periods ended June 30, 2015 and 2014**

(In millions of won and in thousands of US dollars, except earnings (loss) per share)

	Note	2015		2014		2015	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
						(Note 4)	
Revenue	5,35,44	₩ 2,785,943	5,657,190	2,897,491	5,794,384	\$ 2,478,377	5,032,640
Cost of sales	40,44	2,503,712	4,912,024	2,645,652	5,243,837	2,227,304	4,369,739
<b>Gross profit</b>		<u>282,231</u>	<u>745,166</u>	<u>251,839</u>	<u>550,547</u>	<u>251,073</u>	<u>662,901</u>
Selling, general and administrative expenses	36,40,44	<u>284,825</u>	<u>557,827</u>	<u>271,817</u>	<u>549,096</u>	<u>253,381</u>	<u>496,243</u>
<b>Operating income (loss)</b>		<u>(2,594)</u>	<u>187,339</u>	<u>(19,978)</u>	<u>1,451</u>	<u>(2,308)</u>	<u>166,658</u>
Finance income	37	13,265	28,025	24,111	45,828	11,800	24,931
Finance costs	37	101,436	199,262	102,673	205,740	90,237	177,264
Share of profit (loss) of associates	14	49,971	59,535	(392)	(1,680)	44,454	52,962
Other non-operating income	38	62,209	173,304	632,059	553,350	55,341	154,171
Other non-operating expenses	38	<u>262,129</u>	<u>446,653</u>	<u>76,962</u>	<u>198,129</u>	<u>233,190</u>	<u>397,343</u>
<b>Profit (loss) before income tax</b>		<u>(240,714)</u>	<u>(197,712)</u>	<u>456,165</u>	<u>195,080</u>	<u>(214,140)</u>	<u>(175,885)</u>
Income tax expense (benefit)	39	<u>(72,033)</u>	<u>(57,528)</u>	<u>99,354</u>	<u>(12,274)</u>	<u>(64,081)</u>	<u>(51,177)</u>
<b>Profit (loss) from continuing operations</b>		<u>(168,681)</u>	<u>(140,184)</u>	<u>356,811</u>	<u>207,354</u>	<u>(150,059)</u>	<u>(124,708)</u>
<b>Discontinued operations</b>							
Profit (loss) from discontinued operations	49	<u>(549)</u>	<u>(162,098)</u>	<u>4,996</u>	<u>(1,305)</u>	<u>(489)</u>	<u>(144,203)</u>
<b>Profit (loss) for the period</b>		<u>(169,230)</u>	<u>(302,282)</u>	<u>361,807</u>	<u>206,049</u>	<u>(150,548)</u>	<u>(268,911)</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Comprehensive Income (Loss),  
Continued  
(Unaudited)

**For the three-month and six-month periods ended June 30, 2015 and 2014**

(In millions of won and in thousands of US dollars, except earnings (loss) per share)

	Note	2015		2014		2015	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
<b>(Note 4)</b>							
<b>Other comprehensive income (loss)</b>							
<b>Items that will never be reclassified to profit or loss</b>							
Defined benefit plan actuarial losses	26,34	₩ (87,149)	(87,423)	(2,939)	(2,077)	\$ (77,528)	(77,772)
Change in retained earnings - equity method accounted investments	14	(141)	358	(2)	2	(126)	319
Revaluation surplus	17,33	(21)	(21)	-	(3)	(19)	(19)
<b>Items that are or may be reclassified to profit or loss</b>							
Change in fair value of available-for-sale financial assets	33	800	14,535	2,036	(3,691)	712	12,930
Change in capital adjustments - equity method accounted investments	14,33	4,777	66,404	5,921	318	4,250	59,073
Effective portion of changes in fair value of cash flow hedges	29,33	91,326	114,767	16,585	17,527	81,244	102,097
Foreign currency translation difference	33	2,312	3,096	(5,541)	(5,938)	2,057	2,754
<b>Other comprehensive income for the period, net of income tax</b>		11,904	111,716	16,060	6,138	10,590	99,382
<b>Total comprehensive income (loss) for the period</b>		₩ (157,326)	(190,566)	377,867	212,187	\$ (139,958)	(169,529)

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Comprehensive Income (Loss),  
Continued  
(Unaudited)

**For the three-month and six-month periods ended June 30, 2015 and 2014**

*(In millions of won and in thousands of US dollars, except earnings (loss) per share)*

	Note	2015		2014		2015	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
<b>(Note 4)</b>							
<b>Profit (loss) attributable to:</b>							
Owners of the Parent Company		₩ (168,430)	(299,743)	340,589	186,474	\$ (149,836)	(266,652)
Non-controlling interests		(800)	(2,539)	21,218	19,575	(712)	(2,258)
<b>Total comprehensive income (loss) attributable to:</b>							
Owners of the Parent Company		(157,627)	(191,306)	356,870	193,714	(140,225)	(170,186)
Non-controlling Interests		301	740	20,997	18,473	267	657
<b>Earnings (loss) per share attributable to owners of the Parent Company</b> (in won and US dollars)							
<b>Continuing operation and discontinued operation</b>							
Attributable to common stock	41	₩ (2,277)	(4,420)	5,695	3,117	\$ (2.03)	(3.93)
Attributable to preferred stock	41	(2,289)	(4,320)	5,795	3,217	(2.04)	(3.84)
<b>Continuing operation</b>							
Attributable to common stock	41	(2,266)	(1,997)	5,613	3,140	(2.02)	(1.78)
Attributable to preferred stock	41	(2,522)	(1,947)	5,663	3,190	(2.24)	(1.73)

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Changes in Equity  
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(In millions of won and in thousands of US dollars)

	Attributable to owners of the Parent Company							Non-controlling interests	Total
	Capital stock	Other Capital Surplus		Other capital components	Retained earnings	Subtotal			
		Additional paid-in capital	Other						
<b>Balance at January 1, 2014</b>	₩ 298,931	174,907	(122,208)	328,164	1,967,197	2,646,991	93,222	2,740,213	
<b>Total comprehensive income (loss) for the period</b>									
Profit for the period	-	-	-	-	186,474	186,474	19,575	206,049	
Defined benefit plan actuarial loss	-	-	-	-	(1,951)	(1,951)	(126)	(2,077)	
Change in retained earnings - equity method accounted investments	-	-	-	-	2	2	-	2	
Revaluation surplus	-	-	-	(3)	-	(3)	-	(3)	
Change in fair value of available-for-sale financial assets	-	-	-	(3,361)	-	(3,361)	(330)	(3,691)	
Change in capital adjustments - equity method accounted investments	-	-	-	928	-	928	(610)	318	
Effective portion of changes in fair value of cash flow hedges	-	-	-	17,578	-	17,578	(51)	17,527	
Foreign currency translation difference	-	-	-	(5,953)	-	(5,953)	16	(5,937)	
<b>Transactions with owners of the Parent Company, recognized directly in equity</b>									
Dividends	-	-	-	-	-	-	(622)	(622)	
Increase in paid-in capital	-	-	(137)	-	-	(137)	(116)	(253)	
Dividends attributable to hybrid securities	-	-	-	-	(6,682)	(6,682)	-	(6,682)	
Others	-	-	-	-	333	333	(3,350)	(3,017)	
<b>Balance at June 30, 2014</b>	₩ <u>298,931</u>	<u>174,907</u>	<u>(122,345)</u>	<u>337,353</u>	<u>2,145,373</u>	<u>2,834,219</u>	<u>107,608</u>	<u>2,941,827</u>	

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Changes in Equity,  
Continued  
(Unaudited)

**For the six-month periods ended June 30, 2015 and 2014**

(In millions of won and in thousands of US dollars)

	<b>Attributable to owners of the Parent Company</b>						<b>Subtotal</b>	<b>Non-controlling interests</b>	<b>Total</b>	
	<b>Other Capital Surplus</b>			<b>Retained earnings</b>	<b>Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale</b>	<b>Capital stock</b>				<b>Additional paid-in capital</b>
<b>Balance at January 1, 2015</b>	₩	298,931	174,907				(122,345)	256,248	1,544,566	
<b>Total comprehensive income (loss) for the period</b>										
Loss for the period		-	-	-	(299,743)	-	-	(299,743)	(2,539)	(302,282)
Defined benefit plan actuarial loss		-	-	-	(87,349)	-	-	(87,349)	(73)	(87,422)
Change in retained earnings - equity method accounted investments		-	-	-	358	-	358	-	-	358
Revaluation surplus		-	-	-	(14)	-	-	(14)	(8)	(22)
Change in fair value of available-for-sale financial assets		-	-	-	12,028	-	-	12,028	2,508	14,536
Change in capital adjustments - equity method accounted investments		-	-	-	4,181	-	61,364	65,545	858	66,403
Effective portion of changes in fair value of cash flow hedges		-	-	-	114,767	-	-	114,767	-	114,767
Foreign currency translation difference		-	-	-	3,102	-	-	3,102	(7)	3,095
<b>Transactions with owners of the Parent Company, recognized directly in equity</b>										
Dividends		-	-	-	-	-	-	-	(617)	(617)
Increase in paid-in capital		70,822	423,381	-	-	-	-	494,203	-	494,203
Dividends attributable to hybrid securities		-	-	-	(6,683)	-	-	(6,683)	-	(6,683)
Assets held for sale		-	-	-	46,678	-	-	46,678	653	47,331
Others		-	4,567	(3,151)	-	941	-	2,357	1,614	3,971
<b>Balance at June 30, 2015</b>	₩	<u>369,753</u>	<u>602,855</u>	<u>(125,496)</u>	<u>390,312</u>	<u>1,198,768</u>	<u>-</u>	<u>2,436,192</u>	<u>112,604</u>	<u>2,548,796</u>
<b>(Note 4)</b>	\$	<u>328,932</u>	<u>536,300</u>	<u>(111,642)</u>	<u>347,222</u>	<u>1,066,424</u>	<u>-</u>	<u>2,167,236</u>	<u>100,173</u>	<u>2,267,409</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
<b>Cash flows from operating activities</b>			<b>(Note 4)</b>
Profit (loss) for the period	₩ (302,282)	206,049	\$ (268,911)
<b>Adjustments for:</b>			
Maintenance material cost	2,717	2,642	2,417
Provision for leased aircraft maintenance	12,085	1,023	10,751
Other provision	141	-	125
Post-employment benefits	86,846	78,963	77,259
Depreciation	786,910	785,719	700,036
Amortization	22,050	17,523	19,615
Bad debt expenses	-	1,049	-
Interest expense	194,054	231,845	172,630
Loss on valuation of derivatives	6,882	231	6,122
Other bad debt expenses	182	329	162
Loss on foreign currency translation	225,946	28,756	201,002
Loss on disposal of property, aircraft and equipment	75,005	54,450	66,725
Loss on disposal of intangible assets	-	23	-
Loss on disposal of consolidated subsidiaries	2,169	-	1,930
Loss on disposal of assets held for sale	92,003	-	81,846
Income tax expense	12,100	-	10,764
Others	-	1,629	-
Interest income	(26,254)	(21,132)	(23,356)
Dividend income	(3,846)	(2,404)	(3,421)
Gain on valuation of derivatives	(410)	(19,576)	(365)
Share of profit of associates	(59,535)	(22,372)	(52,962)
Gain on disposal of investments in associates	-	(73,533)	-
Reversal of impairment loss occurred in investments in associates	-	(12,210)	-
Gain on foreign currency translation	(53,215)	(346,735)	(47,340)
Reversal of allowance for doubtful accounts	(476)	-	(423)
Reversal of allowance for other doubtful accounts	(23)	(699)	(21)
Gain on disposal of available-for-sale financial assets	(1,704)	-	(1,516)
Gain on disposal of property, aircraft and equipment	(2,262)	(1,180)	(2,013)
Gain on disposal of intangible assets	(10)	-	(9)
Income tax benefit	-	(12,213)	-
Reversal of negative goodwill	(5,244)	-	(4,665)
Miscellaneous income	(831)	-	(739)
Others	(3,892)	(2,599)	(3,461)

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows, Continued  
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			<b>(Note 4)</b>
<b>Changes in:</b>			
Trade receivables	₩ 65,432	(50,285)	\$ 58,208
Other receivables	(28,428)	(23,274)	(25,290)
Account receivables due from customers for contracts in progress	(20,358)	28,502	(18,111)
Inventories	(28,177)	4,443	(25,066)
Financial derivative assets	1,138	2,335	1,013
Advance payments	(34,067)	(125,240)	(30,306)
Prepaid expenses	(25,227)	(17,951)	(22,442)
Other current assets	(8,877)	7,477	(7,897)
Other non-current assets	-	(433)	-
Trade payables	20,601	13,552	18,327
Other payables	(46,514)	(72,498)	(41,379)
Accrued expenses	100,688	(46,165)	89,572
Advances	118,455	90,361	105,378
Deferred revenue due to customers for contracts in progress	(29,763)	71,163	(26,477)
Financial derivative liabilities	(731)	(2,976)	(650)
Other current liabilities	157,943	22,085	140,506
Plan assets	13,665	13,243	12,156
Payment of retirement benefits	(45,495)	(41,850)	(40,472)
Succession of defined benefit obligation	69	120	62
Provision	(315)	-	(280)
Deferred revenue	35,843	34,496	31,886
Other non-current liabilities	2,934	1,738	2,610
Others	3,714	297	3,303
<b>Cash generated from operations</b>	<u>1,311,636</u>	<u>804,718</u>	<u>1,166,833</u>
Interest received	22,845	22,599	20,323
Dividend received	6,223	30,345	5,536
Income taxes received	(5,777)	(1,491)	(5,139)
<b>Net cash provided by operating activities</b>	<u>1,334,927</u>	<u>856,171</u>	<u>1,187,553</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows, Continued  
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
<b>Cash flows from investing activities</b>			<b>(note 4)</b>
Decrease in short-term financial instruments	₩ 33,443	36,528	\$ 29,751
Decrease in short-term loans	9	-	8
Recovery of finance lease receivables	6,331	5,579	5,632
Decrease in held-to-maturity investments	11	8,351	9
Decrease in available-for-sale financial assets	6,966	3,000	6,197
Decrease in long-term financial instruments	1,327	1,499	1,179
Proceeds from disposal of investments in subsidiaries	1,184	-	1,053
Proceeds from disposal of assets held for sale	1,982,982	-	1,764,062
Proceeds from disposal of property, aircraft and equipment	103,217	237,815	91,822
Proceeds from disposal of intangible assets	16	77	14
Decrease in guarantee deposits	32,686	42,129	29,078
Inflow of cash from other investing activities	-	3,185	-
Increase in short-term loans	(5)	-	(4)
Increase in short-term financial instruments	(51,800)	(43,568)	(46,082)
Increase in long-term financial instruments	(4,863)	(1,582)	(4,326)
Acquisition of available-for-sale financial assets	(3,000)	(48)	(2,669)
Acquisition of held-to-maturity investments	(7)	(3)	(7)
Acquisition of investments in associates	-	(400,000)	-
Acquisition of property, aircraft and equipment and investment property	(589,751)	(753,949)	(524,642)
Acquisition of intangible assets	(32)	(1)	(29)
Increase in guarantee deposits	(33,744)	(30,156)	(30,018)
Outflow of cash from other investing activities	-	(13)	-
<b>Net cash provided by (used in) investing activities</b>	<u>1,484,970</u>	<u>(891,157)</u>	<u>1,321,028</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Condensed Consolidated Interim Statements of Cash Flows, Continued  
(Unaudited)

For the six-month periods ended June 30, 2015 and 2014

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
<b>Cash flows from financing activities</b>			<b>(note 4)</b>
Proceeds from short-term borrowings	₩ 979,962	1,718,739	\$ 871,775
Proceeds from long-term borrowings	109,899	969,205	97,766
Proceeds from issuance of bonds	89,657	101,043	79,759
Proceeds from issuance of asset-backed securitization loans	600,000	650,000	533,760
Increase in paid-in capital	494,202	-	439,643
Repayment of short-term borrowings	(1,964,214)	(488,268)	(1,747,366)
Repayment of current portion of long-term debts	(1,608,315)	(2,595,583)	(1,430,758)
Repayment of current portion of finance leases obligations	(493,869)	(453,954)	(439,346)
Repayment of government grants	-	(247)	-
Payment of dividends	(617)	(622)	(549)
Payment of dividends attributable to hybrid securities	(6,720)	(6,720)	(5,978)
Interest paid	(199,733)	(207,109)	(177,682)
Outflow of cash from other financing activities	(3,412)	(720)	(3,035)
<b>Net cash used in financing activities</b>	<u>(2,003,160)</u>	<u>(314,236)</u>	<u>(1,782,011)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	816,737	(349,222)	726,570
Cash and cash equivalents at January 1	796,604	1,126,825	708,659
Effect of exchange rate fluctuations on cash held	6,497	(10,056)	5,779
<b>Cash and cash equivalents at June 30</b>	₩ <u>1,619,838</u>	<u>767,547</u>	\$ <u>1,441,008</u>

See accompanying notes to the condensed consolidated interim financial statements.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

**June 30, 2015 and 2014**

**1. General Description of the Parent Company**

Korean Air Lines Co., Ltd. (the "Parent Company"), the controlling entity, was established on June 19, 1962, under the Investment Promotion Law of the Republic of Korea and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals.

The Parent Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966. Total capital stock of the Parent Company as of June 30, 2015 amounted to ₩369,753 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Parent Company's common shares are Hanjin KAL Co., Ltd. (31.46%), Hanjin Transportation Co., Ltd. (7.95%), and its affiliates (4.15%).

**2. Basis of Preparation**

**(a) 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 Corporations*.

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 consolidated financial statements. Selected explanatory notes are included to explain events and transactions that are significant to understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2014. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

**(b) 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.

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 for any future periods affected.

In preparing for these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and estimation are the same as to those applied to the consolidated financial statements as of and for the year ended December 31, 2014.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

**June 30, 2015 and 2014**

**3. Significant Accounting Policies**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as to those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2014.

**4. Convenience Translation of Financial Statements**

The condensed consolidated interim financial statements as of June 30, 2015 and for the three-month and six-month periods ended June 30, 2015 are expressed in Korean won and have been translated into US dollars at the rate of ₩1,124.10 to \$1, the basic exchange rate on June 30, 2015 posted by Seoul Money Brokerage Services, solely for the convenience of the reader. These translations do not comply with K-IFRS and also should not be construed as a representation that any or all of the amounts shown could be converted into US dollars at this or any other rate.

**5. Segment Information**

(a) The Group's segment information is prepared for the purpose of resource allocation and segment performance assessment. The Group's reportable segments are summarized as follows:

<u>Segment</u>	<u>Type of Goods and Services</u>	<u>Customer's information</u>
Air transport	Passenger and cargo transportation	Individual, enterprises, government, etc.
Aerospace	Maintenance of aircraft and manufacture of aircraft parts	Department of defense, etc.
In-flight meals	Catering of in-flight meals	Overseas airlines, etc.
Hotel/limousine and others	Hotel services and limousine transportation	Individual, etc.

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Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

5. Segment Information, Continued

(b) Operating results by reportable segment for the six-month period ended June 30, 2015 are summarized as follows:

(In millions of won)

		<b>Air transport</b>	<b>Aerospace</b>	<b>In-flight meals</b>	<b>Hotel/ limousine</b>	<b>Others</b>	<b>Adjustment for consolidation</b>	<b>Total</b>
Total revenue	₩	5,174,479	479,948	47,044	22,072	144,441	(210,794)	5,657,190
Internal revenue		(135,546)	-	(24)	(2,046)	(73,178)	210,794	-
Net revenue		5,038,933	479,948	47,020	20,026	71,263	-	5,657,190
Operating income (loss)		76,653	87,674	15,877	(1,629)	8,870	(106)	187,339
Depreciation and amortization		(772,971)	(23,741)	(2,874)	(710)	(8,664)	-	(808,960)
Total assets		20,536,796	1,180,504	65,551	846,373	709,576	(440,316)	22,898,484
Total liabilities								20,349,688

(Note 4)

(In thousands of US dollars)

		<b>Air transport</b>	<b>Aerospace</b>	<b>In-flight meals</b>	<b>Hotel/ limousine</b>	<b>Others</b>	<b>Adjustment for consolidation</b>	<b>Total</b>
Total revenue	\$	4,603,219	426,962	41,850	19,635	128,496	(187,522)	5,032,640
Internal revenue		(120,582)	-	(21)	(1,820)	(65,099)	187,522	-
Net revenue		4,482,637	426,962	41,829	17,815	63,397	-	5,032,640
Operating income (loss)		68,191	77,995	14,124	(1,449)	7,891	(94)	166,658
Depreciation and amortization		(687,635)	(21,120)	(2,557)	(632)	(7,707)	-	(719,651)
Total assets		18,269,545	1,050,177	58,314	752,934	631,240	(391,705)	20,370,505
Total liabilities								18,103,094

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

5. Segment Information, Continued

(c) Operating results by geographical area for the six-month period ended June 30, 2015 are summarized as follows:

(In millions of won)

	<u>Local</u>		<u>Overseas</u>		<u>Adjustment for consolidation</u>	<u>Total</u>	
	<u>Domestic</u>	<u>International</u>	<u>Americas</u>	<u>Asia, etc.</u>			
Total revenue	₩	948,259	4,904,803	3,099	11,823	(210,794)	5,657,190
Internal revenue		(200,896)		-	(9,898)	210,794	-
Net revenue		5,652,166		3,099	1,925	-	5,657,190
Operating income (loss)		187,837		(905)	513	(106)	187,339
Total assets		22,497,695		820,883	20,222	(440,316)	22,898,484
Total liabilities							20,349,688

(Note 4)

(In thousands of US dollars)

	<u>Local</u>		<u>Overseas</u>		<u>Adjustment for consolidation</u>	<u>Total</u>	
	<u>Domestic</u>	<u>International</u>	<u>Americas</u>	<u>Asia, etc.</u>			
Total revenue	\$	843,572	4,363,315	2,757	10,518	(187,522)	5,032,640
Internal revenue		(178,717)		-	(8,805)	187,522	-
Net revenue		5,028,170		2,757	1,713	-	5,032,640
Operating income (loss)		167,100		(805)	457	(94)	166,658
Total assets		20,013,962		730,258	17,990	(391,705)	20,370,505
Total liabilities							18,103,094

(d) No single customer accounted for more than 10% of the Group's revenue for the six-month periods ended June 30, 2015 and 2014.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

6. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Cash on hand	₩ 571	324	\$ 508
Bank deposits	<u>1,619,267</u>	<u>796,280</u>	<u>1,440,500</u>
	<u>₩ 1,619,838</u>	<u>796,604</u>	<u>\$ 1,441,008</u>

7. Restricted Deposits and Pledged Financial Instruments

Restricted deposits and pledged financial instruments as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>Remark</u>
Cash and cash equivalents	₩	1,800	1,800	Pledged for guaranteed loans of Hanjin Shipping Co., Ltd.
		-	7,547	Pledged for borrowings of Grandstar Cargo International Airlines Co., Ltd.
		1,200	1,000	Rental guarantee for Incheon International Airport terminal
	\$	100,000	-	Restricted by use of specific purpose
	₩	5,130	5,130	Performance guarantee deposit for the mail delivery contract with Korea Post
Held-to-maturity investments		808	808	Performance guarantee deposit for the mail delivery contract with Korea Post
Available-for-sale financial assets		109,446	106,182	Pledged for loans of HIC
		423	423	Performance guarantee for Korea Software Financial Cooperative and others
Short-term and long-term financial instruments	\$	50,000	50,000	Pledged for loans of HIC
	₩	17	17	Bank account deposit
		130	130	Performance guarantee deposit for U.S. Air Force delivery service
		1,018	966	Accident compensation for employees and guarantee for X-Ray of Incheon International Airport
		70	66	Receivables attachment for employees
		3,722	3,722	Pledged for guaranteed loans of Hanjin Shipping Co., Ltd.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
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June 30, 2015 and 2014

8. Trade and Other Receivables

Trade and other receivables as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
<b>Current trade receivables:</b>			(Note 4)
Trade receivables	₩ 558,604	612,908	\$ 496,934
Allowance for doubtful accounts	(5,537)	(5,997)	(4,926)
Present value discounts	(13)	(30)	(12)
	<u>553,054</u>	<u>606,881</u>	<u>491,996</u>
<b>Non-current trade receivables:</b>			
Trade receivables	313	279	278
Allowance for doubtful accounts	(3)	(2)	(3)
Present value discounts	(29)	(24)	(25)
	<u>281</u>	<u>253</u>	<u>250</u>
	<u>553,335</u>	<u>607,134</u>	<u>492,246</u>
<b>Current other receivables:</b>			
Non-trade receivables	168,842	133,926	150,202
Allowance for doubtful accounts	(917)	(766)	(816)
Short-term loans	220,012	220,017	195,723
Accrued income	52,494	52,761	46,698
Allowance for doubtful accounts	(512)	(520)	(453)
	<u>439,919</u>	<u>405,418</u>	<u>391,354</u>
	<u>₩ 993,254</u>	<u>1,012,552</u>	<u>\$ 883,600</u>

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
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**June 30, 2015 and 2014**

**9. Available-for-Sale Financial Assets**

Available-for-sale financial assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Marketable securities recorded at fair value	₩ 153,337	134,360	\$ 136,409
Non-marketable securities	59,474	59,603	52,908
Beneficiary certificate	-	5,000	-
Debt securities	6	6	6
Investments in other equity securities(*)	11,746	8,523	10,449
	<u>₩ 224,563</u>	<u>207,492</u>	<u>\$ 199,772</u>

(\*) As of June 30, 2015, ₩423 million of investments in other equity securities were provided to Korea Software Financial Cooperative and others as collateral related to the performance guarantee (Note 7).

Impairment loss of ₩212 thousand occurred in available-for-sale financial assets for the six-month period ended June 30, 2014.

**10. Held-to-Maturity Investments**

Held-to-maturity investments as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Current	₩ 52	20	\$ 46
Non-current	918	954	817
	<u>₩ 970</u>	<u>974</u>	<u>\$ 863</u>

Government and public bonds are pledged as performance guarantee as of June 30, 2015 and December 31, 2014 (Note 7).

There were no held-to-maturity investments overdue or impaired for the six-month periods ended June 30, 2015 and 2014.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

**11. Inventories**

Inventories as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
			(Note 4)
Merchandises	₩ 21,066	21,490	\$ 18,741
Finished goods	9,228	8,903	8,209
Raw materials	83,370	74,197	74,166
Supplies	329,776	309,677	293,369
Materials-in-transit	14,917	15,913	13,270
	<u>₩ 458,357</u>	<u>430,180</u>	<u>\$ 407,755</u>

**12. Finance Lease Receivables**

The Group has offered the finance leases of the aircrafts. The minimum lease payments and present value of the finance leases as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
			(Note 4)
Less than one year	₩ 22,191	22,879	\$ 19,741
One year to five years	73,793	82,418	65,646
	95,984	105,297	85,387
Present value discounts	(15,170)	(19,942)	(13,495)
	80,814	85,355	71,892
Less current portion of finance lease receivables	(13,020)	(13,014)	(11,583)
	<u>₩ 67,794</u>	<u>72,341</u>	<u>\$ 60,309</u>

There were no finance lease receivables impaired for the six-month periods ended June 30, 2015 and 2014.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
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June 30, 2015 and 2014

13. Consolidated Subsidiaries

(a) Consolidated subsidiaries as of June 30, 2015 and December 31, 2014 are summarized as follows:

Company	Principal Business	Location	Percentage of ownership	
			June 30, 2015	December 31, 2014
Korean Airport Service Co., Ltd.	Airport support service	Korea	59.54%	59.54%
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35%	99.35%
Air Total Service Co., Ltd.	Labor supply	Korea	100.00%	100.00%
Hanjin Energy Co., Ltd.	Business support service	Korea	-	100.00%
Hanjin International Corp.	Hotel and rental service	Korea	100.00%	100.00%
Hanjin Central Asia MChJ.	Construction operating	Uzbekistan	100.00%	100.00%
Incheon Aviation Tech Co., Ltd.	Aircraft engine repair service	Korea	90.00%	90.00%
Wangsan Leisure Development Co., Ltd.	Sports and leisure service	Korea	100.00%	100.00%
Korea Global Logistics System Co., Ltd.	Telecommunication service	Korea	95.00%	95.00%
Air Korea Co., Ltd.	Airport support service	Korea	100.00%	100.00%
Hanjin Int'l Japan Co., Ltd.	Airport support service	Japan	55.00%	55.00%
TAS	Seconding personnel service	USA	100.00%	100.00%
KAL 4 Asset Securitization Specialty Company(*)	Issuance and repayment of asset-backed securitization ("ABS") loans	Korea	-	0.50%
KAL 7 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 8 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	-	0.50%
KAL 9 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 10 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 11 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 11B Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 11C Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 12 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 13 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 14 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 15 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%
KAL 16 Asset Securitization Specialty Company(*)	Issuance and repayment of ABS loans	Korea	0.50%	0.50%

(\*) The Parent Company classified KAL Asset Securitization Specialty Companies as investments in subsidiaries because the Parent Company controls investees when 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.

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June 30, 2015 and 2014

13. Consolidated Subsidiaries, Continued

(b) Financial positions of the Group's major subsidiaries as of June 30, 2015 are summarized as follows:

(In millions of won)

		<b>Korea Airport Service Co., Ltd.(*)</b>	<b>Hanjin Information Systems &amp; Telecommuni- cation Co., Ltd.</b>	<b>Korea Global Logistics System Co., Ltd.</b>	<b>Hanjin International Corp.</b>
Current assets	₩	169,049	70,372	8,477	255,663
Non-current assets		206,667	12,021	88	595,661
	₩	<u>375,716</u>	<u>82,393</u>	<u>8,565</u>	<u>851,324</u>
Current liabilities	₩	40,421	16,521	240	2,624
Non-current Liabilities		66,357	4,647	86	697,760
	₩	<u>106,778</u>	<u>21,168</u>	<u>326</u>	<u>700,384</u>
Owners of the Company	₩	268,938	61,225	8,239	150,940
Non-controlling Interests		-	-	-	-
	₩	<u>268,938</u>	<u>61,225</u>	<u>8,239</u>	<u>150,940</u>

(\*) Financial position, as disclosed above, include the consolidated adjusting amounts before intercompany transactions that are not eliminated.

(c) Summary of financial performances of the Group's major subsidiaries for the six-month period ended June 30, 2015 is as follows:

(In millions of won)

		<b>Korea Airport Service Co., Ltd.(*)</b>	<b>Hanjin Information Systems &amp; Telecommuni- cation Co., Ltd.</b>	<b>Korea Global Logistics System Co., Ltd.</b>	<b>Hanjin International Corp.</b>
Revenue	₩	209,449	58,732	1,494	3,099
Operating income (loss)		2,899	4,540	702	(905)
Net income (loss)		(2,080)	4,462	627	(4,042)

(\*) Financial performance, as disclosed above, include the consolidated adjusting amounts before intercompany transactions that are not eliminated.

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June 30, 2015 and 2014

13. Consolidated Subsidiaries, Continued

- (d) Cash flows of the Group's major subsidiaries for the six-month period ended June 30, 2015 are summarized as follows:

(In millions of won)

	<b>Korea Airport Service Co., Ltd. (*)</b>	<b>Hanjin Information Systems &amp; Telecommuni- cation Co., Ltd.</b>	<b>Korea Global Logistics System Co., Ltd.</b>	<b>Hanjin International Corp.</b>
Cash flows from operating activities	₩ 1,130	6,155	460	(4,101)
Cash flows from Investing activities	10,279	(4,631)	(568)	(176,086)
Cash flows from financing activities	<u>(12,489)</u>	<u>(350)</u>	<u>-</u>	<u>109,899</u>
Net changes in cash and cash equivalents	(1,080)	1,174	(108)	(70,288)
Changes in cash and cash equivalents due to foreign currency translation	47	-	-	5,588
Beginning balance	<u>28,439</u>	<u>4,923</u>	<u>736</u>	<u>317,588</u>
Ending balance	<u>₩ 27,406</u>	<u>6,097</u>	<u>628</u>	<u>252,888</u>

(\*) Cash flows, as disclosed above, include the amounts before intercompany transactions that are not eliminated.

- (e) The ownership ratio of non-controlling interests, financial position as of June 30, 2015, financial performances for the six-month period ended June 30, 2015 and dividend paid to non-controlling interests of major subsidiaries are as follows:

(In millions of won)

	<b>Korea Airport Service Co., Ltd.</b>	<b>Hanjin Information Systems &amp; Telecommunication Co., Ltd.</b>	<b>Korea Global Logistics System Co., Ltd.</b>
Ownership ratio(*)	40.46%	0.65%	5.00%
Non-controlling interests	₩ 107,619	399	412
Net Income (loss)			
Attributable to non-controlling interests	(604)	29	31
Dividend paid to non-controlling interests	587	2	-

(\*) Ownership of non-controlling interest is not included, whether directly or indirectly, in the ownership of the Parent Company. It may differ from percentage of shares that is deducted by simply adding up each subsidiary's share.

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14. Investments in Associates

(a) Investments in associates as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

<u>Company</u>	<u>Location</u>	<u>Percentage of ownership</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
					(Note 4)
Grandstar Cargo International Airlines Co., Ltd.(*1)	China	-	₩ -	-	\$ -
Hanjin Shipping Co., Ltd. (*2)	Korea	33.23%	544,229	467,574	484,147
EIGHTCITY Co., Ltd.(*3)	Korea	23.81%	-	-	-
Czech Airlines j.s.c.(*3)	Czech	44.00%	-	-	-
			₩ 544,229	467,574	\$ 484,147

(\*1) Entire acquisition cost of Grandstar Cargo Int'l Airlines Co., Ltd. was recognized as impairment loss and share of loss for investments in associates before 2014. This investments in associates was sold in May 2015.

(\*2) Investments in associates of Hanjin Shipping Co., Ltd. were pledged as collateral for the guaranteed loans (Note 19).

(\*3) Entire acquisition cost of EIGHTCITY Co., Ltd. and Czech Airlines j.s.c. was recognized as impairment loss before 2014.

(b) Fair values of marketable securities under investments in associates as of June 30, 2015 and December 31, 2014 are as follows:

(In millions of won and in thousands of US dollars)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Hanjin Shipping Co., Ltd.	₩ 467,788	490,607	\$ 416,144

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14. Investments in Associates, Continued

(c) Changes in investment in associates for the six-month period ended June 30, 2015 are as follows:

(In millions of won and in thousands of US dollars)

Company	Balance at Jan. 1, 2015	Acquisition	Share of profit	Net change in interests of equity method	Others (*)	Balance at June 30, 2015	Balance at June 30, 2015
Hanjin Shipping Co., Ltd.	₩ 467,574	-	59,535	14,816	2,304	544,229	\$ 484,147

(Note 4)

(\*) Others are mainly due to share exchange of Hanjin Shipping Co., Ltd. and the reversal of negative goodwill arising from exercise of bonds with warrants.

(d) Changes in investment in associates for the six-month period ended June 30, 2014 are as follows:

(In millions of won)

Company	Balance at Jan. 1, 2014	Acquisition	Dividend	Share of profit	Net change in interests of equity method	Others (*3)	Balance at June 30, 2014
Hanjin Shipping Co., Ltd. (*1)	₩ -	400,000	-	-	-	73,533	473,533
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*1,2)	-	-	-	10,601	-	12,210	22,811
Hanjin- Jungseok Investment	2,566	-	-	25	-	-	2,591
S-Oil Co., Ltd.	2,392,410	-	(28,146)	24,053	(6,787)	-	2,381,530
Czech Airlines j.s.c.	10,848	-	-	(12,502)	2,264	-	610
Air Korea Co., Ltd. (*3)	1,672	-	(35)	195	-	3	1,835
	₩ 2,407,496	400,000	(28,181)	22,372	(4,523)	85,746	2,882,910

(\*1) Hanjin Shipping Co., Ltd. merged with the shipping holdings segment and trademark management segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) which was spun-off during the six-month period ended June 30, 2014. As a result, 8,431,450 shares of Hanjin Shipping Holdings Co., Ltd. was exchanged for 12,174,256 shares of Hanjin Shipping Co., Ltd.

(\*2) The Group recognized ₩12,210 million as reversal of impairment loss on the shares of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) for the six-month period ended June 30, 2014.

(\*3) Others are mainly due to the change in re-measurement of the net defined benefit liabilities of investment in associates.

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14. Investments in Associates, Continued

(e) Financial information of the Group's investments in associates as of June 30, 2015 and December 31, 2014 is as follows:

(In millions of won and in thousands of US dollars)

Hanjin Shipping Co., Ltd.	June 30, 2015	December 31, 2014	June 30, 2015
			(Note 4)
Current assets	₩ 1,359,288	1,678,773	\$ 1,209,223
Non-current assets	6,701,157	6,836,526	5,961,354
	₩ 8,060,445	8,515,299	\$ 7,170,577
Current liabilities	₩ 3,949,784	5,058,842	\$ 3,513,730
Non-current liabilities	3,164,541	2,678,916	2,815,178
	₩ 7,114,325	7,737,758	\$ 6,328,908
Owners of the Parent Company	₩ 863,301	726,831	\$ 767,993
Non-controlling interests	82,819	50,710	73,676
	₩ 946,120	777,541	\$ 841,669
Revenue	₩ 4,134,085	8,654,833	\$ 3,677,685
Operating income	214,216	82,145	190,567
Net income (loss) attributable to owners of the Parent Company	103,264	(447,687)	91,863
Net income attributable to non-controlling interests	23,903	24,353	21,264

Summarized financial information of investments in associates disclosed above include adjustments for fair value due to the acquisition of equity and the difference adjustments of accounting policies compared to the Group. However, intercompany transactions and goodwill recognized in the Group are not reflected on this financial information.

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**14. Investments in Associates, Continued**

- (f) Adjustments from equity of associates to book value of shares owned as of June 30, 2015 and December 31, 2014 are as follows:

*(In millions of won and in thousands of US dollars)*

<b>Hanjin Shipping Co., Ltd.</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
			(Note 4)
Net assets (A)(*1) ₩	707,380	532,301	\$ 629,286
Ownership ratio (B)(*2)	41.77%	43.22%	42.39%
(A) X (B)	295,481	230,038	262,860
Investment difference	248,748	237,536	221,287
Book value ₩	<u>544,229</u>	<u>467,574</u>	<u>\$ 484,147</u>

(\*1) The amount of hybrid securities of Hanjin Shipping Co., Ltd. was excluded in net assets.

(\*2) The treasury stocks of Hanjin Shipping Co., Ltd. were excluded in calculating ownership ratio.

**15. Interests in Joint Operations**

The Group owns a building for joint investment purpose, which is subject to the significant joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located at Jung-gu, Incheon, and invested in the building for the purpose of leasing. The Group has the right to the rental income and the obligation to the incurred expenses proportionally to its interest.

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16. Investment Property

(a) Investment property as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won)

		<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Book value</b>
<b>June 30, 2015</b>				
Land	₩	61,769	-	61,769
Buildings		31,879	(12,010)	19,869
Construction-in-progress		147,136	-	147,136
	₩	<u>240,784</u>	<u>(12,010)</u>	<u>228,774</u>
<b>December 31, 2014</b>				
Land	₩	60,973	-	60,973
Buildings		31,279	(11,348)	19,931
Construction-in-progress		94,666	-	94,666
	₩	<u>186,918</u>	<u>(11,348)</u>	<u>175,570</u>

(b) Changes in the carrying amount of investment property for the six-month period ended June 30, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		<b>Balance at Jan. 1, 2015</b>	<b>Acquisi- -tion</b>	<b>Deprecia- -tion</b>	<b>Others (* )</b>	<b>Balance at June 30, 2015</b>	<b>Balance at June 30, 2015</b>
							(Note 4)
Land	₩	60,973	-	-	796	61,769	\$ 54,950
Buildings		19,931	-	(422)	360	19,869	17,675
Construction- in-progress		94,666	52,470	-	-	147,136	130,893
	₩	<u>175,570</u>	<u>52,470</u>	<u>(422)</u>	<u>1,156</u>	<u>228,774</u>	<u>\$ 203,518</u>

(\*) Other increases or decreases were mainly due to the transfer of property, aircraft and equipment to investment properties, and the effect of exchange rate fluctuations.

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June 30, 2015 and 2014

**16. Investment Property, Continued**

- (c) Changes in the carrying amount of investment property for the six-month period ended June 30, 2014 are summarized as follows:

*(In millions of won)*

		<u>Balance at Jan. 1, 2014</u>	<u>Acquisition</u>	<u>Depreciation</u>	<u>Others(*)</u>	<u>Balance at June 30, 2014</u>
Land	₩	44,407	-	-	4,026	48,433
Buildings		<u>24,157</u>	<u>-</u>	<u>(414)</u>	<u>(3,422)</u>	<u>20,321</u>
	₩	<u>68,564</u>	<u>-</u>	<u>(414)</u>	<u>604</u>	<u>68,754</u>

(\*) Other increases or decreases were mainly due to the transfer of property, aircraft and equipment to investment properties, and the effect of exchange rate fluctuations.

- (d) Revenue and cost related to investment property for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

		<u>2015</u>	<u>2014</u>	<u>2015</u>
Rental income	₩	1,076	1,018	\$ 957
Cost (depreciation, etc.)		422	414	375

(Note 4)

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17. Property, Aircraft and Equipment

(a) Property, aircraft and equipment as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won)

	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
<b>June 30, 2015</b>			
Land(*)	₩ 1,955,688	-	1,955,688
Leased land(*)	21,460	-	21,460
Buildings	823,579	(307,814)	515,765
Structures	166,039	(86,063)	79,976
Machinery	354,079	(265,021)	89,058
Aircraft	6,436,286	(4,332,390)	2,103,896
Engines	1,990,831	(1,192,283)	798,548
Leased aircraft	9,250,168	(2,368,866)	6,881,302
Leased engines	2,561,594	(889,419)	1,672,175
Aircraft parts	247,190	(130,556)	116,634
Others	510,026	(383,399)	126,627
Construction-in-progress	1,751,952	-	1,751,952
	<u>₩ 26,068,892</u>	<u>(9,955,811)</u>	<u>16,113,081</u>
<b>December 31, 2014</b>			
Land(*)	₩ 1,955,231	-	1,955,231
Leased land(*)	21,460	-	21,460
Buildings	790,751	(297,737)	493,014
Structures	165,984	(83,763)	82,221
Machinery	348,295	(257,428)	90,867
Aircraft	6,614,868	(4,313,486)	2,301,382
Engines	2,071,034	(1,222,542)	848,492
Leased aircraft	8,817,585	(2,181,010)	6,636,575
Leased engines	2,371,227	(791,659)	1,579,568
Aircraft parts	233,871	(125,329)	108,542
Others	508,744	(382,752)	125,992
Construction-in-progress	1,534,730	-	1,534,730
	<u>₩ 25,433,780</u>	<u>(9,655,706)</u>	<u>15,778,074</u>

(\*) Acquisition cost includes the increase of ₩372,107 million from land revaluation before 2014.

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17. Property, Aircraft and Equipment, Continued

(b) Changes in the carrying amount of property, aircraft and equipment for the six-month period ended June 30, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	Balance at Jan. 1, 2015	Acquisition	Disposal	Depreciation	Others (*)	Balance at June 30, 2015	Balance at June 30, 2015
							(Note 4)
Land	₩ 1,955,231	-	(48)	-	505	1,955,688	\$ 1,739,781
Leased land	21,460	-	-	-	-	21,460	19,091
Buildings	493,014	2,267	(4)	(10,345)	30,833	515,765	458,825
Structures	82,221	78	-	(2,323)	-	79,976	71,147
Machinery	90,867	5,071	(4)	(7,994)	1,118	89,058	79,226
Aircraft	2,301,382	42	(106,842)	(168,165)	77,479	2,103,896	1,871,627
Engines	848,492	-	(80,983)	(129,599)	160,638	798,548	710,389
Leased aircraft	6,636,575	55,927	-	(290,992)	479,792	6,881,302	6,121,610
Leased engines	1,579,568	50,194	-	(154,173)	196,586	1,672,175	1,487,568
Aircraft parts	108,542	16,935	-	(6,127)	(2,716)	116,634	103,757
Others	125,992	13,880	(135)	(16,770)	3,660	126,627	112,648
Construction-in-progress	1,534,730	1,156,916	-	-	(939,694)	1,751,952	1,558,537
	₩ 15,778,074	1,301,310	(188,016)	(786,488)	8,201	16,113,081	\$ 14,334,206

(\*) Other increases or decreases were mainly due to the transfer of construction-in-progress to property, aircraft and equipment, intangible assets and investment properties, and occurrence of contribution-in-kind.

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17. Property, Aircraft and Equipment, Continued

- (c) Changes in the carrying amount of property, aircraft and equipment for the six-month period ended June 30, 2014 are as follows:

(In millions of won)

	<b>Balance at Jan. 1, 2014</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Depreciation</b>	<b>Others (*)</b>	<b>Balance at June 30, 2014</b>
Land	₩ 1,965,606	-	-	-	(1,543)	1,964,063
Leased land	21,460	-	-	-	-	21,460
Buildings	514,236	104	-	(10,193)	(1,103)	503,044
Structures	85,935	-	-	(2,324)	919	84,530
Machinery	98,578	1,402	(105)	(7,762)	-	92,113
Aircraft	1,992,461	1,046	(58,879)	(153,842)	445,742	2,226,528
Engines	991,934	558	(304,346)	(130,852)	231,508	788,802
Leased aircraft	6,753,921	9,846	(7,458)	(293,653)	119,789	6,582,445
Leased engines	1,502,652	187,254	(4,718)	(163,656)	86,097	1,607,629
Aircraft parts	105,426	10,325	(4)	(6,052)	(2,642)	107,053
Others	117,350	14,960	(287)	(16,971)	8,951	124,003
Construction-in-progress	<u>1,354,330</u>	<u>1,095,052</u>	<u>-</u>	<u>-</u>	<u>(911,649)</u>	<u>1,537,733</u>
	<u>₩ 15,503,889</u>	<u>1,320,547</u>	<u>(375,797)</u>	<u>(785,305)</u>	<u>(23,931)</u>	<u>15,639,403</u>

(\*) Other increases or decreases were mainly due to the transfer of construction-in-progress to property, aircraft and equipment, intangible assets and investment properties.

- (d) The Group capitalized borrowing costs of ₩11,603 million into construction-in-progress for the six-month period ended June 30, 2015. The weighted average interest rates of borrowings specifically and generally for the purpose of obtaining qualifying assets are 4.19% and 3.85%, respectively. In addition, the subsidiaries used interest rate of 3.22%~5.64% on borrowings specifically for the purpose of obtaining qualifying assets for six-month period ended June 30, 2015.

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**17. Property, Aircraft and Equipment, Continued**

- (e) The Group is implementing revaluation model on land. As of June 30, 2013, the Group revaluated land through an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. Land was revaluated based on land-basis method, which uses price of land nearby and similar of utility value, and further applies the effect of land price change rate from the date of public land value announcement, producer price index, location, shape, environment, usage, and other factors. The book value of land by revaluation model and cost model are as follows:

(In millions of won and in thousands of US dollars)

		<u>Revaluation model</u>	<u>Cost model</u>		<u>Revaluation model</u>	<u>Cost model</u>
					(Note 4)	
Land	₩	1,955,688	1,592,935	\$	1,739,781	1,592,935
Leased land		21,460	13,385		19,091	13,385
	₩	<u>1,977,148</u>	<u>1,606,320</u>	\$	<u>1,758,872</u>	<u>1,606,320</u>

The Group recognized revaluation surplus of ₩423,231 million (before income tax), which is credited to equity as other comprehensive income and recognized accumulated revaluation loss of ₩52,403 million as of June 30, 2015.

- (f) Fair value measurements of land and leased land by fair value hierarchy levels as of June 30, 2015 are as follows:

(In millions of won and in thousands of US dollars)

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Total</u>
						(Note 4)
Land	₩	-	1,955,688	-	1,955,688	\$ 1,739,781
Leased land		-	21,460	-	21,460	19,091
	₩	<u>-</u>	<u>1,977,148</u>	<u>-</u>	<u>1,977,148</u>	\$ <u>1,758,872</u>

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18. Intangible Assets

(a) Intangible assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won)

		<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Book value</u>
<b>June 30, 2015</b>				
Goodwill	₩	2,721	-	2,721
Facility usage rights		228,894	(129,415)	99,479
Development costs		135,531	(60,139)	75,392
Other intangible assets		<u>180,656</u>	<u>(47,398)</u>	<u>133,258</u>
	₩	<u>547,802</u>	<u>(236,952)</u>	<u>310,850</u>
<b>December 31, 2014</b>				
Goodwill	₩	4,890	-	4,890
Facility usage rights		228,894	(124,394)	104,500
Development costs		131,777	(47,388)	84,389
Other intangible assets		<u>181,412</u>	<u>(43,963)</u>	<u>137,449</u>
	₩	<u>546,973</u>	<u>(215,745)</u>	<u>331,228</u>

(b) Changes in the carrying amount of intangible assets for the six-month period ended June 30, 2015 are as follows:

(In millions of won and in thousands of US dollars)

	<u>Balance at Jan. 1, 2015</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Amortization</u>	<u>Others (*)</u>	<u>Balance at June 30, 2015</u>	<u>Balance at June 30, 2015</u>
							(Note 4)
Goodwill	₩ 4,890	-	(2,169)	-	-	2,721	\$ 2,421
Facility usage rights	104,500	-	-	(5,021)	-	99,479	88,497
Development costs	84,389	-	-	(12,751)	3,754	75,392	67,069
Other intangible assets	<u>137,449</u>	<u>32</u>	<u>(6)</u>	<u>(4,278)</u>	<u>61</u>	<u>133,258</u>	<u>118,545</u>
	₩ <u>331,228</u>	<u>32</u>	<u>(2,175)</u>	<u>(22,050)</u>	<u>3,815</u>	<u>310,850</u>	\$ <u>276,532</u>

(\*) Other increases or decreases were mainly due to the transfer of construction-in-progress.

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18. Intangible Assets, Continued

(c) Changes in the carrying amount of intangible assets for the six-month period ended June 30, 2014 are as follows:

(In millions of won)

	<b>Balance at Jan. 1, 2014</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Amortization</b>	<b>Others (*)</b>	<b>Balance at June 30, 2014</b>
Goodwill	₩ 2,302	-	-	-	-	2,302
Facility usage rights	114,573	-	-	(5,048)	-	109,525
Development costs	87,545	-	-	(8,318)	13,481	92,708
Other intangible assets	144,802	1	(100)	(4,157)	(10)	140,536
	₩ <u>349,222</u>	<u>1</u>	<u>(100)</u>	<u>(17,523)</u>	<u>13,471</u>	<u>345,071</u>

(\*) Other increases or decreases were mainly due to the transfer of construction-in-progress.

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**19. Pledged Assets (Non-financial Assets)**

Pledged assets provided as collateral and guarantees as of June 30, 2015 are summarized as follows:

*(In millions of won, except share data)*

<u>Pledged assets</u>	<u>Book value</u>	<u>Collateralized amount (*2)</u> <u>/shares</u>	<u>Provided to</u>	<u>In relation to</u>
Land and buildings(*1)	₩ 2,078,872	1,843,120	Korea	Short-term
Aircraft and engines	2,192,201	3,049,798	Development Bank and others	and long-term borrowings, etc.
Machinery	17,353	14,270		
Facility usage rights	75,534	185,500		
Investment in associates - Hanjin Shipping Co., Ltd	544,229	81,496,169 shares	The Export-Import Bank of Korea and others	Long-term borrowings and borrowings of Hanjin International Corp., etc.
Hanjin International Corp.'s shares	155,716	39,140,000 shares	Industrial Bank of Korea and others	Borrowings of Hanjin International Corp., etc.

(\*1) The book value of land and buildings consist of property and investment properties.

(\*2) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won amounts at the exchange rate on June 30, 2015.

In addition, the Group has provided leased aircraft, engines and land as collateral to the lessors for finance lease obligations. Also, the Group has provided mileage receivables as collateral for the long-term borrowings (Note 24).

The Group has also provided property such as land, buildings, machinery, and mining rights worth of ₩23,955 million as collateral for borrowings of ₩6,086 million from Korea Resources Corporation and suspension of imposing income taxes.

**20. Other Financial Assets**

Other financial assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
Guarantee deposits	₩ 261,095	256,024	\$(Note 4) 232,270

The Group is providing guarantee deposits of JPY 3,052,280 thousand, \$21,005 thousand and HKD 44,687 thousand for ABS loans (Note 24). There were no overdue or impaired other financial assets for the six-month periods ended June 30, 2015 and 2014.

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**21. Other Assets**

Other assets as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
			(Note 4)
<b>Other current assets:</b>			
Advanced payments(*)	₩ 378,893	347,522	\$ 337,064
Prepaid expenses	155,948	123,331	138,732
Others	13,378	5,009	11,900
	<u>548,219</u>	<u>475,862</u>	<u>487,696</u>
<b>Other non-current assets:</b>			
Advanced payments(*)	75	75	67
Prepaid expenses	347,837	344,620	309,436
Others	3,162	3,162	2,813
	<u>351,074</u>	<u>347,857</u>	<u>312,316</u>
	<u>₩ 899,293</u>	<u>823,719</u>	<u>\$ 800,012</u>

(\*) The Group is providing advanced payments of ₩76,794 million, JPY 3,185,676 thousand, \$14,494 thousand and HKD 22,624 thousand for ABS loans (Note 24).

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**22. Trade and Other Payables**

Trade and other payables as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
<b>Current trade and other payables:</b>			(Note 4)
Trade payables	₩ 152,044	121,696	\$ 135,258
Non-trade payables	182,063	192,022	161,963
Accrued expenses	483,049	384,451	429,721
Dividends payable	40	77	36
	<u>817,196</u>	<u>698,246</u>	<u>726,978</u>
<b>Non-current trade and other payables:</b>			
Non-trade payables	79,558	110,147	70,775
Accrued expenses	8,945	16,130	7,957
	<u>88,503</u>	<u>126,277</u>	<u>78,732</u>
	<u>₩ 905,699</u>	<u>824,523</u>	<u>\$ 805,710</u>

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23. Short-term Borrowings

Short-term borrowings as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>Annual interest rate</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u> (Note 4)
Korea Development Bank	-	₩ -	130,000	\$ -
NongHyup Bank	3M CD rate + 1.70% 3.10%	180,000	170,000	160,128
Shinhan Bank	-	-	5,000	-
Hana Bank and others	3M CD rate + 1.50%	30,000	1,066,211	26,688
The Export-Import Bank of Korea	1.01%	73,067	-	65,000
Bank of China	3M LIBOR + 2.80%	22,482	-	20,000
Korea Exchange Bank	3M LIBOR + 3.15%	44,964	-	40,000
Hana Bank	3M LIBOR + 2.60%	68,066	66,558	60,552
Woori Bank	3M LIBOR + 1.41% ~ 2.33%	131,463	54,960	116,950
Korea Development Bank – Singapore	3M LIBOR + 2.10%	56,205	54,960	50,000
Kookmin Bank	3M LIBOR + 2.90%	56,205	61,555	50,000
NongHyup Bank	-	-	25,282	-
		₩ <u>662,452</u>	<u>1,634,526</u>	\$ <u>589,318</u>

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24. Long-term Debt

(a) Debentures

Debentures issued and outstanding as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	Issue date	Maturity	Annual interest rate		June 30, 2015	December 31, 2014	June 30, 2015
							(Note 4)
38-2 <sup>nd</sup>	10.02.04	15.02.04	-	₩	-	200,000	\$ -
43-2 <sup>nd</sup>	11.08.08	16.08.08	5.03%		300,000	300,000	266,880
44-1 <sup>st</sup>	12.02.08	15.02.08	-		-	200,000	-
44-2 <sup>nd</sup>	12.02.08	16.02.08	4.52%		150,000	150,000	133,440
44-3 <sup>rd</sup>	12.02.08	15.02.08	-		-	92,014	-
45 <sup>th</sup>	12.02.27	15.02.27	-		-	92,014	-
46-1 <sup>st</sup>	12.07.19	15.07.19	3.58%		150,000	150,000	133,440
46-2 <sup>nd</sup>	12.07.19	17.07.19	3.98%		250,000	250,000	222,400
47-2 <sup>nd</sup>	12.10.08	19.10.18	4.16%		250,000	250,000	222,400
49-3 <sup>rd</sup>	12.12.13	19.12.13	4.36%		170,000	170,000	151,232
50th(*1)	13.02.25	16.02.25	6M JPY LIBOR + 1.55%		77,958	78,212	69,351
51th	13.02.26	16.02.26	6M JPY LIBOR + 2.35%		91,715	92,014	81,590
52th	13.03.11	15.09.11	6M JPY LIBOR + 2.20%		91,715	92,014	81,590
53th	13.03.13	15.12.21	6M JPY LIBOR + 2.20%		77,958	78,212	69,351
54th(*2)	13.03.19	16.03.19	3M LIBOR + 1.35%		112,410	109,920	100,000
55 <sup>th</sup>	14.06.30	16.06.30	3M LIBOR + 3.10%		112,410	109,920	100,000
56-1 <sup>st</sup>	14.09.16	16.03.16	3.90%		100,000	100,000	88,960
56-2 <sup>nd</sup>	14.09.16	16.09.16	4.10%		100,000	100,000	88,960
57-1 <sup>st</sup>	14.11.20	16.05.20	3.90%		80,000	80,000	71,168
57-2 <sup>nd</sup>	14.11.20	16.11.20	4.10%		70,000	70,000	62,272
58th(*3)	15.02.27	18.02.27	3M JPY LIBOR + 2.00%		91,714	-	81,591
Arirang bond	12.11.02	17.11.02	3M LIBOR + 2.76%		236,112	230,882	210,045
Kexim	14.10.30	17.10.30	3M LIBOR + 0.88%		337,230	329,760	300,000
					2,849,222	3,324,962	2,534,670
Present value discounts					(6,083)	(5,600)	(5,412)
					2,843,139	3,319,362	2,529,258
Less current portion of debentures, net of present value discounts					(1,042,572)	(903,873)	(927,473)
				₩	<u>1,800,567</u>	<u>2,415,489</u>	<u>\$ 1,601,785</u>

(\*1) Kookmin Bank has provided payment guarantee up to JPY 9,000,000 thousand for 50th guaranteed debentures.

(\*2) Shinhan Bank has provided payment guarantee up to \$100,000 thousand for 54th guaranteed debenture.

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24. Long-term Debt, Continued

(\*3) Kookmin Bank has provided payment guarantee up to JPY 10,639 million for 58th guaranteed debentures.

(b) Long-term borrowings

Long-term borrowings as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		June 30, 2015	December 31, 2014	June 30, 2015
					(Note 4)
Korea Development Bank	Fiscal Financing Special Account Rate + 0.75%	₩	1,200	2,800	\$ 1,068
	-		-	130,000	-
	4.14~4.89%		88,150	88,700	78,418
Industrial Bank of Korea	4.35%		3,400	3,600	3,025
Kookmin Bank	3.00%		10,187	10,517	9,062
Korea Resources Corporation	Interest free		24	37	22
	2.60% ~ 3.20%		6,062	7,617	5,392
NongHyup Bank	-		-	4,167	-
Hana Bank	3M CD + 1.53%		2,290	4,580	2,037
Tongyang Life Insurance Co., Ltd.(*)	4.50%		7,000	34,000	6,227
Standard Chartered Bank Korea Limited(*)	4.50%		7,000	34,000	6,227
Korea Development Bank	3M LIBOR + 0.57% ~ 3.05%		619,646	632,996	551,238
	3M JPY LIBOR + 2.00%		82,544	133,420	73,431
The Export-Import Bank of Korea	3M LIBOR + 1.35% ~ 3.57%		529,809	668,773	471,318
NongHyup Bank	3M LIBOR + 0.60% ~ 3.25%		19,110	30,584	17,000
Hana Bank	3M LIBOR + 0.60% ~ 3.20%		154,411	212,496	137,364
Woori Bank	3M LIBOR + 1.80%		21,092	48,984	18,763
National Federation of Fisheries Cooperatives	3M LIBOR + 2.85%		56,205	54,960	50,000
Korea Exchange Bank	3M LIBOR + 1.89% ~ 2.90%		34,694	70,139	30,864
Bank of Communications	3M LIBOR + 2.70%		250,660	325,914	222,987
DVB BANK	3M LIBOR + 2.20% ~ 4.00%		209,230	239,258	186,133
Industrial Bank of Korea and others	3M LIBOR + 3.30%		112,410	-	100,000
			2,215,124	2,737,542	1,970,576
Less current portion of long-term borrowings			(1,006,296)	(1,135,092)	(895,202)
		₩	1,208,828	1,602,450	\$ 1,075,374

(\*) The Group has provided mileage receivables as collateral for the long-term borrowings(Note 19).

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24. Long-term Debt, Continued

(c) Asset-backed securitization loans

The Group's asset-backed securitization ("ABS") loans are obtained from various special purpose entities, and entails the sales of rights to receive certain amount of cash flows from the future receivables of the Group to several financial institutions. Details of the ABS loans as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Series	Maturity	Annual interest rate		June 30, 2015	December 31, 2014	June 30, 2015
						(Note 4)
KAL-7th ABS	16.11.08	4.75%	₩	170,000	230,000	\$ 151,232
KAL-9th ABS	18.04.25	3.15%		360,000	420,000	320,256
KAL-10th ABS	16.11.28	0.84%		179,945	243,727	160,079
KAL-11th ABS	19.02.14	5.11%		410,000	470,000	364,736
KAL-12th ABS	19.05.09	4.74%		119,000	136,000	105,862
KAL-13th ABS	17.07.27	0.69%		78,875	97,903	70,167
KAL-14th ABS	18.08.27	1M HIBOR + 3.50%		113,100	113,360	100,614
KAL-15th ABS	17.11.20	1M LIBOR + 0.65%		325,989	384,720	290,000
KAL-16th ABS	20.01.28	3.98%		600,000	-	533,761
				2,356,909	2,095,710	2,096,707
Less current portion of ABS loans				(782,561)	(707,263)	(696,166)
			₩	1,574,348	1,388,447	\$ 1,400,541

In association with above ABS loans, the Group provides guarantee deposit of JPY 3,052,280 thousand, \$21,005 thousand and HKD 44,687 thousand, and also provides advanced payments of ₩76,794 million, JPY 3,185,676 thousand, \$14,494 thousand and HKD 22,624 thousand. (Note 20, 21)

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24. Long-term Debt, Continued

- (d) The Group has agreed to assume certain guaranteed liabilities of Hanjin Shipping Co., Ltd., with Korea Exchange Bank and other financial institutions ("Guaranteed loans"), pursuant to the Government Guidelines for the Rationalization of the Marine Industry. The guaranteed loans accrue no interest and are payable in equal installments over 20 years. In accordance with the repayment schedule, the Group made its first installment payment in 2003 and the final installment will be due in 2017. Guaranteed loans as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

Description	June 30, 2015	December 31, 2014	June 30, 2015
			(Note 4)
Korea Development Bank	₩ 11,770	11,770	\$ 10,471
Woori Bank	7,725	7,725	6,872
Triumph II Investments (Ireland) Limited	489	489	435
Hanshin Mutual Savings & Finance Co., Ltd.	593	593	527
Kookmin Bank	436	436	388
Shinhan Bank	1,608	1,608	1,430
Daegu Bank	1,456	1,456	1,296
Korea Exchange Bank	19,168	19,168	17,052
Tongyang Life Insurance Co., Ltd.	2,827	2,827	2,515
Lotte Insurance Co., Ltd.	400	400	355
	46,472	46,472	41,341
Present value discounts	(5,051)	(6,980)	(4,493)
	41,421	39,492	36,848
Less current portion of Guaranteed loans	(15,553)	(15,669)	(13,836)
Present value discounts, current portion	244	1,073	217
	₩ 26,112	24,896	\$ 23,229

476,436 shares of Hanjin Shipping Co., Ltd. and bank deposits of ₩1,800 million were provided as collateral for the guaranteed loans to Korea Exchange Bank as of June 30, 2015 (Note 7, 19).

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25. Finance Lease Obligations

(a) Finance lease obligations as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	Annual interest rate		June 30, 2015	December 31, 2014	June 30, 2015
					(Note 4)
Arirang Ltd.	5.55%	₩	41,202	46,567	\$ 36,653
AWMS (Celtic) Ltd.	3.88%		32,217	35,562	28,661
Begin Again Ltd.	3M LIBOR + 2.40%		42,854	-	38,123
Boeing Capital Leasing Ltd.	4.43%		27,989	37,768	24,899
Boeing Training Service Korea LLC	7.75%		12,171	12,171	10,827
Castle 2003-2 Ireland Ltd.	3.26%		9,506	10,481	8,457
CIT Aerospace International	3.68% ~ 3.69%		67,361	69,180	59,925
Constitution Aircraft Leasing (Ireland) 4 Ltd.	3.53%		40,336	42,780	35,883
DOOLEY Aviation Ltd.	3M LIBOR + 2.26%		134,101	142,635	119,296
ECA-2014B Ltd.	3M EURIBOR + 0.32% 3M LIBOR + 2.85%		237,271	260,868	211,077
ECA-2014C Ltd.	3M LIBOR + 0.91%		141,113	144,421	125,534
ECA-2015A Ltd.	3M EURIBOR + 0.31% 3M LIBOR + 2.85% ~ 3.00%		289,972	-	257,959
Export Leasing (2015) LLC	3M LIBOR + 0.54%		180,036	-	160,160
EXPORT LEASING (2015-A) LLC	3M LIBOR + 0.76%		215,864	-	192,033
Fly Aircraft Holdings Four Ltd.	5.73%		3,630	5,602	3,229
GECAS Technical Services Ltd.	3.78% ~ 4.30%		85,862	91,740	76,383
GKL Aircraft Ireland One Ltd.	9.57%		14,831	15,774	13,194
Hanmaum / Aeguk	3M LIBOR + 1.95%		114,159	120,912	101,556
Ji Yoo Aviation Ltd.	3M LIBOR + 3.25% ~ 3.50%		196,566	173,124	174,865
Jin An Ireland Company Ltd.	3M LIBOR + 2.70%		38,698	39,921	34,426
KALECA03 Aviation	3M JPY LIBOR + 0.15%		3,927	7,848	3,494
KALECA10 Aviation Ltd.	3M LIBOR + 0.59%		115,997	120,985	103,191
KALECA11 Aviation Ltd.	3M LIBOR + 0.98% ~ 1.07%		690,104	722,849	613,917
KALECA11-2 Aviation Ltd.	3M LIBOR + 0.99%		175,188	182,951	155,847
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71% 3M LIBOR + 2.80%		165,557	176,448	147,280
KALECA13 Aviation Ltd.	3M EURIBOR + 0.63% 3M LIBOR + 2.55%		215,576	238,989	191,776
KALEDC (2011) Ltd.	3M LIBOR + 1.12%		29,586	31,137	26,320
KE 2013B 739-A	3M LIBOR + 2.70%		39,330	40,575	34,988
KE Atomos Ltd.	3M LIBOR + 1.50%		22,482	30,228	20,000

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24. Finance Lease Obligations, Continued

(a) Finance lease obligations as of June 30, 2015 and December 31, 2014 are summarized as follows, continued:

(In millions of won and in thousands of US dollars)

	Annual interest rate		June 30, 2015	December 31, 2014	June 30, 2015
					(Note 4)
KE Augustus Ltd.	4.55%	₩	31,333	36,924	\$ 27,874
KE Cayman Leasing (2012) Ltd.	3M JPY LIBOR + 2.90%		32,550	41,986	28,956
KE Export Leasing (2003) Ltd.	4.55% ~ 5.33%		24,200	50,672	21,528
KE Export Leasing (2009) Ltd.	3M LIBOR + 1.25%		177,102	186,426	157,550
KE Export Leasing (2010) Ltd.	3M LIBOR + 0.30% ~ 0.35%		305,561	325,301	271,827
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.43% ~ 0.46%		361,394	376,600	321,497
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.51% ~ 0.55%		257,091	267,117	228,709
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.33% ~ 1.34%		400,712	416,238	356,472
KE Export Leasing (2013-A)	3M LIBOR + 0.40%		144,976	149,038	128,971
KE Export Leasing (2013-B)	3M LIBOR + 0.39%		151,141	155,383	134,455
KE Export Leasing (2013-C)	3M LIBOR + 0.69%		162,178	166,455	144,274
KE Export Leasing (2013-D) LLC	3M LIBOR + 0.39% ~ 0.69%		343,707	350,796	305,762
KE Export Leasing 2005-A	5.35%		32,339	38,149	28,769
KE Export Leasing 2005-B	4.99% ~ 5.10%		88,901	102,471	79,086
KE Export Leasing 2014 LLC	3M LIBOR + 0.68% ~ 1.09%		485,286	494,940	431,711
KE Jumbos V Ltd.	5.38%		43,461	49,009	38,662
KE Octavius Ltd.	4.76%		67,819	78,586	60,332
KE WINNER Leasing, Ltd.	3M LIBOR + 2.86%		87,957	91,050	78,246
KE WITH Leasing Ltd.	3M LIBOR + 2.60%		64,727	66,910	57,581
KE2013 B777	3M LIBOR + 2.64%		148,202	155,451	131,840
KOSMO / SKYTEAM 2010 Ltd.	3M LIBOR + 2.20%		22,482	26,382	20,000
KUBAEK	3M LIBOR + 2.23%		72,416	77,069	64,422
			<u>6,889,021</u>	<u>6,504,469</u>	<u>6,128,477</u>
Less current portion of finance lease obligations, net of present value discounts			<u>(1,027,249)</u>	<u>(957,218)</u>	<u>(913,841)</u>
		₩	<u>5,861,772</u>	<u>5,547,251</u>	<u>\$ 5,214,636</u>

The Export-Import Bank of the United States and others have provided payment guarantee of \$4,353 million for the above finance lease obligations as of June 30, 2015.

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**25. Finance Lease Obligations, Continued**

(b) Minimum lease payments and present value of long-term finance lease obligations as of June 30, 2015 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>		<u>2015</u>
			(Note 4)
Less than one year	₩ 1,130,851	\$	1,006,006
One year to five years	3,528,395		3,138,862
More than five years	<u>2,603,660</u>		<u>2,316,217</u>
	7,262,906		6,461,085
Present value discounts	<u>(373,885)</u>		<u>(332,608)</u>
	<u>₩ 6,889,021</u>	\$	<u>6,128,477</u>

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26. Employee Benefits

- (a) Details of defined benefit plan liabilities as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Present value of defined benefit obligations	₩ 1,348,701	1,188,148	\$ 1,199,805
Fair value of plan assets	(326,675)	(337,077)	(290,610)
	<u>₩ 1,022,026</u>	<u>851,071</u>	<u>\$ 909,195</u>

- (b) Changes in the carrying amount of the defined benefit obligations for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Beginning balance	₩ 1,188,148	1,210,888	\$ 1,056,977
Current service costs	74,825	62,836	66,563
Interest expense	16,668	22,315	14,828
Re-measurement of the net defined benefit obligations	114,486	-	101,847
Benefits paid by the plan	(45,495)	(41,850)	(40,472)
Succession of defined benefit obligations	69	120	62
Ending balance	<u>₩ 1,348,701</u>	<u>1,254,309</u>	<u>\$ 1,199,805</u>

- (c) Changes in the carrying amount of the plan assets for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Beginning balance	₩ 337,077	330,958	\$ 299,863
Interest income	4,080	6,186	3,630
Re-measurement of the net defined benefit obligations	(817)	(2,280)	(727)
Benefits paid by the plan	(13,605)	(13,243)	(12,103)
Others	(60)	-	(53)
Ending balance	<u>₩ 326,675</u>	<u>321,621</u>	<u>\$ 290,610</u>

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27. Provision

(a) Provisions as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Provision for leased aircraft maintenance(*1)	₩ 120,684	108,914	\$ 107,360
Provision for passenger flight ticket coupon (*2)	27,521	27,521	24,483
Others(*3)	<u>6,156</u>	<u>6,015</u>	<u>5,477</u>
	<u>₩ 154,361</u>	<u>142,450</u>	<u>\$ 137,320</u>

(\*1) The Group has maintenance obligations related to the operating leases. In order to fulfill the obligations, the Group has estimated and recognized provision for leased aircraft maintenance by anticipating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations (Note 45).

(\*2) The Group has recognized \$26,000 thousand as provision for passenger flight tickets coupons agreed to be distributed to the plaintiff in relation to the United States court class action on airline ticket price collusion of flights to Americas. (Note 47).

(\*3) The Group has recognized ₩6,066 million as provision for the restoration of forest due to the production of limestone, and is provided with performance guarantees by Seoul Guarantee Insurance Company's (Note 47).

(b) Changes in the carrying amount of the provision for leased aircraft maintenance for the six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
<b>Beginning balance</b>	₩ 108,914	107,666	\$ 96,889
Charged to profit or loss	12,085	11,733	10,751
Utilization	<u>(315)</u>	<u>(10,710)</u>	<u>(280)</u>
<b>Ending balance</b>	<u>₩ 120,684</u>	<u>108,689</u>	<u>\$ 107,360</u>

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**27. Provision, Continued**

- (c) Changes in the carrying amount of the other provision for the six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
<b>Beginning balance</b>	₩ 6,015	5,499	\$ 5,352
Charged to profit or loss	141	76	125
Utilization	-	-	-
<b>Ending balance</b>	<u>₩ 6,156</u>	<u>5,575</u>	<u>\$ 5,477</u>

**28. Deferred Revenue**

The Group manages "SKYPASS", a customer loyalty program, which provides incentives to frequent flyers through accrued mileage such as bonus flight tickets, seat class upgrades, and other benefits to customers of the Group and Group's alliance companies. The Group allocates fair value of the consideration received from sales to award credits and service revenue. The award credit portion of sales price is measured at the fair value, but is not recognized as revenue until obligations are performed. The Group's deferred income associated with the SKYPASS system in the condensed consolidated statement of financial position as of June 30, 2015 amounts to ₩ 1,723,870 million, including ₩ 54,245 million of advance receipts from customers and ₩ 1,669,625 million of deferred revenue.

**29. Derivative Instruments and Hedge Accounting**

- (a) As of June 30, 2015, the Group entered into derivative agreements with Korea Development Bank and 12 other financial institutions. Derivatives as of June 30, 2015 are summarized as follows:

<u>Type of transactions</u>	<u>Accounting policy</u>	<u>Maturity</u>	<u>Contract amount</u>
Oil price option	Hedging	2016.04.30	BBL 6,500 thousand
Interest rate swaps	Trading	2016.09.01	KRW 15,000 million
Cross-currency interest rate swaps	Trading	2019.05.07	JPY 17,308 million
	Trading	2017.11.02	KRW 230,000 million
TRS(*)	Trading	2018.01.18	KRW 157,100 million

- (\*) As of June 30, 2015, the Group has entered into a TRS (Total return swap) agreement for the price differences of Hanjin shipping Co., Ltd's 30 years permanent exchangeable bond arising within the term of the agreement.

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**29. Derivative Instruments and Hedge Accounting, Continued**

(b) Impact on the condensed consolidated interim financial statements in relation to derivatives as of and for the six-month period ended June 30, 2015 is summarized as follows:

(In millions of won)

Derivative instruments	Consolidated statement of financial position			Consolidated statement of income (loss)			
	Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
Oil price option	₩ 7,372	61,721	(40,332)	410	-	-	67
Interest rate swaps	-	415	-	-	81	9	-
Cross-currency interest rate swaps	-	6,130	1,658	-	5,748	-	-
TRS	3,545	-	-	-	1,053	297	-
	₩ 10,917	68,266	(38,674)	410	6,882	306	67

(Note 4)

(in thousands of US dollars)

Derivative instruments	Consolidated statement of financial position			Consolidated statement of income (loss)			
	Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
Oil price option	\$ 6,558	54,907	(35,879)	365	-	-	59
Interest rate swaps	-	369	-	-	72	8	-
Cross-currency interest rate swaps	-	5,453	1,475	-	5,113	-	-
TRS	3,154	-	-	-	937	265	-
	\$ 9,712	60,729	(34,404)	365	6,122	273	59

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**30. Other Liabilities**

Other liabilities as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
<b>Other current liabilities:</b>			(Note 4)
Advances	₩ 964,087	845,581	\$ 857,652
Withholdings	110,299	85,327	98,122
Unearned revenues	230,769	99,713	205,292
Others	239	-	212
	<u>1,305,394</u>	<u>1,030,621</u>	<u>1,161,278</u>
<b>Other non-current liabilities:</b>			
Long-term withholdings	40,116	37,079	35,687
Others	6,723	892	5,981
	<u>46,839</u>	<u>37,971</u>	<u>41,668</u>
	<u>₩ 1,352,233</u>	<u>1,068,592</u>	<u>\$ 1,202,946</u>

**31. Capital Stock**

- (a) As of June 30, 2015, the number of shares authorized to issue, the number of shares issued, and the share par value of the Parent Company are 250,000,000 shares, 73,950,538 shares of common shares (including 1,110,794 shares of preferred shares) and ₩5,000, respectively.
- (b) Changes in the number of shares issued for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

(The number of shares)

	<u>2015</u>		<u>2014</u>	
	<u>Common share</u>	<u>Preferred share(*)</u>	<u>Common share</u>	<u>Preferred share(*)</u>
Beginning balance	58,675,438	1,110,794	58,675,438	1,110,794
Increase in paid-in capital	14,164,306	-	-	-
Ending balance	<u>72,839,744</u>	<u>1,110,794</u>	<u>58,675,438</u>	<u>1,110,794</u>

- (\*) In case the Parent Company is not able to pay the agreed additional dividends (dividend rate for common share + 1%) on preferred share, the preferred shareholders are given voting right from the date of the general shareholders' meeting which approves the suspension of dividends to preferred share, to the date of the general shareholders' meeting which approves the resumption of the dividends to preferred share.

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**32. Other Capital Surplus**

(a) Other capital surplus as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
			(Note 4)
Additional paid-in capital	₩ 602,855	174,907	\$ 536,300
Hybrid securities	(125,496)	(122,345)	(111,642)
	₩ <u>477,359</u>	<u>52,562</u>	<u>\$ 424,658</u>

(b) Changes in additional paid-in capital for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>2015</b>	<b>2014</b>	<b>2015</b>
			(Note 4)
Beginning balance	₩ 174,907	174,907	\$ 155,597
Increase in paid-in capital(*)	423,381	-	376,640
Others	4,567	-	4,063
Ending balance	₩ <u>602,855</u>	<u>174,907</u>	<u>\$ 536,300</u>

(\*) As a result of the increase in paid-in capital, 14,164,306 common shares were issued for the six-month period ended June 30, 2015.

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**32. Other Capital Surplus, Continued**

(c) Changes in other capital for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Beginning balance	₩ (122,345)	(122,208)	\$ (108,838)
Decrease due to increase in paid-in capital	-	(137)	-
Others	<u>(3,151)</u>	<u>-</u>	<u>(2,804)</u>
Ending balance	<u>₩ (125,496)</u>	<u>(122,345)</u>	<u>\$ (111,642)</u>

(d) Hybrid securities as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>Date of issue</u>	<u>Maturity</u>	<u>Interest rate</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
						(Note 4)
Debenture stock	2013.6.28	2043.6.28	6.40% ₩	208,860	208,860 \$	185,802

The interest rate of hybrid securities is 6.40% for five years after issuance, and the increased interest rate (6.40% + 3.50% + (benchmark yield after five years from the date of issue -3.32%)) is applied after five years.

The Parent Company can exercise the right to early repayment every year after five years of the hybrid securities' issuance. If notice of willingness to extend maturity is given one month prior to the expiration date, maturity can be extended for 30 years under the same condition. In addition, the Company can choose not to pay the interest on hybrid securities based on the decision to extend maturity. However, the Parent Company cannot suspend payment of the interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement occurred in the last 12 months.

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**33. Other Capital Components**

(a) Other capital components as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>June 30, 2015</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>
			(Note 4)
Gain on valuation of available-for-sale financial assets, net	₩ 87,258	75,230	\$ 77,624
Change in retained earnings - equity method accounted investments	33,029	28,848	29,383
Loss on valuation of derivatives, net	(38,674)	(153,441)	(34,404)
Cumulative effects of foreign currency translation	(5,452)	(8,555)	(4,850)
Revaluation surplus	314,151	314,166	279,469
	<u>₩ 390,312</u>	<u>256,248</u>	<u>\$ 347,222</u>

(b) Changes in other capital components for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>2015</b>	<b>2014</b>	<b>2015</b>
			(Note 4)
Beginning balance	₩ 256,248	328,164	\$ 227,958
Gain (loss) on valuation of available-for-sale financial assets, net	12,028	(3,361)	10,700
Change in retained earnings - equity method accounted investments	4,181	1,688	3,720
Gain on valuation of derivatives, net	114,767	16,818	102,097
Cumulative effects of foreign currency translation	3,102	(5,953)	2,760
Revaluation surplus	(14)	(3)	(13)
Ending balance	<u>₩ 390,312</u>	<u>337,353</u>	<u>\$ 347,222</u>

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34. Retained Earnings

- (a) Details of retained earnings as of June 30, 2015 and December 31, 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		<u>June 30, 2015</u>	<u>December 31, 2014</u>		<u>June 30, 2015</u>
					(Note 4)
Legal reserve(*)	₩	3,452	3,452	\$	3,071
Voluntary reserve		200,000	200,000		177,920
Unappropriated retained earnings		995,316	1,341,114		885,433
	₩	<u>1,198,768</u>	<u>1,544,566</u>	\$	<u>1,066,424</u>

(\*) The Korean Commercial Code requires the Parent Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common shares in connection with a free issue of new shares.

- (b) Changes in unappropriated retained earnings for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

		<u>2015</u>	<u>2014</u>		<u>2015</u>
					(Note 4)
Beginning balance	₩	1,544,566	1,967,197	\$	1,374,047
Profit(loss) for the period		(299,743)	186,474		(266,652)
Other comprehensive loss		(86,991)	(1,949)		(77,388)
Dividend attributable to hybrid securities		(6,683)	(6,682)		(5,945)
Changes due to disposal of assets held for sale		46,678	-		41,525
Others		941	333		837
Ending balance	₩	<u>1,198,768</u>	<u>2,145,373</u>	\$	<u>1,066,424</u>

- (c) There was no dividend payment (except for the dividend attributable to hybrid securities) for the six-month periods ended June 30, 2015 and 2014.

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**35. Revenue**

Revenue classified as operating income or loss resulting from the Group's continuing operations for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Air transport revenue	₩ 5,038,933	5,257,581	\$ 4,482,638
Other revenue	618,257	536,803	550,002
	<u>₩ 5,657,190</u>	<u>5,794,384</u>	<u>\$ 5,032,640</u>

**36. Selling, General and Administrative Expenses**

Details of selling, general and administrative expenses for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Salary	₩ 145,320	135,133	\$ 129,277
Retirement benefit costs	16,703	16,242	14,859
Depreciation and amortization	20,290	15,731	18,050
Rental	9,182	9,187	8,168
Sales commission	145,424	149,654	129,370
Advertising	46,484	43,573	41,352
Welfare	29,361	27,800	26,119
Training	4,140	3,028	3,683
Communications	11,986	23,757	10,663
Taxes & dues	14,017	8,218	12,470
Facility maintenance	3,837	3,550	3,413
Service fees	78,196	79,598	69,563
Others	32,887	33,625	29,256
	<u>₩ 557,827</u>	<u>549,096</u>	<u>\$ 496,243</u>

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**37. Finance Income and Costs**

Finance income and costs for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
<b>Finance income:</b>			(Note 4)
Interest income	₩ 23,463	21,132	\$ 20,872
Dividend income	3,846	2,404	3,421
Gains on valuation of derivatives	410	19,576	365
Gains on transactions of derivatives	306	2,716	273
	<u>28,025</u>	<u>45,828</u>	<u>24,931</u>
<b>Finance costs:</b>			
Interest expense	₩ 192,313	205,127	\$ 171,083
Losses on valuation of derivatives	6,882	231	6,122
Losses on transactions of derivatives	67	382	59
	<u>199,262</u>	<u>205,740</u>	<u>177,264</u>
<b>Net finance costs</b>	₩ <u>(171,237)</u>	<u>(159,912)</u>	<u>\$ (152,333)</u>

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**38. Other Non-operating Income and Expenses**

Other non-operating income and expenses for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
<b>Other non-operating income:</b>			(Note 4)
Gain on foreign currency transactions	₩ 104,092	98,875	\$ 92,600
Gain on foreign currency translation	53,215	346,735	47,340
Reversal of allowance for other doubtful accounts	23	699	21
Gain on disposal of available-for-sale financial assets	1,704	-	1,516
Gain on disposal of investments in associates	-	73,533	-
Reversal of impairment loss occurred in investments in associates	-	12,210	-
Gain on disposal of property, aircraft and equipment	2,262	1,180	2,013
Gain on disposal of intangible assets	10	-	9
Reversal of allowance for negative goodwill	5,244	-	4,665
Miscellaneous gain	6,754	20,118	6,007
	<u>173,304</u>	<u>553,350</u>	<u>154,171</u>
<b>Other non-operating expenses:</b>			
Other bad debt expenses	₩ 182	329	\$ 162
Loss on foreign currency transactions	104,840	96,120	93,266
Loss on foreign currency translation	225,946	28,756	201,002
Loss on disposal of consolidated subsidiaries	2,169	-	1,930
Loss on disposal of property, aircraft and equipment	75,005	54,450	66,725
Loss on disposal of intangible assets	-	23	-
Donations	14,790	13,637	13,157
Miscellaneous loss	23,721	4,814	21,101
	<u>446,653</u>	<u>198,129</u>	<u>397,343</u>
<b>Net other non-operating expenses</b>	<u>₩ (273,349)</u>	<u>355,221</u>	<u>\$ (243,172)</u>

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39. Income Tax Expense

- (a) The components of the income tax expense (benefit) for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Current income tax expense	₩ 423	2,926	\$ 376
Changes in temporary difference	28,002	(17,452)	24,911
Changes in deferred taxes due to tax loss carryforward	(73,354)	-	(65,256)
Items recorded directly in equity	(12,599)	2,252	(11,208)
Income tax benefit	₩ <u>(57,528)</u>	<u>(12,274)</u>	<u>\$ (51,177)</u>

- (b) The income tax expense (benefit) calculated by applying statutory tax rates to the Group's profit (loss) before income taxes differs from the actual tax expense (benefit) in the condensed consolidated interim statements of comprehensive income (loss) for the six-month periods ended June 30, 2015 and 2014 for the following reasons:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Profit (loss) before income taxes	₩ (197,712)	195,080	\$ (175,885)
Income tax expense (benefit) computed at statutory rate	(47,846)	47,043	(42,564)
Adjustments:			
Non-deductible expense	9,294	796	8,268
Tax credits	2,586	(7,301)	2,300
Others	(21,562)	(52,812)	(19,181)
Income tax benefit	₩ <u>(57,528)</u>	<u>(12,274)</u>	<u>\$ (51,177)</u>
Effective tax rate(*)	<u>-</u>	<u>-</u>	<u>-</u>

- (\*) Effective tax rate has not been determined, because income tax expense is negative.

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**40. Classification of Expenses by Nature**

Details of expenses by nature for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Employee benefits	₩ 892,216	818,789	\$ 793,716
Welfare	149,641	134,047	133,120
Depreciation and amortization	808,960	803,242	719,651
Rent	102,498	101,006	91,182
Fuel & oil charges(*)	1,535,693	2,051,898	1,366,153
Airport related costs	494,262	481,368	439,696
Sales commission	145,424	149,644	129,370
Others	<u>1,341,157</u>	<u>1,252,939</u>	<u>1,193,094</u>
	<u>₩ 5,469,851</u>	<u>5,792,933</u>	<u>\$ 4,865,982</u>

(\*) 10% increase (decrease) of fuel & oil prices would have decreased (increased) operating income by ₩154,233 million and ₩205,895 million for the six-month periods ended June 30, 2015 and 2014, respectively (Excluding the effect of operating income caused by fuel surcharge). Fluctuation of fuel & oil prices has significant impact on operating results and cash flows of the Group.

These expenses are the sum of cost of sales and selling, general and administrative expenses.

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41. Earnings (Loss) per Share

- (a) Basic earnings (loss) per share attributable to common shares for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Gain(loss) attributable to owners of the Parent Company	₩ (299,743)	186,474	\$ (266,652)
Continuing operation	(135,409)	187,801	(120,460)
Discontinued operation	(164,334)	(1,327)	(146,192)
Gain(loss) attributable to common shares	(294,945)	182,900	(262,383)
Continuing operation	(133,246)	184,257	(118,536)
Discontinued operation	(161,699)	(1,357)	(143,847)
Weighted average number of ordinary shares	<u>66,735,789</u>	<u>58,675,438</u>	<u>66,735,789</u>
Basic earnings (loss) per share in won and US dollars	₩ (4,420)	3,117	\$ (3,93)
Continuing operation	(1,997)	3,140	(1,78)
Discontinued operation	(2,423)	(23)	(2,15)

The contents of weighted-average common shares for the six-month periods ended June 30, 2015 and 2014 are as follows:

	<u>Number of shares</u>	
	<u>2015</u>	<u>2014</u>
Cumulative number of weighted-average common shares	₩ 12,079,177,796	10,620,254,278
Number of days	181 days	181 days
Weighted-average number of common shares outstanding	66,735,789	58,675,438

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**41. Earnings (Loss) per Share, Continued**

(b) Basic earnings (loss) per share attributable to preferred shares for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars, except share data and earnings (loss) per share)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Gain(loss) attributable to owners of the Parent Company	₩ (4,798)	3,574	\$ (4,269)
Continuing operation	(2,162)	3,544	(1,924)
Discontinued operation	(2,636)	30	(2,345)
Weighted-average number of preferred shares outstanding	<u>1,110,794</u>	<u>1,110,794</u>	<u>1,110,794</u>
Basic earnings (loss) per share in won and US dollars	₩ (4,320)	3,217	\$ (3,84)
Continuing operation	(1,947)	3,190	(1,73)
Discontinued operation	(2,373)	27	(2,11)

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**42. Financial Instruments**

(a) Capital risk management:

The purpose of capital risk management is to protect the ability to continuously provide profits with shareholders and maintain optimum capital structure to reduce capital expenses. The Group's capital risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as of and for the year ended December 31, 2014.

(b) Financial risk management

1) Financial risk

The Group is exposed to various financial risks, such as market risk (foreign exchange risk, interest rate risk, oil price fluctuation risk and price risk), credit risk and liquidity risk, related to its financial instruments. The purpose of risk management of the Group is to identify potential risks related to financial performance and reduce, eliminate and evade those risks to an acceptable level of risks to the Group.

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as of and for the year ended December 31, 2014.

2) Risk aversion

The Group has made contracts for derivative instruments to avoid the change of exchange rate risk, oil price risk and interest rate risk.

*Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and presented in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognized immediately in income or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in income or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in income or loss.

3) Credit risk management

There is no significant change in the degree of exposure of the maximum credit risk in comparison with the previous period.

4) Liquidity risk management

There is no significant change in undiscounted net cash inflows and outflows in comparison with the previous period.

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**43. Financial Risk Management**

(a) Fair value

The Group shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

	<b>Significance of the inputs</b>
Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3	Inputs for the asset or liability that are not based on observable market data

Current levels of financial instruments measured at fair value as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won)*

		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>June 30, 2015</b>					
Listed securities	₩	153,337	-	-	153,337
Unlisted securities		-	-	26,648	26,648
Derivative instrument assets		-	10,917	-	10,917
Derivative instrument liabilities		-	68,266	-	68,266
<b>December 31, 2014</b>					
Listed securities	₩	134,360	-	-	134,360
Unlisted securities		-	-	20,534	20,534
Beneficiary certificates		-	5,000	-	5,000
Derivative instrument assets		-	5,446	-	5,446
Derivative instrument liabilities		-	205,681	-	205,681

There is no significant movement between the Level 1 and Level 2 for the six-month period ended June 30, 2015 and for the year ended December 31, 2014.

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**43. Financial Risk Management, Continued**

- (b) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the condensed consolidated interim financial statements approximate their fair values.
- (c) There is no change in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the six-month periods ended June 30, 2015 and 2014.
- (d) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change of the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the six-month period ended June 30, 2015.
- (e) As of June 30, 2015 and December 31, 2014, available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are amount of ₩44,577 million and ₩47,597 million, respectively.

**44. Transactions and Balances with Related Parties**

- (a) Details of relationships as of June 30, 2015 are as follows:

<u>Relationship</u>	<u>Related parties</u>
Significant influence over the Parent Company	Hanjin KAL Co., Ltd.(*1)
Associates	Grandstar Cargo International Airlines Co., Ltd.(*2), EIGHTCITY Co., Ltd., Czech Airlines j.s.c., Hanjin Shipping Co., Ltd. and etc.
Other related parties	Hanjin Transportation Co., Ltd., Topas Co., Ltd., KAL Hotel Network Co., Ltd., Hanjin Travel Service Co., Ltd., Jungseok Enterprise Co., Ltd., Jedong Leisure Co., Ltd., Jin Air Co., Ltd., Cyber Sky Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha School's Foundation, Terminal One Management Inc., S-Oil Corp.(*3), and etc.

(\*1) It was classified as significant influence over the Group for the year ended December 31, 2014.

(\*2) It was disposed and therefore excluded from associates for the six-month period June 30, 2015.

(\*3) It was classified as assets held for sale for the year ended December 31, 2014 and disposed for the six-month period June 30, 2015.

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**44. Transactions and Balances with Related Parties, Continued**

- (b) Significant transactions which occurred in the normal course of business with related parties for the six-month period ended June 30, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

	2015		2015	
	<u>Sales and others</u>	<u>Purchase and others</u>	<u>Sales and others</u>	<u>Purchase and others</u>
<b>Significant influence over the Parent Company</b>				
Hanjin KAL Co., Ltd.	₩ 186	14,500	\$ 165	12,899
			(Note 4)	
<b>Associates</b>				
Czech Airlines j.s.c.	10,584	14,212	9,415	12,643
Others	1,510	18	1,343	16
<b>Other related parties</b>				
Jin Air Co., Ltd.	69,709	612	62,013	545
Topas Co., Ltd.	3,625	2,385	3,225	2,122
KAL Hotel Network Co., Ltd.	13,301	15,069	11,832	13,406
Hanjin Travel Service Co., Ltd.	390	2,626	347	2,336
Jungseok Enterprise Co., Ltd.	143	1,030	128	916
Hanjin Transportation Co., Ltd.	7,146	19,444	6,357	17,297
Cyber Sky Co., Ltd.	157	1,767	139	1,572
Jungseok-Inha School's Foundation	4	6,614	4	5,884
Uniconverse Co., Ltd.	802	11,637	714	10,352
S-Oil Corp. (*)	-	14,758	-	13,128
Others	346	1,751	308	1,557

(\*) It was disposed on January 19, 2015. The amount above represents transaction amounts upto the disposal date.

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**44. Transactions and Balances with Related Parties, Continued**

- (c) Significant transactions which occurred in the normal course of business with related parties for the six-month period ended June 30, 2014 are summarized as follows:

(In millions of won)

	<b>2014</b>	
	<b>Sales and others</b>	<b>Purchase and others</b>
<b>Associates</b>		
S-Oil Corp.	₩ 166	294,116
Czech Airlines j.s.c.	16,548	10,267
Air Korea Co., Ltd.	69	15,444
Others	281	21
<b>Other related parties</b>		
Hanjin KAL Co., Ltd.	19	15,150
Jin Air Co., Ltd.	54,060	575
Topas Co., Ltd.	15,856	13,568
KAL Hotel Network Co., Ltd.	10,656	14,119
Hanjin Travel Service Co., Ltd.	708	2,446
Jungseok Enterprise Co., Ltd.	139	999
Hanjin Transportation Co., Ltd.	6,565	20,098
Cyber Sky Co., Ltd.	104	1,563
Jungseok-Inha School's Foundation	3	6,054
Uniconverse Co., Ltd.	785	9,815
Others	896	1,645

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44. Transactions and Balances with Related Parties, Continued

(d) Account balances with related parties as of June 30, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

	June 30, 2015		June 30, 2015	
	Receivables	Payables	Receivables	Payables
<b>Significant influence over the Parent Company</b>				
Hanjin KAL Co., Ltd.	₩ 2,221	6,138	\$ 1,976	5,460
<b>Associates</b>				
Czech Airlines j.s.c.	205	10,064	183	8,953
Others	1,388	-	1,234	-
<b>Other related parties</b>				
Jin Air Co., Ltd.	20,793	17,472	18,497	15,543
Topas Co., Ltd.	397	193	353	171
KAL Hotel Network Co., Ltd.	4,536	2,775	4,036	2,468
Hanjin Travel Service Co., Ltd.	148	1,243	132	1,106
Jungseok Enterprise Co., Ltd.	358	6	318	5
Hanjin Transportation Co., Ltd.	2,534	6,612	2,254	5,882
Cyber Sky Co., Ltd.	27	326	24	290
Uniconverse Co., Ltd.	241	2,925	215	2,602
Jungseok-Inha School's Foundation	43	-	38	-
Others	216	221	192	197

(Note 4)

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44. Transactions and Balances with Related Parties, Continued

(e) Account balances with related parties as of December 31, 2014 are summarized as follows:

(In millions of won)

	December 31, 2014	
	Receivables	Payables
<b>Significant influence over a company</b>		
Hanjin KAL Co., Ltd.	₩ 2,214	6,682
<b>Associates</b>		
S-Oil Corp.	-	32,020
Czech Airlines j.s.c.	848	7,530
Hanjin Shipping Co., Ltd.	340	-
Others	7	-
<b>Other related parties</b>		
Jin Air Co., Ltd.	20,860	17,235
Topas Co., Ltd.	4,344	3,125
KAL Hotel Network Co., Ltd.	3,982	2,948
Hanjin Travel Service Co., Ltd.	291	1,437
Jungseok Enterprise Co., Ltd.	412	9
Hanjin Transportation Co., Ltd.	1,870	6,291
Cyber Sky Co., Ltd.	18	345
Uniconverse Co., Ltd.	235	3,239
Jungseok-Inha school's foundation	42	-
Others	208	271

(f) Loan and borrowing transactions with related parties for the six-month period ended June 30, 2015 are as follows:

(In millions of won)

	Account	Balance at Jan. 1, 2015	Increase	Decrease	Balance at June 30, 2015
<b>Associates</b>					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	220,000	-	-	220,000

(\*) The Group has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., four ships, 2,336,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of June 30, 2015. In relation to the above short-term loans, the Group recognized interest income amounting to ₩6,546 million for the six-month period ended June 30, 2015 and accrued income amounting to ₩2,242 million as of June 30, 2015. Furthermore, the loan maturity was extended for one year starting October 2015 under the same collateral conditions by approval of the Board of Directors on August 6, 2015.

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**44. Transactions and Balances with Related Parties, Continued**

(g) Loan and borrowing transactions with related parties for the year ended December 31, 2014 are as follows:

<i>(In millions of won)</i>	<u>Account</u>	<u>Balance at Jan. 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at Dec. 31, 2014</u>
<b>Associates</b>					
Hanjin Shipping Co., Ltd. (*)	Short-term loans	-	250,000	(30,000)	220,000
<b>Other related parties</b>					
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*)	Short-term loans	250,000	-	(250,000)	-

(\*) Hanjin Shipping Co., Ltd. merged trademark management segment and a shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.), which was spun off for the year ended December 31, 2014. As a result, Hanjin Shipping Co., Ltd. took over borrowings of ₩250 billion that Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) had charged before the spin-off and the merger, and repaid ₩30 billion on December 16, 2014.

The Group has received 13,800,000 treasury shares of Hanjin Shipping Co., Ltd., four ships, 2,336,316 shares of H-Line Co., Ltd. and overseas property (appraised value of ₩40 billion) as collateral as of December 31, 2014. In relation to the above short-term loans, the Group recognized interest income amounting to ₩5,585 million from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) and ₩8,091 million from Hanjin Shipping Co., Ltd. for the year ended December 31, 2014, respectively, and accrued income from Hanjin Shipping Co., Ltd. amounting to ₩2,242 million as of December 31, 2014.

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**44. Transactions and Balances with Related Parties, Continued**

(h) Stock trading with the related parties for the six-month period ended June 30, 2015 are as follows:

(In millions of won)

	<u>Transaction</u>	<u>2015</u>	<u>2015</u>
			(Note 4)
<b>Other related parties</b>			
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	Disposal of stocks of Uniconverse Co., Ltd.	₩ 1,658	\$ 1,475

(i) Stock trading with the related parties for the year ended December 31, 2014 are as follows:

(In millions of won)

	<u>Transaction</u>	<u>2014</u>
<b>Associates</b>		
Hanjin Shipping Co., Ltd.	Increase in paid-in capital	₩ 400,000
	Increase due to merger division(*)	73,533
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	Decrease due to merger division(*)	-
<b>Other related parties</b>		
Relatives of Key management	Disposal of stocks of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	(13,913)
Jungseok Enterprise Co., Ltd.	Disposal of stocks of Hanjin Transportation Co., Ltd.	(12,310)
	Disposal of stocks of Jungseok Enterprise Co., Ltd.	(1,566)
	Purchase of stocks of Air Korea Co., Ltd.	2,023
Hanjin Transportation Co., Ltd.	Purchase of stocks of Air Korea Co., Ltd.	2,023

(\*) Hanjin Shipping Co., Ltd. merged a trademark management segment and a shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) that was spun off for the year ended December 31, 2014. As a result, 5,140,274 shares of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) have been replaced with 7,422,095 shares of Hanjin Shipping Co., Ltd.

(j) Key management personnel compensation in total for the six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Short-term employee benefits	₩ 2,598	2,568	\$ 2,311
Retirement benefit cost	17,832	1,856	15,864

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**44. Transactions and Balances with Related Parties, Continued**

- (k) Details of guarantees which the Group has provided with related parties as of June 30, 2015 are as follows:

*(In millions of won and in thousands of US dollars)*

Name	Guaranteed amounts	Financial institutions
Jungseok Enterprise Co., Ltd.	₩ 10,132	Korea Exchange Bank and others
Hanjin Transportation Co., Ltd.	15,110	Korea Exchange Bank and others
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	6,472	Korea Development Bank and others

- (k) Details of guarantees which have been provided with the Group by related parties as of June 30, 2015 are summarized as follows:

*(In millions of won)*

Name	Guaranteed amounts	Financial institutions
Jungseok Enterprise Co., Ltd.	₩ 15,301	Korea Development Bank
	24,918	Korea Exchange Bank
	18,589	Woori Bank and Others
Hanjin Transportation Co., Ltd.	15,301	Korea Development Bank
	24,918	Korea Exchange Bank
	18,589	Woori Bank and Others
Hanjin Shipping Co., Ltd. (*)	15,301	Korea Development Bank
	24,918	Korea Exchange Bank
	18,859	Woori Bank and Others
Hanjin Heavy Industries & Construction holdings Co., Ltd.	15,301	Korea Development Bank
	24,918	Korea Exchange Bank
	18,589	Woori Bank and Others

(\*) As Hanjin Shipping Co., Ltd. (the new company) was spun off from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (the surviving company) on December 1, 2009, Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd) jointly provides a guarantee for the long-term liabilities that were assumed by the companies above.

- (l) As of June 30, 2015, the Parent Company has an obligation to take over the outstanding balance related to Asset-Backed Loan / Asset-Backed Bond issued with an underlying asset (hybrid bond issued by Hanjin Shipping Co., Ltd.) three years and one month elapse from the date of issue, and the Parent Company and the investors are obliged to settle the differences between the transaction price of the underlying assets and the settlement basis price.

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45. Operating Lease

- (a) As of June 30, 2015, the Parent Company has entered into operating lease agreements to lease 21 aircrafts and certain aircraft parts from International Lease Finance Corporation and other lessors. The Parent Company has also entered into an operating lease agreement to use the cargo terminal at JFK International Airport located in the United States with the New York City Industrial Development Agency ("IDA").

The schedule of lease payments of June 30, 2015 is summarized as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>		<u>2015</u>
			(Note 4)
2015. 7. 1~2016. 6. 30	₩ 150,074	\$	133,506
2016. 7. 1~2017. 6. 30	131,640		117,107
2017. 7. 1~2018. 6. 30	106,642		94,869
2018. 7. 1~2019. 6. 30	106,690		94,911
2019. 7. 1~2020. 6. 30	91,126		81,066
Thereafter	284,337		252,947
	<u>₩ 870,509</u>	<u>\$</u>	<u>774,406</u>

Korea Development Bank has provided a guarantee of \$27 million for the aircraft operating lease agreements and Kookmin Bank has provided a guarantee up to \$56 million for opening letters of credit in accordance with the IDA operating lease contract with the Parent Company.

Also, the Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. The schedule of lease payments as of June 30, 2015 is as follows:

(In millions of won and in thousands of US dollars)

	<u>2015</u>		<u>2015</u>
			(Note 4)
2015. 7. 1~2016. 6. 30	₩ 1,420	\$	1,263
2016. 7. 1~2017. 6. 30	355		316
2017. 7. 1~2018. 6. 30	108		96
	<u>₩ 1,883</u>	<u>\$</u>	<u>1,675</u>

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**45. Operating Lease, Continued**

(b) The Parent Company has entered into operating lease agreements to lease eight aircrafts and certain aircraft parts to Jin Air Co., Ltd and others. The schedule of lease collection on this agreement is summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>		<u>2015</u>
			(Note 4)
2015. 7. 1~2016. 6. 30	₩ 28,849	\$	25,664
2016. 7. 1~2017. 6. 30	8,993		8,000
	<u>₩ 37,842</u>	<u>\$</u>	<u>33,664</u>

**46. Non-cash Transactions**

Investing and financing activities of non-cash transactions for the six-month periods ended June 30, 2015 and 2014 are as follows:

*(In millions of won and in thousands of US dollars)*

	<u>2015</u>	<u>2014</u>	<u>2015</u>
			(Note 4)
Transfer of long-term borrowings to current portion of long-term liabilities	₩ 973,172	813,674	\$ 865,734
Transfer of debentures to current portion of long-term liabilities	722,728	395,584	642,939
Transfer of finance lease obligation to current portion of finance lease obligation	563,900	449,159	501,646
Transfer of construction-in-progress to property, aircraft and equipment, etc.	954,458	906,312	849,086
Acquisition of finance lease assets	764,593	370,049	680,182
Acquisition of property, aircraft and equipment with other payables	2,168	-	1,929
Transfer of finance lease obligation to financing lease liabilities	-	12,175	-

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47. Commitments and Contingencies

(a) The guarantees provided as of June 30, 2015 are as follows:

*(In millions of won and in thousands of US dollars)*

Financial institution	June 30, 2015	Details
Seoul Guarantee Insurance Co., Ltd.	₩ 1,309	
Korea Defense Industry Association	1,129,781	
HSBC Bank Australia Limited and others	15,562	Bids, performance, maintenance guarantee and others
Engineering Financial Cooperative	31,158	
Korea Software Financial Cooperative	16,727	
Information & Communication Financial Cooperative	90	
BBCN BANK	\$ 5,364	

As of June 30, 2015, the Group is provided with guarantees amounting to ₩15,271 million by Seoul Guarantee Insurance Co., Ltd. in relation to the restoration of forest due to the production of limestone and amounting to \$3,000 thousand by Hana Bank in connection with the purchase of equipment, respectively.

(b) The Company provides a joint guarantee of ₩3,328 million in relation to the personal loan of flight training center trainees. The Company also provides a payment guarantee of \$12,811 thousand to Bank of China for Grandstar Cargo International Airlines Co., Ltd.

(c) The credit line and details of credit agreements as of June 30, 2015 are as follows:

*(In millions of won and in thousands of US dollars)*

Description	Financial institutions	Currency	Limit
Credit line agreement	Korea Exchange Bank and others	KRW	180,000
		USD	90,000
Letter of credit	Korea Development Bank and others	USD	87,235

(d) As of June 30, 2015, the Parent Company has one outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

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**47. Commitments and Contingencies, Continued**

- (e) With regard to the alleged antitrust violation relating to the Parent Company and other parties colluding on price fixing of air cargo services, the Parent Company made a plea to the United States Department of Justice on August 1, 2007 for the payment of fines totaling \$300,000 thousand to be paid in annual installments. Accordingly, the Parent Company made fine payments of \$200,000 thousand since 2007 and the rest will be paid through to 2016 under an agreement with the U.S. court. Each amounts of \$50,000 thousand is included in other payables and non-current other payables, respectively, as of June 30, 2015.

The Parent Company settled with the plaintiff to pay \$115,000 thousand in the class action lawsuit filed with the U.S. court. The Parent Company made payments of \$97,500 thousand since 2014 and the residual payment of \$17,500 thousand is included in other payables. In addition, the Parent Company recognizes the coupon of passenger flight tickets amounting to \$26,000 thousand (~~₩27,521 million~~) in a provision for coupon for passenger flight ticket.

The Parent Company settled with the plaintiff to pay CAD 4,100 thousand in the class action lawsuit on Canada cargo route price-fixing collusion. As a result, the Parent Company disbursed CAD 1,500 thousand for the six-month period ended June 30, 2015; CAD 2,600 thousand expected to be paid by first half of 2016 is included in other payables.

As of June 30, 2015, various claims, lawsuits and complaints arising from airline service operations are pending against the Parent Company and ultimate outcome of these cases is unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Group.

- (f) The Parent Company has signed various contracts with manufacturers, such as the Boeing Company to purchase aircrafts. The amount of such contracts is \$7,222 million as of June 30, 2015. The Parent Company has also signed MOUs with Airbus S.A.S., the Boeing Company, and others regarding the purchase of aircrafts from 2019.
- (g) The Parent Company and four other airlines including Air France entered into a joint use agreement of the JFK Airport in New York and established Terminal One Group Association ("TOGA") to cooperate the Terminal One of JFK Airport. They have provided TOGA with a joint guarantee up to \$238 million for each terminal usage fee.
- (h) The Parent Company entered into an agreement to improve its financial structure through sales of aircrafts and engine with Korea Development Bank on June 26, 2014.

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**47. Commitments and Contingencies, Continued**

(i) Main agreements entered by the Group are summarized as follows:

- 1) Korea Airport Service Co., Ltd. contributed certain ground handling facilities constructed by KAS at the Incheon International Airport, in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for usage rights to the contributed facilities for 20 years.
- 2) On March 30, 2011, Wangsan Leisure Development Co., Ltd. entered into an agreement on "Wang San Marina Business" with Incheon Metropolitan City and Yongyu-muui Project Management Co., Ltd. Details of the agreement are summarized as follows:
  - Location : San 143 Eulwang-dong, Jung-gu, Incheon, Korea
  - Business content : Construction of yacht tournament course scheduled to be held in 2014 Incheon Asian Game.
  - Total amount of investment : Approx. ₩160 billion
  - Government subsidy : Incheon Metropolitan City government agreed to provide total of ₩16.7 billion as financial subsidy depending on the construction progress.

Wangsan Leisure Development Co., Ltd. accomplished timely development of Wang San Marina Business including construction of 2014 Incheon Asian Games yacht tournament course, cooperated for successful host and operation of yacht tournament at 2014 Incheon Asian Games, and invested rest of the amount after excluding Wang San Marina Business operating expenses granted by the government, construction costs of access road, and other infrastructure costs. Wangsan Leisure Development Co., Ltd. is entitled to acquire business reclamation sites excluding public sites at composition cost or below, and is granted at least 30 years of operating rights after completion of construction of Wangsan Marina facilities.

Incheon Free Economic Zone Authority provided ₩167 billion as subsidy for Wang San Marina Business project to Wangsan Leisure Development Co., Ltd. However, Incheon Metropolitan City has raised claims on legal validity of the subsidy, and the claim is in progress as of June 30, 2015. The Group believes that the ultimate outcome of this case and estimated impacts on the financial statements are unpredictable.

- (ii) Meanwhile, the Parent Company made a commitment with Korea Development Bank to participate in paid-in-capital increase of Wangsan Leisure Development Co., Ltd. if Wangsan Leisure Development Co., Ltd. is short of financial resources to repay the borrowings provided by Korea Development Bank. The outstanding balance of borrowings is ₩ 79,900 million as of June 30, 2015. The deposits, land, buildings acquired under the purpose of Wang San Marina Business are pledged to Korea Development Co., Ltd. as collateral.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

**June 30, 2015 and 2014**

**47. Commitments and Contingencies, Continued**

(i) Main agreements entered by the Group are summarized as follows (continued):

- 3) On June 30, 2011, Incheon Aviation Tech Co., Ltd. entered into an agreement with Incheon Metropolitan City, Korea Land & Housing Corporation and Incheon Development & Tourism Corporation for a project related to "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre". Major terms of the agreement include Incheon Aviation Tech Co., Ltd.'s investment of W120 billion for construction of Airplane Engine Maintenance Centre and acquisition of related land, located at 779-11, Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, Incheon Aviation Tech Co., Ltd. is prohibited from providing land as collateral or guarantee for five years from the date of first purchase agreement of land (July 2011), which is recognized under land as of June 30, 2015. Incheon Aviation Tech Co., Ltd. is also prohibited from leasing or selling the land to third parties for five years from the date of ownership transfer. Lastly, Incheon Aviation Tech Co., Ltd. is to maintain ratio of its foreign investors' ownership higher than 10% for at least five years from July 2011, under the Act of Foreigner Investment Promotion.

As of June 30, 2015, preferred shares of Incheon Aviation Tech Co., Ltd. are cumulative and non-participative preferred shares and will be converted proportionately for one common stock per one preferred stock at the time after five years and six months (conversion date) from the date that Aviation Tech Co., Ltd. acquired land for its business purpose.

In addition, 6% of dividend is guaranteed for preferred shareholders until the conversion date, and, in the case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. Accordingly, the Group classifies the preferred shares as finance liability, net of discount.

Meanwhile, for the period of last six months out of five years and six months, the Parent Company has a call option to purchase the preferred shares held by United Technologies International Corporation-Asia Private Ltd., a preferred shareholder, while the preferred shareholder also has a put option to sell the preferred shares to the Parent Company.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

**48. Account Receivables Due from and Deferred Revenue Due to Customers for Contracts in Progress**

(a) Changes in contract work for the six-month period ended June 30, 2015 and the year ended December 31, 2014 are summarized as follows:

(In millions of won)

		<u>Beginning balance</u>	<u>Increase (decrease)(*1)</u>	<u>Recognition of contract revenue</u>	<u>Ending balance(*2)</u>
June 30, 2015	₩	3,405,038	260,497	476,661	3,188,874
December 31, 2014		3,794,774	399,713	789,449	3,405,038

(Note 4)

(In thousands of US dollars)

		<u>Beginning balance</u>	<u>Increase (decrease)(*1)</u>	<u>Recognition of contract revenue</u>	<u>Ending balance(*2)</u>
June 30, 2015	\$	3,029,124	231,738	424,038	2,836,824
December 31, 2014		3,452,305	363,640	718,203	3,097,742

(\*1) It includes new contract work, additional contract work, changes in contract work and foreign exchange rate effect, etc.

(\*2) In case of long-term contract works, the possibility of changes of contract work exists depending on future market conditions.

(b) Accumulated revenues and costs in relation to contracts work in progress as of June 30, 2015 are summarized as follows:

(In millions of won and in thousands of US dollars)

		<u>2015</u>		<u>2015</u>
Revenues incurred to date	₩	3,073,415	\$	2,734,113
Costs incurred to date		2,549,983		2,268,467
Recognized profits to date	₩	523,432		465,646

(Note 4)

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

**48. Account Receivables Due from and Deferred Revenue Due to Customers for Contracts in Progress, Continued**

(c) Accounts receivables due from and deferred revenue due to customers for contracts in progress as of June 30, 2015 and December 31, 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>June 30, 2015</u>
			(Note 4)
Account receivables due from customers for contracts in progress	₩ 150,568	130,209	\$ 133,945
Deferred revenue due to customers for contracts in progress	(118,371)	(148,134)	(105,303)

**49. Discontinued Operations**

(a) On August 11, 2014, Hanjin Energy Co., Ltd. entered into a sales agreement with Aramco Overseas Company B.V. to dispose 31,983,586 shares of S-Oil Corporation to repay borrowings and improve financial structure of the Parent Company, by the decision made by the Board of Directors on July 2, 2014. Hanjin Energy Co., Ltd. disposed S-Oil Corporation shares for the six-month period ended June 30, 2015.

Incurring revenue and costs, and recognizing profit and loss until disposal of S-Oil Corporation's shares is classified as a discontinued operation in the condensed consolidated statements of comprehensive income (loss). Comparative amounts have been re-represented as a result of the discontinued operation during the current year. In addition, the cash flows from discontinued operations are stated separately as below.

KOREAN AIR LINES CO., LTD. AND SUBSIDIARIES  
Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

June 30, 2015 and 2014

**49. Discontinued Operations, Continued**

- (b) The discontinued operation included in the condensed consolidated interim statements of comprehensive income (loss) for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>2015</b>	<b>2014</b>	<b>2015</b>
Revenue	₩ -	-	\$ -
Cost of sales	-	-	-
Gross profit	-	-	-
Selling and administrative expenses	554	10	493
Operating loss	(554)	(10)	(493)
Financial income	2,792	-	2,484
Financial costs	2,704	26,718	2,405
Share of profit of associates	-	24,053	-
Other non-operating income	-	-	-
Other non-operating expenses	92,003	(1,430)	81,847
Loss before income tax	(92,469)	(1,245)	(82,261)
Income tax expense (benefit)	69,629	60	61,942
Loss from discontinued operations	₩ (162,098)	(1,305)	\$ (144,203)

- (c) The cash flows from discontinued operations for the six-month periods ended June 30, 2015 and 2014 are summarized as follows:

*(In millions of won and in thousands of US dollars)*

	<b>2015</b>	<b>2014</b>	<b>2015</b>
Cash flows from operating activities	₩ (11,724)	186	\$ (Note 4) (10,430)
Cash flows from investing activities	1,985,777	28,146	1,766,549
Cash flows from financing activities	(1,974,054)	(28,328)	(1,756,120)
Net cash flows	₩ (1)	4	\$ (1)

**50. Events after the Reporting Period**

Hanjin Transportation Co., Ltd., the Company's principal shareholder as of June 30, 2015, disposed of all the holding shares of Korean Air Lines Co., Ltd. on July 16, 2015.

## Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 19, 2015

To the Shareholders and the Board of Directors of  
Korean Air Lines Co., Ltd.:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Korean Air Lines Co., Ltd. (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014 and December 31, 2013, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, for the years then ended, and 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 consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

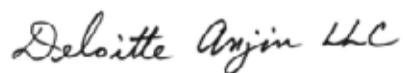
## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Korean Air Lines Co., Ltd. as of December 31, 2014, and December 31, 2013, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

## Others

We conducted our audit of consolidated financial statements of Korean Air Lines Co., Ltd. and its subsidiaries as of December 31, 2013 in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

Our audit also comprehended the translation of Korean won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.



March 19, 2015

## Notice to Readers

This report is effective as of March 19, 2015, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

**KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES**  
**(the “Group”)**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF AND**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by and are the responsibility of the Group.

**Chi, Chang Hoon**  
**Chief Executive Officer**  
**KOREAN AIR LINES CO., LTD.**

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014 AND 2013

ASSETS	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	5,6,40	₩ 796,604	₩ 1,126,825	\$ 724,712	\$ 1,025,132
Short-term financial instruments	6,40	59,018	53,162	53,692	48,365
Current portion of investment in direct financing leases	11,40	13,014	7,730	11,839	7,032
Trade and other receivables	7,40,42	1,012,299	1,011,657	920,942	920,358
The amount due from customers for contract work	45	130,209	145,745	118,458	132,592
Current portion of AFS financial assets	8,16,40,41	-	3,000	-	2,729
Current portion of held-to-maturity investments	3,9,16,40	20	9,374	18	8,528
Inventories	10	430,180	464,302	391,357	422,400
Income tax refunded	37	5,415	3,697	4,927	3,364
Current portion of financial derivative assets	40,41	-	4,893	-	4,451
Other current assets	20,22	475,862	309,447	432,916	281,520
Assets held for sale	16,46	2,025,419	-	1,842,631	-
Total current assets		<u>4,948,040</u>	<u>3,139,832</u>	<u>4,501,492</u>	<u>2,856,471</u>
<b>NON-CURRENT ASSETS:</b>					
Long-term financial instruments	6,40	60,090	1,256	54,667	1,142
Long-term trade and other receivables	7,40,42	253	192	230	175
AFS financial assets	8,16,40,41	207,492	213,309	188,766	194,058
Held-to-maturity investments	3,9,16,40	954	948	868	862
Investment in direct financing leases	11,40	72,341	73,490	65,813	66,858
Investments in associates and jointly controlled entities	13,16,42	467,574	2,407,496	425,376	2,190,225
Property, aircraft and equipment	15,16	15,778,074	15,503,889	14,354,143	14,104,703
Investment properties	16,17	175,570	68,564	159,726	62,376
Intangible assets	16,18	331,228	349,222	301,335	317,706
Financial derivative assets	27,40,41	5,446	2,976	4,955	2,708
Other financial assets	19,22,40	256,024	251,717	232,919	229,000
Deferred tax assets	37	814,781	658,568	741,249	599,134
Other non-current assets	20	347,857	248,979	316,464	226,509
Total non-current assets		<u>18,517,684</u>	<u>19,780,606</u>	<u>16,846,511</u>	<u>17,995,456</u>
Total assets		<u>₩ 23,465,724</u>	<u>₩ 22,920,438</u>	<u>\$ 21,348,003</u>	<u>\$ 20,851,927</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2014 AND 2013

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
<b>CURRENT LIABILITIES:</b>					
Trade and other payables	21,40,42	₩ 698,246	₩ 841,236	\$ 635,231	\$ 765,316
Short-term borrowings	16,22,40	1,634,526	817,466	1,487,014	743,692
Current portion of long-term borrowings	16,22,40	2,760,824	4,076,268	2,511,667	3,708,395
Current portion of obligation under finance leases	16,23,40	957,218	871,447	870,831	792,802
Current income tax liabilities	37	7,113	1,262	6,471	1,148
Current portion of financial derivative liabilities	27,40,41	205,204	32,561	186,685	29,622
The amount due to customers for contract work	45	148,134	124,475	134,765	113,241
Other current liabilities	28	1,030,621	994,120	937,611	904,404
Total current liabilities		<u>7,441,886</u>	<u>7,758,835</u>	<u>6,770,275</u>	<u>7,058,620</u>
<b>NON-CURRENT LIABILITIES:</b>					
Long-term trade and other payables	21,40,42	126,277	174,125	114,881	158,410
Long-term borrowings	16,22,40	1,602,450	1,220,865	1,457,833	1,110,685
Debentures	22,40,42	2,415,489	2,361,382	2,197,498	2,148,273
ABS loans	22,40,42	1,388,447	916,114	1,263,143	833,437
Guaranteed loans	16,22,40,42	24,896	35,899	22,649	32,659
Obligation under finance leases	16,23,40	5,547,251	5,019,925	5,046,625	4,566,890
Net defined benefit liabilities	3,24	851,071	879,931	774,264	800,519
Provisions	25	142,450	140,686	129,594	127,990
Deferred revenue	26	1,633,782	1,558,787	1,486,338	1,418,110
Financial derivative liabilities	27,40,41	476	399	433	363
Deferred tax liabilities	37	52,120	82,310	47,416	74,882
Other non-current liabilities	28	37,971	30,967	34,544	28,173
Total non-current liabilities		<u>13,822,680</u>	<u>12,421,390</u>	<u>12,575,218</u>	<u>11,300,391</u>
Total liabilities		<u>21,264,566</u>	<u>20,180,225</u>	<u>19,345,493</u>	<u>18,359,011</u>
<b>SHAREHOLDERS' EQUITY:</b>					
Capital stock	29	298,931	298,931	271,953	271,953
Other capital surplus	30	52,562	52,699	47,819	47,944
Other capital components	32	256,248	328,164	233,122	298,548
Retained earnings	31	1,544,566	1,967,197	1,405,173	1,789,662
Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	46	(61,364)	-	(55,826)	-
NON-CONTROLLING INTERESTS:		<u>110,215</u>	<u>93,222</u>	<u>100,269</u>	<u>84,809</u>
Total shareholders' equity		<u>2,201,158</u>	<u>2,740,213</u>	<u>2,002,510</u>	<u>2,492,916</u>
Total liabilities and shareholders' equity		<u>₩ 23,465,724</u>	<u>₩ 22,920,438</u>	<u>\$ 21,348,003</u>	<u>\$ 20,851,927</u>

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions except for loss per share)		(In thousands except for loss per share)	
SALES	4,33,42	₩ 11,909,748	₩ 11,848,708	\$ 10,834,924	\$ 10,779,392
COST OF SALES	38,42	<u>10,389,544</u>	<u>10,753,626</u>	<u>9,451,914</u>	<u>9,783,138</u>
GROSS PROFIT		1,520,204	1,095,082	1,383,010	996,254
Selling and administrative expenses	34,38	<u>1,125,157</u>	<u>1,114,644</u>	<u>1,023,615</u>	<u>1,014,051</u>
OPERATING INCOME (LOSS)	4	395,047	(19,562)	359,395	(17,797)
Financial income	35,40	52,732	105,830	47,973	96,279
Financial expenses	35,40	476,283	526,710	433,300	479,176
Gain (loss) on equity method valuation	13	7,138	(45,202)	6,494	(41,122)
Other non-operating income	36	536,917	733,087	488,462	666,927
Other non-operating expenses	36	<u>799,262</u>	<u>717,549</u>	<u>727,130</u>	<u>652,791</u>
LOSS BEFORE INCOME TAX BENEFIT	37	(283,711)	(470,106)	(258,106)	(427,680)
INCOME TAX BENEFIT	37	<u>(106,650)</u>	<u>(112,862)</u>	<u>(97,024)</u>	<u>(102,676)</u>
NET LOSS FROM CONTINUING OPERATIONS		(177,061)	(357,244)	(161,082)	(325,004)
NET LOSS FROM DISCONTINUED OPERATIONS	46	<u>(280,761)</u>	<u>(26,311)</u>	<u>(255,423)</u>	<u>(23,937)</u>
NET LOSS		<u>₩ (457,822)</u>	<u>₩ (383,555)</u>	<u>\$ (416,505)</u>	<u>\$ (348,941)</u>
OTHER COMPREHENSIVE (LOSS) INCOME AFTER INCOME TAX:					
Items not to be reclassified subsequent to income or loss:					
Remeasurement of the net defined benefit liabilities	24	₩ 90,667	₩ 47,156	\$ 82,485	\$ 42,901
Change in retained earnings – equity method–accounted investments	13	(14,885)	1,751	(13,542)	1,593
Revaluation surplus	15	<u>(3)</u>	<u>321,796</u>	<u>(3)</u>	<u>292,755</u>
		<u>₩ 75,779</u>	<u>₩ 370,703</u>	<u>\$ 68,940</u>	<u>\$ 337,249</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	NOTES	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions except for loss per share)		(In thousands except for loss per share)	
Items to be reclassified subsequent to income or loss:					
Gain (loss) on AFS financial assets, net		₩ (2,513)	₩ 40,496	\$ (2,286)	\$ 36,841
Change in capital adjustments – equity method–accounted investments	13	19,472	(53,876)	17,714	(49,014)
Gain (loss) on financial derivatives, net	27,32	(152,949)	7,479	(139,146)	6,805
Gain (loss) on foreign operation translation		3,307	(5,114)	3,009	(4,653)
		<u>(132,683)</u>	<u>(11,015)</u>	<u>(120,709)</u>	<u>(10,021)</u>
COMPREHENSIVE LOSS		<u>₩ (514,726)</u>	<u>₩ (23,867)</u>	<u>\$ (468,274)</u>	<u>\$ (21,713)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		₩ (480,259)	₩ (224,995)	\$ (436,917)	\$ (204,690)
Non-controlling interests		22,437	(158,560)	20,412	(144,251)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owners of the Company		(538,607)	155,774	(489,999)	141,716
Non-controlling interests		23,881	(179,641)	21,725	(163,429)
LOSS PER SHARE:	39				
Continuing and discontinued operations					
Basic loss per share		(8,185)	(3,517)	(7)	(3)
Diluted loss per share		(8,185)	(3,517)	(7)	(3)
Continuing operations					
Basic loss per share		(3,466)	(5,418)	(3)	(5)
Diluted loss per share		(3,466)	(5,418)	(3)	(5)
(Concluded)					

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won								
	Owners of the Company								
	Capital stock	Additional paid-in capital	Other capital surplus	Other capital components	Retained earnings	Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale	Subtotal	Non-controlling interests	Total
(In millions)									
January 1, 2013	₩ 366,754	₩ 189,417	₩ (24,060)	₩ (6,481)	₩ 2,095,970	₩ -	₩ 2,621,600	₩ 282,783	₩ 2,904,383
Dividends	-	-	-	-	-	-	-	(4,371)	(4,371)
Net loss	-	-	-	-	(224,995)	-	(224,995)	(158,560)	(383,555)
Other comprehensive									
Income (loss)	-	-	-	334,645	46,124	-	380,769	(21,081)	359,688
Increase (decrease)									
due to the merger	4,403	28,896	(8,926)	-	-	-	24,373	(24,373)	-
Decrease due to the spin-off	(72,226)	(43,406)	(298,082)	-	-	-	(413,714)	-	(413,714)
Substitution of revaluation surplus	-	-	-	-	12,847	-	12,847	13,023	25,870
Issuance of hybrid securities	-	-	208,860	-	-	-	208,860	-	208,860
Dividend from hybrid securities	-	-	-	-	(6,758)	-	(6,758)	-	(6,758)
The change of retained earnings of associates and subsidiaries	-	-	-	-	37,136	-	37,136	8,439	45,575
Others	-	-	-	-	6,873	-	6,873	(2,638)	4,235
December 31, 2013	₩ 298,931	₩ 174,907	₩ (122,208)	₩ 328,164	₩ 1,967,197	₩ -	₩ 2,646,991	₩ 93,222	₩ 2,740,213
January 1, 2014	₩ 298,931	₩ 174,907	₩ (122,208)	₩ 328,164	₩ 1,967,197	₩ -	₩ 2,646,991	₩ 93,222	₩ 2,740,213
Dividends	-	-	-	-	-	-	-	(622)	(622)
Net loss	-	-	-	-	(480,259)	-	(480,259)	22,437	(457,822)
Other comprehensive									
income (loss)	-	-	-	(133,280)	74,932	-	(58,348)	1,444	(56,904)
Decrease due to									
paid-in capital increase	-	-	(137)	-	-	-	(137)	(116)	(253)
Dividend from hybrid securities	-	-	-	-	(13,476)	-	(13,476)	-	(13,476)
Substitution of equity relating to assets held for sale	-	-	-	61,364	-	(61,364)	-	-	-
The change of retained earnings of associates and subsidiaries	-	-	-	-	(4,161)	-	(4,161)	-	(4,161)
Others	-	-	-	-	333	-	333	(6,150)	(5,817)
December 31, 2014	₩ 298,931	₩ 174,907	₩ (122,345)	₩ 256,248	₩ 1,544,566	₩ (61,364)	₩ 2,090,943	₩ 110,215	₩ 2,201,158

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Translation into U.S. dollars (Note 2)								
	Owners of the Company								
	Other capital surplus					Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale		Non-controlling interests	Total
	Capital stock	Additional paid-in capital	Others	Other capital components	Retained earnings		Subtotal		
	(In thousands)								
January 1, 2013	\$ 333,655	\$ 172,323	\$ (21,889)	\$ (5,896)	\$ 1,906,814	\$ -	\$ 2,385,007	\$ 257,263	\$ 2,642,270
Dividends	-	-	-	-	-	-	-	(3,976)	(3,976)
Net loss	-	-	-	-	(204,690)	-	(204,690)	(144,251)	(348,941)
Other comprehensive income (loss)	-	-	-	304,444	41,962	-	346,406	(19,178)	327,228
Increase (decrease) due to the merger	4,006	26,288	(8,120)	-	-	-	22,174	(22,174)	-
Decrease due to the spin-off	(65,708)	(39,489)	(271,180)	-	-	-	(376,377)	-	(376,377)
Substitution of revaluation surplus	-	-	-	-	11,687	-	11,687	11,848	23,535
Issuance of hybrid securities	-	-	190,011	-	-	-	190,011	-	190,011
Dividend from hybrid securities	-	-	-	-	(6,148)	-	(6,148)	-	(6,148)
The change of retained earnings of associates and subsidiaries	-	-	-	-	33,785	-	33,785	7,677	41,462
Others	-	-	-	-	6,252	-	6,252	(2,400)	3,852
December 31, 2013	<u>\$ 271,953</u>	<u>\$ 159,122</u>	<u>\$ (111,178)</u>	<u>\$ 298,548</u>	<u>\$ 1,789,662</u>	<u>\$ -</u>	<u>\$ 2,408,107</u>	<u>\$ 84,809</u>	<u>\$ 2,492,916</u>
January 1, 2014	\$ 271,953	\$ 159,122	\$ (111,178)	\$ 298,548	\$ 1,789,662	\$ -	\$ 2,408,107	\$ 84,809	\$ 2,492,916
Dividends	-	-	-	-	-	-	-	(565)	(565)
Net loss	-	-	-	-	(436,917)	-	(436,917)	20,412	(416,505)
Other comprehensive income (loss)	-	-	-	(121,252)	68,170	-	(53,082)	1,313	(51,769)
Decrease due to paid-in capital increase	-	-	(125)	-	-	-	(125)	(105)	(230)
Dividend from hybrid securities	-	-	-	-	(12,260)	-	(12,260)	-	(12,260)
Substitution of equity relating to assets held for sale	-	-	-	55,826	-	(55,826)	-	-	-
The change of retained earnings of associates and subsidiaries	-	-	-	-	(3,785)	-	(3,785)	-	(3,785)
Others	-	-	-	-	303	-	303	(5,595)	(5,292)
December 31, 2014	<u>\$ 271,953</u>	<u>\$ 159,122</u>	<u>\$ (111,303)</u>	<u>\$ 233,122</u>	<u>\$ 1,405,173</u>	<u>\$ (55,826)</u>	<u>\$ 1,902,241</u>	<u>\$ 100,269</u>	<u>\$ 2,002,510</u>

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash flows from operations:				
Net loss	₩ (457,822)	₩ (383,555)	\$ (416,505)	\$ (348,941)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Maintenance material cost	4,659	5,056	4,238	4,600
Provision for leased aircraft maintenance	1,248	25,203	1,135	22,929
Post-employment benefit	156,230	159,982	142,131	145,544
Long-term employee benefits	9,932	-	9,036	-
Depreciation	1,558,001	1,629,729	1,417,396	1,482,650
Amortization	35,024	33,065	31,864	30,081
Bad debt expenses	492	-	448	-
Interest expense	464,229	507,412	422,334	461,619
Loss on valuation of derivatives	3,475	25,689	3,161	23,371
Loss on disposal of AFS financial assets	7,884	2,640	7,172	2,402
Impairment loss on AFS financial assets	3,899	1,685	3,547	1,533
Loss on disposal of investments in associates	4,188	1,271	3,810	1,156
Impairment loss on investments in associates	-	1,500	-	1,365
Loss on disposal of investments in jointly controlled entities	-	1,224	-	1,114
Other bad debt expenses	324	453	295	411
Loss on foreign currency translation	402,323	57,392	366,014	52,212
Loss on disposal of property, aircraft and equipment	112,840	89,706	102,657	81,610
Impairment loss on property, aircraft and equipment	-	35,101	-	31,934
Loss on revaluation of assets	-	52,530	-	47,789
Loss on disposal of intangible assets	23	-	21	-
Impairment loss on intangible assets	78	-	71	-
Loss on valuation of fair value less costs	398,642	-	362,666	-
Loss on disposal of discontinued operations	-	171,435	-	155,963
Miscellaneous loss	-	149,306	-	135,832
Interest income	(40,394)	(32,160)	(36,748)	(29,257)
Dividend income	(3,967)	(3,274)	(3,609)	(2,978)
Gain on valuation of derivatives	(5,736)	(56,511)	(5,219)	(51,411)
Gain on valuation of equity method	(31,190)	(32,982)	(28,376)	(30,006)
Gain on disposal of AFS financial assets	(264)	-	(240)	-
Gain on disposal of investments in associates	(88,559)	(359)	(80,567)	(327)
Reversal of impairment loss on investments in associates	(14,651)	-	(13,329)	-
Gain on foreign currency translation	(168,772)	(425,088)	(153,541)	(386,725)
Reversal of allowance for doubtful accounts	(603)	(397)	(548)	(361)
Gain on disposal of property, aircraft and equipment	(3,571)	(33,983)	(3,249)	(30,916)
Income tax benefit	(195,585)	(138,155)	(177,934)	(125,687)
Others	(18,671)	(12,766)	(16,987)	(11,614)
	<u>2,591,528</u>	<u>2,214,704</u>	<u>2,357,649</u>	<u>2,014,833</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Changes in assets and liabilities resulting from operations:				
Decrease in trade receivables	₩ 44,617	₩ 50,969	\$ 40,590	\$ 46,369
Decrease (increase) in other receivables	(53,311)	3,607	(48,500)	3,281
Decrease (increase) in accrued revenues	(8,996)	5,796	(8,184)	5,273
Decrease in inventories	34,184	26,004	31,099	23,658
Decrease in financial derivative assets	4,234	99,108	3,852	90,164
Increase in advance payments	(136,207)	(23,923)	(123,915)	(21,764)
Decrease (increase) in prepaid expenses	(9,566)	2,917	(8,703)	2,654
Decrease (increase) in other current assets	5,293	(11,208)	4,815	(10,197)
Decrease (increase) in long-term advance payments	388	(344)	353	(313)
Decrease in long-term prepaid expenses	603	136	548	124
Decrease in trade payables	(83,031)	(42,650)	(75,538)	(38,801)
Decrease in non-trade payables	(94,917)	(54,554)	(86,351)	(49,630)
Decrease in accrued expenses	(77,289)	(136,708)	(70,313)	(124,370)
Increase (decrease) in advances	(26,370)	88,726	(23,990)	80,719
Decrease in financial derivative liabilities	(29,412)	(20,356)	(26,758)	(18,519)
Increase (decrease) in other current liabilities	71,773	332	65,296	302
Decrease in plan assets	6,101	10,987	5,551	9,995
Payment of retirement benefits	(76,085)	(80,735)	(69,219)	(73,449)
Increase in deferred revenue	74,995	82,092	68,227	74,683
Increase in other non-current liabilities	7,015	5,335	6,382	4,853
Others	282	(274)	257	(249)
	<u>(345,699)</u>	<u>5,257</u>	<u>(314,501)</u>	<u>4,783</u>
Interest received	40,580	33,109	36,918	30,121
Dividend received	40,202	95,039	36,574	86,462
Income taxes paid	(5,225)	(15,209)	(4,753)	(13,837)
Net cash provided by operating activities	<u>₩ 1,863,564</u>	<u>₩ 1,949,345</u>	<u>\$ 1,695,382</u>	<u>\$ 1,773,421</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Decrease in short-term financial instruments	₩ 65,834	₩ 58,345	\$ 59,892	\$ 53,080
Recovery of investment in direct financing leases	12,886	-	11,723	-
Decrease in current portion of AFS financial assets	3,000	-	2,729	-
Decrease in current portion of held-to-maturity investments	9,356	857	8,512	780
Decrease in short-term loans	29,989	67	27,283	61
Decrease in long-term financial instruments	1,590	3	1,446	3
Disposal of AFS financial assets	15,529	2,382	14,127	2,167
Disposal of held-to-maturity investments	17	-	16	-
Disposal of investments in associates	64,401	8,265	58,589	7,519
Disposal of property, aircraft and equipment	381,973	146,743	347,501	133,499
Disposal of intangible assets	77	1,856	70	1,689
Recovery of guarantee deposits	122,127	143,220	111,106	130,294
Increase in short-term loans	-	(250,039)	-	(227,474)
Increase in short-term financial instruments	(68,633)	(132,010)	(62,439)	(120,096)
Increase in long-term financial instruments	(57,911)	(1,320)	(52,685)	(1,201)
Purchase of AFS financial assets	(5,090)	(2,866)	(4,630)	(2,607)
Purchase of held-to-maturity investments	(25)	(1,435)	(23)	(1,305)
Purchase of investments in associates	(400,000)	(3,905)	(363,901)	(3,552)
Purchase of investments in subsidiaries	(1,971)	-	(1,793)	-
Purchase of investment in direct financing leases	-	(12,684)	-	(11,539)
Acquisition of property, aircraft and equipment	(1,120,619)	(1,242,378)	(1,019,486)	(1,130,257)
Acquisition of intangible assets	(1)	(1,231)	(1)	(1,120)
Acquisition of investment properties	-	(428)	-	(389)
Increase in guarantee deposits	(117,479)	(78,764)	(106,877)	(71,656)
Cash inflows from others, net	1	10,557	1	9,603
Net cash used in investing activities	<u>(1,064,949)</u>	<u>(1,354,765)</u>	<u>(968,840)</u>	<u>(1,232,501)</u>

(Continued)

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from short-term borrowings	₩ 2,050,927	₩ 1,423,121	\$ 1,865,836	\$ 1,294,688
Proceeds from debentures	449,751	531,709	409,162	483,723
Proceeds from long-term borrowings	2,012,651	1,516,395	1,831,014	1,379,544
Proceeds from ABS loans	1,271,866	910,148	1,157,084	828,010
Proceeds from issuance of hybrid securities	-	208,860	-	190,011
Paid in capital increase	-	664	-	604
Repayments of short-term borrowings	(1,245,366)	(1,768,208)	(1,132,975)	(1,608,632)
Repayments of current portion of long-term borrowings	(4,214,645)	(2,108,467)	(3,834,284)	(1,918,183)
Repayments of current portion of obligations under finance leases	(984,903)	(957,279)	(896,018)	(870,887)
Repayments of long-term borrowings	-	(19,262)	-	(17,524)
Interest paid	(465,889)	(489,783)	(423,844)	(445,582)
Dividend from hybrid securities paid	(13,440)	(6,720)	(12,227)	(6,113)
Dividends paid	(622)	(4,371)	(566)	(3,976)
Cash outflows due to the spin-off	-	(165,016)	-	(150,124)
Cash inflows for others, net	1,737	726	1,580	661
Net cash used in financing activities	<u>(1,137,933)</u>	<u>(927,483)</u>	<u>(1,035,238)</u>	<u>(843,780)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(339,318)</b>	<b>(332,903)</b>	<b>(308,696)</b>	<b>(302,860)</b>
<b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR</b>	<b>1,126,825</b>	<b>1,465,499</b>	<b>1,025,132</b>	<b>1,333,241</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>9,097</b>	<b>(5,771)</b>	<b>8,276</b>	<b>(5,249)</b>
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>	<b>₩ 796,604</b>	<b>₩ 1,126,825</b>	<b>\$ 724,712</b>	<b>\$ 1,025,132</b>

(Concluded)

See accompanying notes to consolidated financial statements.

KOREAN AIR LINES CO., LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

**1. GENERAL:**

Korean Air Lines Co., Ltd. (the “Company”) which is the controlling entity in accordance with Korean International Financial Reporting Standards (“K-IFRS”) 1110, *Consolidated Financial Statements*, was established on June 19, 1962, under the Investment Promotion Law of the Republic of Korea and is engaged in the business of domestic and international airline services, manufacture of aircraft parts, maintenance of aircraft and catering of in-flight meals. The Company has been a publicly traded company upon listing its common stock on the Korea Exchange since 1966. Total capital stock of the Company as of December 31, 2014 amounted to ₩298,931 million in par value (including ₩5,554 million of preferred stock). The principal shareholders of the Company’s common shares are Hanjin Transportation Co., Ltd., Hanjin KAL Co., Ltd. and its affiliates who collectively own 47.83% of the outstanding common shares. Meanwhile, the Company spun the investment business unit off on August 1, 2013 (Note 46).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Basis of Financial Statement Presentation

The Company and its subsidiaries (the “Group”) maintain its official accounting records in Korean won and prepare consolidated financial statements in conformity with Korean statutory requirements and K-IFRS, in Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Group’s financial position, operating results, changes in shareholders’ equity or cash flows is not presented in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are stated in Korean won, the currency of the country in which the Group is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea and has been made at the rate of ₩1,099.20 to USD 1.00 on December 31, 2014, the base rate announced by Seoul Money Brokerage Services, Ltd. Such translations should not be interpreted as representations that the Korean won amounts could be converted into U.S. dollars at that or any other rate.

(1) Basis of Preparation

The Group has prepared the consolidated financial statements in accordance with the K-IFRS.

The Group’s accounting policies applied for the accompanying consolidated financial statements are the same as the policies applied for the preparation of consolidated financial statements as of and for the year ended December 31, 2013, except for the effects from the introduction of new and revised accounting standards of interpretation as described below.

The accompanying consolidated financial statements have been prepared on the historical cost basis, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given.

- 1) Accounting standards and interpretations that were newly applied for the year ended December 31, 2014 and changes in the Group's accounting policies are as follows:

Amendments to K-IFRS 1032 – Financial Instruments: Presentation

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities: the right to offset must not be conditional upon the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. As the Group does not have any financial assets and financial liabilities that qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has no significant impact on the Group's consolidated financial statements.

Amendments to K-IFRS 1036 – Impairment of Assets

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. The application of these amendments has no impact on the disclosure in the Group's consolidated financial statements.

Enactment of K-IFRS 2121 – Levies

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The enactment no significant impact on the Group's consolidated financial statements.

- 2) The Group has not applied or adopted earlier the following new and revised K-IFRS that have been issued, but are not yet effective:

Amendments to K-IFRS 1019 – Employee Benefits

The amendments permits the Group to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions are independent of the number of years of service. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Amendments to K-IFRS 1016 – Property, Plant and Equipment

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 – Intangible Assets

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 38 rebuts presumption that revenue is not an appropriate basis for the amortization of an intangible assets, which the presumption can only be rebutted when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1111 – Accounting for Acquisitions of Interests in Joint Operations

The amendments to K-IFRS 1111 provides guidance on how to account for the acquisition of joint operation that constitutes a business as defined in K-IFRS 1103 Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1002 (i) changes the definitions of 'vesting condition' and 'market condition'; and (ii) add definition for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to K-IFRS 1103 clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

### Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 Fair values Measurements and K-IFRS 1040 Investment Properties exist and these amendments are effective to the annual periods beginning on or after July 1, 2014.

The list above does not include some other amendments but the Group anticipates that these amendments do not have significant impact on the Group's consolidated financial statements.

### (2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee; and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive loss from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup transactions and related assets, liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### (3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012, *Income Taxes*, and K-IFRS 1019, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102, *Share-Based Payment*, at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any), over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 or K-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

#### (4) Investments in jointly controlled entities and associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis it would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 by comparing its recoverable amount (higher of value in use or fair value, less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests. When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

#### (5) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRS applicable to the particular assets, liabilities, revenues and expenses.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When the Group transacts in a joint operation in which the Group is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

#### (6) Goodwill

Goodwill arising on the acquisition of a business is carried at cost, as established at the date of acquisition of the business, less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described in Note 2. (4).

#### (7) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control over a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment, or the portion of the investment, that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value, less costs to sell.

#### (8) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

##### 1) Sales of goods

Revenue from the sale of goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer.

##### 2) Rendering of services

Revenue from airline services is recognized upon completion of the services, and revenue from a contract to provide other services is recognized by reference to stage of completion of the contract. Depending on the nature of the transaction, the Group determines the stage of completion by reference to surveys of work performed; services performed to date as a percentage of total services to be performed; or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable.

Rendering of services that result in award credits for customers, under the Group's Maxi-Points Scheme, is accounted for as multiple-element revenue transactions, and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value—the amount for which the award credits could be sold separately.

Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

##### 3) Dividend and interest income

Dividend income from investments is recognized when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### 4) Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 2. (10).

##### 5) Customer Royalty Program

The Group operates customer royalty program to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the Group grants the customer award credits. The customer can redeem the award credits for awards, such as free or discounted goods or services.

The award credits are accounted separately as identifiable component of the sales transaction(s) in which they are granted (the 'initial sales'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

If the Group supplies the awards itself, it shall recognize the consideration allocated to award credits as revenue when award credits are redeemed and it fulfills its obligation to supply awards. The amount of revenue recognized shall be based on the number of award credits that have been redeemed in exchange for awards related to the total number expected to be redeemed.

If the third party supplies the awards, the Group shall assess whether it is collecting the consideration allocated to the award credits on its own account (as the principal in the transaction ) or on behalf of the third party (as agent for the third party). The amount of revenue recognized shall be net amount retained on its own account.

#### (9) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date, plus recognized profits, less recognized losses, exceed progress billing, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date, plus recognized profits, less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

#### (10) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### 1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

##### 2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (Note 2. (12)). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (11) Foreign currencies

The Group's consolidated financial statements are presented in the currency of the primary economic environment in which the Group operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (Note 2. (24)) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation where the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

#### (12) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### (13) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the consolidated statement of financial position by deducting the grant from the carrying amount of the asset. The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are deducted from the related expenses. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

#### (14) Retirement benefit costs and termination benefits

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position, with a charge or credit recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

## (15) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

### 3) Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current tax and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(16) Property, aircraft and equipment

Property, aircraft and equipment except land are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Land shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The cost of an item of property, aircraft and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land and leased land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Description	Useful lives (years)
Buildings and structures	20–40
Machinery	4–15
Aircraft and leased aircraft	Fuselage, etc. 6–15
	Periodical large repair 2.8–12
Engines and leased engines	Engines 15
	Periodical large repair 3.3–8.8
Aircraft parts	15
Others	3–15

If each part of an item of property, aircraft and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property, aircraft and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, aircraft and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized. The revaluation surplus included in equity in respect of an item of property, aircraft and equipment may be transferred directly to retained earnings when the asset is derecognized.

(17) Investment properties

Investment properties are properties held to earn rentals or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective asset's estimated useful lives of 20–40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(18) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, and only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Intangible assets with finite useful lives are amortized based on the estimated useful lives of the assets as follows:

Description	Useful lives (years)
Facility usage rights	19–30
Research and development costs	5–15.3
Other intangible assets	5–20

Among the Group’s intangible assets, useful life of a membership is estimated to be infinite as the usable period is not limited in accordance with the terms of the contract and the economic benefits are expected to be continuously generated from the asset during the holding period.

#### (19) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value, less costs to sell, or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### (20) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is measured by the following evaluation method:

Description	evaluation method
Merchandise	First-in, first-out method and others
Products	Total average method and others
Raw materials	Aerospace Moving average method
	In-flight meals First-in, first-out method
Supplies	Air transport/aerospace Moving average method
	In-flight meals First-in, first-out method
	Others First-in, first-out method and others
Materials in transit	Specific Identification method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

#### (21) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

## (22) Financial Instruments

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss ("FVTPL") are recognized immediately in profit or loss.

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

### 1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument, and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than financial assets classified as at FVTPL.

### 2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'Other non-operating income and expense' line item in the consolidated statement of comprehensive loss.

### 3) Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

### 4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as gain (loss) on AFS financial assets, net). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity investments are measured at cost, less any identified impairment losses, at the end of each reporting period.

### 5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

### 6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events have occurred after the initial recognition of the financial asset and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty,
- default or delinquency in interest or principal payments,
- it becoming probable that the borrower will enter bankruptcy or financial reorganization or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### 7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the assets' carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of financial assets other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

## (23) Financial liabilities and equity instruments

### 1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

### 2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized as the proceeds are received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### 3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

### 4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'Other non-operating income and expense' line item in the consolidated statement of comprehensive loss.

#### 5) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability, and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments, including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

#### 6) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss he/she incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037, and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018, *Revenue*

#### 7) Derecognition of financial liabilities

The Group derecognize financial liabilities when the Group's obligation are discharged or canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### (24) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and oil price risk, including currency option, oil price option and interest rate swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset, and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### 1) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

## 2) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive loss relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

## 3) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'Other non-operating income and expense' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the consolidated statement of comprehensive loss as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

## (25) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102; leasing transactions that are within the scope of K-IFRS 1017, *Leases*; and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in K-IFRS 1002, *Inventories*, or value in use in K-IFRS 1036.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- (Level 1) inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- (Level 2) inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- (Level 3) inputs are unobservable inputs for the asset or liability.

## (26) Approval of consolidated financial statements

The accompanying consolidated financial statements were approved by the board of directors on February 12, 2015, and it will be finally approved by the general meeting of shareholders on March 27, 2015.

(27) Reclassification of prior financial statements

The 2013 consolidated financial statements, which are presented for comparative purposes, are reclassified in order to enhance the comparativeness of consolidated financial statements. The reclassification of 2013 consolidated financial statements does not affect net assets and net income.

**3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:**

In the application of the Group accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations (Note 3. (2)), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Management has reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is ₩974 million (\$886 thousand). Details of these assets are set out in Note 9.

(2) Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1) Defined Benefit Plan

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing postretirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of postretirement benefit plan. At the end of this year, net defined benefit obligation of the plan is ₩851,071 million (\$774,264 thousand) (prior year of ₩879,931 million (\$800,519 thousand)), as detailed in Note 24.

2) Valuation of Financial Instruments

As described in Notes 40 and 41, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. Notes 40 and 41 provide detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

3) Probability on the Realization of Unused Deferred Tax Assets

In consideration of operating performance of the Group and estimate of the future operating performance, the Company recognizes deferred tax asset in relation to unused tax loss carryforward.

#### 4. SEGMENT INFORMATION:

(1) The Group's segment information is prepared for the purpose of resource allocation and assessment of segment performance. The Group's reportable segments are as follows:

Segment	Type of goods and services	Customers' information
Air transport	Passenger and cargo transportation	Individual, enterprises, government, etc.
Aerospace	Maintenance of aircraft and manufacture of aircraft parts	Department of defense, etc.
Flight meals	Catering of in-flight meals	Foreign airlines, etc.
Hotel/limousine, etc.	Hotel services and limousine transportation, etc.	Individual, etc.

(2) Operating results by reportable segment for the year ended December 31, 2014 are as follows:

	Korean won						Adjustment for consolidation	Total
	Air transport	Aerospace	In-flight meals	Hotel/limousine	Others			
	(In millions)							
Total sales	₩ 11,083,190	₩ 796,456	₩ 91,000	₩ 21,877	₩ 298,710	₩ (381,485)	₩ 11,909,748	
Internal sales	(270,001)	-	-	(319)	(111,165)	381,485	-	
Net sales	10,813,189	796,456	91,000	21,558	187,545	-	11,909,748	
Operating Income (loss)	249,457	93,307	30,363	(1,144)	23,548	(484)	395,047	
Depreciation and amortization	(1,531,787)	(38,320)	(5,921)	(1,431)	(15,567)	-	(1,593,026)	
Total assets	20,185,364	1,155,719	73,760	709,163	2,741,065	(1,399,347)	23,465,724	
Total liabilities							21,264,566	

	Translation into U.S. dollars (Note 2)						Adjustment for consolidation	Total
	Air transport	Aerospace	In-flight meals	Hotel/limousine	Others			
	(In thousands)							
Total sales	\$ 10,082,960	\$ 724,578	\$ 82,788	\$ 19,903	\$ 271,752	\$ (347,057)	\$ 10,834,924	
Internal sales	(245,634)	-	-	(290)	(101,133)	347,057	-	
Net sales	9,837,326	724,578	82,788	19,613	170,619	-	10,834,924	
Operating Income (loss)	226,944	84,887	27,622	(1,041)	21,423	(440)	359,395	
Depreciation and amortization	(1,393,547)	(34,862)	(5,387)	(1,302)	(14,162)	-	(1,449,260)	
Total assets	18,363,687	1,051,418	67,103	645,163	2,493,691	(1,273,059)	21,348,003	
Total liabilities							9,345,493	

(3) Operating results by geographical area for the year ended December 31, 2014 are as follows:

	Korean won					Adjustment for consolidation	Total
	Local companies		Overseas companies				
	Domestic	International	Americas	Asia			
	(In millions)						
Total sales	₩ 1,898,674	₩ 10,363,513	₩ 3,906	₩ 25,140	₩ (381,485)	₩ 11,909,748	
Internal sales		(360,031)	-	(21,454)	381,485	-	
Net sales		11,902,156	3,906	3,686	-	11,909,748	
Operating income (loss)		396,181	(172)	(478)	(484)	395,047	
Total assets		24,150,677	693,386	21,008	(1,399,347)	23,465,724	
Total liabilities						21,264,566	

	Translation into U.S. dollars (Note 2)					
	Local companies		Overseas companies		Adjustment for consolidation	Total
	Domestic	International	Americas	Asia		
	(In thousands)					
Total sales	\$ 1,727,324	\$ 9,428,232	\$ 3,553	\$ 22,872	\$ (347,057)	\$ 10,834,924
Internal sales		(327,539)	-	(19,518)	347,057	-
Net sales		10,828,017	3,553	3,354	-	10,834,924
Operating income (loss)		360,427	(157)	(435)	(440)	359,395
Total assets		21,971,140	630,810	19,112	(1,273,059)	21,348,003
Total liabilities						19,345,493

(4) There is no single customer who accounted for more than 10% of the Group's revenue for the years ended December 31, 2014 and 2013.

#### 5. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Cash on hand	₩ 324	₩ 328	\$ 295	\$ 299
Bank deposits	796,280	1,126,497	724,417	1,024,833
	₩ 796,604	₩ 1,126,825	\$ 724,712	\$ 1,025,132

#### 6. RESTRICTED DEPOSITS:

Restricted deposits as of December 31, 2014 and 2013 consist of the following:

	Korean won		Remark
	2014	2013	
	(In millions)		
Cash and cash equivalents	₩ 1,800	₩ -	Pledged for guaranteed loans of Hanjin Shipping Co., Ltd.
	7,547	2,111	Pledged for borrowings of Grandstar Cargo International Airlines Co., Ltd.
	5,130	10,890	Performance guarantee deposit for the mail delivery contract with Korea Post
	-	888	Pledged for air force business
Short-term and long-term financial instruments	17	14	Bank account deposit
	130	130	Performance guarantee deposit for U.S. air force delivery service
	1,000	1,000	Rental guarantee for Incheon International Airport terminal
			Accident compensation for employees and guarantee for X-RAY of Incheon International Airport
	965	877	
	66	120	Receivables attachment for employees
			Pledged for guaranteed loans of Hanjin Shipping Co., Ltd.
	3,722	-	
	₩ 20,377	₩ 16,030	

	Translation into U.S. dollars (Note 2)		Remark
	2014	2013	
	(In thousands)		
Cash and cash equivalents	\$ 1,637	\$ -	Pledged for guaranteed loans of Hanjin Shipping Co., Ltd.
	6,866	1,920	Pledged for borrowings of Grandstar Cargo International Airlines Co., Ltd.
	4,667	9,907	Performance guarantee deposit for the mail delivery contract with Korea Post
	-	808	Pledged for air force business
Short-term and long-term financial instruments	15	12	Bank account deposit
	118	118	Performance guarantee deposit for U.S. air force delivery service
	910	910	Rental guarantee for Incheon International Airport terminal
	879	798	Accident compensation for employees and guarantee for X-RAY of Incheon International Airport
	60	110	Receivables attachment for employees
	3,386	-	Pledged for guaranteed loans of Hanjin Shipping Co., Ltd.
	<u>\$ 18,538</u>	<u>\$ 14,583</u>	

#### 7. **TRADE AND OTHER RECEIVABLES:**

Trade and other receivables as of December 31, 2014 and 2013 consist of the following:

2014

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩ 612,908	₩ 279	\$ 557,595	\$ 254
Allowance for doubtful accounts	(5,997)	(2)	(5,456)	(2)
Discount on present value	(30)	(24)	(27)	(22)
	<u>606,881</u>	<u>253</u>	<u>552,112</u>	<u>230</u>
Short-term loans	220,017	-	200,161	-
Non-trade receivables	133,926	-	121,839	-
Allowance for doubtful accounts	(766)	-	(697)	-
	<u>133,160</u>	<u>-</u>	<u>121,142</u>	<u>-</u>
Accrued revenues	52,761	-	48,000	-
Allowance for doubtful accounts	(520)	-	(473)	-
	<u>52,241</u>	<u>-</u>	<u>47,527</u>	<u>-</u>
	<u>₩ 1,012,299</u>	<u>₩ 253</u>	<u>\$ 920,942</u>	<u>\$ 230</u>

2013

	Korean won		Translation into U.S. dollars (Note 2)	
	Current	Non-current	Current	Non-current
	(In millions)		(In thousands)	
Trade receivables	₩ 645,736	₩ 220	\$ 587,460	\$ 200
Allowance for doubtful accounts	(6,400)	-	(5,823)	-
Discount on present value	(40)	(28)	(36)	(25)
	<u>639,296</u>	<u>192</u>	<u>581,601</u>	<u>175</u>
Short-term loans	250,007	-	227,445	-
Non-trade receivables	79,552	-	72,373	-
Allowance for doubtful accounts	(605)	-	(551)	-
	<u>78,947</u>	<u>-</u>	<u>71,822</u>	<u>-</u>
Accrued revenues	43,843	-	39,886	-
Allowance for doubtful accounts	(436)	-	(396)	-
	<u>43,407</u>	<u>-</u>	<u>39,490</u>	<u>-</u>
	<u>₩ 1,011,657</u>	<u>₩ 192</u>	<u>\$ 920,358</u>	<u>\$ 175</u>

(2) Credit risk and details of allowance for doubtful accounts as of December 31, 2014 and 2013 are as follows:

The above trade and other receivables are classified as 'loans and receivables' and measured at amortized cost.

The Group estimates the allowance for doubtful accounts based on the each receivable analysis because the credit offering period for the sales of the Group varies with the sales' categories and customers.

1) Aging analysis of the trade receivables that are overdue, but are not impaired as of December 31, 2014 and 2013 are as follows:

2014

	Korean won				
	Within 6 months	6-12 months	1-3 years	More than 3 years	Total
	(In millions)				
Trade receivables	₩ 20,519	₩ 961	₩ 588	₩ 305	₩ 22,373
Allowance for doubtful accounts	(218)	(10)	(6)	(3)	(237)
	<u>₩ 20,301</u>	<u>₩ 951</u>	<u>₩ 582</u>	<u>₩ 302</u>	<u>₩ 22,136</u>
	Translation into U.S. dollars (Note 2)				
	Within 6 months	6-12 months	1-3 years	More than 3 years	Total
	(In thousands)				
Trade receivables	\$ 18,668	\$ 874	\$ 534	\$ 278	\$ 20,354
Allowance for doubtful accounts	(199)	(9)	(5)	(3)	(216)
	<u>\$ 18,469</u>	<u>\$ 865</u>	<u>\$ 529</u>	<u>\$ 275</u>	<u>\$ 20,138</u>

2013

	Korean won				
	Within 6 months	6–12 months	1 year– 3 years	More than 3 years	Total
	(In millions)				
Trade receivables	₩ 13,815	₩ 770	₩ 765	₩ 1,844	₩ 17,194
Allowance for doubtful accounts	(138)	(8)	(8)	(18)	(172)
	<u>₩ 13,677</u>	<u>₩ 762</u>	<u>₩ 757</u>	<u>₩ 1,826</u>	<u>₩ 17,022</u>
Translation into U.S. dollars (Note 2)					
	Within 6 months	6–12 months	1 year– 3 years	More than 3 years	Total
	(In thousands)				
Trade receivables	\$ 12,568	\$ 700	\$ 696	\$ 1,678	\$ 15,642
Allowance for doubtful accounts	(125)	(7)	(7)	(17)	(156)
	<u>\$ 12,443</u>	<u>\$ 693</u>	<u>\$ 689</u>	<u>\$ 1,661</u>	<u>\$ 15,486</u>

2) Trade receivables are not impaired as of December 31, 2014 and 2013.

3) Changes in allowance for trade and other receivables for the years ended December 31, 2014 and 2013 are as follows:

	2014							
	Korean won		Translation into U.S. dollars (Note 2)					
	Trade receivables	Trade receivables	Trade receivables	Trade receivables				
	(In millions)		(In thousands)					
Beginning balance	₩	6,400	\$	5,823				
Reversal of allowance for doubtful accounts		(401)		(365)				
Ending balance	<u>₩</u>	<u>5,999</u>	<u>\$</u>	<u>5,458</u>				
	2013							
	Korean won		Translation into U.S. dollars (Note 2)					
	Trade receivables	Loans	Trade receivables	Loans				
	(In millions)		(In thousands)					
Beginning balance	₩	6,951	₩	6,512	\$	6,324	\$	5,925
Reversal of allowance for doubtful accounts		(543)		-		(494)		-
Write-off		-		(6,512)		-		(5,925)
Decrease due to contribution in kind		(8)		-		(7)		-
Ending balance	<u>₩</u>	<u>6,400</u>	<u>₩</u>	<u>-</u>	<u>\$</u>	<u>5,823</u>	<u>\$</u>	<u>-</u>

The Group has judged the recoverability of the trade receivables by considering the changes in credit rating from the beginning date of credit offering to the end of the reporting period. The concentration of credit risk is limited because there are lots of customers and no interconnection between them.

## 8. AVAILABLE-FOR-SALE (“AFS”) FINANCIAL ASSETS:

AFS financial assets as of December 31, 2014 and 2013 consist of the following:

	Korean won			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In millions)			
Equity securities:				
Listed securities	₩ -	₩ 134,360	₩ -	₩ 140,004
Unlisted securities	-	59,604	-	65,021
Beneficiary certificates	-	5,000	-	-
Debt securities:				
Corporate bonds	-	-	3,000	-
Government and public bonds	-	6	-	3
Investments in other equity securities (*1)	-	8,522	-	8,281
	₩ -	₩ 207,492	₩ 3,000	₩ 213,309
	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In thousands)			
Equity securities:				
Listed securities	\$ -	\$ 122,234	\$ -	\$ 127,369
Unlisted securities	-	54,224	-	59,153
Beneficiary certificates	-	4,549	-	-
Debt securities:				
Corporate bonds	-	-	2,729	-
Government and public bonds	-	6	-	2
Investments in other equity securities (*1)	-	7,753	-	7,534
	\$ -	\$ 188,766	\$ 2,729	\$ 194,058

(\*1) As of December 31, 2014, ₩423 million (\$385 thousand) of investments in other equity securities were provided to Information and Communication Financial Cooperative and others as collateral related to the performance payment guarantee (Note 16).

Meanwhile, the Group recognized an impairment loss of ₩3,899 million (\$3,547 thousand) and ₩1,685 million (\$1,533 thousand), which occurred in non-marketable securities of AFS financial assets for the year ended December 31, 2014 and 2013, respectively. There is no reversal of impairment loss occurred in AFS financial assets for the years ended December 31, 2014 and 2013.

## 9. HELD-TO-MATURITY INVESTMENTS:

Held-to-maturity investments as of December 31, 2014 and 2013 consist of the following:

	Korean won			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In millions)			
Government and public bonds (*1)	₩ 20	₩ 954	₩ 9,374	₩ 948
	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In thousands)			
Government and public bonds (*1)	\$ 18	\$ 868	\$ 8,528	\$ 862

(\*1) Government and public bonds are pledged for performance guarantee as of December 31, 2014 and 2013 (Note 16).

There were no held-to-maturity investments overdue or impaired for the years ended December 31, 2014 and 2013.

#### 10. INVENTORIES:

Inventories as of December 31, 2014 and 2013 consist of the following:

	Korean won					
	2014			2013		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In millions)					
Merchandise	₩ 21,490	₩ -	₩ 21,490	₩ 22,640	₩ -	₩ 22,640
Finished goods	8,903	-	8,903	7,275	-	7,275
Raw materials	74,197	-	74,197	79,782	-	79,782
Supplies	309,677	-	309,677	340,169	-	340,169
Materials in transit	15,913	-	15,913	14,436	-	14,436
	₩ 430,180	₩ -	₩ 430,180	₩ 464,302	₩ -	₩ 464,302

	Translation into U.S. dollars (Note 2)					
	2014			2013		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
	(In thousands)					
Merchandise	\$ 19,551	\$ -	\$ 19,551	\$ 20,597	\$ -	\$ 20,597
Finished goods	8,100	-	8,100	6,618	-	6,618
Raw materials	67,501	-	67,501	72,582	-	72,582
Supplies	281,729	-	281,729	309,469	-	309,469
Materials in transit	14,476	-	14,476	13,134	-	13,134
	\$ 391,357	\$ -	\$ 391,357	\$ 422,400	\$ -	\$ 422,400

#### 11. INVESTMENT IN DIRECT FINANCING LEASES:

(1) The Group has offered the finance leases of the aircraft, and the minimum lease payments and present value of the finance leases as of December 31, 2014 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	(In millions)		(In thousands)	
Less than one year	₩	22,879	\$	20,814
One year to five years		82,418		74,980
		105,297		95,794
Present value of discounts		(19,942)		(18,142)
	₩	85,355	\$	77,652

(2) Investment in direct financing leases has not been impaired for the years ended December 31, 2014 and 2013.

## 12. INVESTMENTS IN SUBSIDIARIES:

(1) Investments in subsidiaries as of December 31, 2014 and 2013 consist of the following:

Description	Principal business	Location	Ownership of Group	
			2014	2013
			(%)	
Korea Airport Service Co., Ltd.	Airport support service	Korea	59.54	59.54
Hanjin Information Systems & Telecommunication Co., Ltd.	Software development and supply	Korea	99.35	99.35
Air Total Service Co., Ltd.	Labor supply	Korea	100.00	100.00
Hanjin Energy Co., Ltd.	Business support service	Korea	100.00	100.00
Hanjin International Corp.	Hotel and rental service	USA	100.00	100.00
Hanjin Central Asia MChJ. IAT Co., Ltd.	Construction operating	Uzbekistan	100.00	100.00
WLD Co., Ltd.	Aircraft engine repair services	Korea	90.00	90.00
Korea Global Logistics System Co., Ltd.	Sports and leisure service	Korea	100.00	100.00
	Telecommunication service	Korea	95.00	95.00
Air Korea Co., Ltd. (*1)	Airport support service	Korea	100.00	50.00
Hanjin International Japan Co., Ltd	Airport support service	Japan	55.00	55.00
KAL 4 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 5 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	-	0.50
KAL 6 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	-	0.50
KAL 7 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 8 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 9 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 10 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	0.50
KAL 11 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 11B Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 11C Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 12 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 13 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 14 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 15 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-
KAL 16 Asset Securitization Specialty Company (*2)	Issuance and repayment of ABS loans	Korea	0.50	-

(\*1) It was reclassified from investment in associates to the subsidiary resulting from additional purchase for the year ended December 31, 2014.

(\*2) The Company classified KAL Asset Securitization Specialty Companies as investments in subsidiaries because the Company controls an investee when it is exposed or has the 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) Financial positions of the Group's major subsidiaries as of December 31, 2014 are as follows:

		Korean won				
		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
		(In millions)				
Current assets	₩	155,133	₩ 64,961	₩ 2,025,425	₩ 7,944	₩ 318,580
Non-current assets		224,366	14,165	3	60	405,534
	₩	379,499	₩ 79,126	₩ 2,025,428	₩ 8,004	₩ 724,114
Current liabilities	₩	62,669	₩ 17,664	₩ 1,072,596	₩ 332	₩ 4,013
Non-current liabilities		54,189	3,518	275	57	568,324
	₩	116,858	₩ 21,182	₩ 1,072,871	₩ 389	₩ 572,337
Owners of the company	₩	262,641	₩ 57,944	₩ 952,557	₩ 7,615	₩ 151,777
Non-controlling interests		-	-	-	-	-
	₩	262,641	₩ 57,944	₩ 952,557	₩ 7,615	₩ 151,777

		Translation into U.S. dollars (Note 2)				
		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
		(In thousands)				
Current assets	\$	141,132	\$ 59,098	\$ 1,842,635	\$ 7,227	\$ 289,829
Non-current assets		204,118	12,887	3	54	368,935
	\$	345,250	\$ 71,985	\$ 1,842,638	\$ 7,281	\$ 658,764
Current liabilities	\$	57,014	\$ 16,070	\$ 975,797	\$ 302	\$ 3,651
Non-current liabilities		49,299	3,200	250	51	517,034
	\$	106,313	\$ 19,270	\$ 976,047	\$ 353	\$ 520,685
Owners of the company	\$	238,938	\$ 52,715	\$ 866,591	\$ 6,928	\$ 138,079
Non-controlling interests		-	-	-	-	-
	\$	238,938	\$ 52,715	\$ 866,591	\$ 6,928	\$ 138,079

(\*1) Consolidated statements of financial position, as disclosed above, include the consolidated adjusting amounts before intercompany transactions that are not eliminated.

(3) Financial performances of the Group's major subsidiaries for the year ended December 31, 2014 are as follows:

		Korean won				
		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
		(In millions)				
Sales	₩	438,214	₩ 110,692	₩ -	₩ 2,909	₩ 3,934
Operating income (loss)		13,437	10,491	(544)	1,101	(173)
Net income (loss)		32,107	11,534	(328,336)	1,014	(2,636)

		Translation into U.S. dollars (Note 2)				
		Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.
		(In thousands)				
Sales	\$	398,667	\$ 100,702	\$ -	\$ 2,646	\$ 3,579
Operating income (loss)		12,224	9,544	(495)	1,001	(157)
Net income (loss)		29,209	10,493	(298,705)	923	(2,399)

(\*1) Consolidated statements of financial position, as disclosed above, include the consolidated adjusting amounts before intercompany transactions that are not eliminated.

(4) Cash flows of the Group's major subsidiaries for the year ended December 31, 2014 are as follows:

Korean won						
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.	
(In millions)						
Cash flows from operating activities	₩ (28,433)	₩ 10,757	₩ 32,285	₩ 953	₩ 1,473	
Cash flows from investment activities	39,373	(12,081)	-	(1,119)	(213,946)	
Cash flows from financing activities	(18,855)	(608)	(32,287)	-	452,884	
Net changes in cash and cash equivalents	(7,915)	(1,932)	(2)	(166)	240,411	
Changes in cash and cash equivalents due to foreign currency translation	9	-	-	-	13,195	
Beginning balance	36,345	6,855	3	902	64,895	
Ending balance	₩ 28,439	₩ 4,923	₩ 1	₩ 736	₩ 318,501	

Translation into U.S. dollars (Note 2)						
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.	Hanjin International Corp.	
(In thousands)						
Cash flows from operating activities	\$ (25,867)	\$ 9,786	\$ 29,371	\$ 867	\$ 1,340	
Cash flows from investment activities	35,820	(10,991)	-	(1,018)	(194,638)	
Cash flows from financing activities	(17,154)	(553)	(29,373)	-	412,013	
Net changes in cash and cash equivalents	(7,201)	(1,758)	(2)	(151)	218,715	
Changes in cash and cash equivalents due to foreign currency translation	8	-	-	-	12,004	
Beginning balance	33,065	6,236	3	821	59,038	
Ending balance	\$ 25,872	\$ 4,478	\$ 1	\$ 670	\$ 289,757	

(\*1) Consolidated statements of cash flows, as disclosed above, include the amounts before intercompany transactions that are not eliminated.

(5) The ownership ratio of non-controlling interests, financial position as of December 31, 2014, financial performances for the year ended December 31, 2014 and dividend paid to non-controlling interests of major subsidiaries are as follows:

Korean won						
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.		
(In millions)						
Ownership ratio		40.46%	0.65%	1.38%		5.19%
Non-controlling interests	₩	105,096	₩ 372	₩ 494	₩	394
Net (loss) income attributable non-controlling interests		12,767	75	(4,529)		53
Dividend paid to non-controlling interests		620	2	-		-

Translation into U.S. dollars (Note 2)				
	Korea Airport Service Co., Ltd.	Hanjin Information Systems & Telecommunication Co., Ltd.	Hanjin Energy Co., Ltd.	Korea Global Logistics System Co., Ltd.
	(In thousands)			
Ownership ratio	40.46%	0.65%	1.38%	5.19%
Non-controlling interests	\$ 95,611	\$ 339	\$ 449	\$ 358
Net (loss) income attributable non-controlling interests	11,615	68	(4,120)	48
Dividend paid to non-controlling interests	564	2	-	-

(\*1) Ownership of non-controlling interest is not included, whether directly or indirectly, in the ownership of the Company. It may differ from percentage of shares that is deducted by simply adding up each subsidiary's share.

### 13. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES:

(1) Investments in associates and jointly controlled entities as of December 31, 2014 and 2013 consist of the following:

2014

				Korean won		
Description		Principal business	Location	Ownership (%)	Acquisition cost	Book value
Associates	Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23	₩ 473,532	₩ 467,574
	Grandstar Cargo International Airlines Co., Ltd. (*3)	Logistics industry	China	25.00	26,015	-
	EIGHTCITY Co., Ltd. (*3)	Real estate	Korea	23.81	1,500	-
	Czech Airlines j.s.c.	Airline services	Czech	44.00	3,905	-
					₩ 504,952	₩ 467,574

				Translation into U.S. dollars (Note 2)		
Description		Principal business	Location	Ownership (%)	Acquisition cost	Book value
Associates	Hanjin Shipping Co., Ltd. (*1)	Shipping company	Korea	33.23	\$ 430,797	\$ 425,376
	Grandstar Cargo International Airlines Co., Ltd. (*3)	Logistics industry	China	25.00	23,667	-
	EIGHTCITY Co., Ltd. (*3)	Real estate	Korea	23.81	1,365	-
	Czech Airlines j.s.c.	Airline services	Czech	44.00	3,552	-
					\$ 459,381	\$ 425,376

2013

Description		Principal business	Location	Ownership (%)	Korean won	
					Acquisition cost	Book value
(In millions)						
Associates	Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*2)	Holding company	Korea	27.40	₩ 226,784	₩ -
	Grandstar Cargo International Airlines Co., Ltd. (*3)	Logistics industry	China	25.00	26,015	-
	EIGHTCITY Co., Ltd. (*3)	Real estate	Korea	23.81	1,500	-
	Hanjin-Jungseok Investment S-Oil Co., Ltd. (*4)	Rental real estate	Korea	25.00	2,500	2,566
	Czech Airlines j.s.c.	Oil purification	Korea	28.41	2,158,342	2,392,410
	Air Korea Co., Ltd. (*5)	Airline services	Czech	44.00	3,905	10,848
		Airport support service	Korea	50.00	500	1,672
					₩ 2,419,546	₩ 2,407,496

Description		Principal business	Location	Ownership (%)	Translation into U.S. dollars (Note 2)	
					Acquisition cost	Book value
(In thousands)						
Associates	Eusu Holdings Co., Ltd. (formerly Hanjin Shipping Holdings Co., Ltd.) (*2)	Holding company	Korea	27.40	\$ 206,317	\$ -
	Grandstar Cargo International Airlines Co., Ltd. (*3)	Logistics industry	China	25.00	23,667	-
	EIGHTCITY Co., Ltd. (*3)	Real estate	Korea	23.81	1,365	-
	Hanjin-Jungseok Investment S-Oil Co., Ltd. (*4)	Rental real estate	Korea	25.00	2,274	2,334
	Czech Airlines j.s.c.	Oil purification	Korea	28.41	1,963,558	2,176,501
	Air Korea Co., Ltd. (*5)	Airline services	Czech	44.00	3,552	9,869
		Airport support service	Korea	50.00	455	1,521
					\$ 2,201,188	\$ 2,190,225

(\*1) It was provided as collateral related to guaranteed loans (Note 16).

(\*2) The name of Hanjin Shipping Holdings Co., Ltd. has been changed to Eusu Holdings Co., Ltd.

(\*3) The Company recognized an impairment loss of ₩1,500 million (\$1,365 thousand) and ₩3,443 million (\$3,132 thousand) in respect of investments for EIGHTCITY Co., Ltd. and Grandstar Cargo Int'l Airlines Co., Ltd., respectively, for the year ended December 31, 2014, and before 2014.

(\*4) It was reclassified as assets held for sale for the year ended December 31, 2014, and it was provided as collateral related to the borrowings of Hanjin Energy Co., Ltd. (Notes 16, 46).

(\*5) It was classified as investments in associates and jointly controlled entities from investment in subsidiaries due to the disposal of part of shares owned by the Group and the loss of power of control after the Company's spin-off for the year ended December 31, 2013. However, it was reclassified from investments in associates to the subsidiary resulting from additional purchase for the year ended December 31, 2014.

(2) Fair values of investments in associates and jointly controlled entities with disclosed market values as of December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
(In millions)				
Hanjin Shipping Co., Ltd.	₩ 490,607	₩ -	\$ 446,331	\$ -
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	-	62,997	-	57,311
S-Oil Co., Ltd. (*1)	-	2,366,785	-	2,153,189
	₩ 490,607	₩ 2,429,782	\$ 446,331	\$ 2,210,500

(\*1) It was reclassified as assets held for sale for the year ended December 31, 2014 (Note 46).

(3) Changes in investment in associates and jointly controlled entities for the years ended December 31, 2014 and 2013 are as follows:

2014

	Korean won									
	Beginning balance	Acquisition	Disposal	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Others	Ending balance		
	(In millions)									
Hanjin Shipping Co., Ltd. (*1)	₩ -	₩ 400,000	₩ (29,635)	₩ -	₩ 8,501	₩ 20,185	₩ 68,523	₩ 467,574		
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*1,2)	-	-	(27,989)	-	10,600	5,178	12,211	-		
Hanjin- Jungseok Investment	2,566	-	(2,591)	-	25	-	-	-		
S-Oil Co., Ltd. (*3)	2,392,410	-	-	(28,146)	24,053	(6,787)	(2,381,530)	-		
Czech Airlines j.s.c. (*2)	10,848	-	-	-	(12,543)	(746)	2,441	-		
Air Korea Co., Ltd. (*4)	1,672	-	-	(35)	554	-	(2,191)	-		
	<u>₩ 2,407,496</u>	<u>₩ 400,000</u>	<u>₩ (60,215)</u>	<u>₩ (28,181)</u>	<u>₩ 31,190</u>	<u>₩ 17,830</u>	<u>₩ (2,300,546)</u>	<u>₩ 467,574</u>		

	Translation into U.S. dollars (Note 2)									
	Beginning balance	Acquisition	Disposal	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Others	Ending balance		
	(In thousands)									
Hanjin Transportation Co., Ltd. (*1)	\$ -	\$ 363,901	\$ (26,960)	\$ -	\$ 7,733	\$ 18,363	\$ 62,339	\$ 425,376		
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*1,2)	-	-	(25,463)	-	9,644	4,711	11,108	-		
Hanjin- Jungseok Investment	2,334	-	(2,357)	-	23	-	-	-		
S-Oil Co., Ltd. (*3)	2,176,501	-	-	(25,605)	21,882	(6,175)	(2,166,603)	-		
Czech Airlines j.s.c. (*2)	9,869	-	-	-	(11,410)	(679)	2,220	-		
Air Korea Co., Ltd. (*4)	1,521	-	-	(32)	504	-	(1,993)	-		
	<u>\$ 2,190,225</u>	<u>\$ 363,901</u>	<u>\$ (54,780)</u>	<u>\$ (25,637)</u>	<u>\$ 28,376</u>	<u>\$ 16,220</u>	<u>\$ (2,092,929)</u>	<u>\$ 425,376</u>		

(\*1) Hanjin Shipping Co., Ltd. merged trademark management segment and shipping holdings business segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.), which was spun off for the year ended December 31, 2014 and as a result, 8,431,450 shares of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) have been replaced with 12,174,256 shares of Hanjin Shipping Co., Ltd.

(\*2) The Company recognized reversal of impairment loss of ₩12,210 million (\$11,108 thousand) and ₩2,441 million (\$2,211 thousand) in respect of investments for Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) and Czech Airlines j.s.c., respectively, for the year ended December 31, 2014.

(\*3) It was reclassified as assets held for sale for year ended December 31, 2014 (Note 46).

(\*4) It was reclassified from investment of associates to subsidiaries for the year ended December 31, 2014.

2013

		Korean won							
		Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Decrease due to spin-off	Others	Ending balance
		(In millions)							
Hanjin Transportation Co., Ltd. (*1)	₩	111,601	₩ -	₩ (1,036)	₩ 739	₩ 2,908	₩ (101,365)	₩ (12,847)	₩ -
Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.) (*2)		25,602	-	-	(50,785)	(15,380)	-	40,563	-
EIGHTCITY Co., Ltd. (*3)		1,500	-	-	-	-	-	(1,500)	-
Hanjin- Jungseok Investment		7,500	-	-	66	-	(5,000)	-	2,566
S-Oil Co., Ltd. (*4)		2,401,230	-	(84,757)	77,444	(191)	-	(1,316)	2,392,410
Czech Airlines j.s.c.		-	3,905	-	6,197	746	-	-	10,848
Air Korea Co., Ltd. (*5)		-	-	-	(60)	-	-	1,732	1,672
KTB Safe Private Security Investment Trust 68		1,130	-	-	-	-	(1,130)	-	-
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd. (*6)		8,827	-	-	(619)	212	-	(8,420)	-
	₩	<u>2,557,390</u>	₩ <u>3,905</u>	₩ <u>(85,793)</u>	₩ <u>32,982</u>	₩ <u>(11,705)</u>	₩ <u>(107,495)</u>	₩ <u>18,212</u>	₩ <u>2,407,496</u>

		Translation into U.S. dollars (Note 2)							
		Beginning balance	Acquisition	Dividend	Gain (loss) on valuation of equity method	Net change in interests of equity method securities	Decrease due to spin-off	Others	Ending balance
		(In thousands)							
Hanjin Transportation Co., Ltd. (*1)	\$	101,529	\$ -	\$ (943)	\$ 672	\$ 2,646	\$ (92,217)	\$ (11,687)	\$ -
Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.) (*2)		23,291	-	-	(46,201)	(13,992)	-	36,902	-
EIGHTCITY Co., Ltd. (*3)		1,365	-	-	-	-	-	(1,365)	-
Hanjin- Jungseok Investment		6,823	-	-	60	-	(4,549)	-	2,334
S-Oil Co., Ltd. (*4)		2,184,525	-	(77,107)	70,455	(173)	-	(1,199)	2,176,501
Czech Airlines j.s.c.		-	3,552	-	5,638	679	-	-	9,869
Air Korea Co., Ltd. (*5)		-	-	-	(55)	-	-	1,576	1,521
KTB Safe Private Security Investment Trust 68		1,028	-	-	-	-	(1,028)	-	-
Tianjin Hanjin-Sino Trans Air Cargo Terminal Co., Ltd. (*6)		8,030	-	-	(563)	192	-	(7,659)	-
	\$	<u>2,326,591</u>	\$ <u>3,552</u>	\$ <u>(78,050)</u>	\$ <u>30,006</u>	\$ <u>(10,648)</u>	\$ <u>(97,794)</u>	\$ <u>16,568</u>	\$ <u>2,190,225</u>

(\*1) Others are mainly reclassification from the investment of associates into AFS financial assets.

(\*2) Others are mainly the differential investments that occurred as Hanjin Transportation Co., Ltd., was classified into the investment in subsidiaries from investment in associates of Hanjin Shipping Holdings Co., Ltd.

(\*3) The Group recognized an impairment loss of ₩1,500 million (\$1,365 thousand) for the year ended December 31, 2013.

(\*4) Others are mainly due to the change of remeasurement of the net defined benefit liabilities of investment of associates.

(\*5) Others are mainly reclassifications from subsidiaries to investments in associates.

(\*6) Others are due to the liquidation for the year ended December 31, 2013.

(4) Financial information of the Group's investments in associates and jointly controlled entities as of and for the years ended December 31, 2014 and 2013 is as follows:

2014

		Hanjin Shipping Co., Ltd.	
		Korean won	Translation into U.S. dollars (Note 2)
		(In millions)	(In thousands)
Current assets	₩	1,678,773	\$ 1,527,268
Non-current assets		6,836,526	6,219,547
	₩	8,515,299	\$ 7,746,815
Current liabilities	₩	5,058,842	\$ 4,602,294
Non-current liabilities		2,678,916	2,437,151
	₩	7,737,758	\$ 7,039,445
Owners of the Company	₩	726,831	\$ 661,236
Non-controlling interests		50,710	46,134
	₩	777,541	\$ 707,370
Sales	₩	8,654,833	\$ 7,873,757
Operating income		82,145	74,732
Net loss attributable to owners of the Company		(447,687)	(407,284)
Net income attributable to non-controlling interests		24,353	22,156

2013

		Korean won				
		Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.)	S-Oil Co., Ltd.	Czech Airlines j.s.c.	Hanjin-Jungseok Investment	Air Korea Co., Ltd.
		(In millions)				
Current assets	₩	2,065,317	₩ 7,905,840	₩ 84,266	₩ 10,278	₩ 6,692
Non-current assets		8,763,525	4,007,974	136,443	-	1,047
	₩	10,828,842	₩ 11,913,814	₩ 220,709	₩ 10,278	₩ 7,739
Current liabilities	₩	4,577,526	₩ 5,858,849	₩ 173,142	₩ 15	₩ 2,368
Non-current liabilities		5,531,410	687,237	22,913	-	2,026
	₩	10,108,936	₩ 6,546,086	₩ 196,055	₩ 15	₩ 4,394
Owners of the Company	₩	248,686	₩ 5,367,728	₩ 24,654	₩ 10,263	₩ 3,345
Non-controlling interests		471,220	-	-	-	-
	₩	719,906	₩ 5,367,728	₩ 24,654	₩ 10,263	₩ 3,345
Sales	₩	10,359,500	₩ 31,158,528	₩ 454,073	₩ -	₩ 13,238
Operating income		(206,575)	391,922	(38,124)	(61)	179
Net income (loss) attributable to owners of the Company		(240,495)	303,361	(43,553)	263	(120)
Net loss attributable to non-controlling interests		(418,557)	-	-	-	-
		Translation into U.S. dollars (Note 2)				
		Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.)	S-Oil Co., Ltd.	Czech Airlines j.s.c.	Hanjin-Jungseok Investment	Air Korea Co., Ltd.
		(In thousands)				
Current assets	\$	1,878,927	\$ 7,192,358	\$ 76,661	\$ 9,350	\$ 6,088
Non-current assets		7,972,639	3,646,265	124,129	-	952
	\$	9,851,566	\$ 10,838,623	\$ 200,790	\$ 9,350	\$ 7,040
Current liabilities	\$	4,164,416	\$ 5,330,103	\$ 157,516	\$ 14	\$ 2,154
Non-current liabilities		5,032,214	625,216	20,845	-	1,844
	\$	9,196,630	\$ 5,955,319	\$ 178,361	\$ 14	\$ 3,998
Owners of the Company	\$	226,243	\$ 4,883,304	\$ 22,429	\$ 9,336	\$ 3,042
Non-controlling interests		428,693	-	-	-	-
	\$	654,936	\$ 4,883,304	\$ 22,429	\$ 9,336	\$ 3,042

	Translation into U.S. dollars (Note 2)				
	Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.)	S-Oil Co., Ltd.	Czech Airlines j.s.c.	Hanjin-Jungseok Investment	Air Korea Co., Ltd.
	(In thousands)				
Sales	\$ 9,424,581	\$ 28,346,550	\$ 413,094	\$ -	\$ 12,043
Operating income	(187,932)	356,552	(34,683)	(56)	163
Net income (loss) attributable to owners of the Company	(218,790)	275,983	(39,622)	239	(109)
Net loss attributable to non- controlling interests	(380,783)	-	-	-	-

(\*1) Financial data is applied on fair value adjustment due to the acquisition of equity and the difference adjustment of accounting policies compared to controlling company. However, intercompany transactions and goodwill recognized in the Group are not applied on this financial data.

(\*2) Hanjin Shipping Co., Ltd. for the year ended of December 31, 2014 and Hanjin Shipping Holdings Co., Ltd., and S-Oil Co., Ltd., for the year ended of December 31, 2013 are consolidated financial data. However, other associates and jointly controlled entities are separate financial information.

(\*3) In case of Air Korea Co., Ltd., the operating result after being reclassified into the investment in associates from the investment in subsidiaries due to the spin-off of the Company was used.

(5) Adjustments from equity of associates to book value shares owned as of December 31, 2014 and 2013 are as follows:

2014

	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
Net assets (A) (*1)	₩ 532,301	\$ 484,262
Ownership ratio (B) (*2)	43.22%	43.22%
(A)×(B)	230,038	209,278
Investment difference	237,536	216,098
Book value	₩ 467,574	\$ 425,376

(\*1) It is the net asset in which the hybrid bond of Hanjin Shipping Co., Ltd. are excluded.

(\*2) Trasury stocks were excluded from the calculation of the ownership ratio.

2013

	Korean won				
	Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.)	S-Oil Co., Ltd.	Czech Airlines, j.s.c.	Hanjin- Jungseok Investment	Air Korea Co., Ltd.
	(In millions)				
Net assets (A)	₩ 248,687	₩ 5,367,728	₩ 24,654	₩ 10,263	₩ 3,345
Ownership ratio (B) (*1)	27.40%	27.47% (*1)	44.00%	25.00%	50.00%
(A)×(B)	68,165	1,474,646	10,848	2,566	1,672
Investment difference	34,503	917,764	-	-	-
Unrealized loss	(18,883)	-	-	-	-
Accumulated impairment	(98,878)	-	-	-	-
Unrecognized accumulated loss	15,093	-	-	-	-
Book value	₩ -	₩ 2,392,410	₩ 10,848	₩ 2,566	₩ 1,672

Translation into U.S. dollars (Note 2)					
	Eusu Holdings Co., Ltd (formerly, Hanjin Shipping Holdings Co., Ltd.)	S-Oil Co., Ltd.	Czech Airlines, j.s.c.	Hanjin- Jungseok Investment	Air Korea Co., Ltd.
	(In thousands)				
Net assets (A)	\$ 226,243	\$ 4,883,304	\$ 22,429	\$ 9,337	\$ 3,043
Ownership ratio (B) (*1)	27.40%	27.47% (*1)	44.00%	25.00%	50.00%
(A)×(B)	62,013	1,341,563	9,869	2,334	1,521
Investment difference	31,389	834,938	-	-	-
Unrealized loss	(17,179)	-	-	-	-
Accumulated impairment	(89,955)	-	-	-	-
Unrecognized accumulated loss	13,732	-	-	-	-
Book value	\$ -	\$ 2,176,501	\$ 9,869	\$ 2,334	\$ 1,521

(\*1) Ownership ratio was calculated to the Group's common stock shares divided by all common stock shares and preferred stock shares of associates.

(6) Unrecognized accumulated loss on equity method valuation due to discontinuation of using the equity method for the years ended December 31, 2014 and 2013, and as of December 31, 2014 and 2013 is as follows:

(Unrecognized loss on equity method for the years ended December 31, 2014 and 2013)

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Grandstar Cargo International Airlines Co., Ltd.	₩ 11,925	₩ 3,615	\$ 10,848	\$ 3,289

(Unrecognized accumulated loss on equity method as of December 31, 2014 and 2013)

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	₩ -	₩ 15,094	\$ -	\$ 13,731
Grandstar Cargo International Airlines Co., Ltd.	15,539	3,615	14,137	3,289

#### 14. INTERESTS IN JOINT OPERATIONS:

The Group owns a joint investment building which has the significant joint arrangement. Under the joint arrangement, the Group has 70% ownership of the building, INHA International Medical Center, which is located in Jung-gu, Incheon, and invested in the building for the purpose of leasing. The Group has the right to the rental income in relation to its interest and recognizes its share of any expenses incurred jointly.

## 15. PROPERTY, AIRCRAFT AND EQUIPMENT:

(1) Property, aircraft and equipment as of December 31, 2014 and 2013 consist of the following:

	Korean won					
	2014			2013		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions)					
Land (*1)	₩ 1,955,231	₩ -	₩ 1,955,231	₩ 1,965,606	₩ -	₩ 1,965,606
Leased land (*1)	21,460	-	21,460	21,460	-	21,460
Buildings	790,751	(297,737)	493,014	791,733	(277,497)	514,236
Structures	165,984	(83,763)	82,221	165,056	(79,121)	85,935
Machinery	348,295	(257,428)	90,867	343,477	(244,899)	98,578
Aircraft	6,614,869	(4,313,487)	2,301,382	5,718,077	(3,725,616)	1,992,461
Engines	2,071,034	(1,222,542)	848,492	2,204,013	(1,212,079)	991,934
Leased aircraft	8,817,585	(2,181,010)	6,636,575	8,992,637	(2,238,716)	6,753,921
Leased engines	2,371,227	(791,659)	1,579,568	2,258,791	(756,139)	1,502,652
Aircraft parts	233,871	(125,329)	108,542	220,842	(115,416)	105,426
Others	508,744	(382,752)	125,992	484,816	(367,466)	117,350
Construction in progress	1,534,730	-	1,534,730	1,354,330	-	1,354,330
	<u>₩ 25,433,781</u>	<u>₩ (9,655,707)</u>	<u>₩ 15,778,074</u>	<u>₩ 24,520,838</u>	<u>₩ (9,016,949)</u>	<u>₩ 15,503,889</u>

	Translation into U.S. dollars (Note 2)					
	2014			2013		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated Depreciation	Book value
	(In thousands)					
Land (*1)	\$ 1,778,777	\$ -	\$ 1,778,777	\$ 1,788,215	\$ -	\$ 1,788,215
Leased land (*1)	19,524	-	19,524	19,524	-	19,524
Buildings	719,388	(270,867)	448,521	720,281	(252,453)	467,828
Structures	151,005	(76,204)	74,801	150,160	(71,980)	78,180
Machinery	316,862	(234,196)	82,666	312,479	(222,798)	89,681
Aircraft	6,017,893	(3,924,205)	2,093,688	5,202,035	(3,389,389)	1,812,646
Engines	1,884,129	(1,112,211)	771,918	2,005,106	(1,102,692)	902,414
Leased aircraft	8,021,819	(1,984,179)	6,037,640	8,181,074	(2,036,677)	6,144,397
Leased engines	2,157,230	(720,214)	1,437,016	2,054,940	(687,899)	1,367,041
Aircraft parts	212,764	(114,018)	98,746	200,912	(105,001)	95,911
Others	462,831	(348,210)	114,621	441,063	(334,303)	106,760
Construction in progress	1,396,225	-	1,396,225	1,232,106	-	1,232,106
	<u>\$ 23,138,447</u>	<u>\$ (8,784,304)</u>	<u>\$ 14,354,143</u>	<u>\$ 22,307,895</u>	<u>\$ (8,203,192)</u>	<u>\$ 14,104,703</u>

(\*1) The acquisition cost includes the increase of ₩370,846 million (\$337,378 thousand) by revaluation of land as of December 31, 2014.

(2) Changes in property, aircraft and equipment for the years ended December 31, 2014 and 2013 are as follows:

2014

	Korean won					
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
	(In millions)					
Land	₩ 1,965,606	₩ -	₩ (70)	₩ -	₩ (10,305)	₩ 1,955,231
Leased land	21,460	-	-	-	-	21,460
Buildings	514,236	-	-	(20,376)	(846)	493,014
Structures	85,935	20	(11)	(4,670)	947	82,221
Machinery	98,578	8,257	(2,365)	(15,898)	2,295	90,867

Korean won						
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
	(In millions)					
Aircraft	1,992,461	30,227	(240,821)	(317,573)	837,088	2,301,382
Engines	991,934	9,108	(356,015)	(253,554)	457,019	848,492
Leased aircraft	6,753,921	128,737	(11,733)	(581,092)	346,742	6,636,575
Leased engines	1,502,652	219,207	(9,531)	(318,444)	185,684	1,579,568
Aircraft parts	105,426	20,946	(10)	(12,141)	(5,679)	108,542
Others	117,350	32,287	(4,839)	(33,562)	14,756	125,992
Construction in progress	1,354,330	2,127,443	-	-	(1,947,043)	1,534,730
	<u>₩ 15,503,889</u>	<u>₩ 2,576,232</u>	<u>₩ (625,395)</u>	<u>₩ (1,557,310)</u>	<u>₩ (119,342)</u>	<u>₩ 15,778,074</u>

Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*1)	Ending balance
	(In thousands)					
Land	\$ 1,788,215	\$ -	\$ (63)	\$ -	\$ (9,375)	\$ 1,778,777
Leased land	19,524	-	-	-	-	19,524
Buildings	467,828	-	-	(18,537)	(770)	448,521
Structures	78,180	18	(10)	(4,249)	862	74,801
Machinery	89,681	7,512	(2,152)	(14,463)	2,088	82,666
Aircraft	1,812,646	27,499	(219,087)	(288,913)	761,543	2,093,688
Engines	902,414	8,286	(323,885)	(230,671)	415,774	771,918
Leased aircraft	6,144,397	117,119	(10,674)	(528,651)	315,449	6,037,640
Leased engines	1,367,041	199,424	(8,671)	(289,705)	168,927	1,437,016
Aircraft parts	95,911	19,056	(8)	(11,046)	(5,167)	98,746
Others	106,760	29,373	(4,403)	(30,533)	13,424	114,621
Construction in progress	1,232,106	1,935,446	-	-	(1,771,327)	1,396,225
	<u>\$ 14,104,703</u>	<u>\$ 2,343,733</u>	<u>\$ (568,953)</u>	<u>\$ (1,416,768)</u>	<u>\$ (108,572)</u>	<u>\$ 14,354,143</u>

(\*1) Other increases or decreases were mainly due to the transfer of construction in progress and consisted of the transfer of property, aircraft and equipment with investment properties and others.

2013

Korean won							
	Beginning balance	Acquisition	Disposal	Depreciation	Decrease by spin-off	Others (*1)	Ending balance
	(In millions)						
Land	₩ 1,730,800	₩ 2,863	₩ (2,830)	₩ -	₩ (216,302)	₩ 451,075	₩ 1,965,606
Leased land	-	-	-	-	-	21,460	21,460
Buildings	721,402	1,460	(955)	(21,255)	(191,956)	5,540	514,236
Structures	94,976	4	(48)	(4,233)	(4,793)	29	85,935
Machinery	116,196	3,629	(60)	(21,333)	(250)	396	98,578
Aircraft	1,725,825	354	(70,900)	(311,037)	-	648,219	1,992,461
Engines	951,401	32,119	(56,250)	(276,350)	-	341,014	991,934
Leased aircraft	6,506,745	82,452	(22,997)	(606,374)	(8,295)	802,390	6,753,921
Leased engines	1,463,484	-	(12,411)	(333,041)	(3,458)	388,078	1,502,652
Aircraft parts	108,230	16,112	(1,747)	(17,169)	-	-	105,426
Others	147,738	13,248	(2,395)	(33,423)	(8,366)	548	117,350
Construction in progress	1,313,293	2,421,488	(16,716)	-	(90,166)	(2,273,569)	1,354,330
	<u>₩ 14,880,090</u>	<u>₩ 2,573,729</u>	<u>₩ (187,309)</u>	<u>₩ (1,624,215)</u>	<u>₩ (523,586)</u>	<u>₩ 385,180</u>	<u>₩ 15,503,889</u>

	Translation into U.S. dollars (Note 2)						Ending balance
	Beginning balance	Acquisition	Disposal	Depreciation	Decrease by spin-off	Others (*1)	
	(In thousands)						
Land	\$ 1,574,600	\$ 2,605	\$ (2,575)	\$ -	\$ (196,781)	\$ 410,366	\$ 1,788,215
Leased land	-	-	-	-	-	19,524	19,524
Buildings	656,297	1,329	(869)	(19,337)	(174,633)	5,041	467,828
Structures	86,405	4	(44)	(3,851)	(4,360)	26	78,180
Machinery	105,709	3,301	(54)	(19,408)	(227)	360	89,681
Aircraft	1,570,073	322	(64,502)	(282,967)	-	589,720	1,812,646
Engines	865,539	29,221	(51,174)	(251,410)	-	310,238	902,414
Leased aircraft	5,919,528	75,011	(20,921)	(551,651)	(7,547)	729,977	6,144,397
Leased engines	1,331,409	-	(11,291)	(302,985)	(3,146)	353,054	1,367,041
Aircraft parts	98,462	14,658	(1,590)	(15,619)	-	-	95,911
Others	134,405	12,053	(2,179)	(30,406)	(7,611)	498	106,760
Construction in progress	1,194,772	2,202,955	(15,207)	-	(82,029)	(2,068,385)	1,232,106
	<u>\$ 13,537,199</u>	<u>\$ 2,341,459</u>	<u>\$ (170,406)</u>	<u>\$ (1,477,634)</u>	<u>\$ (476,334)</u>	<u>\$ 350,419</u>	<u>\$ 14,104,703</u>

(\*1) Other increases or decreases were mainly due to the revaluation of land (increase of ₩371,132 million (\$337,638 thousand)) and consisted of the decrease by the spin-off, the transfer of construction in progress, contribution in kind and others.

(3) As of December 31, 2014, the Group capitalized borrowing costs of ₩11,182 million (\$10,173 thousand) into construction in progress. The Group used the interest rate on funds specifically for the purpose of obtaining a qualifying asset and other general funds whose interest rates are 4.63% and 3.86%, respectively. Also, the subsidiaries used the interest rate of 4.12%–5.11% on funds specifically for the purpose of obtaining a qualifying asset for the year ended December 31, 2014.

(4) The Group has been applying asset revaluation model to land and as of June 30, 2013, the Group revalued land by using value that was appraised by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method that uses standard land price that is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing Producer Price Index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value to June 30, 2013. There is no change in the valuation method for the year ended December 31, 2014. The book values of land by revaluation model and cost model are as follows:

	Translation into U.S. dollars (Note 2)			
	Korean won (In millions)		(In thousands)	
	Revaluation model	Cost model	Revaluation model	Cost model
Land	₩ 1,955,231	₩ 1,592,460	\$ 1,778,777	\$ 1,448,745
Leased land	21,460	13,385	19,524	12,177
	<u>₩ 1,976,691</u>	<u>₩ 1,605,845</u>	<u>\$ 1,798,301</u>	<u>\$ 1,460,922</u>

The Group recognized revaluation surplus of ₩423,258 million (\$385,060 thousand, before income tax) and recognized accumulated revaluation loss of ₩52,412 million (\$47,682 thousand, before income tax) for the period from June 30, 2013 to December 31, 2014.

(5) Fair value measurements of land and leased land by fair value hierarchy levels as of December 31, 2014 and 2013 are as follows:

2014

	Korean won (In millions)			
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ 1,955,231	₩ -	₩ 1,955,231
Leased land	-	21,460	-	21,460
	<u>₩ -</u>	<u>₩ 1,976,691</u>	<u>₩ -</u>	<u>₩ 1,976,691</u>

Translation into U.S. dollars (Note 2)				
(In thousands)				
	Level 1	Level 2	Level 3	Total
Land	\$ -	\$ 1,778,777	\$ -	\$ 1,778,777
Leased land	-	19,524	-	19,524
	\$ -	\$ 1,798,301	\$ -	\$ 1,798,301

2013				
Korean won				
(In millions)				
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ 1,965,606	₩ -	₩ 1,965,606
Leased land	-	21,460	-	21,460
	₩ -	₩ 1,987,066	₩ -	₩ 1,987,066

Translation into U.S. dollars (Note 2)				
(In thousands)				
	Level 1	Level 2	Level 3	Total
Land	\$ -	\$ 1,788,215	\$ -	\$ 1,788,215
Leased land	-	19,524	-	19,524
	\$ -	\$ 1,807,739	\$ -	\$ 1,807,739

(6) There was no movement between Level 1 and Level 2 for the year ended December 31, 2014.

#### 16. **PLEGDED ASSETS AND GUARANTEES:**

Significant pledged assets provided as collateral and guarantees for the Group as of December 31, 2014 are as follows (in millions of Korean won, except for share data):

Pledged assets	Book value	Collateralized amount	Provided to	In relation to
Land/buildings	2,085,606	1,380,619	Korea Development Bank ("KDB") and others	Short-term and long-term borrowings, etc.
Aircraft and engines	2,688,784	2,584,620		
Machinery	15,584	10,152		
Facility usage rights	78,825	185,500		
Held-to-maturity investments	808	-	Korea Post and others	Performance Guarantee
AFS financial assets	423	2,027 shares	Software Financial Cooperative and others	Performance Guarantee
AFS financial assets — GS Home Shopping Inc. and others	106,182	574,476 shares	Korea Exchange Bank and others	Long-term borrowings and borrowings of Hanjin International Corp., etc.
Investment in associates — Hanjin Shipping Co., Ltd. (*3)	444,829	81,496,169 shares	Woori Bank and others	Borrowings — Hanjin Energy Co., Ltd.
Investment in subsidiary — Hanjin Energy Co., Ltd. (*3)	898,802	35,200 shares		
Assets held for sale — S-oil Corporation (*3)	1,982,982	31,983,586 shares		

(\*1) The book value of land and buildings consists of property and investment properties.

(\*2) The collateralized amounts of the pledged assets provided as collateral and guarantees in foreign currency are translated into Korean won amounts at the exchange rate on December 31, 2014.

(\*3) In case of associates and subsidiaries, it is shown as book value in separate financial statements.

In addition, the Group has provided leased aircraft and leased engines as collateral to the lessor for the obligations under finance leases and has also provided mileage receivables as collateral for the long-term borrowings (Note 22).

Also, the Group has provided property, including land, buildings and machinery (collateralized amount of ₩24,460 million (\$22,252 thousand)), and mining rights as collateral to the Korea Resources Corporation, for the obligations under borrowings amount of ₩7,653 million (\$6,963 thousand)).

## 17. INVESTMENT PROPERTIES:

(1) Investment properties as of December 31, 2014 and 2013 consist of the following:

	Korean won					
	2014			2013		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In millions)					
Land	₩ 60,973	₩ -	₩ 60,973	₩ 44,407	₩ -	₩ 44,407
Buildings	31,279	(11,348)	19,931	31,017	(6,860)	24,157
Construction in progress	94,666	-	94,666	-	-	-
	<u>₩ 186,918</u>	<u>₩ (11,348)</u>	<u>₩ 175,570</u>	<u>₩ 75,424</u>	<u>₩ (6,860)</u>	<u>₩ 68,564</u>

	Translation into U.S. dollars (Note 2)					
	2014			2013		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
	(In thousands)					
Land	\$ 55,470	\$ -	\$ 55,470	\$ 40,399	\$ -	\$ 40,399
Buildings	28,457	(10,324)	18,133	28,218	(6,241)	21,977
Construction in progress	86,123	-	86,123	-	-	-
	<u>\$ 170,050</u>	<u>\$ (10,324)</u>	<u>\$ 159,726</u>	<u>\$ 68,617</u>	<u>\$ (6,241)</u>	<u>\$ 62,376</u>

(2) Changes in the carrying amount of investment properties for the years ended December 31, 2014 and 2013 are as follows:

2014

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
		(In millions)			
Land	₩ 44,407	₩ -	₩ -	₩ 16,566	₩ 60,973
Buildings	24,157	-	(691)	(3,535)	19,931
Construction in progress	-	-	-	94,666	94,666
	<u>₩ 68,564</u>	<u>₩ -</u>	<u>₩ (691)</u>	<u>₩ 107,697</u>	<u>₩ 175,570</u>

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
		(In thousands)			
Land	\$ 40,399	\$ -	\$ -	\$ 15,071	\$ 55,470
Buildings	21,977	-	(628)	(3,216)	18,133
Construction in progress	-	-	-	86,123	86,123
	<u>\$ 62,376</u>	<u>\$ -</u>	<u>\$ (628)</u>	<u>\$ 97,978</u>	<u>\$ 159,726</u>

(\*1) Other increases or decreases were mainly due to the transfer of tangibles to investment properties.

2013

	Korean won				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
	(In millions)				
Land	₩ 277,238	₩ -	₩ -	₩ (232,831)	₩ 44,407
Buildings	82,896	428	(5,514)	(53,653)	24,157
Construction in progress	10,583	-	-	(10,583)	-
	<u>₩ 370,717</u>	<u>₩ 428</u>	<u>₩ (5,514)</u>	<u>₩ (297,067)</u>	<u>₩ 68,564</u>

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Acquisition	Depreciation	Others (*1)	Ending balance
	(In thousands)				
Land	\$ 252,218	\$ -	\$ -	\$ (211,819)	\$ 40,399
Buildings	75,415	389	(5,016)	(48,811)	21,977
Construction in progress	9,628	-	-	(9,628)	-
	<u>\$ 337,261</u>	<u>\$ 389</u>	<u>\$ (5,016)</u>	<u>\$ (270,258)</u>	<u>\$ 62,376</u>

(\*1) Other increases or decreases were due to decrease by the spin-off and the transfer of tangibles with investment properties

(3) Revenue and cost related to investment properties for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Rental income	₩ 2,064	₩ 25,173	\$ 1,878	\$ 22,901
Rental cost (depreciation and others)	829	12,422	754	11,301

(4) Fair values of investment properties as of December 31, 2014 and 2013 are as follows:

	Korean won			
	2014		2013	
	Book	Fair value	Book	Fair value
(In millions)				
Land	₩ 60,973	₩ 61,001	₩ 44,407	₩ 44,869
Buildings	19,931	34,404	24,157	37,494
	<u>₩ 80,904</u>	<u>₩ 95,405</u>	<u>₩ 68,564</u>	<u>₩ 82,363</u>

	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Book	Fair value	Book	Fair value
(In thousands)				
Land	\$ 55,470	\$ 55,495	\$ 40,399	\$ 40,820
Buildings	18,133	31,299	21,977	34,110
	<u>\$ 73,603</u>	<u>\$ 86,794</u>	<u>\$ 62,376</u>	<u>\$ 74,930</u>

As of June 30, 2013, the Group appraised land by an independent and professional appraiser, Hana Appraisal & Consulting Co., Ltd. The revaluation method is appraised using value of land basis method, which uses standard land price, which is near by the land similar to utility value considering the ratio of changing land price, the ratio of increasing Producer Price Index, location, shape, environment, state of usage of land and other factors of valuation from the date of public announcement of land value. There are no changes in the valuation method for the year ended December 31, 2014.

(5) Fair value measurements of investment properties by fair value hierarchy levels as of December 31, 2013 are as follows:

2014

	Korean won (In millions)			
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ 61,001	₩ -	₩ 61,001
Buildings	-	34,404	-	34,404
	₩ -	₩ 95,405	₩ -	₩ 95,405

	Translation into U.S. dollars (Note 2) (In thousands)			
	Level 1	Level 2	Level 3	Total
Land	\$ -	\$ 55,495	\$ -	\$ 55,495
Buildings	-	31,299	-	31,299
	\$ -	\$ 86,794	\$ -	\$ 86,794

2013

	Korean won (In millions)			
	Level 1	Level 2	Level 3	Total
Land	₩ -	₩ 48,167	₩ -	₩ 48,167
Buildings	-	34,196	-	34,196
	₩ -	₩ 82,363	₩ -	₩ 82,363

	Translation into U.S. dollars (Note 2) (In thousands)			
	Level 1	Level 2	Level 3	Total
Land	\$ -	\$ 43,820	\$ -	\$ 43,820
Buildings	-	31,110	-	31,110
	\$ -	\$ 74,930	\$ -	\$ 74,930

## 18. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2014 and 2013 consist of the following:

	Korean won					
	2014			2013		
	Acquisition cost	Accumulated amortization	Book value	Acquisition cost	Accumulated amortization	Book value
	(In millions)					
Goodwill	₩ 4,890	₩ -	₩ 4,890	₩ 2,302	₩ -	₩ 2,302
Facility usage rights	228,895	(124,395)	104,500	232,547	(117,973)	114,574
Research and development costs	131,777	(47,388)	84,389	118,295	(30,750)	87,545
Other intangible assets	181,411	(43,962)	137,449	179,724	(34,923)	144,801
	₩ 546,973	₩ (215,745)	₩ 331,228	₩ 532,868	₩ (183,646)	₩ 349,222

	Translation into U.S. dollars (Note 2)					
	2014			2013		
	Acquisition cost	Accumulated amortization	Book value	Acquisition cost	Accumulated amortization	Book value
	(In thousands)					
Goodwill	\$ 4,449	\$ -	\$ 4,449	\$ 2,094	\$ -	\$ 2,094
Facility usage rights	208,237	(113,168)	95,069	211,560	(107,326)	104,234

	Translation into U.S. dollars (Note 2)					
	2014			2013		
	Acquisition cost	Accumulated amortization	Book value	Acquisition cost	Accumulated amortization	Book value
Research and development costs	119,884	(43,111)	76,773	107,619	(27,975)	79,644
Other intangible assets	165,039	(39,995)	125,044	163,505	(31,771)	131,734
	<u>\$ 497,609</u>	<u>\$ (196,274)</u>	<u>\$ 301,335</u>	<u>\$ 484,778</u>	<u>\$ (167,072)</u>	<u>\$ 317,706</u>

(2) Changes in the carrying amount of intangible assets for the years ended December 31, 2014 and 2013 are as follows:

2014

	Korean won					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*1)	Ending balance
	(In millions)					
Goodwill	₩ 2,302	₩ -	₩ -	₩ -	₩ 2,588	₩ 4,890
Facility usage rights	114,574	-	-	(10,074)	-	104,500
Research and development costs	87,545	-	-	(16,637)	13,481	84,389
Other intangible assets	144,801	1	(100)	(8,313)	1,060	137,449
	<u>₩ 349,222</u>	<u>₩ 1</u>	<u>₩ (100)</u>	<u>₩ (35,024)</u>	<u>₩ 17,129</u>	<u>₩ 331,228</u>

	Translation into U.S. dollars (Note 2)					
	Beginning balance	Acquisition	Disposal	Amortization	Others (*1)	Ending balance
	(In millions)					
Goodwill	\$ 2,094	\$ -	\$ -	\$ -	\$ 2,355	\$ 4,449
Facility usage rights	104,234	-	-	(9,165)	-	95,069
Research and development costs	79,644	-	-	(15,136)	12,265	76,773
Other intangible assets	131,734	1	(91)	(7,563)	963	125,044
	<u>\$ 317,706</u>	<u>\$ 1</u>	<u>\$ (91)</u>	<u>\$ (31,864)</u>	<u>\$ 15,583</u>	<u>\$ 301,335</u>

(\*1) Other increases or decreases were mainly due to the transfer of construction-in-progress account.

2013

	Korean won						
	Beginning balance	Acquisition	Disposal	Amortization	Decrease due to spin-off	Others (*1)	Ending balance
	(In millions)						
Goodwill	₩ 2,480	₩ -	₩ -	₩ -	₩ -	₩ (178)	₩ 2,302
Facility usage rights	124,669	-	-	(10,095)	-	-	114,574
Research and development costs	25,345	1,221	-	(14,152)	-	75,131	87,545
Other intangible assets	162,115	10	(1,656)	(8,818)	(7,932)	1,082	144,801
	<u>₩ 314,609</u>	<u>₩ 1,231</u>	<u>₩ (1,656)</u>	<u>₩ (33,065)</u>	<u>₩ (7,932)</u>	<u>₩ 76,035</u>	<u>₩ 349,222</u>

	Translation into U.S. dollars (Note 2)						
	Beginning balance	Acquisition	Disposal	Amortization	Decrease due to spin-off	Others (*1)	Ending balance
	(In thousands)						
Goodwill	\$ 2,256	\$ -	\$ -	\$ -	\$ -	\$ (162)	\$ 2,094
Facility usage rights	113,418	-	-	(9,184)	-	-	104,234
Research and development costs	23,058	1,110	-	(12,875)	-	68,351	79,644
Other intangible assets	147,484	10	(1,507)	(8,022)	(7,216)	985	131,734
	<u>\$ 286,216</u>	<u>\$ 1,120</u>	<u>\$ (1,507)</u>	<u>\$ (30,081)</u>	<u>\$ (7,216)</u>	<u>\$ 69,174</u>	<u>\$ 317,706</u>

(\*1) Other increases or decreases were mainly due to the transfer of construction-in-progress account and consisted of contribution in kind and others.

#### 19. OTHER FINANCIAL ASSETS:

Other financial assets as of December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Guarantee deposits	₩ 256,024	₩ 251,717	\$ 232,919	\$ 229,000

The Group is providing guarantee deposits of JPY 3,067,173 thousand, \$21,706 thousand and HKD 44,916 thousand for ABS loans (Note 22). There were no overdues and impairment of other financial assets for the years ended December 31, 2014 and 2013.

#### 20. OTHER ASSETS:

Other assets as of December 31, 2014 and 2013 consist of the following:

	Korean won			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In millions)			
Advance payments	₩ 329,974	₩ 75	₩ 194,599	₩ 463
Prepaid expenses	123,331	344,620	86,094	245,352
Prepaid value-added tax	17,548	-	18,643	-
Others	5,009	3,162	10,111	3,164
	₩ 475,862	₩ 347,857	₩ 309,447	₩ 248,979

	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advance payments	\$ 300,194	\$ 69	\$ 177,037	\$ 421
Prepaid expenses	112,201	313,519	78,324	223,210
Prepaid value-added tax	15,964	-	16,961	-
Others	4,557	2,876	9,198	2,878
	\$ 432,916	\$ 316,464	\$ 281,520	\$ 226,509

The Group is providing the advance payments amounting to ₩73,914 million, JPY 2,743,808 thousand, \$14,576 thousand and HKD 2,438 thousand for ABS loans (Note 22).

#### 21. TRADE AND OTHER PAYABLES:

Trade and other payables as of December 31, 2014 and 2013 consist of the following:

	Korean won			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In millions)			
Trade payables	₩ 121,696	₩ -	₩ 206,856	₩ -
Non-trade payables	192,022	110,147	163,313	174,125
Accrued expenses	384,451	16,130	471,025	-
Dividends payable	77	-	42	-
	₩ 698,246	₩ 126,277	₩ 841,236	₩ 174,125

	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In thousands)			
Trade payables	\$ 110,714	\$ -	\$ 188,187	\$ -
Non-trade payables	174,692	100,207	148,575	158,410
Accrued expenses	349,755	14,674	428,516	-
Dividends payable	70	-	38	-
	<u>\$ 635,231</u>	<u>\$ 114,881</u>	<u>\$ 765,316</u>	<u>\$ 158,410</u>

## 22. BORROWINGS AND DEBENTURES:

(1) Borrowings and debentures as of December 31, 2014 and 2013 consist of the following:

	Korean won					
	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
	(In millions)					
Short-term borrowings	₩ 1,634,526	₩ -	₩ 1,634,526	₩ 817,466	₩ -	₩ 817,466
Long-term borrowings	1,135,093	1,602,450	2,737,543	1,909,833	1,220,865	3,130,698
Debentures	903,872	2,415,489	3,319,362	1,585,934	2,361,382	3,947,316
ABS loans	707,263	1,388,447	2,095,710	566,354	916,114	1,482,468
Guaranteed loans	14,596	24,896	39,492	14,147	35,899	50,046
	<u>₩ 4,395,350</u>	<u>₩ 5,431,282</u>	<u>₩ 9,826,632</u>	<u>₩ 4,893,734</u>	<u>₩ 4,534,260</u>	<u>₩ 9,427,994</u>

	Translation into U.S. dollars (Note 2)					
	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
	(In thousands)					
Short-term borrowings	\$ 1,487,014	\$ -	\$ 1,487,014	\$ 743,692	\$ -	\$ 743,692
Long-term borrowings	1,032,654	1,457,833	2,490,487	1,737,476	1,110,685	2,848,161
Debentures	822,300	2,197,498	3,019,798	1,442,807	2,148,273	3,591,080
ABS loans	643,434	1,263,143	1,906,577	515,242	833,437	1,348,679
Guaranteed loans	13,279	22,649	35,928	12,870	32,659	45,529
	<u>\$ 3,998,681</u>	<u>\$ 4,941,123</u>	<u>\$ 8,939,804</u>	<u>\$ 4,452,087</u>	<u>\$ 4,125,054</u>	<u>\$ 8,577,141</u>

(2) Short-term borrowings as of December 31, 2014 and 2013 consist of the following:

Lender	Annual interest rate	Translation into			
		Korean won		U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
Korea Development Bank	12M KDB rate + 1.35%–1.85%	₩ 130,000	₩ -	\$ 118,268	\$ -
Shinhan Bank	3.45%	5,000	5,000	4,548	4,549
National Agricultural Cooperative Federation	3.89%–4.23%	170,000	240,000	154,658	218,341
Hana Bank and others	3M CD + 1.20%	1,066,211	86,446	969,989	78,645
Korea Development Bank	-	-	211,060	-	192,012
Korea Exchange Bank	-	-	42,212	-	38,402
Hana Bank	3M LIBOR + 2.60%	66,558	63,900	60,551	58,133
Woori Bank	3M LIBOR + 2.40%	54,960	52,765	50,000	48,003

Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
Korea Development Bank-Singapore	3M LIBOR + 2.20%	54,960	52,765	50,000	48,003
Kookmin Bank	3M LIBOR +2.63%~2.90%	61,555	63,318	56,000	57,604
National Agricultural Cooperative Federation	3M LIBOR + 2.60%	25,282	-	23,000	-
		<u>₩ 1,634,526</u>	<u>₩ 817,466</u>	<u>\$ 1,487,014</u>	<u>\$ 743,692</u>

(3) Long-term borrowings as of December 31, 2014 and 2013 consist of the following:

Lender	Annual interest rate	Maturity	Korean won		Translation into U.S. dollars (Note 2)	
			2014	2013	2014	2013
			(In millions)		(In thousands)	
Korea Development Bank	Fiscal financing special account rate + 0.75%	2016-06-25	₩ 2,800	₩ 6,800	\$ 2,547	\$ 6,186
	12M KDB rate + 1.20%	2015-07-08	130,000	130,000	118,268	118,268
	4.15%~5.20%	2023-04-19	88,700	72,300	80,695	65,775
Industrial Bank of Korea	4.35%	2023-12-15	3,600	4,000	3,275	3,639
National Agricultural Cooperative Federation	3.32%~4.59%	2015-05-22	4,167	64,166	3,791	58,376
Kookmin Bank	3.00%	2021-11-08	10,517	11,036	9,568	10,040
Korea Resources Corporation	nil	2020-06-30	37	85	33	77
Hana Bank	2.60%~3.20%	2019-12-15	7,616	8,727	6,929	7,939
Hana Bank	3M CD + 1.53%	2015-11-16	4,580	1,031,853	4,167	938,731
TONGYANG Life Insurance Co., Ltd. (*1)	4.50%	2016-02-07	34,000	-	30,932	-
Standard Chartered Bank Korea Limited (*1)	4.50%	2016-02-07	34,000	-	30,932	-
Korea Development Bank	3M LIBOR + 0.57%~3.05%	2017-05-09	632,996	318,367	575,870	289,635
	3M JPY LIBOR + 2.00%~3.70%	2018-04-09	133,420	175,816	121,379	159,949
Korea Finance Corporation	-	-	-	32,169	-	29,266
Korea Exim Bank	3M LIBOR + 1.35%~3.57%	2024-06-27	668,774	115,340	608,418	104,931
National Agricultural Cooperative Federation	3M LIBOR + 0.60%~4.35%	2016-06-29	30,584	201,779	27,823	183,569
Hana Bank	3M LIBOR + 0.60%~3.20%	2018-03-28	212,496	249,418	193,319	226,908
Woori Bank	3M LIBOR + 1.70%~1.85%	2015-09-30	48,984	126,698	44,563	115,264
National Federation of Fisheries Cooperatives	3M LIBOR + 2.85%	2016-03-29	54,960	52,765	50,000	48,003
Shinhan Bank	-	-	-	52,364	-	47,639
Korea Exchange Bank	3M LIBOR + 1.89%~2.90%	2024-06-27	70,139	136,909	63,809	124,554
Bank of Communication	3M LIBOR + 2.70%	2023-08-28	325,914	341,422	296,502	310,609

Lender	Annual interest rate	Maturity	Korean won		Translation into U.S. dollars (Note 2)	
			2014	2013	2014	2013
			(In millions)		(In thousands)	
DVB Bank SE	3M LIBOR + 2.20%–4.00%	2019-01-29	239,259	-	217,667	-
			2,737,543	3,132,014	2,490,487	2,849,358
	Present value discounts		-	(1,316)	-	(1,197)
			2,737,543	3,130,698	2,490,487	2,848,161
	Less: current portion of long-term borrowings		(1,135,093)	(1,909,833)	(1,032,654)	(1,737,476)
			₩ 1,602,450	₩ 1,220,865	\$ 1,457,833	\$ 1,110,685

(\*1) The Company has provided mileage receivables as collateral for the long-term borrowings.

(4) Debentures as of December 31, 2014 and 2013 consist of the following:

Series	Annual interest rate	Issue date	Maturity	Korean won		Translation into U.S. dollars (Note 2)	
				2014	2013	2014	2013
				(In millions)		(In thousands)	
36-2nd	-	-	-	-	70,000	-	63,683
37-2nd	-	-	-	-	100,000	-	90,975
38-2nd	6.90%	2010-02-04	2015-02-04	200,000	200,000	181,951	181,951
41st	-	-	-	-	300,000	-	272,926
42-1st	-	-	-	-	300,000	-	272,926
42-2nd	-	-	-	-	211,060	-	192,012
43-1st	-	-	-	-	300,000	-	272,926
43-2nd	5.03%	2011-08-08	2016-08-08	300,000	300,000	272,926	272,926
44-1st	4.29%	2012-02-08	2015-02-08	200,000	200,000	181,951	181,951
44-2nd	4.52%	2012-02-08	2016-02-08	150,000	150,000	136,463	136,463
44-3rd	3M JPY						
	LIBOR + 3.25%	2012-02-08	2015-02-08	92,014	100,466	83,710	91,399
45th	3M JPY						
(*1)	LIBOR + 2.50%	2012-02-27	2015-02-27	92,014	100,466	83,710	91,399
46-1st	3.58%	2012-07-19	2015-07-19	150,000	150,000	136,463	136,463
46-2nd	3.98%	2012-07-19	2017-07-19	250,000	250,000	227,438	227,438
47-2nd	4.16%	2012-10-08	2019-10-18	250,000	250,000	227,438	227,438
48th	-	-	-	-	105,530	-	96,006
49-3rd	4.36%	2012-12-13	2019-12-13	170,000	170,000	154,658	154,658
50th	6M JPY						
(*1)	LIBOR + 1.55%	2013-02-25	2016-02-25	78,212	85,396	71,153	77,689
51st	6M JPY						
	LIBOR + 2.35%	2013-02-26	2016-02-26	92,014	100,466	83,710	91,399
52nd	6M JPY						
	LIBOR + 2.20%	2013-03-11	2015-09-11	92,014	100,466	83,710	91,399
53rd	6M JPY						
	LIBOR + 2.20%	2013-03-13	2015-12-21	78,212	85,396	71,153	77,689
54th (*2)	3M LIBOR + 1.35%	2013-03-19	2016-03-19	109,920	105,530	100,000	96,006
55th	3M LIBOR + 3.10%	2014-06-30	2016-06-30	109,920	-	100,000	-
56-1st	3.90%	2014-09-16	2016-03-16	100,000	-	90,975	-
56-2nd	4.10%	2014-09-16	2016-09-16	100,000	-	90,975	-
57-1st	3.90%	2014-11-20	2016-05-20	80,000	-	72,780	-
57-2nd	4.10%	2014-11-20	2016-11-20	70,000	-	63,683	-
Arirang bond	3M USD						
	LIBOR + 2.76%	2012-11-02	2017-11-02	230,882	221,107	210,046	201,153
Kexim	3M LIBOR + 0.88%	2014-10-30	2017-10-30	329,760	-	300,000	-
				3,324,962	3,955,883	3,024,893	3,598,875
	Present value discount			(5,600)	(8,567)	(5,095)	(7,795)
				3,319,362	3,947,316	3,019,798	3,591,080

Series	Annual interest rate	Issue date	Maturity	Korean won		Translation into U.S. dollars (Note 2)	
				2014	2013	2014	2013
				(In millions)		(In thousands)	
	Less: current portion of bonds			(904,255)	(1,586,590)	(822,647)	(1,443,404)
	Present value discounts, less current portion			382	656	347	597
				<u>₩ 2,415,489</u>	<u>₩ 2,361,382</u>	<u>\$ 2,197,498</u>	<u>\$ 2,148,273</u>

(\*1) Kookmin Bank has provided guarantee to a maximum of \$145,000 thousand and JPY 9,000,000 thousand for 45th and 50th guaranteed debentures, respectively.

(\*2) Shinhan Bank has provided guarantee to a maximum of \$100,000 thousand for 54th guaranteed debenture.

(5) ABS loans as of December 31, 2014 and 2013 consist of the following:

Description	Maturity	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
			2014	2013	2014	2013
			(In millions)		(In thousands)	
KAL-4th ABS	-	-	₩ -	₩ 120,000	\$ -	\$ 109,171
KAL-6th ABS	-	-	-	23,015	-	20,938
KAL-7th ABS	2016-11-08	4.75%	230,000	350,000	209,243	318,413
KAL-8th ABS	-	-	-	87,590	-	79,685
KAL-9th ABS	2018-04-25	3.15%	420,000	500,000	382,096	454,876
KAL-10th ABS	2016-11-28	0.84%	243,727	401,863	221,731	365,596
KAL-11th ABS	2019-02-14	5.11%	470,000	-	427,584	-
KAL-12th ABS	2019-05-09	4.74%	136,000	-	123,726	-
KAL-13th ABS	2017-07-27	0.69%	97,903	-	89,067	-
KAL-14th ABS	2018-08-27	1M HIBOR + 3.50%	113,360	-	103,130	-
KAL-15th ABS	2017-11-20	1M LIBOR + 0.65%	384,720	-	350,000	-
			<u>2,095,710</u>	<u>1482,468</u>	<u>1,906,577</u>	<u>1,348,679</u>
	Less: current portion of ABS loans		<u>(707,263)</u>	<u>(566,354)</u>	<u>(643,434)</u>	<u>(515,242)</u>
			<u>₩ 1,388,447</u>	<u>₩ 916,114</u>	<u>\$ 1,263,143</u>	<u>\$ 833,438</u>

The Group is providing a guarantee deposit of JPY 3,067 million, \$21,706 thousand and HKD 44,961 thousand, and advance payments of ₩73,914 million, JPY 2,743,808 thousand, \$14,576 thousand and HKD 2,438 thousand in connection with the above ABS loans.

(6) The Group has agreed to assume certain guaranteed liabilities of Hanjin Shipping Co., Ltd., with Korea Exchange Bank and other financial institutions (guaranteed loans), pursuant to the Government Guidelines for the Rationalization of the Marine Industry. The guaranteed loans accrue no interest and are payable in equal installments over 20 years. In accordance with the repayment schedule, the Group made its first installment payment in 2003 and the final installment will be due in 2017. Guaranteed liabilities as of December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Korea Development Bank	₩ 11,770	₩ 15,695	\$ 10,708	\$ 14,279
Woori Bank	7,725	10,294	7,028	9,365
Triumph II Investments (Ireland) Limited	489	654	445	595
Hanshin Mutual Savings & Finance Co., Ltd.	593	791	539	720
Kookmin Bank	436	584	397	531
Shinhan Bank	1,608	2,268	1,463	2,063
Daegu Bank	1,456	1,941	1,325	1,766

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Korean Exchange Bank	19,168	25,559	17,438	23,252
TONGYANG Life Insurance Co., Ltd.	2,827	4,142	2,572	3,768
Lotte Insurance Co., Ltd.	399	537	363	488
	46,471	62,465	42,277	56,827
Present value discounts	(6,979)	(12,419)	(6,350)	(11,299)
	39,492	50,046	35,928	45,529
Less: current portion of liabilities	(15,669)	(15,995)	(14,255)	(14,551)
Present value discounts, less current portion	1,073	1,848	976	1,681
	₩ 24,896	₩ 35,899	\$ 22,649	\$ 32,659

Hanjin Shipping Co., Ltd.'s 476,436 shares were provided as collateral for the guaranteed loans to Korea Exchange Bank (Note 16) and financial instruments of Hanjin Shipping Co., Ltd. amounting to ₩19,984 million (\$18,180 thousand) were provided as collateral for guaranteed loans of the Company, Korea Airport Service Co., Ltd. and others (guaranteed loans of the Company amounting to ₩34,750 million (\$31,614 thousand) to the KDB and two other financial institutions (Note 42).

### 23. OBLIGATION UNDER FINANCE LEASES:

(1) Obligation under finance leases as of December 31, 2014 and 2013 consists of the following:

Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
ANSETT	-	₩ -	₩ 41,712	\$ -	\$ 37,947
AWMS (Celtic) Limited	3.88%	35,562	-	32,353	-
Arirang Ltd.	5.56%	46,567	62,150	42,365	56,541
BCLL	4.43%	37,768	55,576	34,359	50,561
CIT	3.68%–3.69%	69,180	72,593	62,937	66,042
Constituion Aircraft Leasing 3 Ltd.	-	-	17,422	-	15,850
GKL Aircraft Ireland One Limited	9.57%	15,774	-	14,350	-
Dooley Aviation Ltd.	3M LIBOR + 2.34%	142,635	158,152	129,762	143,879
Duria Aviation Ltd.	-	-	8,998	-	8,186
KALECA03 Aviation Ltd.	3M JPY LIBOR + 0.15%	7,848	17,001	7,140	15,466
KALECA10 Aviation Ltd.	3M LIBOR + 0.59%	120,985	130,565	110,066	118,782
KALECA11 Aviation Ltd.	3M LIBOR + 1.05%–1.14%	722,849	784,606	657,613	713,798
KALECA11-2 Aviation Ltd.	3M LIBOR + 1.04%	182,951	197,672	166,441	179,833
KALEDC (2011) Ltd.	3M LIBOR + 1.12%	31,137	34,081	28,327	31,006
KE Atomos Ltd.	3M LIBOR + 1.50%	30,228	44,850	27,500	40,803
KE Augustus Ltd.	4.55%	36,924	46,985	33,592	42,744
KE Cayman Leasing Ltd.	-	-	10,718	-	9,750
KE Celtics Ltd.	-	-	3,430	-	3,120
KE Evergreen Ltd.	-	-	8,442	-	7,680
KE Export Leasing Ltd.	3M LIBOR + 0.57%–1.25%				
	4.55%–5.35%	703,019	875,569	639,573	796,551
KE Export Leasing (2011) Ltd.	3M LIBOR + 0.54%–0.56%	376,600	404,998	342,613	368,448
KE Jumbos V Ltd.	5.38%	49,009	59,114	44,586	53,779
KE Octavius Ltd.	4.76%	78,586	98,071	71,494	89,220
KE PC2018 Ltd.	-	-	17,676	-	16,081
KUBAEK	3M LIBOR + 2.31%	77,069	85,580	70,114	77,857
Mugunghwa Ltd.	-	-	37,494	-	34,110
Peninsula Aviation Ltd.	-	-	36,110	-	32,851

Lender	Annual interest rate	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
SKYTEAM 2010 Ltd.	-	-	11,081	-	10,081
Sumisho Aircraft Asset Management B.V.	-	-	9,156	-	8,330
Fly Aircraft Holdings 4 Limited	5.73%	5,602	-	5,096	-
GECAS	3.78%–4.30%	91,740	149,920	83,461	136,391
Constitution Aircraft Leasing (Ireland) 4 Limited	3.53%	42,780	-	38,919	-
KE Cayman Leasing (2012)	3M JPY LIBOR + 2.90%	41,986	66,217	38,197	60,241
KE Export Leasing (2011-II) Ltd.	3M LIBOR + 0.59%–0.62%	267,117	286,024	243,010	260,211
KE Export Leasing (2012) Ltd.	3M LIBOR + 1.42%	416,238	445,248	378,674	405,065
KALECA12 Aviation Ltd.	3M JPY LIBOR + 0.71%	132,771	158,770	120,788	144,441
KALECA12 Aviation Ltd.	3M LIBOR + 2.80%	43,678	51,175	39,736	46,557
KE WINNER Leasing Ltd.	3M LIBOR + 2.86%	91,050	96,730	82,833	88,001
KE EXPORT LEASING (2013-A)	3M LIBOR + 0.43%	149,038	156,873	135,587	142,716
KE EXPORT LEASING (2013-B)	3M LIBOR + 0.43%	155,383	163,538	141,360	148,779
KE EXPORT LEASING (2013-C)	3M LIBOR + 0.72%	166,455	174,650	151,433	158,888
KE EXPORT LEASING (2013-D) LLC	3M LIBOR + 0.41%–0.47%	350,796	192,217	319,138	174,869
KALECA13 Aviation Ltd.	3M LIBOR + 2.55%	31,748	37,567	28,883	34,177
KALECA13 Aviation Ltd.	3M EURB + 0.63%	207,241	245,294	188,538	223,157
KE WITH Leasing, Ltd.	3M LIBOR + 2.60%	66,910	71,026	60,871	64,616
KE 2013B 739-A	3M LIBOR + 2.70%	40,575	42,918	36,913	39,045
JIN AN IRELAND COMPANY Ltd.	3M LIBOR + 2.70%	39,921	42,234	36,318	38,422
KE 2013B 777	3M LIBOR + 2.66%	155,451	168,998	141,422	153,747
Castle 2003-2 Ireland Ltd.	3.26%	10,481	-	9,535	-
KE EXPORT LEASING 2014 Boeing Training Service Korea LLC	3M LIBOR + 0.47%–1.11%	494,940	-	450,273	-
	7.75%	12,171	12,171	11,073	11,073
Ji Yoo Aviation Ltd.	3M LIBOR + 3.50%	173,124	-	157,500	-
ECA-2014B	3M EURB + 0.32%	225,799	-	205,422	-
	3M LIBOR + 2.85%	35,069	-	31,904	-
ECA-2014C LIMITED	3M LIBOR + 0.92%	144,421	-	131,387	-
KOSMO/SKYTEAM 2010 LIMITED	3M LIBOR + 2.20%	26,381	-	24,000	-
Hanmaum/Aeguk	3M LIBOR + 1.95%	120,912	-	110,000	-
		<u>6,504,469</u>	<u>5,891,372</u>	<u>5,917,456</u>	<u>5,359,692</u>
Less: current portion of obligation under finance leases, net of present value discounts		<u>(957,218)</u>	<u>(871,447)</u>	<u>(870,831)</u>	<u>(792,802)</u>
		<u>₩ 5,547,251</u>	<u>₩ 5,019,925</u>	<u>\$ 5,046,625</u>	<u>\$ 4,566,890</u>

(2) Minimum lease payments and present value of long-term obligation under finance leases as of December 31, 2014 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	(In millions)		(In thousands)	
Less than one year	₩	1,063,083	\$	967,142
One year to five years		3,327,933		3,027,595
More than five years		2,502,326		2,276,498
		6,893,342		6,271,235
Present value discounts		(388,873)		(353,779)
	₩	6,504,469	\$	5,917,456

#### 24. EMPLOYEE BENEFITS:

(1) The net defined benefit liabilities as of December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Present value of defined benefit obligations	₩ 1,188,148	₩ 1,210,889	\$ 1,080,920	\$ 1,101,609
Fair value of plan assets	(337,077)	(330,958)	(306,656)	(301,090)
	₩ 851,071	₩ 879,931	\$ 774,264	\$ 800,519

(2) Changes in carrying amount of the net defined benefit liabilities for the years ended December 31, 2014 and 2013 are as follows:

2014

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
	(In millions)			(In thousands)		
Beginning balance	₩ 1,210,889	₩ (330,958)	₩ 879,931	\$ 1,101,609	\$ (301,090)	\$ 800,519
Current service cost	122,969	-	122,969	111,872	-	111,872
Interest expense (income)	45,594	(12,333)	33,261	41,479	(11,220)	30,259
Remeasurement of the net defined benefit liabilities	(121,784)	4,362	(117,422)	(110,793)	3,968	(106,825)
Contributions	-	(15,045)	(15,045)	-	(13,687)	(13,687)
Retirement benefits paid	(76,085)	21,146	(54,939)	(69,219)	19,238	(49,981)
Succession of defined benefit obligation	397	-	397	361	-	361
Others	6,168	(4,249)	1,919	5,611	(3,865)	1,746
Ending balance	₩ 1,188,148	₩ (337,077)	₩ 851,071	\$ 1,080,920	\$ (306,656)	\$ 774,264

2013

	Korean won			Translation into U.S. dollars (Note 2)		
	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
	(In millions)			(In thousands)		
Beginning balance	₩ 1,229,019	₩ (361,147)	₩ 867,872	\$ 1,118,103	\$ (328,555)	\$ 789,548
Current service cost	132,354	-	132,354	120,409	-	120,409
Interest expense (income)	39,550	(11,922)	27,628	35,981	(10,846)	25,135
Remeasurement of the net defined benefit liabilities	(62,385)	173	(62,212)	(56,755)	157	(56,598)
Contributions	-	(15,849)	(15,849)	-	(14,418)	(14,418)
Retirement benefits paid	(80,735)	26,836	(53,899)	(73,449)	24,414	(49,035)
Transfer of defined benefit obligation	(7,800)	2,812	(4,988)	(7,096)	2,558	(4,538)
Decrease due to the spin-off	(36,226)	26,107	(10,119)	(32,957)	23,751	(9,206)
Others	(2,888)	2,032	(856)	(2,627)	1,849	(778)
Ending balance	<u>₩ 1,210,889</u>	<u>₩ (330,958)</u>	<u>₩ 879,931</u>	<u>\$ 1,101,609</u>	<u>\$ (301,090)</u>	<u>\$ 800,519</u>

(3) The principal assumption used for actuarial valuation as of December 31, 2014 and 2013 is as follows:

Description	2014	2013
Discount rate (%)	2.54–2.99	3.59–3.96
Expected rate of wage increase (%)	1.60–4.84	2.70–4.84

(4) The fair values of plan assets as of December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Bank deposits and others	₩ 155,122	₩ 189,524	\$ 141,122	\$ 172,420
Equity instruments	54,893	40,596	49,940	36,933
Debt instruments	86,053	69,483	78,287	63,212
Others	41,009	31,355	37,307	28,525
	<u>₩ 337,077</u>	<u>₩ 330,958</u>	<u>\$ 306,656</u>	<u>\$ 301,090</u>

Policy and investment strategy about plan assets pursue the balance between reducing risk and creating profit. Fundamentally, it is accomplished by diversified investment, partially matching strategy of assets and liabilities, and hedging strategy to minimize flexibility of assets related to liabilities. The Group extensively diversifies investment to broadly based assets to reduce overall flexibility of assets related to liabilities (risk adjustment) and achieve a target profit. It is similar to bonds and partially responds to long maturity pension liability to allocation of assets for earning static profit.

Actual return of plan assets for the years ended December 31, 2014 and 2013 is ₩7,971 million (\$7,252 thousand) and ₩11,749 million (\$10,688 thousand), respectively.

(5) The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring as of December 31, 2014, while holding all other assumptions constant.

2014

Description	Impact of the defined benefit obligation			
	Korean won		Translation into U.S. dollars (Note 2)	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	(In millions)		(In thousands)	
Discount rate	₩ (88,640)	₩ 117,081	\$ (80,640)	\$ 106,515
Expected increase rate of salary	118,599	(91,728)	107,896	(83,449)

2013

Description	Impact of the defined benefit obligation			
	Korean won		Translation into U.S. dollars (Note 2)	
	Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
	(In millions)		(In thousands)	
Discount rate	₩ (90,517)	₩ 105,259	\$ (82,348)	\$ 95,760
Expected increase rate of salary	105,457	(91,850)	95,940	(83,561)

Since there is correlation among actuarial assumptions, changes of assumptions will not occur in isolation and above sensitivity analyses will not show the actual change of defined benefit obligations. Also, in the above sensitivity analyses, present value of defined benefit obligations is measured by using the projected unit credit method that is applied to measure the amount of defined benefit obligations in the separate statements of financial position.

## 25. PROVISIONS:

Changes in the provision liabilities for the years ended December 31, 2014 and 2013 are as follows:

2014

	Korean won			
	Beginning balance	Charged to income or loss	Utilization	Ending balance
	(In millions)			
Provision for leased aircraft maintenance (*1)	₩ 107,666	₩ 22,773	₩ (21,525)	₩ 108,914
Provision for coupon for passenger flight tickets (*2)	27,521	-	-	27,521
Others	5,499	533	(17)	6,015
	₩ 140,686	₩ 23,306	₩ (21,542)	₩ 142,450

	Translation into U.S. dollars (Note 2)			
	Beginning balance	Charged to income or loss	Utilization	Ending balance
	(In thousands)			
Provision for leased aircraft maintenance (*1)	\$ 97,949	\$ 20,717	\$ (19,582)	\$ 99,084
Provision for coupon for passenger flight tickets (*2)	25,038	-	-	25,038
Others	5,003	485	(16)	5,472
	\$ 127,990	\$ 21,202	\$ (19,598)	\$ 129,594

2013

	Korean won				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In millions)				
Provision for leased aircraft maintenance (*1)	₩ 82,462	₩ 27,869	₩ (2,665)	₩ -	₩ 107,666
Provision for coupon for passenger flight tickets (*2)	-	27,521	-	-	27,521
Others	5,719	57	(227)	(50)	5,499
	<u>₩ 88,181</u>	<u>₩ 55,447</u>	<u>₩ (2,892)</u>	<u>₩ (50)</u>	<u>₩ 140,686</u>

	Translation into U.S. dollars (Note 2)				
	Beginning balance	Charged to income or loss	Utilization	Others	Ending balance
	(In thousands)				
Provision for leased aircraft maintenance (*1)	\$ 75,020	\$ 25,354	\$ (2,425)	\$ -	\$ 97,949
Provision for coupon for passenger flight tickets (*2)	-	25,038	-	-	25,038
Others	5,203	51	(206)	(45)	5,003
	<u>\$ 80,223</u>	<u>\$ 50,443</u>	<u>\$ (2,631)</u>	<u>\$ (45)</u>	<u>\$ 127,990</u>

(\*1) The Company has maintenance obligations related to the operating leases. In order to fulfill its obligations, the Company has estimated and recognized as a provision for leased aircraft maintenance by anticipating future maintenance costs since it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

(\*2) The Company has recognized as a provision for coupon for passenger flight tickets that is agreed to the plaintiff as amounting to \$26,000 thousand in relation to airline ticket price collusion of flights for passengers to the Americas in the United States court class action (Note 44).

## 26. DEFERRED REVENUE:

The Group manages its frequent flyer program, "SKYPASS," a customer loyalty program that provides incentives through accrued mileage, such as bonus flight tickets and seat class upgrades, in addition to other benefits to its customers and its alliance companies. The Group allocates the fair value of the consideration received in respect of the sales into the award credits and service revenue. The award credits' portion of sales price is not recognized as revenue until the obligation has been performed. The Group's deferred income in connection with the SKYPASS system recognized in the consolidated statement of financial position as of December 31, 2014, amounted to ₩1,684,750 million (\$1,532,706 thousand), including ₩50,968 million (\$46,368 thousand) of advance receipts from customers and ₩1,633,782 million (\$1,486,338 thousand) of deferred revenue.

## 27. DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING:

(1) As of December 31, 2014, the Group entered into derivative agreements with KDB and nine other financial institutions for hedging purpose, and derivatives as of December 31, 2014 consist of the following:

Type of transaction	Accounting policy	Maturity	Contract amount	
Oil price option	Cash flow hedging	2015.12.31	BBL	9,300 thousand
Interest rate swaps	Trading	2016.09.01	KRW	15,000 million
TRS (*1)	Trading	2018.01.18	KRW	196,000 million
Cross-currency interest rate swaps	Trading	2017.11.02	KRW	230,000 million

(\*1) As of December 31, 2014, the Company has entered into TRS(Total return swap) agreement related to contract for differences within the term of a contract on the 30-years permanent exchangeable bond of Hanjin shipping Co., Ltd.

- (2) Impact on the consolidated financial statements in relation to derivatives for the year ended December 31, 2014 is as follows:

Derivative Instruments	Korean won						
	Consolidated statement of financial position			Consolidated statement of comprehensive income (loss)			
	Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In millions)						
Currency option	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 303
Oil price option	-	205,204	(155,099)	-	-	4,161	11,733
Interest rate swaps	-	476	-	-	227	-	47
Cross-currency interest rate swaps/ TRS	5,446	-	1,658	5,736	3,248	-	-
	₩ 5,446	₩ 205,680	₩ (153,441)	₩ 5,736	₩ 3,475	₩ 4,161	₩ 12,083

Derivative Instruments	Translation into U.S. dollars (Note 2)						
	Consolidated statement of financial position			Consolidated statement of comprehensive income (loss)			
	Financial derivative assets	Financial derivative liabilities	Other capital components	Valuation gain	Valuation loss	Transaction gain	Transaction loss
	(In thousands)						
Currency option	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 276
Oil price option	-	186,685	(141,102)	-	-	3,785	10,674
Interest rate swaps	-	433	-	-	206	-	42
Cross-currency interest rate swaps/TRS	4,955	-	1,508	5,219	2,955	-	-
	\$ 4,955	\$ 187,118	\$ (139,594)	\$ 5,219	\$ 3,161	\$ 3,785	\$ 10,992

## 28. OTHER LIABILITIES:

Other liabilities as of December 31, 2014 and 2013 consist of the following:

	Korean won			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In millions)			
Advances	₩ 845,581	₩ -	₩ 895,859	₩ -
Withholdings	85,327	37,079	91,671	30,258
Unearned revenues	99,713	-	5,251	-
Others	-	892	1,339	709
	₩ 1,030,621	₩ 37,971	₩ 994,120	₩ 30,967

	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Current	Non-current	Current	Non-current
	(In thousands)			
Advances	\$ 769,270	\$ -	\$ 815,010	\$ -
Withholdings	77,626	33,732	83,398	27,528
Unearned revenues	90,715	-	4,778	-
Others	-	812	1,218	645
	\$ 937,611	\$ 34,544	\$ 904,404	\$ 28,173

## 29. CAPITAL STOCK:

(1) Capital stock as of December 31, 2014 and 2013 consists of the following:

	Number of shares authorized	Number of shares issued	Par value	Korean won		Translation into U.S. dollars (Note 2)	
				2014	2013	2014	2013
				(In millions)		(In thousands)	
Common stock		58,675,438	₩ 5,000	₩ 293,377	₩ 293,377	\$ 266,900	\$ 266,900
Preferred stock (*1)	250,000,000	1,110,794	₩ 5,000	5,554	5,554	5,053	5,053
	<u>250,000,000</u>	<u>59,786,232</u>		<u>₩ 298,931</u>	<u>₩ 298,931</u>	<u>\$ 271,953</u>	<u>\$ 271,953</u>

(\*1) As the non-voting preferred stock, in case of cash dividends, it gets additional 1% more dividends than common stock. If the Company cannot pay dividends, the preferred stock gets voting right from the resolution of the next general meeting of shareholders that the Company does not pay dividends until the resolution of the general meeting of shareholders that the Company pays dividends.

(2) Changes in number of stocks issued for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
	Common stock	Preferred stock	Common stock	Preferred stock
Beginning balance	58,675,438	1,110,794	71,971,631	1,379,177
Increase due to the merger (*1)	-	-	880,622	-
Decrease due to the spin-off (*2)	-	-	(14,176,815)	(268,383)
Ending balance	<u>58,675,438</u>	<u>1,110,794</u>	<u>58,675,438</u>	<u>1,110,794</u>

(\*1) The Company issued new shares as a result of the merger of Hanjin Travel Service Co., Ltd.'s investment division for the year ended December 31, 2013.

(\*2) The Company spun the investment business unit off on August 1, 2013.

## 30. OTHER CAPITAL SURPLUS:

(1) Other capital surplus as of December 31, 2014 and 2013 consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Additional paid-in capital	₩ 174,907	₩ 174,907	\$ 159,122	\$ 159,122
Other capital (*1)	(122,345)	(122,208)	(111,303)	(111,178)
	<u>₩ 52,562</u>	<u>₩ 52,699</u>	<u>\$ 47,819</u>	<u>\$ 47,944</u>

(\*1) The Company has two shares of common stock due to the acquisition of odd-lot stocks as of December 31, 2014.

(2) Changes in additional paid-in capital for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Beginning balance	₩ 174,907	₩ 189,417	\$ 159,122	\$ 172,323
Increase due to merger (*1)	-	28,896	-	26,288
Decrease due to spin-off (*2)	-	(43,406)	-	(39,489)
Ending balance	₩ 174,907	₩ 174,907	\$ 159,122	\$ 159,122

(\*1) The Company issued new shares as a result of the merger of Hanjin Travel Service Co., Ltd.'s investment division.

(\*2) The Company spun the investment business unit off on August 1, 2013.

(3) Changes in other capital for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Beginning balance	₩ (122,208)	₩ (24,060)	\$ (111,178)	\$ (21,889)
Decrease due to the merger (*1)	-	(8,926)	-	(8,120)
Decrease due to the spin-off (*2)	-	(298,082)	-	(271,180)
The acquisition of odd-lot stocks (*3)	-	-	-	-
Issuance of hybrid securities	-	208,860	-	190,011
Decrease due to paid-in capital increase	(137)	-	(125)	-
Ending balance	₩ (122,345)	₩ (122,208)	\$ (111,303)	\$ (111,178)

(\*1) The Company issued shares as a result of the merger of Hanjin Travel Service Co., Ltd., investment division for the year ended December 31, 2013.

(\*2) The Company spun the investment business unit off on August 1, 2013.

(\*3) The Company has two shares of common stock as of the year ended December 31, 2014, due to the acquisition of odd-lot stocks during 2013.

(4) Hybrid securities as of December 31, 2014 and 2013 consist of the following:

	Date of issue	Maturity	Interest rate	Korean won		Translation into U.S. dollars (Note 2)	
				2014	2013	2014	2013
				(In millions)		(In thousands)	
Blank non-guaranteed bonds	2013-06-28	2043-06-28	6.40%	₩ 208,860	₩ 208,860	\$ 190,011	\$ 190,011

The annual interest rate of hybrid securities is 6.4% for five years after it is issued and five years later, the increased annual interest rate (6.4% + 3.5% + (benchmark yield after five years from the date of issuance - 3.32%)) is applied.

The Company can exercise the right of early repayment every year after five years from the date of the hybrid securities issuance. If the Company notices the willingness to extend the maturity before a month prior to expiration date, the maturity can be extended to 30 years under the same condition. In addition, the Company can choose to pay the interest of hybrid securities. However, the Company can not suspend the payment of interest if the decision on stock dividend, purchase and redemption of stocks, and profit retirement would happen for 12 months before the payment of interest.

### 31. RETAINED EARNINGS AND DIVIDENDS:

(1) Retained earnings as of December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Legal reserve:				
Legal appropriated retained earnings (*1)	₩ 3,452	₩ 3,452	\$ 3,140	\$ 3,140
Voluntary reserve:				
Facility reserve	200,000	200,000	181,951	181,951
Unappropriated retained earnings (*2)	1,341,114	1,763,745	1,220,082	1,604,571
	₩ 1,544,566	₩ 1,967,197	\$ 1,405,173	\$ 1,789,662

(\*1) The Korean Commercial Code requires the Company to appropriate as legal reserve an amount equal to at least 10% of cash dividends paid for each accounting period, until the reserve equals 50% of the stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(\*2) ₩1,915,926 million (\$1,743,019 thousand) in unappropriated retained earnings, related to the reevaluation gain resulting from the revaluation of assets in accordance with the Korean Assets Revaluation Act in the past, was recognized by the Company as unappropriated retained earnings.

(2) Changes in retained earnings for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Beginning balance	₩ 1,967,197	₩ 2,095,970	\$ 1,789,662	\$ 1,906,814
Net loss	(480,259)	(224,995)	(436,917)	(204,690)
Other comprehensive income	74,932	46,124	68,170	41,962
Substitution of revaluation surplus	-	12,847	-	11,687
Dividend from hybrid securities	(13,476)	(6,758)	(12,260)	(6,148)
The change of retained earnings of associates and subsidiaries	(4,161)	37,136	(3,785)	33,785
Others	333	6,873	303	6,252
Ending balance	₩ 1,544,566	₩ 1,967,197	\$ 1,405,173	\$ 1,789,662

(3) There is no dividend payment (except for the dividend from hybrid securities) for the years December 31, 2014 and 2013.

### 32. OTHER CAPITAL COMPONENTS:

(1) Other capital components as of December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Gain on valuation of AFS financial assets, net	₩ 75,230	₩ 77,987	\$ 68,441	\$ 70,949
Change in retained earnings – equity method – accounted investments	28,848	(51,378)	26,244	(46,742)
Loss on valuation of derivatives, net	(153,441)	(441)	(139,594)	(401)
Cumulative effect of foreign currency translation	(8,555)	(12,173)	(7,782)	(11,074)
Revaluation surplus	314,166	314,169	285,813	285,816
	₩ 256,248	₩ 328,164	\$ 233,122	\$ 298,548

(2) Changes in other capital components for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Beginning balance	₩ 328,164	₩ (6,481)	\$ 298,548	\$ (5,896)
Gain (loss) on valuation of AFS financial assets net	(2,757)	41,185	(2,508)	37,468
Change in retained earnings – equity method – accounted investments	18,862	(43,554)	17,160	(39,623)
Gain (loss) on valuation of derivatives, net	(153,001)	9,021	(139,193)	8,207
Cumulative effect of foreign currency translation	3,619	13,824	3,292	12,576
Revaluation surplus	(3)	314,169	(3)	285,816
Substitution of equity relating to assets held for sale	61,364	-	55,826	-
Ending balance	₩ 256,248	₩ 328,164	\$ 233,122	\$ 298,548

### 33. SALES:

(1) Sales classified as operating income or loss resulting from the Company's continuing operations for the years ended December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Air transport revenue	₩ 10,813,188	₩ 10,942,586	\$ 9,837,326	\$ 9,955,046
Other revenue	1,096,560	906,122	997,598	824,346
	₩ 11,909,748	₩ 11,848,708	\$ 10,834,924	\$ 10,779,392

(2) Due to the seasonal nature of air transport business, sales and department profit are expected to be higher in the second half than in the first half. Because passenger's demands of domestic and international flights increase significantly during the holiday season, sales and number of passengers especially in July and August have been historically higher than other months.

### 34. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Salaries	₩ 269,893	₩ 274,514	\$ 245,535	\$ 249,740
Post-employment benefits	30,394	28,102	27,651	25,566
Depreciation	10,676	10,731	9,713	9,762
Amortization	20,651	18,374	18,788	16,716
Rental	18,289	16,835	16,639	15,315
Sales commission	304,172	312,382	276,721	284,191
Advertising and service fees	105,910	96,204	96,352	87,522
Welfare	56,318	63,761	51,236	58,007
Training	7,020	7,122	6,386	6,479
Communications	40,783	46,617	37,102	42,410
Taxes and dues	17,985	20,558	16,362	18,703
Facility maintenance	7,362	7,468	6,698	6,794
Commission	156,327	137,052	142,218	124,684
Others	79,377	74,924	72,214	68,162
	₩ 1,125,157	₩ 1,114,644	\$ 1,023,615	\$ 1,014,051

### 35. FINANCIAL INCOME AND EXPENSES:

(1) Financial income for the years ended December 31, 2014 and 2013 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Interest income	₩ 40,394	₩ 28,210	\$ 36,748	\$ 25,664
Dividend income	2,441	2,308	2,221	2,099
Gain on valuation of derivatives	5,736	56,511	5,219	51,411
Gain on derivatives transaction	4,161	18,801	3,785	17,105
	₩ 52,732	₩ 105,830	\$ 47,973	\$ 96,279

(2) Financial expenses for the years ended December 31, 2014 and 2013 are as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Interest expense	₩ 460,725	₩ 498,448	\$ 419,147	\$ 453,465
Loss on valuation of derivatives	3,475	25,689	3,161	23,371
Loss on derivatives transaction	12,083	2,573	10,992	2,340
	₩ 476,283	₩ 526,710	\$ 433,300	\$ 479,176

### 36. OTHER NON-OPERATING INCOME AND EXPENSES:

(1) Other non-operating income for the years ended December 31, 2014 and 2013 consists of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Gain on foreign currency transaction	₩ 217,421	₩ 250,096	\$ 197,799	\$ 227,525
Gain on foreign currency translation	168,772	424,676	153,541	386,350
Reversal of allowance for doubtful accounts	603	-	548	-
Gain on disposal of AFS financial assets	264	-	240	-
Gain on disposal of investments in associates	88,559	359	80,567	327
Reversal of impairment loss on investments in associates	14,651	-	13,329	-
Gain on disposal of property, aircraft and equipment	3,571	33,983	3,249	30,916
Miscellaneous income	43,076	23,973	39,189	21,809
	₩ 536,917	₩ 733,087	\$ 488,462	\$ 666,927

(2) Other non-operating expenses for the years ended December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Other bad debt expenses	₩ 324	₩ 453	\$ 295	\$ 411
Loss on foreign currency transaction	249,853	285,677	227,305	259,895
Loss on foreign currency translation	402,323	56,717	366,014	51,598
Loss on disposal of AFS financial assets	7,884	2,640	7,172	2,402
Impairment loss on AFS financial assets	3,899	1,685	3,547	1,533

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Loss on disposal of associates	4,188	1,271	3,810	1,156
Impairment loss on investments in associates	-	1,500	-	1,365
Loss on disposal of jointly controlled entities	-	1,224	-	1,114
Loss on disposal of property, aircraft and equipment	112,840	89,688	102,657	81,594
Impairment loss on property, aircraft and equipment	-	35,101	-	31,934
Loss on revaluation assets	-	52,530	-	47,789
Loss on disposal of intangible assets	23	-	21	-
Impairment loss on intangible assets	78	-	71	-
Donation	17,291	16,645	15,730	15,143
Miscellaneous loss	559	172,418	508	156,857
	<u>₩ 799,262</u>	<u>₩ 717,549</u>	<u>\$ 727,130</u>	<u>\$ 652,791</u>

### 37. INCOME TAX EXPENSE (BENEFIT):

(1) Income tax benefit for the years ended December 31, 2014 and 2013 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Current income tax expense	₩ 21,114	₩ 47,773	\$ 19,209	\$ 43,462
± Changes in deferred taxes due to temporary differences (*)	(87,391)	(26,476)	(79,504)	(24,087)
± Tax loss carryforward (**)	(64,829)	(7,078)	(58,978)	(6,438)
Total amount of income tax effect	<u>(131,106)</u>	<u>14,219</u>	<u>(119,273)</u>	<u>12,937</u>
± Items recorded directly in equity	24,456	(127,081)	22,249	(115,613)
Income tax benefit	<u>(106,650)</u>	<u>₩ (112,862)</u>	<u>(97,024)</u>	<u>(102,676)</u>
(*) Temporary differences — deferred tax assets at the end of period	434,835	347,444	395,593	316,089
Temporary differences — deferred tax assets at the beginning of period	347,444	309,722	316,089	281,770
Deferred tax assets succeeded due to merger	-	73	-	67
Deferred tax assets transferred due to spin-off	-	11,173	-	10,165
Changes in deferred taxes due to temporary differences	<u>(87,391)</u>	<u>(26,476)</u>	<u>(79,504)</u>	<u>(24,087)</u>
(**) Tax loss carryforward — deferred tax assets at the end of period	327,826	262,998	298,240	239,262
Tax loss carryforward — deferred tax assets at the beginning of period	262,997	255,920	239,262	232,824
Changes in deferred taxes due to tax loss carryforward	<u>₩ (64,829)</u>	<u>₩ (7,078)</u>	<u>\$ (58,978)</u>	<u>\$ (6,438)</u>

(2) Reconciliation between loss before income tax and income tax benefit for the years ended December 31, 2014 and 2013 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Loss before income tax expense	₩ (283,711)	₩ (470,106)	\$ (258,106)	\$ (427,680)
Assessed tax on the applicable rates	(68,658)	(113,766)	(62,462)	(103,499)
Adjustments:				
Non-deductible expenses	(65,193)	(22,446)	(59,309)	(20,421)
Tax credits	(18,634)	(5,692)	(16,952)	(5,178)
Others	45,835	29,042	41,699	26,422
Income tax benefit	₩ (106,650)	₩ (112,862)	\$ (97,024)	\$ (102,676)
Effective tax rate (%) (*1)	-	-	-	-

(\*1) The effective tax rate was not computed due to net loss before income tax benefit for the year ended December 31, 2014.

(\*2) The tax rate applied to the taxable income for the years ended December 31, 2014 and 2013 is 24.2% (including residence tax), which is the statutory income tax rate of Korea.

(3) Changes in temporary differences and deferred income tax assets (liabilities) as of and for the years ended December 31, 2014 and 2013 are as follows:

2014

Description	Korean won		
	Beginning balance (*1)	Increase (decrease) (*1)	Ending balance
	(In millions)		
Temporary differences:			
Defined benefit obligation	₩ 709,535	₩ 1,895	₩ 711,430
Provision for leased aircraft maintenance	107,666	1,248	108,914
Deferred revenue	1,604,346	80,403	1,684,749
Gain from assets contributed	3,184	(20)	3,164
Gain (loss) on foreign currency translation	58,222	(34,320)	23,902
Accrued expenses	82,056	4,312	86,368
Borrowings	(12,420)	4,497	(7,923)
AFS financial assets	(109,157)	16,513	(92,644)
Property, aircraft and equipment, and intangible assets	(884,063)	195,078	(688,985)
Gain on valuation of derivatives	28,067	171,877	199,944
Others	157,095	(280,158)	(123,063)
	₩ 1,744,531	₩ 161,325	₩ 1,905,856
Tax loss carryforward	1,006,100	190,886	1,196,986
Tax credits	32,849	15,139	47,988
Deferred tax assets (*2)	610,442	152,219	762,661
Description	Translation into U.S. dollars (Note 2)		
	Beginning balance (*1)	Increase (decrease) (*1)	Ending balance
	(In thousands)		
Temporary differences:			
Defined benefit obligation	\$ 645,502	\$ 1,724	\$ 647,226
Provision for leased aircraft maintenance	97,949	1,135	99,084
Deferred revenue	1,459,558	73,147	1,532,705
Gain from assets contributed	2,897	(18)	2,879
Gain (loss) on foreign currency translation	52,968	(31,223)	21,745

Description	Translation into U.S. dollars (Note 2)		
	Beginning balance (*1)	Increase (decrease) (*1)	Ending balance
		(In thousands)	
Accrued expenses	74,650	3,923	78,573
Borrowings	(11,299)	4,091	(7,208)
AFS financial assets	(99,306)	15,023	(84,283)
Property, aircraft and equipment, and intangible assets	(804,279)	177,473	(626,806)
Gain on valuation of derivatives	25,534	156,366	181,900
Others	142,918	(254,875)	(111,957)
	<u>\$ 1,587,092</u>	<u>\$ 146,766</u>	<u>\$ 1,733,858</u>
Tax loss carryforward	915,302	173,659	1,088,961
Tax credits	29,884	13,773	43,657
Deferred tax assets (*2)	555,351	138,482	693,833

2013

Description	Korean won		
	Beginning balance (*1)	Increase (decrease) (*1)	Ending balance
		(In millions)	
Temporary differences:			
Defined benefit obligation	₩ 636,759	₩ 72,776	₩ 709,535
Provision for leased aircraft maintenance	82,462	25,204	107,666
Deferred revenue	1,519,039	85,307	1,604,346
Gain from assets contributed	45,138	(41,954)	3,184
Gain (loss) on foreign currency translation	110,195	(51,973)	58,222
Accrued expenses	75,324	6,732	82,056
Borrowings	(20,393)	7,973	(12,420)
AFS financial assets	(67,225)	(41,932)	(109,157)
Property, aircraft and equipment, and intangible assets	(884,231)	168	(884,063)
Gain on valuation of derivatives	(9,635)	37,702	28,067
Others	147,635	9,460	157,095
	<u>₩ 1,635,068</u>	<u>₩ 109,463</u>	<u>₩ 1,744,531</u>
Tax loss carryforward	1,017,019	(10,919)	1,006,100
Tax credits	9,808	23,041	32,849
Deferred tax assets (*2)	565,642	44,800	610,442

Description	Translation into U.S. dollars (Note 2)		
	Beginning balance (*1)	Increase (decrease) (*1)	Ending balance
		(In thousands)	
Temporary differences:			
Defined benefit obligation	\$ 579,293	\$ 66,208	\$ 645,501
Provision for leased aircraft maintenance	75,020	22,929	97,949
Deferred revenue	1,381,949	77,609	1,459,558
Gain from assets contributed	41,064	(38,167)	2,897
Gain (loss) on foreign currency translation	100,251	(47,283)	52,968
Accrued expenses	68,526	6,124	74,650
Borrowings	(18,553)	7,254	(11,299)
AFS financial assets	(61,158)	(38,148)	(99,306)
Property, aircraft and equipment, and intangible assets	(804,431)	152	(804,279)
Gain on valuation of derivatives	(8,765)	34,299	25,534
Others	134,312	8,606	142,918
	<u>\$ 1,487,508</u>	<u>\$ 99,583</u>	<u>\$ 1,587,091</u>
Tax loss carryforward	925,236	(9,934)	915,302

Description	Korean won		
	Beginning balance (*1)	Increase (decrease) (*1)	Ending balance
Tax credits	8,923	20,961	29,884
Deferred tax assets (*2)	514,594	40,757	555,351

(\*1) Beginning temporary differences include temporary differences recognized as deferred income tax assets (liabilities) as of December 31, 2014 and 2013, which has been partially adjusted during actual tax adjustments for the years ended December 31, 2014 and 2013. Therefore, the Company reflected the aforementioned adjustment in the change in temporary differences for the years ended December 31, 2014 and 2013.

(\*2) Deferred tax assets related to discontinued operation have been excluded.

(4) Deferred income tax expense directly adjusted to shareholders' equity as of December 31, 2014 and 2013 consists of the following:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Deferred income tax expense directly adjusted to shareholders' equity:				
Gain on valuation of AFS financial assets	₩ 1,301	₩ (14,532)	\$ 1,183	\$ (13,221)
Loss on valuation of cash flow hedging derivatives	50,205	(459)	45,675	(418)
Remeasurement of the net defined benefit liabilities	(28,446)	(13,209)	(25,879)	(12,017)
Revaluation surplus	(105)	(91,831)	(96)	(83,543)
	<u>22,955</u>	<u>(120,031)</u>	<u>20,883</u>	<u>(109,199)</u>
Deferred income tax expense directly adjusted to non-controlling interests	1,501	(7,050)	1,366	(6,414)
	<u>₩ 24,456</u>	<u>₩ (127,081)</u>	<u>\$ 22,249</u>	<u>\$ (115,613)</u>

(5) Deductible temporary differences, tax loss and unused tax credits, not recognized as deferred tax assets as of December 31, 2014 and 2013 are as follows:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Investment in subsidiaries and associates and gains from assets contributed	₩ 111,801	₩ 286,350	\$ 101,711	\$ 260,508
Unused tax credits	9,712	13,328	8,836	12,125
	<u>₩ 121,513</u>	<u>₩ 299,678</u>	<u>\$ 110,547</u>	<u>\$ 272,633</u>

(6) The expiration date of unused tax credits not recognized as deferred tax assets as of December 31, 2014 and 2013 consists of the following:

Description	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Within 1 year	₩ 9,713	₩ 2,842	\$ 8,836	\$ 2,585
1-2 years	-	10,486	-	9,540
	<u>₩ 9,713</u>	<u>₩ 13,328</u>	<u>\$ 8,836</u>	<u>\$ 12,125</u>

### 38. CLASSIFICATION OF EXPENSES BY NATURE:

Expenses classified by nature for the years ended December 31, 2014 and 2013 consist of the following:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Salaries and post-retirement benefits	₩ 1,636,372	₩ 1,639,374	\$ 1,488,694	\$ 1,491,425
Welfare	270,604	305,538	246,183	277,965
Depreciation and amortization	1,593,025	1,653,169	1,449,260	1,503,974
Rental	195,663	208,657	178,005	189,826
Fuel and oil charges	4,018,839	4,336,958	3,656,148	3,945,558
Airport-related costs	985,635	997,584	896,684	907,554
Sales commission	304,172	312,382	276,721	284,191
Others	2,510,391	2,414,608	2,283,834	2,196,696
	₩ 11,514,701	₩ 11,868,270	\$ 10,475,529	\$ 10,797,189

(\* ) The amount is the sum of cost of sales and selling and administrative expenses from continuing operations.

### 39. EARNINGS (LOSS) PER SHARE:

Basic earnings per share for the years ended December 31, 2014 and 2013 are as follows

(In millions of Korean won and in thousands of U.S. dollars, except for share data and (loss) earnings per share):

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Net loss	₩ (480,259)	₩ (224,995)	\$ (436,917)	\$ (204,690)
Net (loss) income applicable to common stock:				
Continuing operation	(480,259)	(224,995)	(436,917)	(204,690)
Discontinued operation	(203,372)	(346,640)	(185,019)	(315,357)
Weighted-average number of common shares outstanding	58,675,438	63,974,099	58,675,438	63,974,099
Earnings (loss) per share	(8,185)	(3,517)	(7)	(3)
Continuing operation	(3,466)	(5,418)	(3)	(5)
Discontinued operation	(4,719)	1,901	(4)	2

(\*1) Diluted (loss) earnings per share for the years ended December 31, 2014 and 2013 are the same as the basic (loss) earnings per share since there are no dilutive potential common shares and dilutive effect.

The contents of weighted-average common shares for the years ended December 31, 2014 and 2013 are as follows:

	Number of shares	
	2014	2013
Cumulative number of weighted-average common shares	21,416,534,870	23,350,546,177
Number of days	365	365
Weighted-average number of common shares outstanding	58,675,438	63,974,099

#### 40. **FINANCIAL RISK MANAGEMENT:**

##### (1) Capital risk management:

The Group manages its capital in order to maintain the ability to continuously provide profits to its shareholders and interest parties and optimum capital structure to reduce capital expenses. In order to maintain such optimum, the Group adjusts dividend payments, redeems paid-in capital to shareholders and issues stocks to reduce liabilities or sell assets.

Like other entities in the field in which the Group operates in, the Group manages its capital based on the ratio of net debt to total equity. Net debt refers to total borrowings (including obligation under finance leases as presented in the separate statement of financial position) less cash and cash equivalents and short-term financial assets, and total equity refers to capital presented in the statement of financial position plus net debt.

The Group's net debt-to-total equity ratio as of December 31, 2014 and 2013 is as follows:

	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Total borrowings	₩ 16,331,101	₩ 15,319,366	\$ 14,857,260	\$ 13,936,833
Less: cash and cash equivalents and short-term financial instruments	855,622	1,179,987	778,404	1,073,497
Net debt	15,475,479	14,139,379	14,078,856	12,863,336
Capital	2,201,158	2,740,213	2,002,510	2,492,916
Total equity	₩ 17,676,637	₩ 16,879,592	\$ 16,081,366	\$ 15,356,252
Net debt to total equity ratio	87.55%	83.77%	87.55%	83.77%

(2) Significant accounting policies and methods (recognition criteria, measurement standards including recognition criteria for revenue and expenses) adopted by the Group regarding financial assets, financial liabilities and shareholders' equity are disclosed in detail in Note 2.

(3) The carrying amounts on category of the financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

##### 1) Financial assets

2014

Description	Korean won				
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
	(In millions)				
Cash and cash equivalents	₩ 796,604	₩ -	₩ -	₩ -	₩ 796,604
Short and long-term financial instruments	119,108	-	-	-	119,108
Held-to-maturity financial assets	-	-	974	-	974
AFS financial assets	-	-	-	207,492	207,492
Trade and other receivables	1,012,552	-	-	-	1,012,552
Financial derivative assets	-	5,446	-	-	5,446
Investment in direct financing leases	85,355	-	-	-	85,355
Other financial assets	256,024	-	-	-	256,024
	₩ 2,269,643	₩ 5,446	₩ 974	₩ 207,492	₩ 2,483,555

Description	Translation into U.S. dollars (Note 2)				
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
	(In thousands)				
Cash and cash equivalents	\$ 724,712	\$ -	\$ -	\$ -	\$ 724,712
Short and long-term financial instruments	108,359	-	-	-	108,359
Held-to-maturity financial assets	-	-	886	-	886
AFS financial assets	-	-	-	188,766	188,766
Trade and other receivables	921,172	-	-	-	921,172
Financial derivative assets	-	4,955	-	-	4,955
Investment in direct financing leases	77,652	-	-	-	77,652
Other financial assets	232,919	-	-	-	232,919
	<u>\$ 2,064,814</u>	<u>\$ 4,955</u>	<u>\$ 886</u>	<u>\$ 188,766</u>	<u>\$ 2,259,421</u>

2013

Description	Korean won					
	Loans and receivables	Financial assets at FVTPL	Held-to- maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In millions)					
Cash and cash equivalents	₩ 1,126,825	₩ -	₩ -	₩ -	₩ -	₩ 1,126,825
Short and long-term financial instruments	54,418	-	-	-	-	54,418
Held-to-maturity financial assets	-	-	10,322	-	-	10,322
AFS financial assets	-	-	-	216,309	-	216,309
Trade and other receivables	1,011,850	-	-	-	-	1,011,850
Financial derivative assets	-	303	-	-	7,566	7,869
Investment in direct financing leases	81,220	-	-	-	-	81,220
Other financial assets	251,717	-	-	-	-	251,717
	<u>₩ 2,526,030</u>	<u>₩ 303</u>	<u>₩ 10,322</u>	<u>₩ 216,309</u>	<u>₩ 7,566</u>	<u>₩ 2,760,530</u>

Description	Translation into U.S. dollars (Note 2)					
	Loans and receivables	Financial assets at FVTPL	Held-to- maturity financial assets	AFS financial assets	For hedging derivative financial assets	Total
	(In thousands)					
Cash and cash equivalents	\$ 1,025,132	\$ -	\$ -	\$ -	\$ -	\$ 1,025,132
Short and long-term financial instruments	49,507	-	-	-	-	49,507
Held-to-maturity financial assets	-	-	9,390	-	-	9,390
AFS financial assets	-	-	-	196,787	-	196,787

Description	Translation into U.S. dollars (Note 2)					Total
	Loans and receivables	Financial assets at FVTPL	Held-to- maturity financial assets	AFS financial assets	For hedging derivative financial assets	
	(In thousands)					
Trade and other receivables	920,533	-	-	-	-	920,533
Financial derivative assets	-	276	-	-	6,883	7,159
Investment in direct financing leases	73,890	-	-	-	-	73,890
Other financial assets	229,000	-	-	-	-	229,000
	<u>\$ 2,298,062</u>	<u>\$ 276</u>	<u>\$ 9,390</u>	<u>\$ 196,787</u>	<u>\$ 6,883</u>	<u>\$ 2,511,398</u>

2) Financial liabilities

2014

Description	Korean won				Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities		
	(In millions)				
Trade and other payables	₩ -	₩ 808,393	₩ -	₩ -	₩ 808,393
Borrowings	-	6,507,271	-	-	6,507,271
Debentures	-	3,319,361	-	-	3,319,361
Financial derivative liabilities	476	-	205,204	-	205,680
Obligation under finance leases	-	6,504,469	-	-	6,504,469
	<u>₩ 476</u>	<u>₩ 17,139,494</u>	<u>₩ 205,204</u>	<u>₩ -</u>	<u>₩ 17,345,174</u>

Description	Translation into U.S. dollars (Note 2)				Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities		
	(In thousands)				
Trade and other payables	\$ -	\$ 735,438	\$ -	\$ -	\$ 735,438
Borrowings	-	5,920,006	-	-	5,920,006
Debentures	-	3,019,798	-	-	3,019,798
Financial derivative liabilities	433	-	186,685	-	187,118
Obligation under finance leases	-	5,917,456	-	-	5,917,456
	<u>\$ 433</u>	<u>\$ 15,592,698</u>	<u>\$ 186,685</u>	<u>\$ -</u>	<u>\$ 15,779,816</u>

2013

Description	Korean won			
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	(In millions)			
Trade and other payables	₩ -	₩ 1,015,360	₩ -	₩ 1,015,360
Borrowings	-	5,480,678	-	5,480,678
Debentures	-	3,947,316	-	3,947,316
Financial derivative liabilities	25,538	-	7,422	32,960
Obligation under finance leases	-	5,891,372	-	5,891,372
	<u>₩ 25,538</u>	<u>₩ 16,334,726</u>	<u>₩ 7,422</u>	<u>₩ 16,367,686</u>

Description	Translation into U.S. dollars (Note 2)			
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	(In thousands)			
Trade and other payables	\$ -	\$ 923,727	\$ -	\$ 923,727
Borrowings	-	4,986,061	-	4,986,061
Debentures	-	3,591,080	-	3,591,080
Financial derivative liabilities	23,234	-	6,751	29,985
Obligation under finance leases	-	5,359,692	-	5,359,692
	<u>\$ 23,234</u>	<u>\$ 14,860,560</u>	<u>\$ 6,751</u>	<u>\$ 14,890,545</u>

(4) Major income or loss by category of financial instruments for the years ended December 31, 2014 and 2013 is as follows:

1) Financial assets

2014

Description	Korean won				
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
	(In millions)				
Interest income	₩ 39,317	₩ 835	₩ 63	₩ 179	₩ 40,394
Dividend income	-	-	-	2,441	2,441
Bad debt expenses	(214)	-	-	-	(214)
Loss on foreign currency translation, net	(372,989)	-	-	-	(372,989)
Gain on valuation of derivatives, net	-	5,736	-	-	5,736
Loss on valuation of AFS financial assets, net (*1)	-	-	-	(2,513)	(2,513)
Loss on disposal of AFS financial assets	-	-	-	(7,620)	(7,620)
Impairment loss on AFS financial assets	-	-	-	(3,899)	(3,899)
	<u>₩ (333,886)</u>	<u>₩ 6,571</u>	<u>₩ 63</u>	<u>₩ (11,412)</u>	<u>₩ (338,664)</u>

Description	Translation into U.S. dollars (Note 2)				
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	Total
	(In thousands)				
Interest income	\$ 35,768	\$ 760	\$ 58	\$ 162	\$ 36,748
Dividend income	-	-	-	2,221	2,221
Bad debt expenses	(195)	-	-	-	(195)
Loss on foreign currency translation, net	(339,328)	-	-	-	(339,328)
Gain on valuation of derivatives, net	-	5,219	-	-	5,219
Loss on valuation of AFS financial assets, net (*1)	-	-	-	(2,286)	(2,286)
Loss on disposal of AFS financial assets	-	-	-	(6,933)	(6,933)
Impairment loss on AFS financial assets	-	-	-	(3,547)	(3,547)
	<u>\$ (303,755)</u>	<u>\$ 5,979</u>	<u>\$ 58</u>	<u>\$ (10,383)</u>	<u>\$ (308,101)</u>

2013

Description	Korean won					Total
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	
	(In millions)					
Interest income	₩ 27,919	₩ -	₩ 291	₩ -	₩ -	₩ 28,210
Dividend income	-	-	-	2,308	-	2,308
Bad debt expenses, net	(90)	-	-	-	-	(90)
Loss on foreign currency translation, net	(30,330)	-	-	-	-	(30,330)
Gain on valuation of derivatives, net	-	51,904	-	-	4,590	56,494
Gain on derivative transactions, net	-	5,773	-	-	636	6,409
Gain on valuation of AFS financial assets, net (*1)	-	-	-	40,496	-	40,496
Loss on disposal of AFS financial assets	-	-	-	(2,640)	-	(2,640)
Impairment loss on AFS financial assets	-	-	-	(1,685)	-	(1,685)
	<u>₩ (2,501)</u>	<u>₩ 57,677</u>	<u>₩ 291</u>	<u>₩ 38,479</u>	<u>₩ 5,226</u>	<u>₩ 99,172</u>

Description	Translation into U.S. dollars (Note 2)					Total
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	
	(In thousands)					
Interest income	\$ 25,400	\$ -	\$ 265	\$ -	\$ -	\$ 25,665
Dividend income	-	-	-	2,099	-	2,099
Bad debt expenses, net	(82)	-	-	-	-	(82)
Loss on foreign currency translation, net	(27,593)	-	-	-	-	(27,593)
Gain on valuation of derivatives, net	-	47,220	-	-	4,175	51,395
Gain on derivative transactions, net	-	5,252	-	-	579	5,831

Description	Translation into U.S. dollars (Note 2)					Total
	Loans and receivables	Financial assets at FVTPL	Held-to-maturity financial assets	AFS financial assets	For hedging derivative financial assets	
	(In thousands)					
Gain on valuation of AFS financial assets, net (*1)	-	-	-	36,841	-	36,841
Loss on disposal of AFS financial assets	-	-	-	(2,402)	-	(2,402)
Impairment loss on AFS financial assets	-	-	-	(1,533)	-	(1,533)
	<u>\$ (2,275)</u>	<u>\$ 52,472</u>	<u>\$ 265</u>	<u>\$ 35,005</u>	<u>\$ 4,754</u>	<u>\$ 90,221</u>

(\*1) Other comprehensive income (after tax effect)

## 2) Financial liabilities

2014

Description	Korean won				Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities		
	(In millions)				
Interest expense	₩ (2,300)	₩ (458,426)	₩ -	₩	(460,726)
Gain on foreign currency translation, net	-	139,384	54		139,438
Loss on valuation of derivatives, net	(227)	-	(3,248)		(3,475)
Loss on derivative transactions, net	(350)	-	(7,572)		(7,922)
Loss on valuation of derivatives, net (*1)	-	-	(152,949)		(152,949)
	<u>₩ (2,877)</u>	<u>₩ (319,042)</u>	<u>₩ (163,715)</u>	<u>₩</u>	<u>(485,634)</u>

Description	Translation into U.S. dollars (Note 2)				Total
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities		
	(In thousands)				
Interest expense	\$ (2,092)	\$ (417,054)	\$ -	\$	(419,146)
Gain on foreign currency translation, net	-	126,805	49		126,854
Loss on valuation of derivatives, net	(206)	-	(2,955)		(3,161)
Loss on derivative transactions, net	(318)	-	(6,888)		(7,206)
Loss on valuation of derivatives, net (*1)	-	-	(139,146)		(139,146)
	<u>\$ (2,616)</u>	<u>\$ (290,249)</u>	<u>\$ (148,940)</u>	<u>\$</u>	<u>(441,805)</u>

2013

Description	Korean won			
	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	(In millions)			
Interest expense	₩ -	₩ (498,448)	₩ -	₩ (498,448)
Gain on foreign currency translation, net	-	398,246	43	398,289
Loss on valuation of derivatives, net	(23,227)	-	(2,445)	(25,672)
Gain (loss) on derivative transactions, net	(62)	-	9,882	9,820
Gain on valuation of derivatives, net (*1)	-	-	7,479	7,479
	<u>₩ (23,289)</u>	<u>₩ (100,202)</u>	<u>₩ 14,959</u>	<u>₩ (108,532)</u>
	Translation into U.S. dollars (Note 2)			
Description	Financial liabilities at FVTPL	Financial liabilities recognized at amortized cost	For hedging derivative financial liabilities	Total
	(In thousands)			
Interest expense	\$ -	\$ (453,465)	\$ -	\$ (453,465)
Gain on foreign currency translation, net	-	362,305	40	362,345
Loss on valuation of derivatives, net	(21,131)	-	(2,224)	(23,355)
Gain (loss) on derivative transactions, net	(57)	-	8,990	8,933
Gain on valuation of derivatives, net (*1)	-	-	6,804	6,804
	<u>\$ (21,188)</u>	<u>\$ (91,160)</u>	<u>\$ 13,610</u>	<u>\$ (98,738)</u>

(\*1) Other comprehensive income (after tax effect)

#### (5) Financial risk management

##### 1) Purpose of managing financial risk

The financial sector manages the Group's business and organizes the approach to the domestic and international financial markets. Furthermore, it monitors and manages the financial risk related to the Group's business through internal risk reports, which analyze the scope and scale of each risk. These risks include the market risk (including currency risk, interest rate risk including oil price fluctuation risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group tries to minimize the impact of these risks by using derivative instruments for risk aversion. Use of derivatives is determined on the basis of the policy of the Group approved by the Board of Directors, but, by this, documented principles about foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and derivative financial instruments, and the investment of excess liquidity are provided. Internal auditor reviews the compliance with the policy and limitations of risk consistently. The Group does not make and transact the financial instrument contract, including derivatives, for speculative purposes.

Finance sector reports on a quarterly basis to the Risk Management Committee, an independent organization to monitor the risk and policy in order to reduce the degree of risk.

2) Market risk

The Group is mainly exposed to financial risks, such as foreign exchange rate risk, interest rate risk and oil price risk. Therefore, the Group made a contract for derivative instruments.

a) Foreign exchange risk management

The Group is exposed to various foreign currency risks since it makes transactions in foreign currencies. By using the currency option contracts, the Group manages the degree of risk exposure due to the changes in exchange rates within the limit decided in the policy that has been approved.

The carrying amounts of the Group's foreign currency-denominated monetary assets and monetary liabilities as of December 31, 2014 and 2013 are as follows:

	Korean won			
	Assets		Liabilities	
	2014	2013	2014	2013
	(In millions)			
USD	₩ 741,076	₩ 939,669	₩ 9,623,776	₩ 8,506,012
JPY	108,254	133,991	1,202,373	1,447,473
Others	259,095	281,226	585,491	280,250
	<u>₩ 1,108,425</u>	<u>₩ 1,354,886</u>	<u>₩ 11,411,640</u>	<u>₩ 10,233,735</u>

	Translation into U.S. dollars (Note 2)			
	Assets		Liabilities	
	2014	2013	2014	2013
	(In thousands)			
USD	\$ 674,196	\$ 854,866	\$ 8,755,255	\$ 7,738,366
JPY	98,484	121,899	1,093,863	1,316,842
Others	235,713	255,847	532,652	254,958
	<u>\$ 1,008,393</u>	<u>\$ 1,232,612</u>	<u>\$ 10,381,770</u>	<u>\$ 9,310,166</u>

a-1) Foreign currency sensitivity analysis

The Group is mainly exposed to the risk on USD, JPY, and other currencies (EUR, CNY, and others).

The Group's sensitivity to a 10% increase or decrease and in KRW (functional currency of the Company) against the foreign currencies as of December 31, 2014 and 2013 is presented in the table below. The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. A positive number below indicates an increase in income (loss) before income tax expense and other equity where the KRW strengthens 10% against the relevant currency. For a 10% weakening of KRW against the relevant currency, there would be an equal and opposite impact on the income (loss) before income tax expense and other equity.

	Korean won					
	USD		JPY		Others	
	2014	2013	2014	2013	2014	2013
	(In millions)					
Net income (loss) before income tax expense (*1)	₩ 888,270	₩ 756,389	₩ 109,412	₩ 131,348	₩ 32,640	₩ (98)
Equity (*2)	20,549	(284)	-	-	-	-

	Translation into U.S. dollars (Note 2)					
	USD		JPY		Others	
	2014	2013	2014	2013	2014	2013
	(In thousands)					
Net income (loss) before income tax expense (*1)	\$ 808,106	\$ 688,127	\$ 99,538	\$ 119,494	\$ 29,694	\$ (89)
Equity (*2)	18,695	(259)	-	-	-	-

(\*1) Increase (decrease) is mainly due to exchange rate fluctuations of USD, JPY currency receivables and payables as of December 31, 2014 and 2013.

(\*2) Decrease is mainly due to the changes in the fair value of derivatives designated for hedging.

#### b) Interest risk management

The Group has borrowed funds on fixed and floating interest rates; therefore, the Group is exposed to interest rate risk. In order to manage interest rate risk, the Group maintains proper balance between floating rate borrowings and fixed rate borrowings, and the Group has entered into interest rate swap contracts. In order to appropriately adjust to situation of interest and the defined tendency of risk, the risk aversion activity is evaluated periodically and optimal hedging strategy is applied.

The exposure degree of interest rate risk for financial assets and liabilities is described in detail in the footnotes of liquidity risk management.

#### b-1) Interest sensitivity analysis

The sensitivity analyses mentioned above have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate financial assets and liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for whole year. A 50-basis-point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The sensitivity rate used in reporting interest risk internally to key management personnel is 50 basis points (bp) and it represents management's assessment of the reasonably possible change in interest rates.

The Group's sensitivity to a 50-bp change in interest rates on net income under the condition all other variables are fixed, as of December 31, 2014 is as follows:

- The Group's net income will decrease (increase) to ¥47,069 million (\$ 42,821 thousand) (prior year ¥48,120 million (\$43,778 thousand)), and it is mainly due to the interest rate risk of floating rate borrowings.

The interest rate sensitivity of the Group has increased due to the increase in floating rate borrowings for the year ended December 31, 2014.

#### b-2) Interest rate swap contracts

On the basis of the interest rate swap agreement, the Group will exchange the balance that is calculated by applying the difference between fixed rates and floating rate interest of the notional amount that is determined in advance. These contracts will reduce the risk of changes in fair value of the fixed-rate liabilities and cash flows of floating rate liabilities with the Group attributable to changes in interest rates. The fair value of the interest rate swap is determined by discounting the future cash flows estimated using the credit risk that is inherent in the contract with the yield curve as of December 31, 2014 and it is disclosed in the following table. The average interest rate is determined based on the outstanding balance as of December 31, 2014.

The interest rate swaps outstanding as of December 31, 2014 and 2013 are as follows:

2014

Classification	Average contracted fixed rate (%)	Korean won	
		Contract amount	Fair value
(In millions)			
For trading			
More than two years	3M LIBOR+2.76	₩ 230,000	₩ (290)
	3.90	15,000	(476)
		₩ 245,000	₩ (766)

Translation into U.S. dollars (Note 2)

Classification	Average contracted fixed rate (%)	Contract amount		Fair value	
		(In thousands)			
For trading					
More than two years	3M LIBOR+2.76	\$ 209,243	\$	(264)	
	3.90	13,646		(433)	
		\$ 222,889	\$	(697)	

2013

Classification	Average contracted fixed rate (%)	Korean won	
		Contract amount	Fair value
(In millions)			
For trading			
More than two years	3.90	₩ 15,000	₩ (399)
For hedging			
Within 1 year	6.31	400,000	(4,920)
1-2 years	3M LIBOR+2.76	230,000	2,976
		₩ 645,000	₩ (2,343)

Translation into U.S. dollars (Note 2)

Classification	Average contracted fixed rate (%)	Contract amount		Fair value	
		(In thousands)			
For trading					
More than two years	3.90	\$ 13,646	\$	(363)	
For hedging					
Within 1 year	6.31	363,901		(4,477)	
1-2 years	3M LIBOR+2.76	209,243		2,708	
		\$ 586,790	\$	(2,132)	

c) Risk of changes in oil prices

Market prices of oil products such as jet fuel have fluctuated greatly due to various factors that affect to determine the supply and demand of crude oil in the world market. These factors will affect the cash flow and performance of air-transportation business, which is the largest business segment of the Group.

The effects of 10% change in oil price on income (loss) for the years ended December 31, 2014 and 2013 are as follows:

	Korean won			
	2014		2013	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
(In millions)				
Income or loss	₩ (403,142)	₩ 403,142	₩ (435,204)	₩ 435,204

	Translation into U.S. dollars (Note 2)			
	2014		2013	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
	(In thousands)			
Income or loss	\$ (366,759)	\$ 366,759	\$ (395,928)	\$ 395,928

#### d) Other price risk

The Group is exposed to price risk arising from equity instruments. The Group held equity instruments for a strategic purpose, not for trading, and does not have actively traded investment assets.

##### d-1) Stock price sensitivity analysis

The following sensitivity analysis is based on the current stock price fluctuation risk as of December 31, 2014.

The effect of 5% fall in stock price is as follows:

- Equity instruments classified as AFS financial assets, and the Group's net income will decrease to ₩5 million (\$ 5 thousand) (prior year ₩253 million (\$ 230 thousand)) due to the impairment loss.

The effect of 5% change in stock price is as follows:

- The Group's other comprehensive income will increase to ₩6,705 million (\$ 6,100 thousand)/decrease to ₩6,700 million (\$ 6,096 thousand) (prior year ₩7,000 million (\$ 6,368 thousand)/₩6,747 million (\$6,138 thousand)), and it is due to the change in fair value of AFS financial assets.

The stock price sensitivity of the Group has decreased because the stock price as of December 31, 2014 is lower than as of December 31, 2013.

#### 3) Credit risk management

The credit risk refers to risk of financial losses to the Group when the counterparty defaults on the obligations of the contract. As a means to reduce the economic losses due to default, the Group trades with the customers whose credit ratings are above a certain level, and the Company has adopted a policy to receive adequate collateral.

The Group has traded only with companies that received a credit rating that is applicable to investment grade and above. This credit information is provided by independent credit-rating agencies. If the Group is not able to use information that credit rating agency provided, the Group uses other financial information and trading performance, which is officially announced for the purpose of the Group to determine the credit rating of major customers. The Group has reviewed the exposure of credit risk and credit rating of customers consistently, and transaction amounts are distributed to the approved customers. Credit risk is controlled by the approved transaction limits that are reviewed annually by the Risk Management Committee.

The trade receivables consist of many suppliers and are distributed in various regions. The credit evaluation about the trade receivables has been carried out consistently.

The carrying amounts of the financial assets exposed to credit risk, which is not in the above table, are excluded from the above disclosure because the book value of financial assets represents the maximum amount of exposure to credit risk.

#### 4) Liquidity risk management

The board of directors is to formulate the basic policy for financing the Group's short-term and long-term funds and managing liquidity management regulations and has ultimate responsibility for liquidity risk management. The Group manages liquidity risk by maintaining sufficient reserves and borrowing limit, observing the predicted and actual cash flows, and matching the maturity structure of financial assets and financial liabilities.

a) Details related to liquidity and interest rate risk

The following table shows the contractual maturity of the Group's non-derivative financial liabilities. The table is formed based on the earliest maturity date on which the Group has to pay on the basis of the cash flows of the financial liabilities that are not discounted, and the cash flows include both the principal and interest. If the interest cash flows are based on a floating interest rate, cash flows that are not discounted will be derived based on the yield curve at the end of the reporting period. The maturity analysis is based on the earliest maturity date on which the Group can be required to pay.

2014

Korean won				
Classification	Within 1 year	1-5 years	More than 5 years	Total
(In millions)				
Trade and other payables	₩ 692,099	₩ 116,295	₩ -	₩ 808,394
Obligation under finance leases	1,063,083	3,327,933	2,502,326	6,893,342
Borrowings	3,678,646	2,863,968	313,154	6,855,768
Debentures	1,030,061	2,610,481	-	3,640,542
	<u>₩ 6,463,889</u>	<u>₩ 8,918,677</u>	<u>₩ 2,815,480</u>	<u>₩ 18,198,046</u>
Translation into U.S. dollars (Note 2)				
Classification	Within 1 year	1-5 years	More than 5 years	Total
(In thousands)				
Trade and other payables	\$ 629,638	\$ 105,799	\$ -	\$ 735,437
Obligation under finance leases	967,142	3,027,595	2,276,498	6,271,235
Borrowings	3,346,658	2,605,502	284,892	6,237,052
Debentures	937,101	2,374,892	-	3,311,993
	<u>\$ 5,880,539</u>	<u>\$ 8,113,788</u>	<u>\$ 2,561,390</u>	<u>\$ 16,555,717</u>

2013

Korean won				
Classification	Within 1 year	1-5 years	More than 5 years	Total
(In millions)				
Trade and other payables	₩ 841,236	₩ 174,125	₩ -	₩ 1,015,361
Obligation under finance leases	979,654	2,987,024	2,337,103	6,303,781
Borrowings	3,476,409	2,085,058	231,369	5,792,836
Debentures	1,766,319	1,950,312	653,309	4,369,940
	<u>₩ 7,063,618</u>	<u>₩ 7,196,519</u>	<u>₩ 3,221,781</u>	<u>₩ 17,481,918</u>
Translation into U.S. dollars (Note 2)				
Classification	Within 1 year	1-5 years	More than 5 years	Total
(In thousands)				
Trade and other payables	\$ 765,316	\$ 158,410	\$ -	\$ 923,726
Obligation under finance leases	891,243	2,717,453	2,126,185	5,734,881
Borrowings	3,162,672	1,896,887	210,489	5,270,048
Debentures	1,606,913	1,774,301	594,350	3,975,564
	<u>\$ 6,426,144</u>	<u>\$ 6,547,051</u>	<u>\$ 2,931,024</u>	<u>\$ 15,904,219</u>

The following table shows the expected maturity of the Group's non-derivative financial assets, and the table is formed based on the contractual maturity amount of the financial assets that are not discounted. In order to understand the liquidity risk management of the Group, the information about the non-derivative financial assets has to be included because the Group manages the liquidity based on the net assets and net liabilities.

2014

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Cash and cash equivalents	₩ 796,604	₩ -	₩ -	₩ 796,604
Short and long-term financial instruments	59,018	-	60,090	119,108
Investment in direct financing leases	22,879	88,138	-	111,017
Trade and other receivables	1,012,299	253	-	1,012,552
AFS financial assets	-	-	6	6
Held-to-maturity financial assets	19	842	113	974
Other financial assets	-	-	256,024	256,024
	<u>₩ 1,890,819</u>	<u>₩ 89,233</u>	<u>₩ 316,233</u>	<u>₩ 2,296,285</u>

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Cash and cash equivalents	\$ 724,712	\$ -	\$ -	\$ 724,712
Short and long-term financial instruments	53,692	-	54,667	108,359
Investment in direct financing leases	20,814	80,184	-	100,998
Trade and other receivables	920,942	230	-	921,172
AFS financial assets	-	-	6	6
Held-to-maturity financial assets	18	766	102	886
Other financial assets	-	-	232,919	232,919
	<u>\$ 1,720,178</u>	<u>\$ 81,180</u>	<u>\$ 287,694</u>	<u>\$ 2,089,052</u>

2013

Classification	Korean won			
	Within 1 year	1–5 years	More than 5 years	Total
	(In millions)			
Cash and cash equivalents	₩ 1,126,825	₩ -	₩ -	₩ 1,126,825
Short and long-term financial instruments	53,162	-	1,256	54,418
Investment in direct financing leases	16,701	71,856	15,750	104,307
Trade and other receivables	1,011,657	183	10	1,011,850
AFS financial assets	3,000	-	3	3,003
Held-to-maturity financial assets	9,374	933	15	10,322
Other financial assets	-	-	251,717	251,717
	<u>₩ 2,220,719</u>	<u>₩ 72,972</u>	<u>₩ 268,751</u>	<u>₩ 2,562,442</u>

Classification	Translation into U.S. dollars (Note 2)			
	Within 1 year	1–5 years	More than 5 years	Total
	(In thousands)			
Cash and cash equivalents	\$ 1,025,132	\$ -	\$ -	\$ 1,025,132
Short and long-term financial instruments	48,365	-	1,142	49,507
Investment in direct financing leases	15,194	65,371	14,328	94,893
Trade and other receivables	920,358	167	8	920,533
AFS financial assets	2,729	-	2	2,731
Held-to-maturity financial assets	8,528	849	13	9,390
Other financial assets	-	-	229,000	229,000
	<u>\$ 2,020,306</u>	<u>\$ 66,387</u>	<u>\$ 244,493</u>	<u>\$ 2,331,186</u>

The amount of the floating rate instruments (non-derivative financial assets and liabilities) contained in the table above may be changed if the changes in floating interest rates are different from the determined estimate rate at the end of the reporting period.

The table below shows in detail the breakdown of the liquidity analysis of derivative financial instruments. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract, and that of the derivative instruments that are settled in gross amounts is based on undiscounted total cash inflows and outflows. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used.

2014

Classification	Korean won		
	Within 1 year	1-2 years (In millions)	More than 2 years
Net settlement:			
Oil price option	₩ (205,204)	₩ -	₩ -
TRS	-	-	5,736
Gross settlement:			
Currency/interest rate swaps:			
Inflows	9,784	24,708	237,897
Outflows	(7,498)	(22,353)	(236,643)
	<u>₩ (202,918)</u>	<u>₩ 2,355</u>	<u>₩ 6,990</u>

Classification	Translation into U.S. dollars (Note 2)		
	Within 1 year	1-2 years (In thousands)	More than 2 years
Net settlement:			
Oil price option	\$ (186,685)	\$ -	\$ -
TRS	-	-	5,219
Gross settlement:			
Currency/interest rate swaps:			
Inflows	8,901	22,478	216,427
Outflows	(6,821)	(20,336)	(215,286)
	<u>\$ (184,605)</u>	<u>\$ 2,142</u>	<u>\$ 6,360</u>

2013

Classification	Korean won		
	Within 1 year	1-2 years (In millions)	More than 2 years
Net settlement:			
Oil price option	₩ 2,089	₩ -	₩ -
Currency option	303	-	-
TRS	(25,139)	-	-
Gross settlement:			
Currency/interest rate swaps:			
Inflows	17,436	9,913	262,726
Outflows	(19,809)	(7,295)	(249,403)
	<u>₩ (25,120)</u>	<u>₩ 2,618</u>	<u>₩ 13,323</u>

Classification	Translation into U.S. dollars (Note 2)		
	Within 1 year	1-2 years (In thousands)	More than 2 years
Net settlement:			
Oil price option	\$ 1,900	\$ -	\$ -
Currency option	276	-	-
TRS	(22,871)	-	-
Gross settlement:			
Currency/interest rate swaps:			
Inflows	15,863	9,019	239,016
Outflows	(18,022)	(6,636)	(226,895)
	<u>\$ (22,854)</u>	<u>\$ 2,383</u>	<u>\$ 12,121</u>

(6) Reclassification of financial assets

There are no financial assets that have been reclassified due to the change of use or purpose of them during the current period.

**41. FAIR VALUE OF FINANCIAL INSTRUMENTS:**

- (1) Financial instruments that are measured subsequent to initial recognition at fair value are categorized into Level 1 to Level 3 and fair value measurements of financial instruments by fair value hierarchy level as of December 31, 2014 and 2013 are as follows:

2014

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩ 134,360	₩ -	₩ -	₩ 134,360
Unlisted securities	-	-	20,535	20,535
Beneficiary certificates	-	5,000	-	5,000
Derivative financial assets	-	5,446	-	5,446
	<u>₩ 134,360</u>	<u>₩ 10,446</u>	<u>₩ 20,535</u>	<u>₩ 165,341</u>
Derivative financial liabilities	<u>₩ -</u>	<u>₩ 205,680</u>	<u>₩ -</u>	<u>₩ 205,680</u>

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	\$ 122,234	\$ -	\$ -	\$ 122,234
Unlisted securities	-	-	18,681	18,681
Beneficiary certificates	-	4,549	-	4,549
Derivative financial assets	-	4,955	-	4,955
	<u>\$ 122,234</u>	<u>\$ 9,504</u>	<u>\$ 18,681</u>	<u>\$ 150,419</u>
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 187,118</u>	<u>\$ -</u>	<u>\$ 187,118</u>

2013

Classification	Korean won			
	Level 1	Level 2	Level 3	Total
	(In millions)			
AFS:				
Listed securities	₩ 140,004	₩ -	₩ -	₩ 140,004
Unlisted securities	-	-	22,116	22,116
Derivative financial assets	-	7,869	-	7,869
	<u>₩ 140,004</u>	<u>₩ 7,869</u>	<u>₩ 22,116</u>	<u>₩ 169,989</u>
Derivative financial liabilities	<u>₩ -</u>	<u>₩ 32,960</u>	<u>₩ -</u>	<u>₩ 32,960</u>

Classification	Translation into U.S. dollars (Note 2)			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
AFS:				
Listed securities	\$ 127,369	\$ -	\$ -	\$ 127,369
Unlisted securities	-	-	20,121	20,121
Derivative financial assets	-	7,159	-	7,159
	<u>\$ 127,369</u>	<u>\$ 7,159</u>	<u>\$ 20,121</u>	<u>\$ 154,649</u>
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 29,985</u>	<u>\$ -</u>	<u>\$ 29,985</u>

There is no significant movement between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

- (2) The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.

- (3) The following table gives information about how the fair values of financial instruments categorized into Levels 2 and 3 are determined, in particular the valuation techniques and relationship of significant unobservable inputs to fair value.

Description	Fair value		Valuation techniques	Significant unobservable inputs	Range	Description of relationships
	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)				
Derivative financial assets (Note 27)	₩ 5,446	\$ 4,955	DISCOUNTED CASH FLOW	N/A	N/A	N/A
Derivative financial liabilities (Note 27)			The fair value of derivatives is measured at the amount discounted at the appropriate discount rate for future cash flows of the derivative instruments, which are estimated on the basis of lead interest rates, exchange rates and oil price based on the applicable yield curves derived from interest rates, exchange rates, oil price and others disclosed in the market at the end of the reporting period.			
Unlisted securities (Note 8)	205,681	187,118	DISCOUNTED CASH FLOW	Sales growth rate	2.06%–13.02% (4.83%)	Fair value of non-listed shares will increase if the weighted-average cost of capital is reduced along with the increase of pretax operating margin and sales growth rate.
			Weighted-average cost of capital discount rate that is used to measure the fair value of non-listed shares is estimated by the weighted-average, after-tax, outside capital cost; capital cost estimates of the share value beta, reflected for the purpose of the issuer of the shares; and capital structure based on the equity beta of comparable public companies that have been derived based on the CAPM.	Pretax operating income ratio	(1.21)%–26.40% (16.80%)	
	20,002	18,196	NET ASSET VALUATION METHOD	Weighted-average cost of capital	7.83%–25.42% (9.38%)	
				N/A	N/A	N/A
Beneficiary certificates (Note 8)	533	485	The value of the Company is measured by summing up adjusted fair value of each individual assets and liabilities.	N/A	N/A	N/A
	5,000	4,549				

- (4) The changes in financial instruments that are measured at fair value on a recurring basis and classified as Level 3 for the year ended December 31, 2014 are as follows.

Classification	Korean won			
	Beginning balance	Income or loss	Other comprehensive income	Ending balance
(In millions)				
AFS: Unlisted securities (*1)	₩ 22,116	₩ (293)	₩ (1,288)	₩ 20,535
Translation into U.S. dollars (Note 2)				
Classification	Beginning balance	Income or loss	Other comprehensive income	Ending balance
(In thousands)				
AFS: Unlisted securities (*1)	\$ 20,121	\$ (267)	\$ (1,173)	\$ 18,681

- (\*1) The amount recognized in income or loss occurred due to impairment loss, and it is included in other non-operating expenses. In addition, the amount recognized in other comprehensive income is recognized as changes in AFS financial assets.
- (5) The Group recognizes transfers between levels of the fair value hierarchy at the time of the event or change in circumstances that caused the transfer. In addition, there is no change of the valuation techniques that have been used to measure the fair value of financial instruments classified as Level 2 and Level 3 for the year ended December 31, 2014.
- (6) Though principle of subsequent measurement to financial assets and liabilities is fair value, the Group could not measure reliable fair value. The list and amount of financial assets and liabilities which do not have disclosed fair value information are as follows:

Category	Description (*1)	Korean won		Translation into U.S. dollars (Note 2)	
		2014	2013	2014	2013
		(In millions)		(In thousands)	
AFS financial assets	Unlisted securities and equity investment	₩ 47,591	₩ 51,186	\$ 43,296	\$ 46,565
	Corporate bond	6	3,003	6	2,732
		₩ 47,597	₩ 54,189	\$ 43,302	\$ 49,297

- (\*1) AFS financial assets are issued by non-listed companies in early stages of business. They are measured at cost because it is hard to obtain reliable financial information required for the measurement of fair value, or even if the financial information is obtained, the range of fair value measurements is significant, and it is impossible to reliably evaluate the occurrence probability of various estimates.

#### 42. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

- (1) The list of related parties of the Group as of December 31, 2014 and 2013 is as follows:

Relationship	Related parties
Significant influence over a company	Hanjin KAL Co., Ltd. (*1)
Associates	Grandstar Cargo Int'l Airlines Co., Ltd., EIGHTCITY Co., Ltd., S-Oil Corp. (*2), Czech Airlines j.s.c., Eusu Holdings Co., Ltd.(formerly, Hanjin Shipping Holdings Co., Ltd.) (*3), Hanjin Shipping Co., Ltd., etc.
Other related parties	Hanjin Transportation Co., Ltd., Topas Co., Ltd., KAL Hotel Network Co., Ltd., Hanjin Travel Service Co., Ltd., Jungseok Enterprise Co., Ltd., Jedong Leisure Co., Ltd., Jin Air Co., Ltd., Cyber Sky Co., Ltd., Uniconverse Co., Ltd., Jungseok-Inha school's foundation, Terminal One Management Inc., etc.

(\*1) It was reclassified as significant influence over a company for the years ended December 31, 2014.

(\*2) It was reclassified from associates to assets held for sale for the years ended December 31, 2014 and classified as investments in associates before the reclassification.

(\*3) It was disposed for the year ended December 31 2014 and classified as associates before the disposal.

(2) Significant transactions with related parties (except for treasury and equity transactions) for the years ended December 31, 2014 and 2013 are as follows:

2014

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
<i>Significant influence over a company</i>	Hanjin KAL Co., Ltd.	₩ 38	₩ 7,729
<i>Associates</i>	S-Oil Corp.	166	554,283
	Czech Airlines j.s.c.	31,125	21,401
	Air Korea Co., Ltd.	138	34,299
	Others	936	26
<i>Other related parties</i>	Hanjin KAL Co., Ltd.	52	23,344
	Jin Air Co., Ltd.	113,653	1,067
	Topas Co., Ltd.	26,514	23,362
	KAL Hotel Network Co., Ltd.	27,268	30,436
	Hanjin Travel Service Co., Ltd.	1,091	5,560
	Jungseok Enterprise Co., Ltd.	312	1,979
	Hanjin Transportation Co., Ltd.	12,381	41,300
	Cyber Sky Co., Ltd.	248	3,801
	Jungseok-Inha school's foundation	7	6,302
	Uniconverse Co., Ltd.	1,557	19,264
	Others	1,662	4,266

Description		Translation into U.S. dollars (Note 2)	
		Sales and others	Purchases and others
		(In thousands)	
<i>Significant influence over a company</i>	Hanjin KAL Co., Ltd.	\$ 34	\$ 7,031
<i>Associates</i>	S-Oil Corp.	151	504,260
	Czech Airlines j.s.c.	28,316	19,470
	Air Korea Co., Ltd.	126	31,203
	Others	851	24
<i>Other related parties</i>	Hanjin KAL Co., Ltd.	48	21,237
	Jin Air Co., Ltd.	103,396	971
	Topas Co., Ltd.	24,121	21,254
	KAL Hotel Network Co., Ltd.	24,807	27,689
	Hanjin Travel Service Co., Ltd.	992	5,058
	Jungseok Enterprise Co., Ltd.	284	1,800
	Hanjin Transportation Co., Ltd.	11,264	37,573
	Cyber Sky Co., Ltd.	225	3,458
	Jungseok-Inha school's foundation	6	5,733
	Uniconverse Co., Ltd.	1,416	17,525
	Others	1,512	3,881

2013

Description		Korean won	
		Sales and others	Purchases and others
		(In millions)	
<i>Associates and jointly controlled entities</i>	S-Oil Corp.	₩ 1,723	₩ 534,281
	Hanjin Transportation Co., Ltd.	6,277	20,586
	Czech Airlines j.s.c.	13,597	10,495
	Others	162	13,770
<i>Other related parties</i>	Cyber Sky Co., Ltd.	352	3,468
	Hanjin KAL Co., Ltd.	243	13,506
	Jin Air Co., Ltd.	51,851	447

Description	Korean won	
	Sales and others	Purchases and others
	(In millions)	
Topas Co., Ltd.	16,901	15,645
KAL Hotel Network Co., Ltd.	15,121	19,966
Hanjin Travel Service Co., Ltd.	324	1,815
Jungseok Enterprise Co., Ltd.	203	1,035
Hanjin Transportation Co., Ltd.	5,338	17,733
Jungseok-Inha school's foundation	2,286	7,509
Uniconverse Co., Ltd.	1,595	16,357
Others	1,959	2,351

Description	Translation into U.S. dollars (Note 2)	
	Sales and others	Purchases and others
	(In thousands)	
<i>Associates and jointly controlled entities</i>	\$	\$
S-Oil Corp.	1,567	486,063
Hanjin Transportation Co., Ltd.	5,711	18,728
Czech Airlines j.s.c.	12,370	9,548
Others	148	12,528
<i>Other related parties</i>		
Cyber Sky Co., Ltd.	321	3,155
Hanjin KAL Co., Ltd.	221	12,288
Jin Air Co., Ltd.	47,172	407
Topas Co., Ltd.	15,375	14,233
KAL Hotel Network Co., Ltd.	13,756	18,164
Hanjin Travel Service Co., Ltd.	295	1,651
Jungseok Enterprise Co., Ltd.	185	942
Hanjin Transportation Co., Ltd.	4,857	16,133
Jungseok-Inha school's foundation	2,080	6,831
Uniconverse Co., Ltd.	1,451	14,881
Others	1,782	2,139

(3) Significant receivables from and payables to the related parties (except for loan and borrowing transaction) as of December 31, 2014 and 2013 are as follows:

2014

Description	Korean won	
	Trade and other receivables	Trade and other payables
	(In millions)	
<i>Significant influence over a company</i>	₩	₩
Hanjin KAL Co., Ltd.	2,214	6,682
<i>Associates</i>		
S-Oil Corp.	-	32,020
Czech Airlines j.s.c.	848	7,530
Hanjin Shipping Co., Ltd. (*1)	340	-
Others	7	-
<i>Other related parties</i>		
Jin Air Co., Ltd.	20,860	17,235
Topas Co., Ltd.	4,344	3,125
KAL Hotel Network Co., Ltd.	3,982	2,948
Hanjin Travel Service Co., Ltd.	291	1,437
Jungseok Enterprise Co., Ltd.	412	9
Hanjin Transportation Co., Ltd.	1,870	6,291
Cyber Sky Co., Ltd.	18	345
Uniconverse Co., Ltd.	235	3,239
Others	250	271

Description	Translation into U.S. dollars (Note 2)	
	Trade and other	Trade and other payables

		receivables	
		(In thousands)	
<i>Significant influence over a company</i>	Hanjin KAL Co., Ltd.	\$ 2,014	\$ 6,079
<i>Associates</i>	S-Oil Corp.	-	29,130
	Czech Airlines j.s.c.	771	6,850
	Hanjin shipping Co., Ltd. (*1)	309	-
	Others	6	-
<i>Other related parties</i>	Jin Air Co., Ltd.	18,977	15,680
	Topas Co., Ltd.	3,952	2,843
	KAL Hotel Network Co., Ltd.	3,623	2,682
	Hanjin Travel Service Co., Ltd.	265	1,307
	Jungseok Enterprise Co., Ltd.	375	8
	Hanjin Transportation Co., Ltd.	1,702	5,723
	Cyber Sky Co., Ltd.	17	314
	Uniconverse Co., Ltd.	214	2,946
	Others	227	247

(\*1) It was reclassified from other related parties to associates for the years ended December 31, 2014.

2013

		Korean won	
		Trade and other receivables	Trade and other payables
Description		(In millions)	
<i>Associates and jointly controlled entities</i>	S-Oil Corp.	₩ -	₩ 36,036
	Czech Airlines j.s.c.	-	3,876
	Eusu Holdings Co., Ltd.(formerly, Hanjin Shipping Holdings Co., Ltd.)	2	-
	Others	17	2,840
<i>Other related parties</i>	Hanjin KAL Co., Ltd.	2,381	12,730
	Jin Air Co., Ltd.	21,030	13,126
	Topas Co., Ltd.	6,196	5,367
	KAL Hotel Network Co., Ltd.	4,111	3,786
	Hanjin Travel Service Co., Ltd.	65	1,855
	Jungseok Enterprise Co., Ltd.	413	2,749
	Hanjin Transportation Co., Ltd.	1,776	6,730
	Cyber Sky Co., Ltd.	31	585
	Jungseok-Inha school's foundation	658	-
	Uniconverse Co., Ltd.	240	1,770
	Others	506	1,026
		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
Description		(In thousands)	
<i>Associates and jointly controlled entities</i>	S-Oil Corp.	\$ -	\$ 32,784
	Czech Airlines j.s.c.	-	3,526
	Eusu Holdings Co., Ltd.(formerly, Hanjin Shipping Holdings Co., Ltd.)	2	-
	Others	15	2,583

Description		Translation into U.S. dollars (Note 2)	
		Trade and other receivables	Trade and other payables
(In thousands)			
<i>Other related parties</i>	Hanjin KAL Co., Ltd.	2,166	11,581
	Jin Air Co., Ltd.	19,132	11,942
	Topas Co., Ltd.	5,637	4,883
	KAL Hotel Network Co., Ltd.	3,740	3,444
	Hanjin Travel Service Co., Ltd.	60	1,688
	Jungseok Enterprise Co., Ltd.	376	2,500
	Hanjin Transportation Co., Ltd.	1,615	6,123
	Cyber Sky Co., Ltd.	28	533
	Jungseok-Inha school's foundation	599	-
	Uniconverse Co., Ltd.	218	1,610
	Others	461	934

(4) Loan and borrowing transactions with related parties for the years ended December 31, 2014 and 2013 are as follows:

2014

Account	Beginning balance	Increase	Decrease	Ending balance	
					(In millions of Korean won)
Associates:					
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*1)	Short-term loans	₩ 250,000	₩ -	₩ (250,000)	₩ -
Hanjin Shipping Co., Ltd. (*1)	Short-term loans	-	250,000	(30,000)	220,000

(\*1) Hanjin Shipping Co., Ltd. merged trademark management segment and shipping holdings segment of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.), which was spun off for the years ended December 31, 2014 and as a result, Hanjin Shipping Co., Ltd. succeeded borrowings amounting to ₩250 billion (\$227 million) that Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) had charged before spin-off and merger, and repayed ₩30 billion (\$27 million) on December 16, 2014. The Company has received 13,800,000 shares of Hanjin Shipping Co., Ltd., four ships, 2,336,316 shares of H-Line Co., Ltd and overseas property (appraised value ₩40 billion) from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) as collateral in relation to borrowings that Hanjin Shipping Co., Ltd. succeeded. Interest incomes in relation to Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) and Hanjin Shipping Co., Ltd. for years ended December 31, 2014 are ₩5,585 million (\$5,081 thousand) and ₩8,091 million (\$7,361 thousand), respectively, and interest receivables in relation to Hanjin Shipping Co., Ltd. as of December 31, 2014 are ₩2,242 million (\$2,040 thousand).

2013

Account	Beginning balance	Increase	Decrease	Ending balance	
					(In thousands)
Associates and jointly controlled entities:					
Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (*1)	Short-term loans	₩ -	₩ 250,000	₩ -	₩ 250,000
Grandstar Cargo	Short-term loans	\$ 6,080,000	\$ -	\$ (6,080,000)	\$ -
International Airlines Co., Ltd.	Allowance for doubtful accounts	\$ 6,080,000	\$ -	\$ (6,080,000)	\$ -

(\*1) Interest income and interest receivable for the year ended December 31, 2013 are ₩1,405 million (\$1,278 thousand), and the Company has received 30,109,771 shares of Hanjin Shipping Co., Ltd., and Yoido building (maximum amount receivable ₩95 billion) from Eusu Holdings Co., Ltd.(formerly, Hanjin Shipping Holdings Co., Ltd.) as collateral. In addition, the Company established a pledge right to the loans that Eusu Holdings Co., Ltd.(formerly, Hanjin Shipping Holdings Co., Ltd.) lent to Hanjin Shipping Co., Ltd.

(5) Stock tradings with special relevant parties for the year ended December 31, 2013 are as follows:

2014

Description	Company	Transaction	Translation into	
			Korean won (In millions)	U.S. dollars (Note 2) (In thousands)
Investments	Hanjin Shipping Co., Ltd.	Paid-in capital increase	₩ 400,000	\$ 363,901
Merger division	Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.)	Decrease due to the merger division (*1)	-	-
	Hanjin Shipping Co., Ltd.	Increase due to the merger division (*1)	73,533	66,896
Disposal of investment securities	Relatives of key executives	Disposal of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) securities	(13,913)	(12,658)
	Jungseok Enterprise Co., Ltd.	Disposal of Hanjin Transportation Co., Ltd. securities	(12,310)	(11,199)
		Disposal of Jungseok Enterprise Co., Ltd. securities	(1,566)	(1,425)
Purchase of investment securities	Jungseok Enterprise Co.,Ltd	Purchase of Air Korea Co., Ltd. securities	2,023	1,840
	Hanjin Transportation Co., Ltd.		2,023	1,840

(\*1) Hanjin Shipping Co., Ltd. merged trademark management and shipping holdings business sector of Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) which was spun off for the year ended December 31, 2014 and as a result, 8,431,450 shares of Eusu Holdings Co., Ltd. (formerly, old Hanjin Shipping Holdings Co., Ltd.) have been replaced with 12,174,256 shares of Hanjin Shipping Co., Ltd.

2013

Description	Company	Transaction	Translation into	
			Korean won (In millions)	U.S. dollars (Note 2) (In thousands)
Merger	Hanjin Transportation Co., Ltd. (*1)	Increase due to merger (*2)	₩ 3,684	\$ 3,352
Purchase of investment securities	Czech Airlines j.s.c.	Stock purchase	₩ 3,905	\$ 3,552

(\*1) Reclassified to other related parties from the associates due to the spin-off.

(\*2) Increase was due to the merger of Hanjin Travel Service Co., Ltd.'s investment division.

(6) The remuneration of registered and unregistered directors for the years ended December 31, 2014 and 2013 is as follows:

Transactions	Translation into			
	Korean won		U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Employee benefits	₩ 4,385	₩ 4,208	\$ 3,989	\$ 3,828
Post-employment benefits	2,605	1,808	2,370	1,645
	₩ 6,990	₩ 6,016	\$ 6,359	\$ 5,473

(7) Guarantees, which the Group has provided for related parties as of December 31, 2014 consist of the following (in millions of Korean won and in thousands of U.S. dollars and ChinaYuan):

Transaction	Currency	Guaranteed amount	Financial institutions	Description
Jungseok Enterprise Co., Ltd.	KRW	20,199	Korea Exchange	Guaranteed loans (*1)
Hanjin Transportation Co., Ltd.	KRW	30,220	Bank and others	
Hanjin Heavy Industries & Construction Holdings Co., Ltd.	KRW	12,842	Korea Development Bank and others	Others
Grandstar Cargo International Airlines Co., Ltd.	USD	14,641	Bank of China	
	USD	1,945	Woori Bank	
	CNY	46		
	USD	3,831	Korea Exchange	
	CNY	2,940	Bank	
	KRW	63,261		
	USD	20,417		
	CNY	2,986		

(\*1) Related to guaranteed loans as of December 31, 2014, Jungseok Enterprise Co., Ltd., Hanjin Transportation Co., Ltd. and Hanjin Heavy Industries & Construction Holdings Co., Ltd. also have guaranteed payment for the same amount.

(8) Guarantees that have been provided to the Group by related parties as of December 31, 2014 are as follows:

Financial institutions	Korean won					Hanjin Heavy Industries & Construction Holdings
	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*1)		
	(In millions)					
KDB	₩ 11,770	₩ 15,301	₩ 15,301	₩ 15,301	₩ 15,301	₩ 15,301
Korea Exchange Bank	19,168	24,918	24,918	24,918	24,918	24,918
Woori Bank and others	15,533	18,589	18,589	18,859	18,589	18,589
	₩ 46,471	₩ 58,808	₩ 58,808	₩ 59,078	₩ 58,808	₩ 58,808

Financial institutions	Translation into U.S. dollars (Note 2)					Hanjin Heavy Industries & Construction Holdings
	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*1)		
	(In thousands)					
KDB	\$ 10,708	\$ 13,920	\$ 13,920	\$ 13,920	\$ 13,920	\$ 13,920
Korea Exchange Bank	17,438	22,669	22,669	22,669	22,669	22,669

Financial institutions	Translation into U.S. dollars (Note 2)					Hanjin Heavy Industries & Construction Holdings
	Guaranteed amounts	Jungseok Enterprise Co., Ltd.	Hanjin Transportation Co., Ltd.	Hanjin Shipping Co., Ltd. (*1)		
	(In thousands)					
Woori Bank and others	14,132	16,911	16,911	17,157	16,911	16,911
	\$ 42,278	\$ 53,500	\$ 53,500	\$ 53,746	\$ 53,500	\$ 53,500

(\*1) Since Hanjin Shipping Co., Ltd. (the new company) was spun off from Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.) (the surviving company) on December 1, 2009, Eusu Holdings Co., Ltd. (formerly, Hanjin Shipping Holdings Co., Ltd.), jointly provides a guarantee for the long-term liabilities that were assumed by the companies above. Financial instruments of Hanjin Shipping Co., Ltd. amounting to ₩34,750 million (\$31,614 thousand) were provided as collateral for guaranteed loans of the Company, Korea Airport Service Co., Ltd. and others (guaranteed loans of the Group amounting to ₩19,984 million (\$18,180 thousand)) to the KDB and two other financial institutions.

- (9) The Company and Korea Airport Service Co., Ltd. have entered into an agreement to participate in the recapitalization of Hanjin Energy Co., Ltd. through additional capital injection or subordinated loans if Hanjin Energy Co., Ltd. is unable to repay its loans. The Company and Korea Airport Service Co., Ltd. provided as a collateral to Hana Bank for 34,000 shares and 1,200 shares for Hanjin Energy Co., Ltd.
- (10) As of December 31, 2014, the Company entered into an agreement that the Company should take over the outstanding balance related to Asset-Backed Loan/Asset-Backed Bond issued with an underlying asset (hybrid bond issued by Hanjin Shipping Co., Ltd.) after three years and one month from the date of issue and the Company has also entered into contract for differences related to the difference between sale price of the underlying assets and settlement basis price with investors.

#### 43. NON-CASH TRANSACTIONS:

The significant non-cash transactions from investment and financing activities that are not included in the consolidated statements of cash flows for the years ended December 31, 2014 and 2013 are as follows:

Description	Korean won	
	2014	2013
	(In millions)	
Transfer of long-term borrowings to current portion of long-term borrowings	₩ 2,193,557	₩ 2,671,638
Transfer of debentures to current portion of debentures	704,529	1,586,735
Transfer of obligation under finance leases to current portion of obligation under finance leases	1,070,673	909,738
Increase in revaluation surplus	-	423,661
Transfer of construction in property, aircraft and equipment, etc.	1,864,617	2,310,445
Transfer between property, aircraft and equipment and investment properties	94,930	26,010
Acquisition of financial lease assets	1,388,034	1,400,797
Acquisition of property, aircraft and equipment by non-trade payables	37,416	3,135
Transfer of obligation under finance leases to investment in direct financing leases	12,175	-
	Translation into U.S. dollars (Note 2)	
Description	2014	2013
	(In thousands)	
Transfer of long-term borrowings to current portion of long-term borrowings	\$ 1,995,594	\$ 2,430,530
Transfer of debentures to current portion of debentures	640,947	1,443,537
Transfer of obligation under finance leases to current portion of obligation under finance leases	974,048	827,636
Increase in revaluation surplus	-	385,427
Transfer of construction in property, aircraft and equipment, etc.	1,696,340	2,101,933
Transfer between property, aircraft and equipment and investment properties	86,363	23,662
Acquisition of financial lease assets	1,262,768	1,274,379
Acquisition of property, aircraft and equipment by non-trade payables	34,039	2,852
Transfer from obligation under finance leases to investment in direct financing leases	11,076	-

#### 44. COMMITMENTS AND CONTINGENCIES:

(1) The guarantee provided as of December 31, 2014 is as follows (in millions of Korean won and in thousands of U.S. dollars):

Financial institution	Currency	Guaranteed amount	Details
Seoul Guarantee Insurance Co., Ltd.	KRW	2,553	Bids, performance, maintenance, payment guarantee and others
Korea Defense Industry Association	KRW	807,401	
HSBC Australia and others	KRW	13,877	
Engineering Financial Cooperative	KRW	50,049	
Korea Software Financial Cooperative	KRW	16,727	
Information & Communication Financial Cooperative	KRW	88	
BBCN BANK	USD	4,146	

As of December 31, 2014, the Group is provided with guarantees amounting to ₩16,007 million (\$14,562 thousand) by Seoul Guarantee Insurance Company in relation to the restoration of forest due to the production of limestone and \$3,000 thousand by Hana Bank in connection with the purchase of equipment.

(2) The Company provides a guarantee of ₩4,596 million (\$4,181 thousand) in relation to the personal loan of flight-training-center trainees.

(3) Credit line and details of credit agreements as of December 31, 2014 are as follows (in millions of Korean won and in thousands of U.S. dollars):

Description	Financial institutions	Currency	Limit
Credit line agreement	Hana Bank and others	USD	90,000
		KRW	290,000
Letters of credit	KDB and others	USD	83,235
		KRW	290,000
		USD	173,235

(4) As of December 31, 2014, the Company has an outstanding promissory note pledged as collateral to the Korea Defense Industry Association.

(5) With regard to the alleged antitrust violation relating to the Company and other parties colluding on price fixing for air cargo services, the Company made a plea to the U.S. Department of Justice on August 1, 2007, for the payment of fines totaling \$300,000 thousand to be paid in annual installments. Accordingly, the Company made fine payments of \$200,000 thousand since 2007 and the rest will be paid by 2016 under an agreement with U.S. Department of Justice. The amounts of ₩54,960 million (\$50,000 thousand) and ₩54,960 million (\$50,000 thousand) are included in non-trade payables and non-current non-trade payables, respectively, as of December 31, 2014.

The Company settled with the plaintiff to pay \$115,000 thousand in the class action lawsuit filed with the U.S. court. The Company made payments of \$53,500 thousand for the year ended December 31, 2014, and the amounts of ₩40,121 million (\$36,500 thousand) and ₩27,480 million (\$25,000 thousand) are included in non-trade payables and long-term non-trade payables, respectively. In addition, the Company recognizes the coupon for passenger flight tickets amounting to \$26,000 thousand (₩27,521 million) as a provision.

As of December 31, 2014, various claims, lawsuits and complaints arising from airline service operations are pending against the Company and the ultimate outcome of these cases are unpredictable. Management believes that the ultimate outcome of these cases will not have any material adverse effect on the financial performance and position of the Company.

Also, the person in charge of funds that had managed the investments in affiliates of Korea Airport Service Co., Ltd. during 2004 and 2005 (resigned in October 2005) withdrew the investments in affiliates and realized a profit through trading stocks continually. The Korean tax authority regarded stock trading as trading on the level of Korea Airport Service Co., Ltd. and imposed corporate tax and gift tax amounting to ₩27,018 million (\$24,580 thousand) and ₩18,003 million (\$16,378 thousand), respectively on stock trading profits, etc. And Korea Airport Service Co., Ltd. paid corporate tax and gift tax imposed and recognized non-trade receivables for the year ended December 31, 2014.

Meanwhile, the person in charge of funds was indicted on a charge of embezzlement and he was convicted in the first trial and the case was dismissed in the second and third trial. As a result of tracing account of the prosecution, it was verified that the stock trading profit that caused tax imposition was not deposited to the Korea Airport Service Co., Ltd. but the person in charge of funds used it personally.

Korea Airport Service Co., Ltd. requested a tax judgment to the Tax Tribunal in relation to the above imposition of the corporate tax and gift tax and expects it is certain that the disposition of tax imposition on the premise that the stock trading made at the level of Korea Airport Service Co., Ltd. might be canceled.

(6) The Group has entered into various contracts with manufacturers such as the Boeing Company to purchase aircraft. The amount of such contracts is approximately \$7,043 million as of December 31, 2014.

(7) Operating lease contracts

a) Operating lease usage

As of December 31, 2014, the Company has entered into operating lease agreements to lease 19 aircraft and certain aircraft parts from International Lease Finance Corporation, Gecas Technical Services Ltd. and other lessors. The Company has also entered into an operating lease agreement for using the cargo terminal at JFK International Airport in the United States with the New York City Industrial Development Agency (“IDA”).

The schedule of lease payments as of December 31, 2014 is as follows:

Period	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
2015.1.1–2015.12.31	₩ 109,633	\$ 99,739
2016.1.1–2016.12.31	103,714	94,354
2017.1.1–2017.12.31	74,691	67,950
2018.1.1–2018.12.31	66,564	60,557
2019.1.1–2019.12.31	63,925	58,156
Thereafter	80,336	73,086
	₩ 498,863	\$ 453,842

KDB has provided a guarantee of \$27 million for the aircraft operating lease agreements and in accordance with IDA operating lease contract, provided a guarantee up to \$56 million for opening letters of credit with Kookmin Bank to the Company.

The Group has entered into operating lease agreements to lease business computing equipment from Macquarie Finance Korea Ltd. The schedule of lease payments as of December 31, 2014 is as follows:

Period	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
2015. 1. 1–2015. 12. 31	₩ 1,334	\$ 1,213
2016. 1. 1–2016. 12. 31	321	293
2017. 1. 1–2017. 12. 31	133	121
	₩ 1,788	\$ 1,627

b) Provision of operating lease

The Company has entered into operating lease agreements to lease 10 aircraft and certain aircraft parts to Jin Air Co., Ltd. and others. The schedule of lease collection on this agreement is as follows:

Period	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
2015. 1. 1–2015. 12. 31	₩ 39,341	\$ 35,791
2016. 1. 1–2016. 12. 31	16,697	15,190
2017. 1. 1–2017. 12. 31	2,643	2,404
	<u>₩ 58,681</u>	<u>\$ 53,385</u>

(8) The Company and four other airlines, including Air France, entered into a joint usage agreement with the JFK Airport in New York and established Terminal One Group Association (“TOGA”) to use the new terminal one of JFK Airport. TOGA may have to repay IDA bond based on terminal lease revenue, and they have provided a joint guarantee (\$259 million) for each terminal usage fee.

(9) The Company has entered into an agreement to improve its financial structure through disposal of aircrafts and engines, etc. with KDB on June 26, 2014.

(10) The main agreements that the Group has entered into are as follows:

1) Korea Airport Service Co., Ltd. (“KAS”) is granted the right to use the facilities of Gimpo International Airport since 2001 by the Korea Airports Authority (“KAA”), a government authority responsible for the management and operation of Korea’s airports. KAS used the contributed facilities free of charge for 20 years. The property value of the contributed facilities at the date of contribution is accounted for as a facilities usage right and is amortized over 20 years. KAS recognizes the amount of amortization as an expense when incurred.

KAS has also contributed certain ground-handling facilities constructed by KAS at the Incheon International Airport in accordance with the agreement with the Ministry of Construction and Transportation dated March 9, 2001, in exchange for facilities usage rights for those facilities for 20 years. On October 16, 1999, KAS was granted a free usage right for additional contributed facilities for 12 years in accordance with an agreement with Incheon International Airport Foreign Carrier Cargo Terminal Co., Ltd.

2) The Group has entered into an agreement to participate in the recapitalization of Hanjin Energy Co., Ltd. through additional capital injection or subordinated loans if Hanjin Energy Co., Ltd. is unable to repay its loans (short-term borrowings of ₩1,066,212 million (\$969,989 thousand)). Such loans were borrowed by Hanjin Energy Co., Ltd. from three financial institutions, including Hana Bank.

Hanjin Energy Co., Ltd. cannot pay dividend except for stock dividend and cannot reduce its capital until the redemption of the full amount of the loan on the basis of the agreement.

The shareholders of Hanjin Energy Co., Ltd. can transfer shares to the affiliates belonging to the corporate group including the Company and Hanjin Energy Co., Ltd., but the Company must maintain more than 67% shareholding of Hanjin Energy Co., Ltd. under any circumstances on the basis of the agreement.

3) Major contingencies of WLD Co., Ltd. are described as follows:

On March 30, 2011, WLD Co., Ltd. entered into an agreement regarding “Wang San Marina business” with Incheon and Yongyu-mueui Project Management Co., Ltd. Details of the agreement are as follows:

Description	Details of agreement
Location:	143 Eurwang-dong, Jung-gu, Incheon, Korea
Amount of total investment:	Approximately ₩160 billion (\$146 million)
Business content:	Business for construction of yacht tournament course that is scheduled to be held in 2014 Incheon Asia Games
Support of government:	Depending on the construction progress, to receive government financial support from the Incheon Metropolitan City (₩16.7 billion (\$15.2 million))

WLD CO., Ltd. is to construct Wang San Marina business, including yacht tournament course for 2014 Incheon Asian Games, in a timely manner and cooperate successful holding and operation of yacht tournament course for the 2014 Incheon Asian Games, and must invest the rest of the amount, excluding Wang San Marina operating expenses, that is with government grants, freeway road costs that will be opened by the government and other infrastructure costs. WLD CO., Ltd. may acquire business reclamation sites that are public sites for composition cost or below that amount and is provided operating right for at least 30 years after constructing facilities.

Meanwhile, the Company made a commitment under paid-in capital increase with Korea Development Bank in order to secure repayment of WLD Co., Ltd.'s debt borrowed (amount of ₩79,900 million (\$72,689 thousand)) from Korea Development Bank in case WLD Co., Ltd., has insufficient funds to repay the principal and interests. If WLD Co., Ltd. makes a borrowing from Korea Development Bank, it has been set for pledging-related deposits, assigning collateral and collateralizing securities of land and building for this business to acquire.

4) On June 30, 2011, IAT Co., Ltd. entered into an agreement with Korea Land & Housing Corporation and Incheon Development & Tourism Corporation about a project related to the "Attraction of Incheon Free Economic Zone, Yeongjong Sky City Airways Airplane Engine Maintenance Centre." Major terms of the agreement include investment of ₩120 billion (\$109 million) by the IAT Co., Ltd., for construction of an Airplane Engine Maintenance Centre and acquisition of related land located at 779-11 Unbuk-dong, Jung-gu, Incheon, Korea. Meanwhile, IAT Co., Ltd. shall not provide land, etc., for collateral or guarantee, for a period of five years from the date it first entered into an agreement for land (in July 2011), which is recognized in construction in process as of December 31, 2014. In addition, IAT Co., Ltd. shall not dispose or rent out to third parties for the period of five years after transfer of ownership.

Finally, IAT Co., Ltd. shall maintain the portion of its foreign investors' ownership to be higher than 10% for at least five years after the engagement date, under the Foreign Direct Investment Policy.

As of December 31, 2014, issued preferred shares of subsidiary as cumulative and non-participative preferred shares will be converted proportionately for one common stock per one preferred stock after five years and six months (conversion date) from the date of acquiring land. However, 6% of dividend is guaranteed for preferred shareholders until the conversion date, and, in the case of dividend in arrears, preferred shareholders have a right to refuse conversion until the dividend in arrears is paid. In accordance with the ones described above, the subsidiary classifies the amount asked by preferred shareholders at conversion date as a finance liability, which is discounted for present value.

Meanwhile, after five years from the first acquisition date of land, the Company has a call option for six months to buy the preferred shares held by United Technologies International Corporation-Asia Private Ltd, a preferred shareholder of Incheon Aviation Tech Co., Ltd. and the preferred shareholder of Incheon Aviation Tech Co., Ltd. also has a put option to sell the preferred shares to the Company during the period.

#### **45. THE AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK AND THE AMOUNT DUE TO CUSTOMERS FOR CONTRACT WORK:**

(1) Changes in contract work for the years ended as of December 31, 2014 and 2013 are as follows:

		Korean won			
		Beginning balance	Increase (decrease) (*1)	Recognition of contract revenue	Ending balance
		(In millions)			
2014	₩	3,794,774	₩ 399,713	₩ 789,449	₩ 3,405,038
2013		4,110,440	314,337	630,003	3,794,774
		Translation into U.S. dollars (Note 2)			
		Beginning balance	Increase (decrease) (*1)	Recognition of contract revenue	Ending balance
		(In thousands)			
2014	\$	3,452,305	\$ 363,640	\$ 718,203	\$ 3,097,742
2013		3,739,483	285,969	573,147	3,452,305

(\*1) It includes new contract work, additional contract work, changes in contract work and foreign exchange rate effect, etc.

(\*2) In case of long-term contract works, the possibility of changes of contract work exists depending on future market conditions.

(2) Revenues incurred, costs incurred and recognized profits to date for the years ended December 31, 2014 and 2013 are as follows:

Description	Korean won	
	2014	2013
	(In millions)	
Revenues incurred to date	₩ 2,611,644	₩ 2,034,073
Costs incurred to date	2,206,039	1,830,205
Recognised profits to date	₩ 405,605	₩ 203,868

Description	Translation into U.S. dollars (Note 2)	
	2014	2013
	(In thousands)	
Revenues incurred to date	\$ 2,375,950	\$ 1,850,504
Costs incurred to date	2,006,949	1,665,034
Recognised profits to date	\$ 369,001	\$ 185,470

(3) The amount due from customers for contract work and the amount due to customers for contract work as of December 31, 2014 and 2013 are as follows:

Description	Korean won	
	2014	2013
	(In millions)	
The amount due from customers for contract work	₩ 130,209	₩ 145,745
The amount due to customers for contract work	(148,134)	(124,475)

Description	Translation into U.S. dollars (Note 2)	
	2014	2013
	(In thousands)	
The amount due from customers for contract work	\$ 118,458	\$ 132,592
The amount due to customers for contract work	(134,765)	(113,241)

#### **46. ASSETS HELD FOR SALE AND NET LOSS FROM DISCONTINUED OPERATIONS:**

(1) On March 22, 2013 and June 28, 2013, the Company's board of directors and shareholders, respectively, approved resolutions to spin off its investment business and to establish a new holding company, Hanjin KAL Co., Ltd., for the purpose of completing the spin-off. The spin-off allows the Company to focus on its core businesses, thereby enhancing efficiency in operations and expediting its business development. Facts related to the spin-off of investment segment are as follows:

	Content
Method	Equity spin-off
Companies	Korean Airlines Co., Ltd. (remaining company), Hanjin KAL Co., Ltd. (new company)
Date of spin-off	August 1, 2013

(2) On August 11, 2014, Hanjin Energy Co., Ltd. has completed the stock sale agreement of 31,983,586 shares of S-Oil Corporation with the Aramco Overseas Company B.V. for the purpose of the repayment of borrowings and financial structure improvement of the Company by the resolution of the Board of Directors, which was held on July 2, 2014 and Hanjin Energy Co., Ltd. disposed the stock on January 19, 2015.

The continuing operation and discontinued operation are stated separately in the consolidated statements of comprehensive loss and the consolidated statements of comprehensive loss for the past period are restated and the cash flows from discontinued operation are stated below.

(3) The gain (loss) of discontinued operation included in comprehensive income statements for the years ended December 31, 2014 and 2013 is as follows:

Description	Korean won	
	2014	2013
	(In millions)	
Sales	₩ -	₩ 244,565
Cost of sales	-	153,199
Gross profit	-	91,366
Selling and administrative expenses	-	38,078
Operating income	-	53,288
Financial income	6,323	4,054
Financial expenses	-	8,963
Gain on valuation of equity method	24,053	78,184
Other non-operating income	-	2,949
Other non-operating expenses	1,431	9,682
Loss on valuation of fair value less costs	398,642	-
Loss on disposal of discontinued operations	-	(171,434)
Loss before income tax expenses	(369,697)	(51,604)
Income tax expenses	(88,936)	(25,293)
Net loss from discontinued operations	₩ (280,761)	₩ (26,311)

Description	Translation into U.S. dollars (Note 2)	
	2014	2013
	(In millions)	
Sales	\$ -	\$ 222,494
Cost of sales	-	139,373
Gross profit	-	83,121
Selling and administrative expenses	-	34,642
Operating income	-	48,479
Financial income	5,752	3,688
Financial expenses	-	8,154
Gain on valuation of equity method	21,882	71,128
Other non-operating income	-	2,683
Other non-operating expenses	1,302	8,808
Loss on valuation of fair value less costs	362,666	-
Loss on disposal of discontinued operations	-	(155,963)
Loss before income tax expenses	(336,334)	(46,947)
Income tax expenses	(80,911)	(23,010)
Net loss from discontinued operations	\$ (255,423)	\$ (23,937)

(4) The cash flows from discontinued operations for the years ended December 31, 2014 and 2013 are as follows:

Transaction	Korean won		Translation into U.S. dollars (Note 2)	
	2014	2013	2014	2013
	(In millions)		(In thousands)	
Cash flows from operating activities	₩ 32,943	₩ 183,576	\$ 29,970	\$ 167,008
Cash flows from investing activities	-	(102,631)	-	(93,369)
Cash flows from financing activities	-	10,803	-	9,828
Net cash flows	₩ 32,943	₩ 91,748	\$ 29,970	\$ 83,467

- (5) The Group classified the assets and equity relating to the stock sale of S-Oil Corporation as assets held for sale and amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale. Assets held for sale and amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale as of December 31, 2014 are as follows:

Description	Korean won (In millions)	Translation into U.S. dollars (Note 2) (In thousands)
Assets held for sale:		
Current assets		
Investments in associates	₩ 1,982,982	\$ 1,804,023
Deferred tax assets	42,437	38,608
	<u>2,025,419</u>	<u>1,842,631</u>
Non-current assets	-	-
Total assets	<u>₩ 2,025,419</u>	<u>\$ 1,842,631</u>
Amounts recognized in other comprehensive income and accumulated in equity relating to assets held for sale:		
Change in capital adjustments –equity method – accounted investments	(61,364)	(55,826)
Total shareholder's equity	<u>₩ (61,364)</u>	<u>\$ (55,826)</u>

- (6) The fair value of investments in associates classified as assets held for sale is ₩1,982,982 million (\$1,804,023 thousand) and was classified as Level 2 as of December 31, 2014. The Group recognized an impairment loss of ₩398,642 million (\$362,666 thousand) relating to associates classified as assets held for sale for the year ended December 31, 2014, which was included in the net loss discontinued operations of the consolidated statements of comprehensive loss.

#### **47. EVENTS AFTER THE REPORTING PERIOD:**

- (1) The Company issued asset-backed securities subsequent to December 31, 2014 and the details of issuance are as follows:

Target assets	Amount of issuance	Date of issuance	Issue period	Method of repayment
Domestic passenger receivables	6,000 billion	2015.01.28	60 months (2015.1–2020.1)	Amortization of principal

- (2) The Company decided to increase its capital by ₩498,584 million(\$ 453,588 thousand) by way of the rights offering and the standby purchase agreement on the basis of February 6, 2015 (record date for new shares allotment).
- (3) The Company transferred limousine business to Air Total Service Co., Ltd. on January 31, 2015 to improve management efficiency through integrating limousine business.
- (4) In order to secure liquidity, the Company disposed of 33,915 shares of Hanjin Energy Co., Ltd. held by the Company, in a way to participate in the capital reduction of Hanjin Energy Co., Ltd. on March 16, 2015.
- (5) The Company decided to purchase five aircrafts amounting to ₩1,636,608 million (\$ 1,488,908 thousand) from February 2015 to April 2017 for the purpose of introduction of next-generation freighter.

- (6) On August 11, 2014, Hanjin Energy Co., Ltd. has completed the stock sale agreement of 31,983,586 shares of S-Oil Corporation with the Aramco Overseas Company B.V. for the purpose of the repayment of borrowings and financial structure improvement of the Company by the resolution of the board of directors, which was held on July 2, 2014 and Hanjin Energy Co., Ltd. disposed the stock on January 19, 2015. Also, Hanjin Energy Co., Ltd. resolved its dissolution on March 19, 2015.
- (7) As described in Note 44, WLD Co., Ltd. received government subsidies of ₩16.7 billion (\$15.2 million), which was part of the Wang San Marina business project cost from Incheon Free Economic Zone Authority in accordance with the business agreement on March 30, 2011. However, WLD Co., Ltd. is in dispute with Incheon Metropolitan City regarding the legal validity of government subsidies. Meanwhile, WLD Co., Ltd. cannot reasonably predict the effect on the financial statements of WLD Co., Ltd. mainly due to the outstanding dispute.

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

English Translation of a Report Originally Issued in Korean

To the Shareholders and the Board of Directors of  
The Export-Import Bank of Korea:

We have reviewed the accompanying separate financial statements of the Export-Import Bank of Korea (the "Bank"). The separate financial statements consist of the separate statement of financial position as of June 30, 2015, and the related separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows, all expressed in Korean won, for the six months ended June 30, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the separate financial statements**

The Bank's management is responsible for the preparation and fair presentation of the accompanying separate financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Independent accountants' responsibility**

Our responsibility is to express a conclusion on the accompanying separate financial statements based on our review.

We conducted our reviews in accordance with standards for review of interim financial statements in the Republic of Korea. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data, and this provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### **Review conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying separate financial statements of the Bank are not present fairly, in all material respects, in accordance with Korean International Financial Reporting Standards 1034, *Interim Financial Reporting*.

### **Others**

We have previously audited, in accordance with auditing standards generally accepted in the Republic of Korea, the separate statement of financial position of the Bank as of December 31, 2014, and the related separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended (not presented herein), and in our report dated March 5, 2015, we expressed an unqualified opinion on those separate financial statements. The accompanying separate statement of financial position as of December 31, 2014, which is comparatively presented, does not differ, in material respects, from such audited separate statement of financial position.

/s/ Deloitte Anjin LLC

August 19, 2015

### Notice to Readers

This report is effective as of August 19, 2015, the independent accountants' review report date. Certain subsequent events or circumstances may have occurred between this independent accountants' review report date and the time the independent accountants' review report is read. Such events or circumstances could significantly affect the separate financial statements and may result in modifications to the independent accountants' review report.

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2015, AND DECEMBER 31, 2014**

	Korean won	
	June 30, 2015	December 31, 2014
	(In millions)	
<b>ASSETS:</b>		
Cash and due from financial institutions (Notes 4, 5 and 7)	₩ 3,311,128	₩ 3,113,988
Financial assets at fair value through profit or loss ("FVTPL") (Notes 4, 5, 8 and 20)	1,286,713	1,197,499
Hedging derivative assets (Notes 4, 5 and 20)	268,078	288,424
Loans (Notes 4, 5, 10 and 37)	64,254,292	61,158,553
Financial investments (Notes 4, 5 and 9)	4,944,208	4,791,524
Investments in associates and subsidiaries (Note 11)	659,150	659,150
Tangible assets, net (Note 12)	270,905	273,539
Intangible assets, net (Note 13)	18,921	18,181
Deferred tax assets (Note 34)	732,578	744,460
Other assets (Notes 4, 5, 14 and 37)	876,414	828,397
	<u>₩76,622,387</u>	<u>₩73,073,715</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Financial liabilities at FVTPL (Notes 4, 5 and 20)	₩ 635,604	₩ 489,069
Hedging derivative liabilities (Notes 4, 5 and 20)	2,199,566	1,983,456
Borrowings (Notes 4, 5 and 15)	11,198,922	10,018,281
Debentures (Notes 4, 5 and 16)	50,888,744	47,291,703
Provisions (Note 17)	272,984	295,177
Retirement benefit obligation, net (Note 18)	53,407	47,263
Current tax liabilities	—	253,549
Other liabilities (Notes 4, 5, 19 and 37)	1,429,661	2,815,065
	<u>66,678,888</u>	<u>63,193,563</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (Note 21)	7,788,055	7,748,055
Other components of equity (Notes 20 and 22)	113,846	111,002
Retained earnings (Note 23) (Regulatory reserve for bad loans as of December 31, 2015 and 2014: ₩572,420 million and ₩514,785 million, respectively) (Note 23)	2,041,598	2,021,095
	<u>9,943,499</u>	<u>9,880,152</u>
	<u>₩76,622,387</u>	<u>₩73,073,715</u>

See accompanying notes to separate financial statements.

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

	Korean won	
	Six months ended June 30, 2015	Six months ended June 30, 2014
	(In millions)	
<b>OPERATING INCOME:</b>		
Net interest income (Notes 24 and 37):		
Interest income	₩ 888,487	₩ 821,580
Interest expenses	(601,901)	(644,747)
	<u>286,586</u>	<u>176,833</u>
Net commission income (Notes 25 and 37):		
Commission income	177,107	176,809
Commission expenses	(3,276)	(1,785)
	<u>173,831</u>	<u>175,024</u>
Dividend income (Note 26)	15,229	10,442
Loss (gain) on financial assets at FVTPL (Note 27)	(236,582)	235,819
Loss (gain) on hedging derivative assets (Notes 20 and 28)	(695,970)	517,658
Loss on financial investments (Note 29)	(42,664)	(33,682)
Gain (loss) on foreign exchange transaction	921,506	(435,411)
Other operating income (expenses) (Note 30)	67,627	(234,433)
Impairment loss on credit (Note 31)	(329,466)	(212,206)
General and administrative expenses (Note 32)	(105,517)	(95,514)
Total operating income	<u>54,580</u>	<u>104,530</u>
<b>NON-OPERATING INCOME (EXPENSES) (Note 33):</b>		
Net gain (loss) on investments in associates and subsidiaries	8,057	4,662
Net other non-operating expenses	(2,677)	(1,247)
	<u>5,380</u>	<u>3,415</u>
<b>INCOME BEFORE INCOME TAX</b>	59,960	107,945
<b>INCOME TAX EXPENSES (Note 34)</b>	(24,267)	(30,890)
<b>NET INCOME</b>	<u>35,693</u>	<u>77,055</u>
(Adjusted income (loss) after reserve for bad loans for the six months ended June 30, 2015 and 2014: ₩2,126 million and ₩144,169 million, respectively) (Note 23)		
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD (Note 22)</b>		
Items not reclassified subsequently to profit or loss:		
Remeasurements of net defined benefit liability	—	—
Income tax effect	—	—
	<u>—</u>	<u>—</u>
Items reclassified subsequently to profit or loss:		
Valuation on available-for-sale (“AFS”) securities	2,672	(190,104)
Cash flow hedging gains or losses	1,078	(365)
Income tax effect	(906)	46,093
	<u>2,844</u>	<u>(144,376)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<u>₩ 38,537</u>	<u>₩ (67,321)</u>

See accompanying notes to separate financial statements.

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

	Other components of equity				Retained earnings	Total
	Capital stock	Valuation on AFS securities	Cash flow hedging gains or losses	Remeasurement of net defined benefit liability		
	(Korean won in millions)					
January 1, 2014	₩7,238,055	₩ 54,157	₩(1,227)	₩ 4,827	₩1,954,328	₩9,250,140
Increase in capital stock	130,000	—	—	—	—	130,000
Net income	—	—	—	—	77,055	77,055
Loss on valuation of AFS securities	—	(144,099)	—	—	—	(144,099)
Loss on valuation of cash flow hedge	—	—	(277)	—	—	(277)
June 30, 2014	<u>₩7,368,055</u>	<u>₩ (89,942)</u>	<u>₩(1,504)</u>	<u>₩ 4,827</u>	<u>₩2,031,383</u>	<u>₩9,312,819</u>
January 1, 2015	₩7,748,055	₩ 116,276	₩(2,062)	₩(3,212)	₩2,021,095	₩9,880,152
Dividends	—	—	—	—	(15,190)	(15,190)
Increase in capital stock	40,000	—	—	—	—	40,000
Net income	—	—	—	—	35,693	35,693
Gain on valuation of AFS securities, net of tax	—	2,026	—	—	—	2,026
Loss on valuation of cash flow hedge, net of tax	—	—	818	—	—	818
June 30, 2015	<u>₩7,788,055</u>	<u>₩ 118,302</u>	<u>₩(1,244)</u>	<u>₩(3,212)</u>	<u>₩2,041,598</u>	<u>₩9,943,499</u>

See accompanying notes to separate financial statements.

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

	Korean won	
	Six months June 30, 2015	Six months June 30, 2014
	(In millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	₩ 35,693	₩ 77,055
Adjustments to reconcile net income to net cash used in operating activities:		
Income tax expense	24,267	30,890
Interest income	(888,487)	(821,580)
Interest expenses	601,901	644,747
Dividend income	(23,285)	(10,442)
Loss on trading securities	277	—
Loss on AFS securities	50,549	33,685
Transfer to derivatives' credit risk provision	12,228	7,950
Loss on foreign exchange transactions	662,511	649,149
Impairment loss on credit	329,465	212,206
Impairment loss on equity securities by the equity method	—	9
Loss on fair value hedged items	95,699	310,486
Depreciation and amortization	5,504	3,697
Loss on disposals of tangible, intangible and other assets	2	1
Loss on valuation of derivative assets	1,083,988	80,210
Retirement benefits	6,563	5,191
Gain on trading securities	13,107	1,651
Gain on AFS securities	7,885	2
Reversal of derivatives' credit risk provision	10,091	13,317
Gain on foreign exchange transactions	1,584,018	213,738
Gain on fair value hedged items	167,106	71,859
Gain on valuation of derivative assets	180,054	722,935
Gain on disposals of tangible assets, intangible assets and other assets	32	49
Changes in assets and liabilities resulting from operations:		
Net increase (decrease) in due from financial institutions	(240,990)	623,049
Net increase (decrease) in financial assets at FVTPL	(17,273)	199,569
Net decrease in hedging derivative assets	23,937	60,013
Net increase in loans	(1,557,639)	(1,625,578)
Net increase in other assets	(43,800)	(171,412)
Net increase in provisions	70,609	36,052
Payment of retirement benefits	(419)	(467)
Net decrease (increase) in other liabilities	(1,452,891)	226,726
Net decrease in financial liabilities at fair value through profit or loss	(136,355)	(121,031)
Net decrease in hedging derivative liabilities	(465,527)	(377,127)
Payment of income tax	(268,262)	(117,417)
Interest income received	9,778	898,275
Interest expense paid	(602,075)	(644,747)
Dividend income received	23,285	10,442
Net cash used in operating activities	<u>(4,623,040)</u>	<u>(803,950)</u>

(Continued)

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

	Korean won	
	Six months June 30, 2015	Six months June 30, 2014
	(In millions)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disposals of AFS securities and held-to-maturity securities	₩ 204,354	₩ 65,259
Receipt of state aid	17	—
Disposals of tangible assets	50	64
Increase in import guarantee deposits	50	—
Acquisitions of AFS securities and held-to-maturity securities	(366,446)	(149,605)
Acquisitions of tangible assets	(1,071)	(10,086)
Acquisitions of intangible assets	(2,576)	(657)
Net cash used in investing activities	<u>(165,622)</u>	<u>(95,025)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in call money	30,000	331,400
Increase in borrowings	6,716,940	1,292,337
Increase in debentures	13,489,452	11,541,464
Increase in capital stock	40,000	130,000
Decrease in borrowings	(5,732,841)	(1,003,686)
Decrease in debentures	(9,811,231)	(11,086,916)
Payment of dividends	(15,189)	—
Net cash provided by financing activities	<u>4,717,131</u>	<u>1,204,599</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(71,531)	305,624
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,336,284	1,432,027
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON DUE FROM FINANCIAL INSTITUTIONS	5,269	(177,282)
CASH AND CASH EQUIVALENTS, END OF THE PERIOD (Note 35)	<u>₩ 1,270,022</u>	<u>₩ 1,560,369</u>

(Concluded)

See accompanying notes to separate financial statements.

**THE EXPORT-IMPORT BANK OF KOREA**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2015, AND DECEMBER 31, 2014,**  
**AND FOR THE SIX MONTHS ENDED JUNE, 2015 AND 2014**

**1. GENERAL:**

(1) Summary of The Export-Import Bank of Korea

The Export-Import Bank of Korea (the “Bank” or the “Company”) was established in 1976 as a special financial institution under The Export-Import Bank of Korea Act (the “EXIM Bank Act”) to grant financial facilities for overseas trade (i.e., export and import), investments and resources development activities. As of June 30, 2015, the Bank operates 10 domestic branches, three domestic offices, four overseas subsidiaries and 21 overseas offices.

The Bank’s authorized capital is ₩15,000,000 million, and through numerous capital increases since the establishment, its paid-in capital is ₩7,788,055 million as of June 30, 2015. The Government of the Republic of Korea (the “Government”), the Bank of Korea (“BOK”) and the Korea Development Bank hold 70.23%, 14.96% and 14.81%, respectively, of the ownership of the Bank as of June 30, 2015.

The Bank, as a trustee of the Government, has managed the Economic Development Cooperation Fund (EDCF) since June 1987 and the Inter-Korean Cooperation Fund (IKCF) since March 1991. These funds are accounted for separately and are not included in the Bank’s separate financial statements. The Bank receives fees from the Government for the trustee services.

(2) Summary of subsidiaries and associates

1) Subsidiaries of the Bank as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

JUNE 30, 2015

Subsidiaries	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
KEXIM Bank UK Limited	United Kingdom	GBP	20 mil.	Finance	20,000,000	100.00	June 30, 2015
KEXIM Vietnam Leasing Co. (*)	Vietnam	USD	13 mil.	Finance	—	100.00	June 30, 2015
PT. KOEXIM Mandiri Finance	Indonesia	IDR	52,000 mil.	Finance	442	85.00	June 30, 2015
KEXIM Asia Limited	Hong Kong	USD	30 mil.	Finance	30,000,000	100.00	June 30, 2015

(\*) This entity does not issue share certificates.

DECEMBER 31, 2014

Subsidiaries	Location	Capital stock		Main business	Number of shares owned	Percentage of ownership (%)	Financial statements as of
KEXIM Bank UK Limited	United Kingdom	GBP	20 mil.	Finance	20,000,000	100.00	Dec. 31, 2014
KEXIM Vietnam Leasing Co. (*)	Vietnam	USD	13 mil.	Finance	—	100.00	Dec. 31, 2014
PT. KOEXIM Mandiri Finance	Indonesia	IDR	52,000 mil.	Finance	442	85.00	Dec. 31, 2014
KEXIM Asia Limited	Hong Kong	USD	30 mil.	Finance	30,000,000	100.00	Dec. 31, 2014

(\*) This entity does not issue share certificates.

- 2) Associates of the Bank as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

<u>Associates</u>	<u>Location</u>	<u>Capital stock</u>	<u>Main business</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>	<u>Financial statements as of</u>
Korea Asset Management Corp.	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	June 30, 2015
Credit Guarantee and Investment Fund	Philippines	USD 700 mil.	Financial service	1,000	14.28	March 31, 2015
Korea Marine Guarantee Incorporated Company	Korea	KRW 60,000 mil.	Financial service	5,999,999	49.99	June 30, 2015
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	Korea	KRW 1,319,150 mil.	Shipbuilding	93,294,100	70.71	March 31, 2015
DAESUN Shipbuilding & Engineering Co., Ltd.	Korea	KRW 7,730 mil.	Shipbuilding	1,040,000	67.27	June 30, 2015

(DECEMBER 31, 2014)

<u>Associates</u>	<u>Location</u>	<u>Capital stock</u>	<u>Main business</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>	<u>Financial statements as of</u>
Korea Asset Management Corp.	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2014
Credit Guarantee and Investment Fund	Philippines	USD 700 mil.	Financial service	1,000	14.28	Sep. 30, 2014
Korea Marine Guarantee Incorporated Company	Korea	KRW 60,000 mil.	Financial service	5,999,999	49.99	Dec. 31, 2014
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	Korea	KRW 1,319,150 mil.	Shipbuilding	93,294,100	70.71	Sep. 30, 2014
DAESUN Shipbuilding & Engineering Co., Ltd.	Korea	KRW 7,730 mil.	Shipbuilding	1,040,000	67.27	Dec. 31, 2014

## **2. FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES:**

- (1) Basis of condensed separate financial statement preparation

The Bank's condensed separate financial statements for the six months ended June 30, 2015 and 2014, are prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") 1034, *Interim Financial Reporting*, and K-IFRS 1027, *Separate Financial Statements*. It is necessary to use the annual separate financial statements for the year ended December 31, 2014, for the understanding of the accompanying interim separate financial statements.

The Bank's accounting policies applied for the accompanying condensed interim separate financial statements are the same as the policies applied for the preparation of separate financial statements as of and for the year ended December 31, 2014, except for the effects from the introduction of new and revised accounting standards or interpretations as described below.

- 1) Accounting standards and interpretations that were newly applied for the year ended June 30, 2015, and changes in the Bank's accounting policies are as follows:

### Amendments to K-IFRS 1019 – Employee Benefits

The amendments permit the Bank to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The adoption of the amendment has no significant impact on the Bank's condensed separate financial statements.

#### Annual Improvements to K-IFRS 2010–2012 Cycle

The amendments to K-IFRS 1002 (i) change the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definition for ‘performance condition’ and ‘service condition’ that were previously included within the definition of ‘vesting condition.’ The amendments to K-IFRS 1103 *Business Combinations* clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments’ assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The adoption of the amendment has no significant impact on the Bank’s condensed separate financial statements.

#### Annual Improvements to K-IFRS 2011–2013 Cycle

The amendments to K-IFRS 1103, *Share-based Payment* clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113, *Fair values Measurements* and K-IFRS 1040, *Investment Properties* exist and the adoption of the amendments has no significant impact on the Bank’s condensed separate financial statements.

- 2) The Bank has not applied or adopted earlier the following new and revised K-IFRS that have been issued, but are not yet effective:

#### Amendments to K-IFRS 1016 – *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Bank from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

#### Amendments to K-IFRS 1038 – *Intangible Assets*

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets; this presumption can only be rebutted when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after January 1, 2016.

#### Amendments to K-IFRS 1111 – *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

#### Amendments to K-IFRS 1027 – *Separate Financial Statements*

The amendments to K-IFRS 1027 allow the Bank to account for investments in subsidiaries, joint ventures, and associates either at cost, in accordance with K-IFRS 1028 *investments in associates and joint ventures* or K-IFRS 1039 *Financial Instruments: Recognition and Measurement* in the Bank’s separate financial statements. The amendments are effective for the annual periods beginning on or after January 1, 2016.

(2) Functional Currency

Items included in the separate financial statements of each entity in the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

**3. SIGNIFICANT ESTIMATES AND JUDGMENTS:**

The preparation of separate financial statements requires the application of accounting policies, especially certain critical accounting estimates and assumptions that may have a significant impact on assets (liabilities) and income (expenses). The management's estimate of outcome may differ from an actual outcome if the management's estimate and assumption based on its best judgment at the reporting date are different from an actual environment.

Estimates and assumptions are continually evaluated and the change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both. Significant judgments are the same as the annual consolidated financial statements for the year ended December 31, 2014.

**4. RISK MANAGEMENT:**

**4-1. Summary**

(1) Overview of Risk Management Policy

The financial risks that the Bank is exposed to are credit risk, market risk, liquidity risk, operational risk, interest risk, credit concentration risk, strategy/reputational risk, outsourcing risk, settlement risk and others. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Bank's key risks.

The Bank's risk management system focuses on increasing transparency, developing risk management environment and preemptive response to risk due to rapid changes in financial environment to support the Bank's long-term strategy and business decision efficiently.

The note regarding financial risk management provides information about the risks that the Bank is exposed to, the objective, policies and process for managing the risk, the methods used to measure the risk and capital adequacy. Additional quantitative information is disclosed throughout the separate financial statements.

(2) Risk Management Group

1) Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the board of directors and determines the Bank's target risk appetite, approves significant risk matters and reviews the level of risks that the Bank is exposed to and the appropriateness of the Bank's risk management operations as an ultimate decision-making authority.

2) Risk Management Council

The Risk Management Council is a consultative group that reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Bank's risk management.

3) Risk Management Practices Committee

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work process relating to risk management plan, including targeted Bank for International Settlements (BIS) ratio, risk management strategy, risk measurement, risk analysis, economic capital limit and others.

## 4-2. Credit risk

### (1) Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For the risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

### (2) Credit Risk Management

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent the excessive risk concentration to specific industry and specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and receivables and present it in the separate financial statements through the use of an allowances account that is charged against the related financial assets.

### (3) Maximum exposure to credit risk

The Bank's maximum exposure of financial instruments to credit risk as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Cash and due from financial institutions	₩ 3,311,128	₩ 3,113,988
Financial assets at FVTPL	166,136	56,780
Hedging derivative assets	268,078	288,424
Loans (*1)	66,189,041	62,875,314
Financial investments (*2)	649,981	485,263
Other financial assets	899,717	852,359
Acceptances and guarantee contracts	65,194,023	61,372,941
Commitments (*3)	27,073,534	28,415,294
	<u>₩163,751,638</u>	<u>₩157,460,363</u>

(\*1) Loans exclude loans valuation adjustment related to evaluation of fair value hedging.

(\*2) Financial investments exclude AFS securities valuation adjustment related to fair value hedging that is included in AFS securities in foreign currency in Note 9.

(\*3) Commitments exclude commitments on purchase of beneficiary certificates (131,348 million Korean won) which are included in other commitments in Note 36.

### (4) Credit risk of loans

The Bank maintains allowances for loan losses associated with credit risk on loans to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and present them in the separate financial statements through the use of an allowances account that is charged against the related financial assets.

The Bank writes off on non-profitable loans, non-recoverable loans, loans classified estimated loss by asset quality category, loans requested written off by Financial Supervisory Service (FSS) and others under approval of Loan Management Committee.

Loans are categorized as follows (Korean won in millions):

(JUNE 30, 2015)

	Individual assessment	Collective assessment	Total
Loans:			
Normal			
Not past due	₩ 271,484	₩62,536,395	₩62,807,879
Past due	—	158	158
Impairment	3,544,686	297,291	3,841,977
Subtotal	<u>3,816,170</u>	<u>62,833,844</u>	<u>66,650,014</u>
Net deferred origination fees and costs:			
Normal			
Not past due	(6)	(460,400)	(460,406)
Past due	—	—	—
Impairment	(374)	(193)	(567)
Subtotal	<u>(380)</u>	<u>(460,593)</u>	<u>(460,973)</u>
Carrying amounts before deducting allowances:			
Normal			
Not past due	271,478	62,075,995	62,347,473
Past due	—	158	158
Impairment	3,544,312	297,098	3,841,410
Subtotal	<u>3,815,790</u>	<u>62,373,251</u>	<u>66,189,041</u>
Allowances:			
Normal			
Not past due	(28,346)	(246,116)	(274,462)
Percentage (%)	10.44	0.39	0.44
Past due	—	(18)	(18)
Percentage (%)	—	11.39	11.39
Impairment	(1,526,797)	(218,785)	(1,745,582)
Percentage (%)	43.08	73.64	45.44
Subtotal	<u>(1,555,143)</u>	<u>(464,919)</u>	<u>(2,020,062)</u>
Percentage (%)	40.76	0.75	3.05
Carrying amounts:			
Normal			
Not past due	243,132	61,829,879	62,073,011
Past due	—	140	140
Impairment	2,017,515	78,313	2,095,828
Total	<u>₩ 2,260,647</u>	<u>₩61,908,332</u>	<u>₩64,168,979</u>

(DECEMBER 31, 2014)

	Individual assessment	Collective assessment	Total
Loans:			
Normal			
Not past due	₩ 336,607	₩59,765,067	₩60,101,674
Past due	—	9,117	9,117
Impairment	3,019,923	156,301	3,176,224
Subtotal	<u>3,356,530</u>	<u>59,930,485</u>	<u>63,287,015</u>
Net deferred origination fees and costs:			
Normal			
Not past due	(66)	(411,314)	(411,380)
Past due	—	—	—
Impairment	(533)	212	(321)
Subtotal	<u>(599)</u>	<u>(411,102)</u>	<u>(411,701)</u>
Carrying amounts before deducting allowances:			
Normal			
Not past due	336,541	59,353,753	59,690,294
Past due	—	9,117	9,117
Impairment	3,019,390	156,513	3,175,903
Subtotal	<u>3,355,931</u>	<u>59,519,383</u>	<u>62,875,314</u>
Allowances:			
Normal			
Not past due	(45,400)	(213,680)	(259,080)
Percentage (%)	13.49	0.36	0.43
Past due	—	(231)	(231)
Percentage (%)	—	2.53	2.53
Impairment	(1,427,631)	(126,691)	(1,554,322)
Percentage (%)	47.28	80.95	48.94
Subtotal	<u>(1,473,031)</u>	<u>(340,602)</u>	<u>(1,813,633)</u>
Percentage (%)	43.89	0.57	2.88
Carrying amounts:			
Normal			
Not past due	291,141	59,140,073	59,431,214
Past due	—	8,886	8,886
Impairment	1,591,759	29,822	1,621,581
Total	<u>₩ 1,882,900</u>	<u>₩59,178,781</u>	<u>₩61,061,681</u>

The above carrying amounts exclude loan valuation adjustment related to fair value hedging amounting to ₩85,313 million and ₩96,872 million as of June 30, 2015, and December 31, 2014, respectively.

1) Credit quality of loans that are neither past due nor impaired

Credit quality of loans that are neither past due nor impaired as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Best	₩ 79,612	₩ 5,684,960	₩ 910,534	₩ 6,675,106	₩ (22,255)	₩ (2,807)	₩ 6,650,044
Outstanding	5,836,220	34,639,520	2,998,847	43,474,587	(406,579)	(82,498)	42,985,510
Good	4,122,429	7,440,927	671,356	12,234,712	(29,450)	(142,057)	12,063,205
Below normal	191,440	232,034	—	423,474	(2,122)	(47,100)	374,252
	<u>₩10,229,701</u>	<u>₩47,997,441</u>	<u>₩4,580,737</u>	<u>₩62,807,879</u>	<u>₩(460,406)</u>	<u>₩(274,462)</u>	<u>₩62,073,011</u>

(DECEMBER 31, 2014)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Best	₩ 1,846,664	₩ 5,101,792	₩ 851,387	₩ 7,799,843	₩ (16,184)	₩ (3,970)	₩ 7,779,689
Outstanding	4,784,149	30,876,637	4,664,070	40,324,856	(363,821)	(71,738)	39,889,297
Good	3,484,579	7,305,159	843,888	11,633,626	(29,158)	(137,731)	11,466,737
Below normal	160,550	182,799	—	343,349	(2,217)	(45,641)	295,491
	<u>₩10,275,942</u>	<u>₩43,466,387</u>	<u>₩6,359,345</u>	<u>₩60,101,674</u>	<u>₩(411,380)</u>	<u>₩(259,080)</u>	<u>₩59,431,214</u>

2) Aging analysis of loans that are past due but not impaired

Aging analysis of loans that are past due but not impaired as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Within one month	₩158	₩—	₩—	₩158	₩—	₩ (18)	₩140
Within two months	—	—	—	—	—	—	—
Within three months	—	—	—	—	—	—	—
More than three months	—	—	—	—	—	—	—
	<u>₩158</u>	<u>₩—</u>	<u>₩—</u>	<u>₩158</u>	<u>₩—</u>	<u>₩ (18)</u>	<u>₩140</u>

(DECEMBER 31, 2014)

	Loans				Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total			
Within one month	₩—	₩—	₩ —	₩ —	₩—	₩ —	₩ —
Within two months	174	—	—	174	—	(6)	168
Within three months	—	—	—	—	—	—	—
More than three months	—	—	8,943	8,943	—	(225)	8,718
	<u>₩174</u>	<u>₩—</u>	<u>₩8,943</u>	<u>₩9,117</u>	<u>₩—</u>	<u>₩(231)</u>	<u>₩8,886</u>

3) Loans assessed for impairment on individual basis

Loans assessed for impairment on individual basis by country and industry of the Bank's counterparties, as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩3,261,610	₩38,995	₩3,300,605	₩(1,289,143)	₩(18,803)	₩(1,307,946)	39.52	48.22	39.63
Transportation	—	21,089	21,089	—	—	—	—	—	—
Construction	222,618	—	222,618	(218,851)	—	(218,851)	98.31	—	98.31
	<u>₩3,484,228</u>	<u>₩60,084</u>	<u>₩3,544,312</u>	<u>₩(1,507,994)</u>	<u>₩(18,803)</u>	<u>₩(1,526,797)</u>	<u>43.28</u>	<u>31.29</u>	<u>43.08</u>

(DECEMBER 31, 2014)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing	₩2,711,444	₩19,055	₩2,730,499	₩(1,232,319)	₩(19,055)	₩(1,251,374)	45.45	100.00	45.83
Transportation	10,233	—	10,233	—	—	—	—	—	—
Construction	278,658	—	278,658	(176,257)	—	(176,257)	63.25	—	63.25
	<u>₩3,000,335</u>	<u>₩19,055</u>	<u>₩3,019,390</u>	<u>₩(1,408,576)</u>	<u>₩(19,055)</u>	<u>₩(1,427,631)</u>	<u>46.95</u>	<u>100.00</u>	<u>47.28</u>

(5) Credit quality of securities (debt securities)

1) Securities (debt securities) exposed to credit risk as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Securities that are neither past due nor impaired	₩715,459	₩485,263

- 2) Credit quality of securities (debt securities) that are neither past due nor impaired as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Credit quality (*1)					Total
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	
Financial assets at FVTPL	₩ 65,478	₩—	₩—	₩—	₩—	₩ 65,478
AFS financial assets	539,379	—	—	—	—	539,379
Held-to-maturity financial assets	110,602	—	—	—	—	110,602
	<u>₩715,459</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩715,459</u>

(DECEMBER 31, 2014)

	Credit quality (*1)					Total
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	
AFS financial assets	₩446,364	₩—	₩—	₩—	₩—	₩446,364
Held-to-maturity financial assets	38,899	—	—	—	—	38,899
	<u>₩485,263</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩485,263</u>

(\*1) Credit quality is classified based on internal credit quality grade as below:

	Credit rating
Grade 1	AAA—BBB
Grade 2	BBB—BB
Grade 3	BB—B
Grade 4	B—C
Grade 5	D

- (6) Concentration of credit risk

The amounts disclosed below exclude loan valuation adjustment related to fair value hedging amounting to ₩85,313 million and ₩96,872 million as of June 30, 2015, and December 31, 2014, respectively.

- 1) Loans by country where the credit risk belongs to as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,780,717	₩10,416,978	₩ 994,946	₩25,192,641	37.80	₩ (6,181)	₩(1,814,121)
China	7,239	2,731,268	593,143	3,331,650	5.00	(721)	(55,902)
Saudi Arabia	—	3,662,752	2,276	3,665,028	5.50	(64,292)	(8,312)
India	—	2,118,374	12,549	2,130,923	3.20	(45,225)	(2,939)
Iran	—	69,039	—	69,039	0.10	(2,807)	(366)
Indonesia	—	3,526,574	4,340	3,530,914	5.30	(87,629)	(12,168)
Vietnam	—	2,868,493	73,702	2,942,195	4.41	(26,892)	(16,134)
Others	—	6,880,944	2,146,189	9,027,133	13.55	(67,446)	(31,060)
	<u>13,787,956</u>	<u>32,274,422</u>	<u>3,827,145</u>	<u>49,889,523</u>	<u>74.86</u>	<u>(301,193)</u>	<u>(1,941,002)</u>
Europe:							
Russia	—	639,230	3,694	642,924	0.96	—	(15,065)
England	—	343,080	199,649	542,729	0.81	(1,005)	(519)
Belgium	—	27,868	—	27,868	0.04	(102)	—
France	—	317,324	3,734	321,058	0.48	(5,307)	(10)
Cyprus	—	210,906	—	210,906	0.32	(3,837)	—
Netherlands	—	94,842	119,460	214,302	0.32	(693)	(68)
Malta	—	185,757	—	185,757	0.28	(2,213)	—
Others	2,224	3,131,023	351,882	3,485,129	5.23	(44,059)	(24,163)
	<u>2,224</u>	<u>4,950,030</u>	<u>678,419</u>	<u>5,630,673</u>	<u>8.44</u>	<u>(57,216)</u>	<u>(39,825)</u>
America:							
Panama	—	1,967,205	—	1,967,205	2.95	(8,221)	(3,285)
United States	—	1,306,668	114,696	1,421,364	2.13	(18,523)	(6,006)
The British Virgin Islands	—	720,602	—	720,602	1.08	(3,040)	(632)
Mexico	—	618,235	—	618,235	0.93	(7,842)	(5,800)
Bermuda	—	752,691	—	752,691	1.13	(12,043)	(198)
Others	—	1,824,594	1,980	1,826,574	2.74	(13,183)	(4,093)
	<u>—</u>	<u>7,189,995</u>	<u>116,676</u>	<u>7,306,671</u>	<u>10.96</u>	<u>(62,852)</u>	<u>(20,014)</u>
Africa:							
Marshall Islands	—	2,524,720	—	2,524,720	3.79	(19,276)	(1,102)
Liberia	—	437,601	—	437,601	0.66	(3,757)	(15,104)
Madagascar	—	412,906	—	412,906	0.62	(2,539)	(1,420)
Others	—	447,842	78	447,920	0.67	(14,140)	(1,595)
	<u>—</u>	<u>3,823,069</u>	<u>78</u>	<u>3,823,147</u>	<u>5.74</u>	<u>(39,712)</u>	<u>(19,221)</u>
	<u>₩13,790,180</u>	<u>₩48,237,516</u>	<u>₩4,622,318</u>	<u>₩66,650,014</u>	<u>100.00</u>	<u>₩(460,973)</u>	<u>₩(2,020,062)</u>

(DECEMBER 31, 2014)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,175,790	₩10,175,702	₩ 834,636	₩24,186,128	38.22	₩ (420)	₩(1,633,497)
China	7,239	2,705,889	600,114	3,313,242	5.24	(932)	(38,754)
Saudi Arabia	—	2,981,097	146	2,981,243	4.71	(59,163)	(7,275)
India	—	1,841,568	22,608	1,864,176	2.95	(46,870)	(2,714)
Iran	—	84,287	8,943	93,230	0.15	(3,475)	(670)
Indonesia	—	2,900,654	4,966	2,905,620	4.59	(86,830)	(6,485)
Vietnam	—	2,347,637	13,215	2,360,852	3.73	(27,574)	(12,462)
Others	—	5,935,059	4,205,485	10,140,544	16.02	(42,376)	(27,432)
	<u>13,183,029</u>	<u>28,971,893</u>	<u>5,690,113</u>	<u>47,845,035</u>	<u>75.61</u>	<u>(267,640)</u>	<u>(1,729,289)</u>
Europe:							
Russia	—	1,092,912	98,635	1,191,547	1.88	—	(20,898)
England	—	382,877	430,336	813,213	1.28	(1,186)	(284)
Belgium	—	60,410	33,909	94,319	0.15	(182)	(933)
France	—	339,852	3,317	343,169	0.54	(5,902)	(24)
Cyprus	—	73,022	—	73,022	0.12	(4,007)	—
Netherlands	—	131,111	50,864	181,975	0.29	(1,419)	(221)
Malta	—	192,224	—	192,224	0.30	(2,442)	—
Others	2,224	2,993,275	66,428	3,061,927	4.84	(50,043)	(20,531)
	<u>2,224</u>	<u>5,265,683</u>	<u>683,489</u>	<u>5,951,396</u>	<u>9.40</u>	<u>(65,181)</u>	<u>(42,891)</u>
America:							
Panama	—	1,982,012	—	1,982,012	3.13	(8,430)	(3,712)
United States	—	1,144,175	107,281	1,251,456	1.98	(17,733)	(6,209)
The British Virgin Islands	—	657,521	—	657,521	1.04	(3,160)	(557)
Mexico	—	574,795	—	574,795	0.91	(8,208)	(5,577)
Bermuda	—	535,077	—	535,077	0.85	(10,509)	(75)
Others	—	957,904	5,221	963,125	1.50	(3,453)	(3,163)
	<u>—</u>	<u>5,851,484</u>	<u>112,502</u>	<u>5,963,986</u>	<u>9.41</u>	<u>(51,493)</u>	<u>(19,293)</u>
Africa:							
Marshall Islands	—	2,294,266	—	2,294,266	3.63	(6,394)	(436)
Liberia	—	377,121	—	377,121	0.60	(3,998)	(18,511)
Madagascar	—	426,191	—	426,191	0.67	(2,678)	(1,646)
Others	—	427,770	1,250	429,020	0.68	(14,317)	(1,567)
	<u>—</u>	<u>3,525,348</u>	<u>1,250</u>	<u>3,526,598</u>	<u>5.58</u>	<u>(27,387)</u>	<u>(22,160)</u>
	<u>₩13,185,253</u>	<u>₩43,614,408</u>	<u>₩6,487,354</u>	<u>₩63,287,015</u>	<u>100.00</u>	<u>₩(411,701)</u>	<u>₩(1,813,633)</u>

2) Loans by industry as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans				Ratio (%)	Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total			
Manufacturing	₩10,470,979	₩24,941,479	₩ 339,935	₩35,752,393	53.64	₩(177,930)	₩(1,681,999)
Transportation	210,980	7,560,189	1,033	7,772,202	11.66	(65,483)	(35,924)
Financial institutions	339,000	3,898,601	4,210,764	8,448,365	12.68	(7,065)	(22,093)
Wholesale and retail	563,043	1,651,128	34,381	2,248,552	3.37	(1,366)	(13,783)
Real estate	—	524,674	—	524,674	0.79	(2,520)	(454)
Construction	1,944,920	2,022,050	23,214	3,990,184	5.99	(4,704)	(233,044)
Public sector and others	261,258	7,639,395	12,991	7,913,644	11.87	(201,905)	(32,765)
	<u>₩13,790,180</u>	<u>₩48,237,516</u>	<u>₩4,622,318</u>	<u>₩66,650,014</u>	<u>100.00</u>	<u>₩(460,973)</u>	<u>₩(2,020,062)</u>

(DECEMBER 31, 2014)

	Loans				Ratio (%)	Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total			
Manufacturing	₩10,298,585	₩22,253,694	₩ 467,030	₩33,019,309	52.17	₩(144,237)	₩(1,520,018)
Transportation	189,080	7,196,184	—	7,385,264	11.67	(54,801)	(40,092)
Financial institutions	165,000	3,606,430	5,872,482	9,643,912	15.24	(7,657)	(21,648)
Wholesale and retail	679,773	1,365,503	60,475	2,105,751	3.33	2,888	(12,868)
Real estate	—	363,744	—	363,744	0.57	(2,313)	(386)
Construction	1,633,308	1,810,385	26,210	3,469,903	5.48	(5,092)	(189,163)
Public sector and others	219,507	7,018,468	61,157	7,299,132	11.54	(200,489)	(29,458)
	<u>₩13,185,253</u>	<u>₩43,614,408</u>	<u>₩6,487,354</u>	<u>₩63,287,015</u>	<u>100.00</u>	<u>₩(411,701)</u>	<u>₩(1,813,633)</u>

- 3) Concentration of credit risk of securities (debt securities) by industry as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015		December 31, 2014	
	Amount	Ratio (%)	Amount	Ratio (%)
<b>Financial assets at FVTPL</b>				
Government and government-sponsored institutions	₩ 35,228	53.80	₩ —	—
Banking and insurance	18,384	28.08	—	—
Others	11,866	18.12	—	—
Subtotal	65,478	100.00	—	—
<b>AFS financial assets</b>				
Government and government-sponsored institutions	₩106,997	19.84	₩ 82,952	18.58
Banking and insurance	315,465	58.49	311,862	69.87
Others	116,917	21.67	51,550	11.55
Subtotal	539,379	100.00	446,364	100.00
<b>Held-to-maturity financial assets</b>				
Government and government-sponsored institutions	19,408	17.55	11,016	28.32
Banking and insurance	71,734	64.86	27,883	71.68
Others	19,460	17.59	—	—
Subtotal	110,602	100.00	38,899	100.00
Total	₩715,459		₩485,263	

- 4) Concentration of credit risk of securities (debt securities) by country as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015		December 31, 2014	
	Amount	Ratio (%)	Amount	Ratio (%)
<b>Financial assets at FVTPL</b>				
Korea	₩ 35,228	53.80	₩ —	—
Others	30,250	46.20	—	—
Subtotal	65,478	100.00	—	—
<b>AFS financial assets</b>				
Korea	₩215,350	39.93	₩227,585	50.99
Others	324,029	60.07	218,779	49.01
Subtotal	539,379	100.00	446,364	100.00
<b>Held-to-maturity financial assets</b>				
Korea	28,479	25.75	—	—
Others	82,123	74.25	38,899	100.00
Subtotal	110,602	100.00	38,899	100.00
Total	₩715,459		₩485,263	

- 5) Credit enhancement and its financial effect as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total
Maximum exposure to credit risk	<u>₩66,189,041</u>	<u>₩65,194,023</u>	<u>₩27,073,534</u>	<u>₩158,456,598</u>
Credit enhancement:				
Deposits and savings	69,871	76,108	723	146,702
Export guarantee insurance	106,884	2,120,567	—	2,227,451
Guarantee	1,072,530	1,477,408	3,566,267	6,116,205
Securities	222,500	84,848	115,048	422,396
Real estate	1,104,486	51,531	30,109	1,186,126
Ships	790,401	223,466	16,540	1,030,407
Others	1,485,424	16,711	295,614	1,797,749
Subtotal	<u>4,852,096</u>	<u>4,050,639</u>	<u>4,024,301</u>	<u>12,927,036</u>
Exposure to credit risk after deducting credit enhancement	<u>₩61,336,945</u>	<u>₩61,143,384</u>	<u>₩23,049,233</u>	<u>₩145,529,562</u>

(\*1) Loans exclude loans valuation adjustment related to evaluation of fair value hedging

(DECEMBER 31, 2014)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total
Maximum exposure to credit risk	<u>₩62,875,314</u>	<u>₩61,372,941</u>	<u>₩28,415,294</u>	<u>₩152,663,549</u>
Credit enhancement:				
Deposits and savings	75,700	86,025	—	161,725
Export guarantee insurance	117,296	2,309,306	—	2,426,602
Guarantee	984,943	1,389,185	844,169	3,218,297
Securities	212,006	189,280	19,172	420,458
Real estate	1,107,765	50,390	45,990	1,204,145
Ships	749,069	181,253	172,598	1,102,920
Others	785,911	—	351,198	1,137,109
Subtotal	<u>4,032,690</u>	<u>4,205,439</u>	<u>1,433,127</u>	<u>9,671,256</u>
Exposure to credit risk after deducting credit enhancement	<u>₩58,842,624</u>	<u>₩57,167,502</u>	<u>₩26,982,167</u>	<u>₩142,992,293</u>

(\*1) Loans exclude loans valuation adjustment related to evaluation of fair value hedging

#### 4-3. Liquidity risk

- (1) Overview of liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they become due. The Bank discloses all financial asset, financial liabilities and off-balance-sheet items, such as loan commitments and analysis of the contractual maturity, which are related to liquidity risk, into seven categories. The cash flows disclosed in the maturity analysis are undiscounted contractual amounts, including principal and future interest, which resulted in disagreement with the discounted cash flows included in the separate statements of financial position. However, for derivatives, each discounted cash flow consisting of current fair value is presented.

(2) Principles of the liquidity risk management

- ① Liquidity risk is managed with integration. The Bank measures, reports and controls liquidity risk by quantification with reasonable method.
- ② Liquidity risk reflects financing plans and fund-using plans, and the Bank reports the liquidity risk with preciseness, timeliness and consistency.
- ③ The Bank establishes liquidity risk management strategy by analyzing liquidity maturity, liquidity gap structure and market environment.

(3) Liquidity risk management

Risk management department monitors changes by liquidity risk sources and compliance of risk limits. It notifies related departments to prepare countermeasures in case the measured liquidity risk is close to risk limits. Also, it analyzes crisis situations and effects of the crisis situations and reports to the Risk Management Committee on a regular basis. Each related department monitors changes of liquidity risk sources and compliance of risk limits by itself and if exposure to new risk is expected, it discusses the matter with the head of risk management department.

(4) Measurement of liquidity risk

The Bank measures liquidity ratio, liquidity gap ratio and others for local currency and foreign currency and simulates analysis reflecting market environment, product features and the Bank's strategies.

(5) Analysis on remaining contractual maturity of financial assets and liabilities

Remaining contractual maturity and amount of financial assets and liabilities as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(JUNE 30, 2015)

	On demand	Within one month	One to three months	Three to six Months	Six to 12 months	One year to five years	More than five years	Total
<b>Financial assets:</b>								
Cash and due from financial institutions	₩ 922,222	₩ 112,447	₩ 236,294	₩ 50,534	₩ 81,541	₩ 1,908,972	₩ —	₩ 3,312,010
Financial assets at FVTPL	1,286,713	—	—	—	—	—	—	1,286,713
Hedging derivative Assets	—	7,921	2,760	775	2,695	99,410	154,517	268,078
Loans	12,198	5,766,038	6,947,315	7,928,945	10,389,613	23,644,628	17,797,097	72,485,834
AFS financial assets Held-to-maturity financial assets	4,339,199	12,758	13,240	39,493	51,055	324,487	204,161	4,984,393
Other financial assets	—	131	446	17,831	1,255	82,373	20,292	122,328
	—	542,761	200	—	231,644	34,692	164,319	973,616
	₩ 6,560,332	₩6,442,056	₩7,200,255	₩8,037,578	₩10,757,803	₩26,094,562	₩18,340,386	₩83,432,972
<b>Financial liabilities:</b>								
Financial liabilities at FVTPL	₩ 635,604	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 635,604
Hedging derivative liabilities	—	141,151	50,643	35,138	478,207	1,180,514	313,913	2,199,566
Borrowings	—	993,656	1,802,066	2,161,966	1,379,117	3,186,884	1,948,680	11,472,369
Debentures	—	2,197,813	2,218,900	4,357,805	6,701,711	26,519,154	15,152,523	57,147,906
Other financial liabilities	—	614,555	—	281	664	25,730	543,159	1,184,389
	₩ 635,604	₩3,947,175	₩4,071,609	₩6,555,190	₩ 8,559,699	₩30,912,282	₩17,958,275	₩72,639,834
<b>Off-balance-sheet items(*1):</b>								
Commitments	₩27,073,534	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩27,073,534
Financial guarantee contracts	11,086,007	—	—	—	—	—	—	11,086,007
	₩38,159,541	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩38,159,541

(\*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

(DECEMBER 31, 2014)

Financial assets:	On demand	Within one month	One to three months	Three to six months	Six to 12 months	One year to five years	More than five years	Total
Cash and due from financial institutions	₩ 830,674	₩ 279,906	₩ 231,044	₩ 60,485	₩ 52,005	₩ 1,661,796	₩ —	₩ 3,115,910
Financial assets at FVTPL	1,197,499	—	—	—	—	—	—	1,197,499
Hedging derivative assets	—	503	467	—	15,086	103,983	168,385	288,424
Loans	12,199	7,931,753	6,013,001	10,114,231	7,784,273	21,786,151	15,382,784	69,024,392
AFS financial assets	4,339,990	1,262	1,419	31,766	62,004	283,619	101,805	4,821,865
Held-to-maturity financial assets	—	—	22,527	392	16,879	—	—	39,789
Other financial assets	—	498,998	—	—	230,513	33,423	165,048	927,982
	₩ 6,380,362	₩ 8,712,422	₩ 6,268,458	₩ 10,206,874	₩ 8,160,760	₩ 23,868,972	₩ 15,818,022	₩ 79,415,870
Financial liabilities:								
Financial liabilities at FVTPL	₩ 489,069	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities	—	60,613	258,861	103,780	198,459	1,109,788	251,955	1,983,456
Borrowings	—	682,671	773,143	3,134,883	1,263,810	2,738,181	1,663,722	10,256,410
Debentures	—	2,560,097	3,638,227	3,078,023	6,964,062	22,161,849	14,326,752	52,729,010
Other financial liabilities	—	2,570,426	—	—	—	—	108	2,570,534
	₩ 489,069	₩ 5,873,807	₩ 4,670,231	₩ 6,316,686	₩ 8,426,331	₩ 26,009,818	₩ 16,242,537	₩ 68,028,479
Off-balance-sheet items(*1):								
Commitments	₩ 28,415,294	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 28,415,294
Financial guarantee contracts	8,830,564	—	—	—	—	—	—	8,830,564
	₩ 37,245,858	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 37,245,858

(\*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

#### 4-4. Market risk

##### (1) Overview of market risk

###### 1) Definition of market risk

Market risk is the risk of possible losses that arise from the changes of market factors, such as interest rate, stock price, foreign exchange rate, commodity value and other market factors related to the fair value or future cash flows of the financial instruments. The Bank classifies exposures to market risk into either foreign exchange rate risk or interest rate risk. Foreign exchange risk means that possible losses on assets and liabilities denominated in foreign currency due to changes of foreign exchange rate. Interest rate risk means that possible losses on assets and liabilities due to changes of interest rate.

###### 2) Market risk management group

The Bank operates the Risk Management Committee and the Risk Management Council for managing risks and risk limits. The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council for practical matters, such as managing adequate assets and liabilities by analyzing foreign exchange risk, interest rate risk, liquidity risk, money balance plan and effects by initiating new product. Market risk is managed by product and currency for minimizing segments exposed to changes of foreign exchange, interest rate and securities' price. Foreign exchange risk is measured by definite method and probabilistic method and definite method is used for limits management. Interest rate value at risk (VaR) and interest rate earning at risk (EaR) are measured by BIS standards, definite method and probabilistic method and definite method is used for limits management. Meanwhile, the Bank performs financial crisis analysis supposing exceptional, but possible events for evaluating latent weakness. The analysis is used for important decision making, such as risk mitigation, emergency plan development and limit setup. The results of the analysis are reported to the board of directors and management on a quarterly basis.

##### (2) Foreign exchange risk

###### 1) Management of foreign exchange risk

Foreign exchange risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of foreign exchange risk by source and compliance of risk limits regularly. A finance division head also monitors changes of foreign exchange risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that foreign exchange risk exceeds risk limit. If foreign exchange risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

###### 2) Measurement of foreign exchange risk

Foreign exchange risk is managed by foreign exchange VaR and foreign exchange position. Foreign exchange VaR is measured on a monthly basis and foreign exchange position is measured on a daily basis. It is measured separately by currency for assets and liabilities denominated in foreign currency exceeding 5% of total assets and liabilities denominated in foreign currency.

##### 3) Measurement method

###### ① VaR

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank

calculates VaR using equal weighted-average method based on historical changes in market rates, prices and volatilities over the previous five years data and measures VaR at a 99% single tail confidence level. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different, depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of foreign exchange that has significant influent on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of foreign exchange VaR as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015				December 31, 2014			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Foreign exchange risk	₩29,332	₩17,257	₩42,271	₩42,271	₩124,101	₩52,367	₩193,054	₩122,907

(3) Interest rate risk

1) Management of interest rate risk

Interest rate risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of interest rate risk by source and compliance of risk limits regularly. A finance division head also monitors changes of interest rate risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that interest rate risk exceeds risk limit. If interest rate risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of interest rate risk

Interest rate risk is managed by measuring interest rate EaR and interest rate VaR and uses interest rate sensitivity gap and duration gap as supplementary index. Interest rate EaR and interest rate VaR are measured on a monthly basis, and interest rate sensitivity gap and duration gap are measured on a daily basis. The Bank simulates analysis reflecting market environment, product features and the Bank's strategies.

3) Measurement method

① VaR

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal weighted-average method based on historical changes in market rates, prices and volatilities over the previous five years data and measures VaR at a 99% single tail confidence level. This means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of interest rate that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of interest rate VaR as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015				December 31, 2014			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Interest rate risk	₩113,684	₩70,772	₩159,305	₩70,772	₩40,828	₩5,613	₩159,309	₩24,663

**4-5. Capital risk**

The Bank follows the standard of capital adequacy established by the Financial Services Commission. The standard is based on Basel III, which was established by Basel Committee on Banking Supervision in BIS. According to the standard, domestic banks should maintain at least 8% or above of BIS capital ratio for risk-weighted asset, and quarterly report BIS capital ratio to the FSS.

According to Korean Banking Supervision rules for operations, the Bank's capitals are mainly divided into two categories:

- 1) Tier 1 capital (basic capital): Basic capital is composed of capital stock-common and other basic capital. Capital stock-common includes common stock satisfied with qualifications, capital surplus, retained earnings, accumulated other comprehensive income, other reserves and non-controlling interests among the common stock of consolidated subsidiaries. Other basic capital includes securities and capital surplus satisfied with qualifications.
- 2) Tier 2 capital (supplementary capital): Supplementary capital is composed of the securities and capital surplus satisfied with qualifications, non-controlling interests among the securities of consolidated subsidiaries and the amounts of less than below 1.25% of credit risk-weighted asset like allowance for credit losses in respect of credits classified as normal or precautionary.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Bank bears. The Bank computes the risk-weighted asset by risks (credit risk, market risk and operational risk) and uses it for calculation of BIS capital ratio.

BIS capital ratio of the Bank as of June 30, 2015, and December 31, 2014, is as follows:

(June 30, 2015)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Basic capital	₩ 9,359,128	₩ 9,320,842
Supplementary capital	1,276,614	1,222,933
Total	<u>10,635,742</u>	<u>10,543,775</u>
Risk-weighted asset	104,967,356	100,444,378
BIS capital ratio (%)	10.13	10.50

## 5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

### 5-1. Classification and fair value

- (1) Carrying amounts and fair values of financial instruments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Classification	<u>June 30, 2015</u>		<u>December 31, 2014</u>		
	Carrying amount	Fair value	Carrying amount	Fair value	
Financial assets:					
Cash and due from financial institutions	Non-recurring	₩ 3,311,128	₩ 3,311,384	₩ 3,113,988	₩ 3,114,046
Financial assets at FVTPL	Recurring	1,286,713	1,286,713	1,197,499	1,197,499
Hedging derivative assets	Recurring	268,078	268,078	288,424	288,424
Loans	Non-recurring	64,254,292	66,368,411	61,158,553	62,154,900
AFS financial assets	Recurring	4,833,606	4,833,606	4,752,625	4,752,625
Held-to-maturity financial assets	Non-recurring	110,602	110,637	38,899	38,985
Other financial assets	Non-recurring	852,594	852,594	808,893	808,893
		<u>₩74,917,013</u>	<u>₩77,031,423</u>	<u>₩71,358,881</u>	<u>₩72,355,372</u>
Financial liabilities:					
Financial liabilities at FVTPL	Recurring	₩ 635,604	₩ 635,604	₩ 489,069	₩ 489,069
Hedging derivative liabilities	Recurring	2,199,566	2,199,566	1,983,456	1,983,456
Borrowings	Non-recurring	11,198,922	11,249,910	10,018,281	10,064,196
Debentures	Non-recurring	50,888,744	51,818,038	47,291,703	48,661,241
Other financial liabilities	Non-recurring	1,184,389	1,184,389	2,570,535	2,570,535
		<u>₩66,107,225</u>	<u>₩67,087,507</u>	<u>₩62,353,044</u>	<u>₩63,768,497</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For each class of financial assets and financial liabilities, the Bank discloses the fair value of that class of assets and liabilities in a way that permits them to be compared with their carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods for measuring fair value of financial instruments are as follows:

<u>Financial instruments</u>	<u>Method of measuring fair value</u>
Loans and receivables	<p>As demand deposits and transferable deposits do not have maturity and are readily convertible to cash. Carrying amounts of these deposits are regarded as the nearest amounts of fair values. Fair values of other deposits are determined by discounted cash flow model (“DCF model”).</p> <p>DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows by contractual cash flows with prepayment rate taken into account by appropriate discount rate.</p>
Investment securities	<p>Trading financial assets and liabilities and AFS financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using valuation techniques.</p> <p>For exchange-traded derivative, quoted price in active market is used to determine fair value and for over-the-counter (OTC) derivative, fair value is determined using valuation techniques. The Bank uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives including option, interest rate swap and currency swap based on observable market parameters. However, some complex financial instruments are valued using the results of independent pricing services, where part or all of the inputs are not observable in the market.</p>
Derivatives	<p>The adjustment for credit risk is reflected in cash flow, and the Bank’s credit risk are considered in the discount rate</p>
Borrowings	<p>Fair value is determined using DCF model discounting contractual future cash flows by appropriate discount rate.</p> <p>The adjustment for credit risk is reflected in cash flow and the Bank’s credit risk is considered in the discount rate.</p>
Debentures	<p>Fair value of debentures denominated in local currency is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.</p> <p>Fair value of debentures denominated in foreign currency is determined by DCF model.</p> <p>The adjustment for credit risk is reflected in cash flow and the Bank’s credit risk is considered in the discount rate.</p>

Fair values of financial assets and financial liabilities classified as fair value Level 3 of the fair value hierarchy are determined by using the valuation of independent third-party pricing services. Meanwhile, carrying amounts of other financial assets and financial liabilities are regarded as the nearest amounts of fair values.

(2) Fair value hierarchy

Fair value hierarchy of financial assets and liabilities, which are not measured at fair value as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

(June 30, 2015)

	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Cash and due from financial institutions	₩—	₩ 3,311,384	₩ —	₩ 3,311,384
Loans	—	—	66,368,411	66,368,411
Held-to-maturity financial assets	—	110,637	—	110,637
Other financial assets	—	—	852,594	852,594
	<u>₩—</u>	<u>₩ 3,422,021</u>	<u>₩67,221,005</u>	<u>₩70,643,026</u>
<b>Financial liabilities:</b>				
Borrowings	₩—	₩11,249,910	₩ —	₩11,249,910
Debentures	—	51,818,038	—	51,818,038
Other financial liabilities	—	—	1,184,389	1,184,389
	<u>₩—</u>	<u>₩63,067,948</u>	<u>₩ 1,184,389</u>	<u>₩64,252,337</u>

(December 31, 2014)

	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Cash and due from financial institutions	₩—	₩ 3,114,046	₩ —	₩ 3,114,046
Loans	—	—	62,154,900	62,154,900
Held-to-maturity financial assets	—	38,985	—	38,985
Other financial assets	—	—	808,893	808,893
	<u>₩—</u>	<u>₩ 3,153,031</u>	<u>₩62,963,793</u>	<u>₩66,116,824</u>
<b>Financial liabilities:</b>				
Borrowings	₩—	₩10,064,196	₩ —	₩10,064,196
Debentures	—	48,661,241	—	48,661,241
Other financial liabilities	—	—	2,570,535	2,570,535
	<u>₩—</u>	<u>₩58,725,437</u>	<u>₩ 2,570,535</u>	<u>₩61,295,972</u>

Fair value hierarchy of financial assets and liabilities measured at fair value as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

(June 30, 2015)

	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Financial assets at FVTPL	₩1,186,055	₩ 100,658	₩ —	₩1,286,713
Hedging derivative assets	—	268,078	—	268,078
AFS financial assets	195,943	539,380	3,693,781	4,429,104
	<u>₩1,381,998</u>	<u>₩ 908,116</u>	<u>₩3,693,781</u>	<u>₩5,983,895</u>
<b>Financial liabilities:</b>				
Financial liabilities at FVTPL	₩ —	₩ 635,604	₩ —	₩ 635,604
Hedging derivative liabilities	—	2,199,566	—	2,199,566
	<u>₩ —</u>	<u>₩2,835,170</u>	<u>₩ —</u>	<u>₩2,835,170</u>

(December 31, 2014)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at FVTPL	₩1,140,719	₩ 56,780	₩ —	₩1,197,499
Hedging derivative assets	—	288,424	—	288,424
AFS financial assets	207,881	446,365	3,677,652	4,331,898
	<u>₩1,348,600</u>	<u>₩ 791,569</u>	<u>₩3,677,652</u>	<u>₩5,817,821</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ —	₩ 489,069	₩ —	₩ 489,069
Hedging derivative liabilities	—	1,983,456	—	1,983,456
	<u>₩ —</u>	<u>₩2,472,525</u>	<u>₩ —</u>	<u>₩2,472,525</u>

The Bank classifies financial instruments as three level of fair value hierarchy as below:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value Level 1. This level includes listed equity securities, derivatives, and government bonds traded in an active exchange market.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as Level 2. This level includes the majority of debt and general OTC derivatives such as swap, futures and options.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as Level 3. This level includes unlisted equity securities, structured bonds and OTC derivatives.

The best estimate of fair value of financial instruments is a quoted price from active markets when the financial instruments are traded in an active exchange market (Level 1). If a quoted price of a financial instrument is available readily and regularly through exchange markets, sellers, brokers, industry groups, pricing services, supervisory services and the quoted price is arm's-length transaction between knowledgeable, willing parties, the price of the financial instrument is regarded to be disclosed in an active market.

If there is not an active market, fair value of a financial instrument is determined by valuation techniques. The valuation techniques include using a recent transaction between knowledgeable, willing parties, fair value of the similar kind financial instrument, DCF model, option-pricing model and others. If a valuation technique is used by general market participants and it can provide reliable estimates of fair values, the valuation technique can be used. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. The valuation techniques include all the inputs considered by market participants for determining price. The Bank adjusts valuation techniques regularly and reviews the validity of the techniques based on observable current price of the same kind financial instruments observable market data. The Bank believes that used valuation techniques are appropriate and fair values in the separate statements of financial position are reasonable. However, the fair values in the separate statements of financial position can be changed when different valuation techniques or different assumptions are used. Also, it can be difficult to compare fair values of the Bank to those of other financial institution because various valuation techniques and several assumptions are used.

3) The valuation techniques and the input variables of Level 2 financial instruments

- ① The valuation techniques and the input variables of Level 2 financial instruments subsequently not measured at fair value as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions):

(June 30, 2015)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Cash and due from financial institutions	₩ 3,311,384	DCF	Discount rate
Held-to-maturity financial assets	110,637	DCF	Discount rate
Financial liabilities:			
Borrowings	₩11,249,910	DCF	Discount rate
Debentures	51,818,038	DCF	Discount rate

(December 31, 2014)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Cash and due from financial institutions	₩ 3,114,046	DCF	Discount rate
Held-to-maturity financial assets	38,985	DCF	Discount rate
Financial liabilities:			
Borrowings	₩10,064,196	DCF	Discount rate
Debentures	48,661,241	DCF	Discount rate

- ② The valuation techniques and the input variables of Level 2 financial instruments, measured at fair value after initial recognition, as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions):

(June 30, 2015)

	Fair value	Valuation techniques	Input factor
Financial assets:			
Financial assets at FVTPL	₩ 100,658	DCF	Discount rate
Hedging derivative assets	268,078	DCF	Discount rate
AFS financial assets	539,380	DCF	Discount rate
		Net Asset Value Method	Price of underlying assets
Financial liabilities:			
Financial liabilities at FVTPL	₩ 635,604	DCF	Discount rate
Hedging derivative liabilities	2,199,566	DCF	Discount rate

(December 31, 2014)

	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Input factor</u>
Financial assets:			
Financial assets at FVTPL	₩ 56,780	DCF	Discount rate
Hedging derivative assets	288,424	DCF	Discount rate
AFS financial assets	446,365	DCF	Discount rate
		Net Asset Value Method	Price of underlying assets
Financial liabilities:			
Financial liabilities at FVTPL	₩ 489,069	DCF	Discount rate
Hedging derivative liabilities	1,983,456	DCF	Discount rate

4) The valuation techniques and inputs of Level 3 financial instruments

- ① The valuation techniques and significant unobservable inputs of Level 3 financial instruments subsequently not measured at fair value as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions):.

(June 30, 2015)

	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Input factor</u>
Financial assets:			
Loans	₩66,368,411	DCF	Discount rate
Other financial assets	852,594	DCF	Discount rate
Financial liabilities:			
Other financial liabilities	₩ 1,184,389	DCF	Discount rate

(December 31, 2014)

	<u>Fair value</u>	<u>Valuation techniques</u>	<u>Input factor</u>
Financial assets:			
Loans	₩62,154,900	DCF	Discount rate
Other financial assets	808,893	DCF	Discount rate
Financial liabilities :			
Other financial liabilities	₩ 2,570,535	DCF	Discount rate

- ② The valuation techniques and significant unobservable inputs of Level 3 financial instruments, measured at fair value after initial recognition as of June 30, 2015, and December 31, 2014, are as follows (Unit: Korean won in millions except for stock price):

(June 30, 2015)

	Fair value	Valuation techniques	Input factor which is significant but unobservable	Scope	Relation between unobservable input factor and estimate of fair value
AFS financial assets					
		Discounted cash flow	Discount rate	4.97%–16.49%	If discount rate is decreased (increased)/ if growth is increased (decrease), fair value is decreased (increased).
			Growth rate	—	
Unlisted stock	3,693,781	Option-pricing model	Volatility	5.45%	If volatility of stock price is increased (decreased)/if stock price increased (decreased), fair value is increased (decreased)
			Stock price	2,043 won	

(December 31, 2014)

	Fair value	Valuation techniques	Input factor which is significant but unobservable	Scope	Relation between unobservable input factor and estimate of fair value
AFS financial assets					
		Discounted cash flow	Discount rate	3.97%–19.93%	If discount rate is decreased (increased)/ if growth is increased (decrease), fair value is decreased (increased).
			Growth rate	—	
Unlisted stock	3,677,652	Option-pricing model	Volatility	4.80%	If volatility of stock price is increased (decreased)/if stock price increased (decreased), fair value is increased (decreased)
			Stock price	494 won	

- 5) Changes in Level 3 financial assets that are measured at fair value for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	<u>Beginning balance</u>	<u>Profit (loss)</u>	<u>Other comprehensive income</u>	<u>Purchases/ issues</u>	<u>Sales/ settlements</u>	<u>Transfers into Level 3 / Transfers out of Level 3</u>	<u>Ending balance</u>
Financial assets							
AFS financial assets	₩3,677,652	₩(4,602)	₩18,540	₩26,119	₩(839)	₩(23,089)	₩3,693,781

(2014)

	<u>Beginning balance</u>	<u>Profit (loss)</u>	<u>Other comprehensive income</u>	<u>Purchases/ issues</u>	<u>Sales/ settlements</u>	<u>Transfers into Level 3 / Transfers out of Level 3</u>	<u>Ending balance</u>
Financial assets							
AFS financial assets	₩3,596,430	₩(33,161)	₩85,950	₩1,415	₩(570)	₩27,588	₩3,677,652

- 6) In relation with changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period and total gains or losses for financial instruments held at the end of the reporting period in the separate statement of comprehensive income for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Total losses for financial instruments held at the end of the reporting period	₩(4,602)	₩(29,485)
Total losses included in profit or loss for the period	₩(4,602)	₩(33,161)

- 7) The sensitivity of fair value analysis for the Level 3 financial instruments

The Bank performed the sensitivity analysis for the Level 3 financial instruments for which fair value would be measured differently upon reasonably possible alternative assumptions. The Bank classified the effect from changes upon the alternative assumptions into favorable effect and unfavorable effect and presented the most favorable effect or the most unfavorable effect in the table hereunder. Stocks are the financial instruments subject to sensitivity analysis, which are classified as Level 3 and of which changes in fair value are recognized as other comprehensive income. Meanwhile, equity instruments, which are recognized as cost among the financial instruments and are classified as Level 3 are excluded from the sensitivity analysis.

Sensitivity analysis details per market risk variable of each Level 3 financial instrument held and measured at fair value as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

	<u>Net income (loss)</u>		<u>Other comprehensive income (loss)</u>	
	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩3,555,691	₩(991,530)

- (\*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1% and discount rate or liquidation value from negative 1% to 1% and discount rate, which are unobservable inputs.

(December 31, 2014)

	Net income (loss)		Other comprehensive income (loss)	
	Favorable	Unfavorable	Favorable	Unfavorable
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩5,435,680	₩(1,198,592)

(\*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1% and discount rate or liquidation value from negative 1% to 1% and discount rate, which are unobservable inputs.

- 8) The table below provides the Bank's financial assets and financial liabilities that are carried at cost since the fair values of the financial instruments are not readily determinable in the separate statements of financial position as of June 30, 2015, and December 31, 2014. (Korean won in millions):

	June 30, 2015	December 31, 2014
AFS financial assets		
Unlisted securities (*)	₩385,745	₩385,845
Equity investments to unincorporated entities. (*)	18,757	34,882
	<u>₩404,502</u>	<u>₩420,727</u>

(\*) AFS financial assets are unlisted equity securities and equity investments and recorded as at cost since they do not have quoted prices in an active market and the fair values are not measured with reliability.

## 5-2. Carrying amounts of financial instruments

Carrying amounts of financial instruments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

	Financial assets at FVTPL	Loans	AFS financial assets	Held-to-maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions	₩ —	₩ 3,311,128	₩ —	₩ —	₩ —	₩ 3,311,128
Financial assets at FVTPL	1,286,713	—	—	—	—	1,286,713
Hedging derivative assets	—	—	—	—	268,078	268,078
Loans	—	64,254,292	—	—	—	64,254,292
Financial investments	—	—	4,833,606	110,602	—	4,944,208
Other financial assets	—	852,594	—	—	—	852,594
Total	<u>₩1,286,713</u>	<u>₩68,418,014</u>	<u>₩4,833,606</u>	<u>₩110,602</u>	<u>₩268,078</u>	<u>₩74,917,013</u>

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩635,604	₩ —	₩ —	₩ 635,604
Hedging derivative liabilities	—	—	2,199,566	2,199,566
Borrowings	—	11,198,922	—	11,198,922
Debentures	—	50,888,744	—	50,888,744
Other financial liabilities	—	1,184,389	—	1,184,389
Total	₩635,604	₩63,272,055	₩2,199,566	₩66,107,225

(December 31, 2014)

	Financial assets at FVTPL	Loans	AFS financial assets	Held-to-maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions	₩ —	₩ 3,113,988	₩ —	₩ —	₩ —	₩ 3,113,988
Financial assets at FVTPL	1,197,499	—	—	—	—	1,197,499
Hedging derivative assets	—	—	—	—	288,424	288,424
Loans	—	61,158,553	—	—	—	61,158,553
Financial investments	—	—	4,752,625	38,899	—	4,791,524
Other financial assets	—	808,893	—	—	—	808,893
Total	₩1,197,499	₩65,081,434	₩4,752,625	₩38,899	₩288,424	₩71,358,881

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩489,069	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities	—	—	1,983,456	1,983,456
Borrowings	—	10,018,281	—	10,018,281
Debentures	—	47,291,703	—	47,291,703
Other financial liabilities	—	2,570,535	—	2,570,535
Total	₩489,069	₩59,880,519	₩1,983,456	₩62,353,044

### 5-3. Offset on financial assets and financial liabilities

The Bank has conditional rights of setoff that are enforceable and exercisable only in the events mentioned in agreements regardless of meeting some or all of the offsetting criteria in K-IFRS 1032 for derivative assets, derivative liabilities, receivable spot exchanges and payable spot exchanges. Cash collaterals do not meet the offsetting criteria in K-IFRS 1032 but they can be set off with net amount of derivative assets and derivatives liabilities and net amount of receivables spot exchanges and payable spot exchanges.

The effects of netting agreements as of June 30, 2015, and December 31, 2014, are as follow (Korean won in millions):

(June 30, 2015)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net Amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 368,735	₩—	₩ 368,735	₩(274,863)	₩ —	₩ 93,872
AFS financial assets	81,285	—	81,285	(74,861)	—	6,424
Held-to-maturity financial assets	40,836	—	40,836	(37,608)	—	3,228
	<u>490,856</u>	<u>—</u>	<u>490,856</u>	<u>(387,332)</u>	<u>—</u>	<u>103,524</u>
Financial liabilities:						
Derivatives	2,835,170	—	2,835,170	(274,863)	(1,908,971)	651,336
Repurchase agreement (RP)	112,469	—	112,469	(112,469)	—	—
Total	<u>₩2,947,639</u>	<u>₩—</u>	<u>₩2,947,639</u>	<u>₩(387,332)</u>	<u>₩(1,908,971)</u>	<u>₩651,336</u>

(December 31, 2014)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 345,204	₩—	₩ 345,204	₩(253,618)	₩ —	₩ 91,586
AFS financial assets	112,508	—	112,508	(101,282)	—	11,226
	<u>457,712</u>	<u>—</u>	<u>457,712</u>	<u>(354,900)</u>	<u>—</u>	<u>102,812</u>
Financial liabilities:						
Derivatives	2,472,524	—	2,472,524	(253,618)	(1,567,378)	651,528
RP	101,282	—	101,282	(101,282)	—	—
Total	<u>₩2,573,806</u>	<u>₩—</u>	<u>₩2,573,806</u>	<u>₩(354,900)</u>	<u>₩(1,567,378)</u>	<u>₩651,528</u>

## 6. OPERATING SEGMENT:

Though the Bank conducts business activities related to financial services, in accordance with relevant laws, such as the Export-Import Bank of Korea Act, it does not report separate segment information, as management considers the Bank to be operating under one core business.

**7. CASH AND DUE FROM FINANCIAL INSTITUTIONS:**

Restricted due from financial institutions as of June 30, 2015, and December 31, 2014, is as follows (Korean won in millions):

<u>Detail</u>	<u>Financial Institution</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>	<u>Reason for restriction</u>
Others	DEUTSCHE BANK TRUST COMPANY AMERICAS	₩2,135	₩908	Credit support annex for derivative transactions

**8. FINANCIAL ASSETS AT FVTPL:**

Details of financial assets at FVTPL as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Debt securities	₩ 65,478	₩ —
Equity securities		
Beneficiary certificates	1,120,577	1,140,719
Derivative assets		
Interest product	23,879	3,630
Currency product	76,779	53,150
Subtotal	100,658	56,780
Total	₩1,286,713	₩1,197,499

**9. FINANCIAL INVESTMENTS:**

Details of financial investments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
AFS securities in local currency		
Equity securities		
Marketable securities	₩ 199,453	₩ 217,250
Non-marketable securities	4,061,219	4,052,358
Equity investments to unincorporated entities	16,123	34,882
Others	13,009	1,771
Subtotal	4,289,804	4,306,261
AFS securities in foreign currency		
Debt securities		
Debt securities(*1)	539,379	446,364
Equity securities		
Equity securities	4,423	—
Subtotal	543,802	446,364
Held-to-maturity securities in foreign currency		
Debt securities		
Debt securities(*1)	110,602	38,899
Total	₩4,944,208	₩4,791,524

(\*1) It includes debt securities, which are pledged as collateral amounting to ₩122,121 and ₩112,508 as of June 30, 2015, and December 31, 2014, respectively.

## 10. LOANS:

Loans as presented below exclude loan valuation adjustment related to fair value hedging amounting to ₩85,313 million and ₩96,872 million as of June 30, 2015, and December 31, 2014, respectively.

(1) Details of loans as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	Detail	June 30, 2015	December 31, 2014
Loans in local currency	Loans for export	₩ 9,196,671	₩ 9,271,874
	Loans for overseas investments	847,000	744,062
	Loans for import	1,142,037	1,088,873
	Troubled Debt Restructuring	2,280,679	1,776,744
	Others	323,793	303,700
	Subtotal	<u>13,790,180</u>	<u>13,185,253</u>
Loans in foreign currencies	Loans for export	23,806,095	20,590,839
	Loans for overseas investments	20,105,577	18,241,228
	Loans for rediscounted trading notes	539,568	439,680
	Loans for import	2,372,839	2,795,575
	Overseas funding loans	671,742	632,417
	Domestic usance bills	379,085	503,351
	Others	362,610	411,317
Subtotal	<u>48,237,516</u>	<u>43,614,407</u>	
Others	Foreign currency bills bought	1,062,386	1,353,180
	Advance for customers	40,640	32,033
	Call loans	2,361,470	4,803,319
	Interbank loans in foreign currency	1,157,822	298,823
Subtotal	<u>4,622,318</u>	<u>6,487,355</u>	
Total loan		66,650,014	63,287,015
Net deferred origination fees and costs		(460,973)	(411,701)
Allowance for loan losses		(2,020,062)	(1,813,633)
Total		<u>₩64,168,979</u>	<u>₩61,061,681</u>

(2) Changes in allowance for loan losses for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Individual assessment	Collective assessment	Total
Beginning balance	₩1,473,030	₩340,603	₩1,813,633
Written-off	(116,635)	(3,951)	(120,586)
Collection of written-off loans	—	384	384
Loan-for-equity swap	(15,223)	(10,726)	(25,949)
Others	—	(544)	(544)
Unwinding effect	(13,904)	(947)	(14,851)
Foreign exchange translation	1,327	3,252	4,579
Provision for loan losses	194,240	169,156	363,396
Transfer	32,308	(32,308)	—
Ending balance	<u>₩1,555,143</u>	<u>₩464,919</u>	<u>₩2,020,062</u>

(2014)

	Individual assessment	Collective assessment	Total
Beginning balance	₩ 2,099,283	₩283,017	₩ 2,382,300
Written-off	(35,924)	(11,814)	(47,738)
Collection of written-off loans	—	387	387
Loan-for-equity swap	(1,048,877)	(7,549)	(1,056,426)
Others	—	253	253
Unwinding effect	(29,427)	(2,119)	(31,546)
Foreign exchange translation	1,787	3,466	5,253
Provision for loan losses	450,267	110,883	561,150
Transfer	35,922	(35,922)	—
Ending balance	<u>₩ 1,473,031</u>	<u>₩340,602</u>	<u>₩ 1,813,633</u>

## 11. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES:

(1) Details of investments in associates and subsidiaries as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Company	Detail	Location	Business	Year-end	Owner ship (%)	Net asset (*1)	Carrying amount
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Finance	December	100.00	₩ 45,101	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Finance	December	100.00	12,633	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Finance	December	85.00	23,515	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Finance	December	100.00	57,724	49,139
Korea Asset Management Corporation	Associate	Korea	Finance	December	25.86	407,255	380,520
Credit Guarantee and Investment Fund (*1)	Associate	Philippines	Finance	December	14.28	115,784	115,486
Korea Marine Guarantee Incorporated Company	Associate	Korea	Finance	December	49.99	29,711	30,000
SUNG Dong Shipbuilding & Marine Engineering Co, Ltd. (*1)	Associate	Korea	Shipbuilding	December	70.71	(900,250)	—
DAESUN Shipbuilding & Engineering Co, Ltd. (*1)	Associate	Korea	Shipbuilding	December	67.27	(243,017)	—
Total							<u>₩659,150</u>

(\*1) Net assets for subsidiaries are shown after consideration of ownership.

(December 31, 2014)

<u>Company</u>	<u>Detail</u>	<u>Location</u>	<u>Business</u>	<u>Year-end</u>	<u>Owner ship (%)</u>	<u>Net asset</u>	<u>Carrying amount</u>
KEXIM Bank UK Limited	Subsidiary	United Kingdom	Finance	December	100.00	₩ 41,274	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	Vietnam	Finance	December	100.00	11,479	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	Indonesia	Finance	December	85.00	23,032	25,270
KEXIM Asia Limited	Subsidiary	Hong Kong	Finance	December	100.00	55,408	49,139
Korea Asset Management Corporation	Associate	Korea	Finance	December	25.86	407,868	380,520
Credit Guarantee and Investment Fund (*1)	Associate	Philippines	Finance	December	14.28	112,522	115,486
Korea Marine Guarantee Incorporated Company	Associate	Korea	Finance	December	49.99	30,000	30,000
SUNG Dong Shipbuilding & Marine Engineering Co, Ltd. (*2)	Associate	Korea	Shipbuilding	December	70.71	(680,342)	—
DAESUN Shipbuilding & Engineering Co, Ltd. (*2)	Associate	Korea	Shipbuilding	December	67.27	(239,738)	—
Total							<u>₩659,150</u>

(\*1) As of June 30, 2015, and December 31, 2014, Credit Guarantee and Investment Fund are classified into an associate because the Bank has significant influence in the way of representation on the board of directors or equivalent governing body of the investee.

(\*2) These companies are under the Creditor-led work out program. And the Bank should have at least 75% of the Total creditor's loans to have substantive control based on the creditor's agreement. As the Bank only has 70.71% and 60.27% for SUNGDONG Shipbuilding & Marine Engineering Co., Ltd. and DAESUN Shipbuilding & Engineering Co., Ltd., respectively, of the total creditor's loans, those are classified as associates.

(2) Changes in investments in associates and subsidiaries for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

<u>Company</u>	<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Impairment loss</u>	<u>Ending balance</u>
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩—	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	—	115,486
Korea Marine Guarantee Incorporated Company	Associate	30,000	—	—	30,000
SUNG Dong Shipbuilding & Marine Engineering Co. Ltd.	Associate	—	—	—	—
DAESUN Shipbuilding & Engineering Co, Ltd.	Associate	—	—	—	—
Total		<u>₩659,150</u>	<u>₩—</u>	<u>₩—</u>	<u>₩659,150</u>

(2014)

<u>Company</u>	<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Impairment loss</u>	<u>Ending balance</u>
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩ —	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	—	115,486
Korea Marine Guarantee Incorporated Company	Associate	—	30,000	—	30,000
SUNGDOG Shipbuilding & Marine Engineering Co. Ltd.	Associate	10	—	(10)	—
DAESUN Shipbuilding & Engineering Co, Ltd.	Associate	—	1	(1)	—
Total		<u>₩629,160</u>	<u>30,001</u>	<u>(11)</u>	<u>₩659,150</u>

- (3) Summarized financial information of associates and subsidiaries as of and for the six months ended June 30, 2015, and for the year ended December 31, 2014, is as follows (Korean won in millions):

(2015)

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Operating income (loss)</u>	<u>Net income (loss)</u>
KEXIM Bank UK Limited	₩ 511,553	₩ 466,452	₩ 2,840	₩ 2,306
KEXIM Vietnam Leasing Co.	159,491	146,858	1,068	874
PT.KOEXIM Mandiri Finance	166,801	143,286	2,277	2,278
KEXIM Asia Limited	384,535	326,811	1,746	1,464
Korea Asset Management Corporation	2,426,501	851,657	41,706	35,513
Credit Guarantee and Investment Fund	836,075	25,263	3,541	3,398
Korea Marine Guarantee Incorporated Company	60,028	605	(289)	(289)
SUNGDOG Shipbuilding & Marine Engineering Co. Ltd.	1,990,444	3,263,602	(180,589)	(310,081)
DAESUN Shipbuilding & Engineering Co, Ltd.	404,434	765,690	(8,737)	(16,325)

(2014)

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Operating income (loss)</u>	<u>Net income (loss)</u>
KEXIM Bank UK Limited	₩ 497,285	₩ 456,011	₩ 23,257	₩ (2,606)
KEXIM Vietnam Leasing Co.	148,664	137,185	4,374	1,169
PT.KOEXIM Mandiri Finance	163,332	140,300	7,482	3,546
KEXIM Asia Limited	386,051	330,643	11,956	3,308
Korea Asset Management Corporation	2,388,025	810,810	112,832	95,281
Credit Guarantee and Investment Fund	792,311	4,893	3,819	3,816
Korea Marine Guarantee Incorporated Company	60,000	—	—	—
SUNGDOG Shipbuilding & Marine Engineering Co. Ltd.	2,062,669	3,024,827	(207,799)	(344,873)
DAESUN Shipbuilding & Engineering Co, Ltd.	406,464	762,845	(35,438)	19,667

## 12. TANGIBLE ASSETS:

Changes in tangible assets for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Others</u>	<u>Ending balance</u>
Lands	₩191,306	₩ —	₩ —	₩ —	₩—	₩191,306
Buildings	72,676	—	—	(1,854)	(17)	70,805
Vehicles	1,378	131	(18)	(286)	—	1,205
Furniture and fixture	8,179	940	(2)	(1,528)	—	7,589
Total	<u>₩273,539</u>	<u>₩1,071</u>	<u>₩ (20)</u>	<u>₩(3,668)</u>	<u>₩(17)</u>	<u>₩270,905</u>

(2014)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Transfer</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Ending balance</u>
Lands	₩189,585	₩ 1,721	₩ —	₩ —	₩ —	₩191,306
Buildings	21,727	13,317	39,855	—	(2,222)	72,677
Vehicles	938	883	—	(14)	(430)	1,377
Furniture and fixture	7,102	3,196	481	(21)	(2,579)	8,179
Construction in progress	17,167	23,169	(40,336)	—	—	—
Total	<u>₩236,519</u>	<u>₩42,286</u>	<u>₩ —</u>	<u>₩ (35)</u>	<u>₩(5,231)</u>	<u>₩273,539</u>

## 13. INTANGIBLE ASSETS:

Changes in intangible assets for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

<u>Detail</u>	<u>Beginning Balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Ending Balance</u>
Computer software	₩ 4,725	₩ 140	₩—	₩ (677)	₩—	₩ 4,188
System development fees	8,785	2,436	—	(1,159)	—	10,062
Memberships	4,671	—	—	—	—	4,671
Total	<u>₩18,181</u>	<u>₩2,576</u>	<u>₩—</u>	<u>₩(1,836)</u>	<u>₩—</u>	<u>₩18,921</u>

(2014)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Ending balance</u>
Computer software	₩ 3,954	₩1,874	₩ —	₩(1,103)	₩—	₩ 4,725
System development fees	8,573	2,337	—	(2,125)	—	8,785
Memberships	4,901	—	(230)	—	—	4,671
Total	<u>₩17,428</u>	<u>₩4,211</u>	<u>₩(230)</u>	<u>₩(3,228)</u>	<u>₩—</u>	<u>₩18,181</u>

**14. OTHER ASSETS:**

- (1) Details of other assets as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Other financial assets:		
Guarantee deposits	₩ 34,826	₩ 33,553
Accounts receivable	165,925	165,684
Accrued income	698,905	653,032
Receivable spot exchange	61	90
Allowances for loan losses on other assets	<u>(47,123)</u>	<u>(43,466)</u>
	<u>852,594</u>	<u>808,893</u>
Other assets:		
Prepaid expenses	6,475	5,103
Advance payments	12	—
Prepaid corporate tax	1,422	—
Sundry assets	<u>15,911</u>	<u>14,401</u>
	<u>23,820</u>	<u>19,504</u>
Total	<u>₩876,414</u>	<u>₩828,397</u>

- (2) Changes in allowances for loan losses on other assets for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Beginning balance	₩43,466	₩14,304
Bad debts written off	(56)	—
Collection of written-off loans	—	35
Transfers in	3,657	29,162
Others	<u>56</u>	<u>(35)</u>
Ending balance	<u>₩47,123</u>	<u>₩43,466</u>

## 15. BORROWINGS:

Details of borrowings as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

<u>Detail</u>	<u>Lender</u>	<u>Interest rate (%)</u>	<u>Amount</u>
Borrowings in foreign currencies:			
Compulsory loan	MINISTRY OF STRATEGY AND FINANCE	LIBOR 3M+0.25– LIBOR 3M+0.78	₩ 3,395,850
Long-term borrowings from foreign financial institutions	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	LIBOR 3M+0.45– LIBOR 3M+1.10	3,035,070
Discount on borrowings		—	(8,100)
Commercial papers (CP)	CITIBANK N.A., HONG KONG and others	0.12–0.58	4,198,343
Offshore CP	CITIBANK N.A., HONG KONG	0.30	56,205
Others (Foreign banks)	DBS BANK TD, SINGAPORE BRANCH and others	0.70–1.10	379,085
			<u>11,056,453</u>
Call money in local currencies	Korea Development Bank	1.55	30,000
Securities sold under RP		0.44	112,469
			<u>₩11,198,922</u>

(December 31, 2014)

<u>Detail</u>	<u>Lender</u>	<u>Interest rate (%)</u>	<u>Amount</u>
Borrowings in foreign currencies:			
Compulsory loan	MINISTRY OF STRATEGY AND FINANCE	0.25– LIBOR 3M+0.78	₩ 3,359,507
Long term borrowings from foreign financial institutions	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	LIBOR 3M +0.35– LIBOR 3M + 1.10	2,790,601
Discount on borrowings		—	(9,025)
CP	CITIBANK N.A., HONG KONG and others	0.05–0.70	3,217,605
Offshore CP	BANK OF AMERICA NA and others	0.30	54,960
Others (Foreign banks)	DEUTSCHE BANK AG, LONDON BRANCH RBS(TOKYO) and others	0.46–1.95	503,351
			<u>9,916,999</u>
Securities sold under RP		0.40–0.45	101,282
			<u>₩10,018,281</u>

## 16. DEBENTURES:

Details of debentures as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Detail	June 30, 2015		December 31, 2014	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Local currency:				
	CD91-0.05			
Floating rate	-CD91+0.22	₩ 360,000	2.65-3.76	₩ 440,000
Fixed rate	1.55-4.9	9,030,000	2.04-4.9	8,230,000
Balance		9,390,000		8,670,000
Gain on fair value of hedged items		(1,817)		
Discount on debentures:		(42,006)		(41,947)
Subtotal		9,346,177		8,628,053
Foreign currencies				
	Libor+0.0-		Libor+0.0	
Floating rate	Libor+1.7	7,524,265	-Libor+1.8	6,578,872
Fixed rate	0.20-9.32	33,812,241	0.08-9.32	31,805,227
Balance		41,336,506		38,384,099
Gain on fair value of hedged items		361,981		440,212
Discount on debentures		(155,920)		(160,661)
Subtotal		41,542,567		38,663,650
Total		₩50,888,744		₩47,291,703

## 17. PROVISIONS:

(1) Details of provisions as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Provisions for acceptances and guarantees	₩167,379	₩119,183
Provisions for unused loan commitments	105,605	175,994
Total	₩272,984	₩295,177

(2) Changes in provisions for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

Detail	Acceptances and guarantees			Unused loan commitments	Total
	Individual assessment	Collective assessment	Subtotal		
Beginning balance	₩ 5,244	₩113,939	₩119,183	₩175,994	₩295,177
Foreign exchange translation	—	(22)	(22)	67	45
Additional Provisions (Reversal of provision)	47,098	1,120	48,218	(70,456)	(22,238)
Transfers in (out)	4,124	(4,124)	—	—	—
Ending balance	₩56,466	₩110,913	₩167,379	₩105,605	₩272,984

(2014)

Detail	Acceptances and guarantees			Unused loan commitments	Total
	Individual assessment	Collective assessment	Subtotal		
Beginning balance	₩ 88,434	₩ 67,178	₩155,612	₩ 89,742	₩245,354
Foreign exchange translation	—	61	61	465	526
Additional Provisions (Reversal of provision)	(82,803)	46,313	(36,490)	85,787	49,297
Transfers in (out)	(387)	387	—	—	—
Ending balance	₩ 5,244	₩113,939	₩119,183	₩175,994	₩295,177

#### 18. RETIREMENT BENEFIT PLAN:

The Bank operates both defined benefit plan and defined contribution plan.

##### (1) Defined benefit plan

The Bank operates defined benefit plans, which have the following characteristics:

- The entity has the obligation to pay the agreed benefits to all its current and past employees.
- The entity is liable for actuarial risk (excess of actual payment against expected amount) and investment risk.

The present value of the defined benefit obligation recognized in the separate statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation method. The present value of the defined benefit obligation is calculated using the Projected Unit Credit method (the PUC). The data used in the PUC, such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data, which are annually updated.

Actuarial assumptions may differ from actual results due to change in the market, economic trend and mortality trend, which may affect defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income or loss.

##### (2) Details of defined benefit obligation as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Present value of defined benefit obligations	₩ 88,467	₩ 82,626
Fair value of plan assets	(35,060)	(35,363)
Defined benefit obligation, net	₩ 53,407	₩ 47,263

(3) Changes in net defined benefit obligations for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩82,626	₩(35,363)	₩47,263
Current service cost	5,609	—	5,609
Interest expense	1,674	—	1,674
Return on plan assets, excluding the interest income	—	(720)	(720)
Actuarial gains and losses arising from changes in financial assumptions	—	—	—
Actuarial gains and losses arising from empirical adjustment	—	—	—
Management fee on plan assets	—	—	—
Transfer in (out)	—	—	—
Benefits paid	(1,442)	1,023	(419)
Ending balance	<u>₩88,467</u>	<u>₩(35,060)</u>	<u>₩53,407</u>

(2014)

	Present value of the defined benefit obligation	Plan assets	Net defined benefit obligation
Beginning balance	₩62,179	₩(34,311)	₩27,868
Contributions from the employer	—	(1,000)	(1,000)
Current service cost	9,026	—	9,026
Interest expense	3,126	—	3,126
Return on plan assets, excluding the interest income	—	(1,737)	(1,737)
Actuarial gains and losses arising from changes in financial assumptions	10,364	733	11,097
Actuarial gains and losses arising from empirical adjustment	(490)	—	(490)
Management fee on plan assets	—	86	86
Transfer in (out)	620	(620)	—
Benefits paid	(2,199)	1,486	(713)
Ending balance	<u>₩82,626</u>	<u>₩(35,363)</u>	<u>₩47,263</u>

(4) Details of plan assets as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	June 30, 2015	December 31, 2014
Cash and cash equivalent	₩10,752	₩13,199
Debt securities	2,451	4,541
Others	21,857	17,623
Total	<u>₩35,060</u>	<u>₩35,363</u>

- (5) Actuarial assumptions used in retirement benefit obligation assessment as of June 30, 2015, and December 31, 2014, are as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Discount rate	4.07%	4.07%
Expected wage growth rate	3.04%	3.04%

- (6) Retirement benefit cost incurred from the defined contribution plan for the six months ended June 30, 2015 and 2014, is as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Retirement benefit cost	₩117	₩119

## 19. OTHER LIABILITIES:

Details of other liabilities as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Other financial liabilities:		
Guarantee deposits	₩ 571,569	₩ 503,256
Foreign exchanges payable	97,193	148,452
Accounts payable	7,802	1,398,555
Accrued expenses	507,667	520,164
Guarantee deposit received	158	108
Subtotal	<u>1,184,389</u>	<u>2,570,535</u>
Other liabilities:		
Allowance for credit loss in derivatives	13,068	10,931
Unearned income	226,047	226,748
Sundry liabilities	6,157	6,851
Subtotal	<u>245,272</u>	<u>244,530</u>
Total	<u>₩1,429,661</u>	<u>₩2,815,065</u>

## 20. DERIVATIVES:

The Bank operates derivatives for trading and hedging instrument. Derivatives held for trading purpose are included in financial assets and liabilities at FVTPL.

- (1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. When applying fair value hedge, the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Any adjustment arising from the gain or loss on the hedged item attributable to the hedged risk to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

The Bank uses interest rate swaps for hedging changes of fair values in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of fair values in hedged items arising from changes in foreign exchange rates

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss. When applying cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

The Bank uses interest rate swaps for hedging changes of cash flows in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of cash flows in hedged items arising from changes in foreign exchange.

(3) Details of derivative assets and liabilities as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail	Notional	Derivative assets			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩19,239,555	₩218,329	₩—	₩ 23,879	₩242,208
Currency:					
Currency forwards	4,305,102	—	—	22,953	22,953
Currency swaps	16,594,679	49,749	—	53,826	103,575
Subtotal	20,899,781	49,749	—	76,779	126,528
Total	₩40,139,336	₩268,078	₩—	₩100,658	₩368,736
Detail	Notional	Derivative liabilities			
		Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩19,239,555	₩ 130,290	₩1,590	₩ 54,521	₩ 186,401
Currency:					
Currency forwards	4,305,102	—	—	67,703	67,703
Currency swaps	16,594,679	2,067,686	—	513,380	2,581,066
Subtotal	20,899,781	2,067,686	—	581,083	2,648,769
Total	₩40,139,336	₩2,197,976	₩1,590	₩635,604	₩2,835,170

(December 31, 2014)

Detail	Notional	Derivative assets			Total
		Fair value hedge	Cash flow hedge	Trading	
Interest:					
Interest rate swaps	₩13,806,343	₩258,295	₩—	₩ 3,630	₩261,925
Currency:					
Currency forwards	1,842,284	—	—	4,966	4,966
Currency swaps	15,528,234	30,129	—	48,184	78,313
Subtotal	17,370,518	30,129	—	53,150	83,279
Total	₩31,176,861	₩288,424	₩—	₩56,780	₩345,204

Detail	Notional	Derivative liabilities			Total
		Fair value hedge	Cash flow hedge	Trading	
Interest:					
Interest rate swaps	₩13,806,343	₩ 89,641	₩2,789	₩ 28,612	₩ 121,042
Currency:					
Currency forwards	1,842,284	—	—	47,857	47,857
Currency swaps	15,528,234	1,891,026	—	412,600	2,303,626
Subtotal	17,370,518	1,891,026	—	460,457	2,351,483
Total	₩31,176,861	₩1,980,667	₩2,789	₩489,069	₩2,472,525

- (4) Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Fair value hedge – hedged items	₩ 71,407	₩(238,627)
Fair value hedge – hedging instruments	₩(696,011)	₩ 517,629

- (5) The Bank recognized ₩1,078 million and ₩(365) million as other comprehensive income (losses) (not adjusting tax effect) and cash flow hedge ineffectiveness of ₩41 million and ₩27 million was recognized in earnings for the six months ended June 30, 2015 and 2014.

## 21. CAPITAL STOCK:

As of June 30, 2015, the authorized capital and paid-in capital of the Bank are ₩15,000,000 million and ₩7,788,055 million, respectively. The Bank does not issue share certificates.

Changes in capital stock for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	2015	2014
Beginning balance	₩7,748,055	₩7,238,055
Increase in capital and investment in kind	40,000	510,000
Ending balance	₩7,788,055	₩7,748,055

## 22. OTHER COMPONENTS OF EQUITY:

- (1) Details of other components of equity as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Gain on valuation of AFS securities	₩118,302	₩116,276
Loss on valuation of cash flow hedge	(1,244)	(2,062)
Remeasurement elements of net defined benefit liability	<u>(3,212)</u>	<u>(3,212)</u>
Total	<u>₩113,846</u>	<u>₩111,002</u>

- (2) Changes in other reserves for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

(2015)

	<u>Beginning balance</u>	<u>Increase</u>	<u>Tax effect</u>	<u>Ending balance</u>
Gain (loss) on valuation of AFS securities	₩116,276	₩2,672	₩(646)	₩118,302
Loss on valuation of cash flow hedge	(2,062)	1,078	(260)	(1,244)
Remeasurement elements of net defined benefit liability	<u>(3,212)</u>	<u>—</u>	<u>—</u>	<u>(3,212)</u>
Total	<u>₩111,002</u>	<u>₩3,750</u>	<u>₩(906)</u>	<u>₩113,846</u>

(2014)

	<u>Beginning balance</u>	<u>Increase (decrease)</u>	<u>Tax effect</u>	<u>Ending balance</u>
Gain on valuation of AFS securities	₩54,157	₩ 81,950	₩(19,831)	₩116,276
Loss on valuation of cash flow hedge	(1,227)	(1,102)	267	(2,062)
Remeasurement elements of net defined benefit liability	<u>4,827</u>	<u>(10,606)</u>	<u>2,567</u>	<u>(3,212)</u>
Total	<u>₩57,757</u>	<u>₩ 70,242</u>	<u>₩(16,997)</u>	<u>₩111,002</u>

## 23. RETAINED EARNINGS:

- (1) Details of retained earnings as of as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Legal reserve (*1)	₩ 326,660	₩ 319,984
Voluntary reserve (*2)	1,106,825	1,119,559
Reserve for bad loan	572,420	514,785
Unappropriated retained earnings	<u>35,693</u>	<u>66,767</u>
Total	<u>₩2,041,598</u>	<u>₩2,021,095</u>

(\*1) Pursuant to the EXIM Bank Act, the Bank appropriates 10% of net income for each accounting period as legal reserve, until the accumulated reserve equals to its paid-in capital.

(\*2) The Bank appropriates the remaining balance of net income, after the appropriation of legal reserve and declaration of dividends, to voluntary reserve.

- (2) Changes in retained earnings for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Beginning balance	₩2,021,095	₩1,954,328
Net income for the period	35,693	66,767
Dividends	(15,190)	—
Ending balance	<u>₩2,041,598</u>	<u>₩2,021,095</u>

- (3) Reserve for bad loans

Reserve for bad loans is calculated and disclosed according to Article 29 (1) and (2), *Regulation on Supervision of Banking Business*. In accordance with Regulation on Supervision of Banking Business etc., if the estimated allowance for credit loss determined by K-IFRS for the accounting purpose is lower than those for the regulatory purpose required by Regulation on Supervision of Banking Business, the Bank should reserve such difference as the regulatory reserve for bad loans. Due to the fact that regulatory reserve for bad loans is a voluntary reserve, the amounts that exceed the existing reserve for bad loans over the compulsory reserve for bad loans at the period-end date are reversed in profit. In case of accumulated deficit, the Bank should recommence setting aside reserve for bad loans at the time when accumulated deficit is gone.

- 1) Reserve for bad loans

Details of reserve for bad loans as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Accumulated reserve for bad loans	₩572,420	₩514,785
Expected reserve for bad loans	33,567	57,635
Reserve for bad loans	<u>₩605,987</u>	<u>₩572,420</u>

- 2) Expected reserve for bad loans and net income after adjusting reserve for bad loans.

Details of expected reserve for bad loans and net income after adjusting the reserve for six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Net income for the period	₩ 35,693	₩ 77,055
Expected reserve for bad loans	(33,567)	67,114
Net profit after adjusting the reserve for bad loans (*1)	<u>₩ 2,126</u>	<u>₩144,169</u>

(\*1) Adjusted profit (loss) considering reserves for bad debt as above is calculated by assuming that the provision in reserves for bad debt before income tax is reflected in net income.

- (4) Details of dividends for the six months ended June 30, 2015, and for the year ended December 31, 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
The Government	₩10,644	₩—
BOK	2,284	—
Korea Development Bank	2,262	—
Total	<u>₩15,190</u>	<u>₩—</u>

## 24. NET INTEREST INCOME:

Net interest income is the amount after deduction of interest expenses from interest income, and the details are as follows:

- (1) Details of interest income for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Interest of due from financial institutions:		
Due from financial institutions in local currency	₩ 1,786	₩ 4,470
Due from financial institutions in foreign currencies	2,318	2,177
	<u>4,104</u>	<u>6,647</u>
Interest of financial assets at FVTPL:		
Interest of trading securities	426	269
Interest of investments:		
Interest of AFS securities	4,482	1,284
Interest of held-to-maturity securities	766	396
	<u>5,248</u>	<u>1,680</u>
Interest of loans:		
Interest of loans in local currency	232,509	276,844
Interest of loans in foreign currencies	627,283	515,413
Interest of bills bought	4,295	12,022
Interest of advances for customers	36	70
Interest of call loans	7,388	7,212
Interest of interbank loans	1,341	181
	<u>872,852</u>	<u>811,742</u>
Interest of others	5,857	1,242
Total	<u>₩888,487</u>	<u>₩821,580</u>

Interest income accrued from impaired loan is ₩14,851 million and ₩16,775 million for the six months ended June 30, 2015 and 2014, respectively.

- (2) Details of interest expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Interest of borrowings:		
Borrowings in foreign currencies	₩ 34,946	₩ 19,458
RP	229	95
Interest of call money	1,433	5,650
Interest of debentures:		
Interest of debentures in local currency	107,034	121,180
Interest of debentures in foreign currencies	454,799	496,102
Interest of others	3,460	2,262
Total	<u>₩601,901</u>	<u>₩644,747</u>

**25. NET COMMISSION INCOME:**

Net commission income is the amount after deduction of commission expenses from commission income, and the details are as follows.

- (1) Details of commission income for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Commission income in local currency:		
Commissions income on management of EDCF	₩ 6,458	₩ 5,756
Commissions income on management of IKCF	1,407	1,391
	<u>7,865</u>	<u>7,147</u>
Commission income in foreign currency:		
Commissions income on letter of credit	1,458	1,460
Commissions income on confirmation on export letter of credit	385	417
Commissions income on loans commitment	38,126	42,772
Management fee	1	97
Arrangement fee	5,397	—
Advisory fee	1,178	15
Cancellation fee	3,066	2,817
Prepayment fee	1,856	21,355
Sundry commissions income on foreign exchange	267	73
Other commission income in foreign currency	378	—
	<u>52,112</u>	<u>69,006</u>
Others:		
Other commission income	835	136
Guarantee fees on foreign currency:		
Guarantee fees on foreign currency	93,838	86,722
Premium for guarantee	22,457	13,798
	<u>116,295</u>	<u>100,520</u>
Total	<u>₩177,107</u>	<u>₩176,809</u>

(2) Details of commission expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Commission expenses in local currency:		
Commissions expenses on borrowings	₩ —	₩ 132
Commissions expenses on domestic transaction	174	77
Other Commissions expenses on domestic transaction	27	—
	<u>201</u>	<u>209</u>
Commission expenses in foreign currency:		
Service fees paid to credit-rating agency	1,950	1,064
Sundry commission expenses on foreign exchange	594	228
Commission expenses on offshore borrowings	—	15
Sundry commissions expenses on offshore transaction	9	23
	<u>2,553</u>	<u>1,330</u>
Others:		
Other commissions expenses	522	245
Total	<u>₩3,276</u>	<u>₩1,784</u>

**26. DIVIDEND INCOME:**

Details of dividend income for six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
AFS securities	₩15,229	₩10,442

**27. GAIN (LOSS) ON FINANCIAL ASSETS AT FVTPL:**

Details of gain (loss) on financial assets at FVTPL for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Trading securities:		
Gain on valuation	₩ 5,975	₩ 1,652
Loss on valuation	(219)	—
Gain on disposal	7,133	4,890
Loss on disposal	(58)	(52)
	<u>12,831</u>	<u>6,490</u>
Trading derivatives		
Gain on valuation	100,573	164,626
Loss on valuation	(325,382)	(8,211)
Gain on transaction	157,769	145,055
Loss on transaction	(182,373)	(72,141)
	<u>(249,413)</u>	<u>229,329</u>
Total	<u>₩(236,582)</u>	<u>₩235,819</u>

**28. GAIN (LOSS) ON HEDGING DERIVATIVES:**

Details of gain (loss) on hedging derivatives for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Gain on hedging derivatives	₩ 96,354	₩ 640,258
Loss on hedging derivatives	<u>(792,324)</u>	<u>(122,600)</u>
Total	<u>₩(695,970)</u>	<u>₩ 517,658</u>

**29. GAIN (LOSS) ON FINANCIAL INVESTMENTS:**

- (1) Details of gain (loss) on financial investments for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
AFS securities:		
Gain on disposals	₩ 7,885	₩ 2
Loss on disposals	(278)	—
Impairment loss	<u>(50,271)</u>	<u>(33,684)</u>
Total	<u>₩(42,664)</u>	<u>₩(33,682)</u>

- (2) There is no gain or loss on held-to-maturity securities for the six months ended June 30, 2015 and 2014, respectively. In addition, details of interest income of held-to-maturity securities are stated in Note 24.

**30. OTHER OPERATING INCOME (EXPENSES):**

Details of other operating income (expenses) for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Other operating income:		
Gain on disposal of loans	₩ —	₩ 1
Gain on fair value hedged items	167,106	71,859
Others	<u>12,315</u>	<u>14,883</u>
	<u>179,421</u>	<u>86,743</u>
Other operating expenses:		
Loss on fair value hedged items	95,699	310,486
Contribution to Credit Guarantee Fund and Technology Credit Guarantee Fund	2,543	2,642
Others	<u>13,552</u>	<u>8,048</u>
	<u>111,794</u>	<u>321,176</u>
Total	<u>₩ 67,627</u>	<u>₩(234,433)</u>

**31. (REVERSAL OF) IMPAIRMENT LOSS ON CREDIT:**

Details of impairment loss (reversal) on credit for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Loans	₩363,396	₩147,844
Other financial assets	3,656	41,317
Guarantees	48,218	(33,758)
Unused loan commitments	(70,456)	55,293
Financial guarantee contract	(15,349)	1,510
Total	<u>₩329,465</u>	<u>₩212,206</u>

**32. GENERAL AND ADMINISTRATIVE EXPENSES:**

Details of general and administrative expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	Detail	2015	2014
General and administrative	Short-term salaries	₩ 48,608	₩45,724
Other expenses in financing department	Office expenses	26,868	22,076
	Subtotal	<u>75,476</u>	<u>67,800</u>
Office expenses of EDCF		<u>845</u>	<u>811</u>
General and administrative	Postemployment benefit (defined contributions)	117	119
Others	Postemployment benefit (defined benefits)	6,563	5,191
	Depreciation of tangible assets	3,668	2,119
	Amortization of intangible assets	1,836	1,578
	Taxes and duties	17,012	17,896
	Subtotal	<u>29,196</u>	<u>26,903</u>
Total		<u>₩105,517</u>	<u>₩95,514</u>

### 33. NON-OPERATING INCOME (EXPENSES):

Details of non-operating income (expenses) for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	Detail	2015	2014
Gain (loss) on investments in associates and subsidiaries	Dividend income	₩8,057	₩4,662
Others income	Gain on disposals of tangible assets	32	49
	Rent income	78	32
	Interest on other loans	69	75
	Revenue on research project	27	275
	Other miscellaneous Income	233	428
	Subtotal	439	859
Others expenses	Loss on disposal of tangible assets	2	1
	Expenses for contribution	1,887	1,597
	Court cost	247	58
	Expenses on research project	896	407
	Other miscellaneous expenses	84	43
	Subtotal	3,116	2,106
	Total	₩5,380	₩3,415

### 34. INCOME TAX EXPENSE:

- (1) Details of income tax expenses for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Current income tax payable	₩ —	₩ —
Adjustment recognized in the period for current tax of prior periods	13,291	18,277
Changes in deferred income taxes due to temporary differences	11,883	(33,481)
Changes in deferred income taxes directly recognized in equity	(907)	46,094
Income tax expense	₩24,267	₩ 30,890

- (2) Details of the reconciliation between net income before income tax and income tax expense for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	2015	2014
Net income before income tax	₩59,960	₩107,945
Income tax calculated at statutory tax rate (*)	14,279	25,661
Adjustments:		
Effect on non-taxable income	(1,036)	(444)
Effect on non-deductible expense	540	213
Unrecognized temporary differences	—	2
Others	224	783
	(272)	554
Adjustment recognized in the period for current tax of prior periods	10,260	4,675
Income tax expense	₩24,267	₩ 30,890
Effective tax rate from operations	40.47%	28.62%

- (\*) The corporate tax rate is 11% up to ₩200 million, 22% over ₩200 million to ₩20 billion and 24.2% over ₩20 billion.

**35. STATEMENTS OF CASH FLOWS:**

- (1) Details of cash and cash equivalents in the statements of cash flows as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions)

	<u>2015</u>	<u>2014</u>
Due from financial institutions in local currency	₩ 156,521	₩ 230,325
Due from financial institutions in foreign currencies	<u>3,154,607</u>	<u>1,489,722</u>
Subtotal	<u>3,311,128</u>	<u>1,720,047</u>
Restricted due from financial institutions	(2,135)	(378)
Due from financial institutions with original maturities of three months or less at acquisition date	<u>(2,038,971)</u>	<u>(159,300)</u>
Subtotal	<u>(2,041,106)</u>	<u>(159,678)</u>
Total	<u>₩ 1,270,022</u>	<u>₩1,560,369</u>

- (2) Details of non-cash flow transactions for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

	<u>2015</u>	<u>2014</u>
Loan-for-equity swap	₩6,870	₩ 20,476
Gain (loss) on valuation of AFS securities	2,025	(144,099)

**36. CONTINGENT LIABILITIES AND COMMITMENTS:**

- (1) Details of contingent liabilities and commitments as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Detail	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Guarantees		
Confirmed	₩52,128,577	₩48,057,826
Unconfirmed	<u>13,065,446</u>	<u>13,315,115</u>
Subtotal	<u>₩65,194,023</u>	<u>₩61,372,941</u>
Loan commitments		
Local currency, foreign currency loan commitments	₩26,496,198	₩28,054,430
Others	<u>708,683</u>	<u>401,767</u>
Subtotal	<u>27,204,881</u>	<u>28,456,197</u>
Total	<u>₩92,398,904</u>	<u>₩89,829,138</u>

(2) Details of guarantees that have been provided for others as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

Detail		June 30, 2015	December 31, 2014
Confirmed guarantees	Local currency:		
	Performance of contracts	₩ 115,175	₩ 109,551
	Repayment of advances	86,247	104,842
	Others	111,978	154,201
	Subtotal	313,400	368,594
	Foreign currency:		
	Performance of contracts	14,322,587	14,014,283
	Repayment of advances	21,794,700	20,466,526
	Acceptances of imported goods	5,512	18,478
	Acceptance of import letter of credit outstanding	173,569	182,686
	Foreign liabilities	8,326,714	6,631,195
	Others	7,192,095	6,376,064
	Subtotal	51,815,177	47,689,232
	Unconfirmed guarantees	Foreign liabilities	2,707,484
Repayment of advances		10,110,451	10,810,518
Performance of contracts		242,533	128,093
Underwriting of import credit		4,772	85,660
Others		206	189
Subtotal		13,065,446	13,315,115
Total	₩65,194,023	₩61,372,941	

(3) Details of guarantees classified by country as of June 30, 2015, and December 31, 2014, are as follows  
(Korean won in millions):

(June 30, 2015)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total		
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	
Asia							
	Korea	₩40,783,504	78.24	₩10,236,744	78.35	₩51,020,248	78.26
	India	273,370	0.52	348,116	2.66	621,486	0.95
	Vietnam	603,652	1.16	627,949	4.81	1,231,601	1.89
	Saudi Arabia	1,404,892	2.70	307,196	2.35	1,712,088	2.63
	Indonesia	1,086,091	2.08	62,684	0.48	1,148,775	1.76
	Australia	698,145	1.34	135,420	1.04	833,565	1.28
	Philippines	489,736	0.94	116,445	0.89	606,181	0.93
	Qatar	304,830	0.58	32,400	0.25	337,230	0.52
	Singapore	295,950	0.57	16,253	0.12	312,203	0.48
	Jordan	197,273	0.38	6,516	0.05	203,789	0.31
	Oman	177,299	0.34	151,762	1.16	329,061	0.50
	Others	249,947	0.48	13,263	0.10	263,210	0.40
		<u>46,564,689</u>	<u>89.33</u>	<u>12,054,748</u>	<u>92.26</u>	<u>58,619,437</u>	<u>89.91</u>
Europe							
	France	468,336	0.90	149	—	468,485	0.72
	United Kingdom	81,738	0.16	1,649	0.01	83,387	0.13
	Netherlands	11,241	0.02	—	—	11,241	0.02
	Russia	63,231	0.12	—	—	63,231	0.10
	Uzbekistan	258,531	0.50	126,249	0.97	384,780	0.59
	Turkey	19,884	0.04	13,839	0.11	33,723	0.05
	Turkmenistan	11,219	0.02	230,319	1.76	241,538	0.37
	Others	7,026	0.01	49,179	0.38	56,205	0.09
		<u>921,206</u>	<u>1.77</u>	<u>421,384</u>	<u>3.23</u>	<u>1,342,590</u>	<u>2.07</u>
America							
	U.S.A.	2,559,772	4.91	56,531	0.43	2,616,303	4.01
	Mexico	309,332	0.59	2,886	0.02	312,218	0.48
	Bermuda	126,461	0.24	—	—	126,461	0.19
	Brazil	397,857	0.76	190,169	1.46	588,026	0.90
	Peru	102,976	0.20	—	—	102,976	0.16
	Others	147,729	0.28	148,193	1.13	295,922	0.46
		<u>3,644,127</u>	<u>6.98</u>	<u>397,779</u>	<u>3.04</u>	<u>4,041,906</u>	<u>6.20</u>
Africa							
	Madagascar	176,960	0.34	—	—	176,960	0.27
	Marshall Islands	608,785	1.17	78,450	0.60	687,235	1.05
	Others	212,810	0.41	113,085	0.87	325,895	0.50
		<u>998,555</u>	<u>1.92</u>	<u>191,535</u>	<u>1.47</u>	<u>1,190,090</u>	<u>1.82</u>
		<u>₩52,128,577</u>	<u>100.00</u>	<u>₩13,065,446</u>	<u>100.00</u>	<u>₩65,194,023</u>	<u>100.00</u>

(December 31, 2014)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total		
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	
Asia	Korea	₩38,752,119	80.64	₩10,464,393	78.59	₩49,216,512	80.19
	India	261,850	0.54	360,581	2.71	622,431	1.01
	Vietnam	451,926	0.94	752,422	5.65	1,204,348	1.96
	Saudi Arabia	956,198	1.99	138,281	1.04	1,094,479	1.78
	Indonesia	860,854	1.79	11,806	0.09	872,660	1.42
	Iran	3,234	0.01	—	—	3,234	0.01
	Others	2,396,262	4.99	811,310	6.09	3,207,572	5.23
		<u>43,682,443</u>	<u>90.90</u>	<u>12,538,793</u>	<u>94.17</u>	<u>56,221,236</u>	<u>91.60</u>
Europe	France	367,581	0.76	146	—	367,727	0.60
	United Kingdom	103,403	0.22	1,613	0.01	105,016	0.17
	Netherlands	10,992	0.02	—	—	10,992	0.02
	Russia	14,209	0.03	73,409	0.55	87,618	0.14
	Others	298,570	0.62	229,386	1.72	527,956	0.86
		<u>794,755</u>	<u>1.65</u>	<u>304,554</u>	<u>2.28</u>	<u>1,099,309</u>	<u>1.79</u>
America	U.S.A.	1,975,646	4.11	166,187	1.25	2,141,833	3.49
	Mexico	305,249	0.64	4,295	0.03	309,544	0.50
	Bermuda	129,156	0.27	—	—	129,156	0.21
	Others	459,612	0.96	177,192	1.33	636,804	1.04
		<u>2,869,663</u>	<u>5.98</u>	<u>347,674</u>	<u>2.61</u>	<u>3,217,337</u>	<u>5.24</u>
Africa	Madagascar	182,653	0.38	—	—	182,653	0.30
	Marshall Islands	318,195	0.66	—	—	318,195	0.52
	Others	210,117	0.43	124,094	0.94	334,211	0.55
		<u>710,965</u>	<u>1.47</u>	<u>124,094</u>	<u>0.94</u>	<u>835,059</u>	<u>1.37</u>
		<u>₩48,057,826</u>	<u>100.00</u>	<u>₩13,315,115</u>	<u>100.00</u>	<u>₩61,372,941</u>	<u>100.00</u>

(4) Details of guarantees classified by industry as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩25,270,650	48.48	₩11,160,237	85.42	₩36,430,887	55.88
Transportation	929,315	1.78	130,140	1.00	1,059,455	1.63
Finance	1,913,299	3.67	6,571	0.05	1,919,870	2.94
Wholesale and retail	2,162,581	4.15	52,512	0.40	2,215,093	3.40
Property related business	527,910	1.01	—	—	527,910	0.81
Construction	14,764,508	28.32	336,170	2.57	15,100,678	23.16
Public and others	6,560,314	12.59	1,379,816	10.56	7,940,130	12.18
Total	<u>₩52,128,577</u>	<u>100.00</u>	<u>₩13,065,446</u>	<u>100.00</u>	<u>₩65,194,023</u>	<u>100.00</u>

(December 31, 2014)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing	₩22,685,432	47.20	₩12,128,222	91.09	₩34,813,654	56.72
Transportation	568,587	1.18	50,546	0.38	619,133	1.01
Finance	1,886,318	3.93	87,419	0.66	1,973,737	3.22
Wholesale and retail	1,626,267	3.38	65,645	0.49	1,691,912	2.76
Property related business	524,431	1.09	—	—	524,431	0.85
Construction	15,328,262	31.90	101,804	0.76	15,430,066	25.14
Public and others	5,438,529	11.32	881,479	6.62	6,320,008	10.30
Total	₩48,057,826	100.00	₩13,315,115	100.00	₩61,372,941	100.00

(5) Global Medium-Term Note Program and CP programs

The Bank has been establishing the following programs regarding the issue of foreign currency bonds and CPs:

- 1) Established on August 1, 1991, initially, and annually renewed, U.S. Shelf Registration to issue foreign bonds under the Securities and Exchange Commission rule of the United States of America with an issuance limit of USD 30 billion;
- 2) Established on May 14, 1997, and May 16, 1997, initially, and annually renewed, CP program to issue CPs with issuance limits of USD 4 billion and USD 2 billion, respectively;
- 3) Established on November 6, 1997, initially, and annually renewed, Euro Medium-Term Note Program to issue mid-to-long-term foreign currency bonds with an issuance limit of USD 25 billion;
- 4) Established on February 13, 2008, initially, and renewed every year, MYR MTN program to issue Malaysian Ringgit-denoted bonds with issuance limits of MYR 4 billion.
- 5) Established on June 20, 2008, initially, and annually renewed, Yen Shelf Registration to issue Samurai bond with an issuance limit of JPY 500 billion;
- 6) Established on May 31, 2010, Australian Domestic Debt Issuance Program to issue Kangaroo bond with limit of AUD 2 billion;
- 7) Established on January 17, 2011, and renewed every two years, Uridashi Shelf Registration to issue Uridashi bond with an issuance limit of JPY 500 billion.

(6) Litigations

As of June 30, 2015, nine lawsuits (aggregated litigation value: ₩1,153,038 million) were filed by the Bank and six pending litigations as a defendant were filed (aggregated litigation value: ₩: 113,454 million). The Bank's management expects that there is no significant impact on the financial statements due to these lawsuits, but it is possible to make additional loss to the Bank due to the results of future litigation.

(7) Written-off loans

The Bank manages written-off loans that have claims on debtors due to the limitation of statute, uncollected after write-off, etc. The written-off loans as of June 30, 2015, and December 31, 2014, are ₩726,361 million and ₩605,221 million, respectively.

(8) Ordinary wages

The Supreme Court had handed down sentences in ordinary wages during the previous year. The Bank reviewed the effect by the Supreme Court ruling on the Bank's financial statements. The Bank determined not to recognize provisions, because the Bank anticipates that the outflow of resources is unlikely to be realized. Effects to the financial statements of the Bank with regard to the judgment of the court for the lawsuit are not disclosed in the notes to the financial statements in accordance with the paragraph 92 of K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets

**37. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:**

Related parties consist of entities related to the Bank, postemployment benefits, a key management personnel and a close member of that person's family, an entity controlled or jointly controlled and an entity influenced significantly.

(1) Details of related parties as of June 30, 2015, are as follows:

<u>Detail</u>	<u>Relationship</u>	<u>Percentage</u>
Parent:		
Korean government	Parent	68.53%
Subsidiaries and Associates:		
KEXIM Bank UK Limited	Subsidiary	100.00%
PT.KOEXIM Mandiri Finance	Subsidiary	85.00%
KEXIM Vietnam Leasing Co.	Subsidiary	100.00%
KEXIM Asia Limited	Subsidiary	100.00%
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	Associate	70.71%
DAESUN Shipbuilding & Engineering Co., Ltd.	Associate	67.27%
Korea Asset Management Corporation,	Associate	25.86%
Credit Guarantee and Investment Fund	Associate	14.28%
Korea Marine Guarantee Incorporated Company	Associate	49.99%

(2) Significant balances of receivables, payables and guarantees with the related parties Significant balances of receivables and payables with the related parties as of June 30, 2015, and December 31, 2014, are as follows (Korean won in millions):

(June 30, 2015)

<u>Detail</u>	<u>Receivables</u>	<u>Allowance</u>	<u>Payables</u>
Subsidiaries:			
KEXIM Bank UK Limited,	₩ 175,623	₩ —	₩ 127
PT.KOEXIM Mandiri Finance	142,848	237	—
KEXIM Vietnam Leasing Co	144,290	223	—
KEXIM Asia Limited	128,579	—	48
Associate:			
SUNGDOG Shipbuilding & Marine Engineering Co., LTD.	₩1,087,225	₩299,250	₩1,213
DAESUN Shipbuilding & Engineering Co., Ltd.	373,501	205,164	96
Total	<u>₩2,052,066</u>	<u>₩504,874</u>	<u>₩1,484</u>

(December 31, 2014)

<u>Detail</u>	<u>Receivables</u>	<u>Allowance</u>	<u>Payables</u>
Subsidiaries:			
KEXIM Bank UK Limited,	₩ 157,598	₩ —	₩ 112
PT.KOEXIM Mandiri Finance	139,671	232	—
KEXIM Vietnam Leasing Co	134,986	213	—
KEXIM Asia Limited	126,373	—	80
Associate:			
SUNGDOG Shipbuilding & Marine Engineering Co., LTD.	₩ 867,781	₩235,776	₩ —
DAESUN Shipbuilding & Engineering Co., Ltd.	363,005	207,293	13,908
Total	<u>₩1,789,414</u>	<u>₩443,514</u>	<u>₩14,100</u>

Guarantees provided to the related parties as of June 30, 2015, and December 31, 2014, are as follows  
(Korean won in millions):

(June 30, 2015)

<u>Detail</u>	<u>Confirmed guarantees</u>	<u>Unconfirmed guarantees</u>	<u>Loans commitments</u>	<u>Other commitments</u>
Subsidiaries:				
KEXIM Bank UK Limited,	₩ 78,687	₩ —	₩275,405	₩24,730
PT.KOEXIM Mandiri Finance	—	—	28,103	—
KEXIM Vietnam Leasing Co.	—	—	5,621	—
KEXIM Asia Limited	—	—	47,212	55,643
Associate:				
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	994,600	931,342	80,000	—
DAESUN Shipbuilding & Engineering Co., Ltd.	108,410	125,348	—	—
Total	<u>₩1,181,697</u>	<u>₩1,056,690</u>	<u>₩436,341</u>	<u>₩80,373</u>

(December 31, 2014)

<u>Detail</u>	<u>Confirmed Guarantees</u>	<u>Unconfirmed guarantees</u>	<u>Loans commitments</u>	<u>Other commitments</u>
Subsidiaries:				
KEXIM Bank UK Limited,	₩ 98,928	₩ —	₩183,566	₩15,389
PT.KOEXIM Mandiri Finance	—	—	27,480	—
KEXIM Vietnam Leasing Co.	—	—	10,992	—
KEXIM Asia Limited	54,960	—	46,166	48,914
Associate:				
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd.	876,778	1,267,322	—	—
DAESUN Shipbuilding & Engineering Co., Ltd.	78,848	150,898	10,551	—
Total	<u>₩1,109,514</u>	<u>₩1,418,220</u>	<u>₩278,755</u>	<u>₩64,303</u>

(3) Profit and loss transactions with related parties

Profit and loss transactions with related parties for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

Detail	Related party	2015			2014		
		Revenue	Bad debt expenses	Expenses	Revenue	Bad debt expenses	Expenses
Subsidiaries	KEXIM Bank UK Limited	₩ 1,527	₩ —	₩256	₩ 703	₩ —	₩ 729
	PT.KOEXIM Mandiri Finance	511	5	—	681	(12)	2
	KEXIM Vietnam Leasing Co.	544	10	—	589	11	3
	KEXIM Asia Limited	805	—	137	948	—	400
Associate	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	13,381	67,029	38	14,128	3,540	—
	DAESUN Shipbuilding & Engineering Co., Ltd	3,244	1,724	—	7,620	2,724	—
	Total	<u>₩20,012</u>	<u>₩68,768</u>	<u>₩431</u>	<u>₩24,669</u>	<u>₩6,263</u>	<u>₩1,134</u>

(4) Money dealing with related parties

Money dealing with related parties for six months ended June 30, 2015, and for the year ended December 31, 2014, is as follows (Korean won in millions):

Detail	Related party	2015		2014	
		Financing transaction		Financing transaction	
		Loan	Collection	Loan	Collection
Subsidiaries	KEXIM Bank UK Limited	₩136,302	₩149,562	₩ 363,481	₩ 346,534
	PT.KOEXIM Mandiri Finance	140,923	140,923	288,332	296,936
	KEXIM Vietnam Leasing Co.	—	—	242,128	225,199
Associate	KEXIM Asia Limited	63,171	107,555	287,622	277,439
	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd.	220,000	—	—	10,100
	DAESUN Shipbuilding & Engineering Co., Ltd.	10,551	—	55,525	5,486
	Total	<u>₩570,947</u>	<u>₩398,040</u>	<u>₩1,237,088</u>	<u>₩1,161,694</u>

(5) Details of compensation to key management for the six months ended June 30, 2015 and 2014, are as follows (Korean won in millions):

<u>Detail</u>	<u>2015</u>	<u>2014</u>
Salaries	<u>₩1,869</u>	<u>₩2,005</u>
Severance and retirement benefits	<u>249</u>	<u>210</u>
Total	<u>₩2,118</u>	<u>₩2,215</u>

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders and the Board of Directors of  
The Export-Import Bank of Korea:**

### **Report on the Financial Statements**

We have audited the accompanying separate financial statements of the Export-Import Bank of Korea (the "Bank" or the "Company"), which comprise the separate statements of financial position as of December 31, 2014 and December 31, 2013, respectively, and the separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows, all expressed in Korean won, for the years ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Separate Financial Statements**

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement.

### **Auditors' Responsibility**

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

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

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

### **Opinion**

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Export-Import Bank of Korea as of December 31, 2014, and December 31, 2013, respectively, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

**Others**

We conducted our audit of separate financial statements of the Export-Import Bank of Korea as of December 31, 2013 in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

/s/ Deloitte Anjin LLC

March 9, 2015

Notice to Readers

This report is effective as of March 5, 2015, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditor's report.

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2014 AND 2013**

	Korean won	
	December 31, 2014	December 31, 2013
	(In millions)	
<b>ASSETS:</b>		
Cash and due from financial institutions (Notes 4, 5 and 7) . . . . .	₩ 3,113,988	₩ 2,214,755
Financial assets at fair value through profit or loss ("FVTPL") (Notes 4, 5, 8 and 20) . . . . .	1,197,499	855,248
Hedging derivative assets (Notes 4, 5 and 20) . . . . .	288,424	378,324
Loans (Notes 4, 5, 10 and 37) . . . . .	61,158,553	51,169,874
Financial investments (Notes 4, 5 and 9) . . . . .	4,791,524	4,073,979
Investments in associates and subsidiaries (Note 11) . . . . .	659,150	629,160
Tangible assets, net (Note 12) . . . . .	273,539	236,519
Intangible assets, net (Note 13) . . . . .	18,181	17,428
Deferred tax assets (Note 35) . . . . .	744,460	511,601
Other assets (Notes 4, 5, 14 and 37) . . . . .	828,397	846,350
	<b>₩73,073,715</b>	<b>₩60,933,238</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Financial liabilities at FVTPL (Notes 4, 5 and 20) . . . . .	₩ 489,069	₩ 212,888
Hedging derivative liabilities (Notes 4, 5 and 20) . . . . .	1,983,456	1,799,713
Borrowings (Notes 4, 5 and 15) . . . . .	10,018,281	5,488,545
Debentures (Notes 4, 5 and 16) . . . . .	47,291,703	42,709,823
Provisions (Note 17) . . . . .	295,177	245,355
Retirement benefit obligation, net (Note 18) . . . . .	47,263	27,868
Current tax liabilities . . . . .	253,549	99,139
Other liabilities (Notes 4, 5, 19 and 37) . . . . .	2,815,065	1,099,767
	<b>₩63,193,563</b>	<b>₩51,683,098</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (Note 21) . . . . .	₩ 7,748,055	₩ 7,238,055
Other components of equity (Notes 20 and 22) . . . . .	111,002	57,757
Retained earnings (Note 23) (Regulatory reserve for bad loans as of December 31, 2014 and 2013: ₩514,785 million and ₩423,827 million) (Note 24) . . . . .	2,021,095	1,954,328
	<b>9,880,152</b>	<b>9,250,140</b>
	<b>₩73,073,715</b>	<b>₩60,933,238</b>

See accompanying notes to separate financial statements.

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Korean won	
	Year ended December 31, 2014	Year ended December 31, 2013
	(In millions)	
<b>OPERATING INCOME:</b>		
Net interest income (Notes 25 and 38):		
Interest income .....	₩ 1,688,814	₩ 1,698,284
Interest expenses .....	(1,294,395)	(1,335,696)
	394,419	362,588
Net commission income (Notes 26 and 38):		
Commission income .....	357,421	342,622
Commission expenses .....	(4,934)	(3,086)
	352,487	339,536
Dividend income (Note 27) .....		
Gain (loss) on financial assets at FVTPL (Note 28) .....	10,471	13,977
Loss on hedging derivative assets (Notes 20 and 29) .....	(343,832)	169,565
Loss on financial investments (Note 30) .....	(623,173)	(1,859,253)
Loss on financial investments (Note 30) .....	(46,362)	(389)
Gain on foreign exchange transaction .....	1,609,932	1,189,110
Other net operating income (expenses) (Note 31) .....	(418,880)	659,072
Impairment loss on credit (Note 32) .....	(651,503)	(622,596)
General and administrative expenses (Note 33) .....	(190,250)	(179,920)
Total operating income .....	93,309	71,690
<b>NON OPERATING INCOME (EXPENSES) (Note 34):</b>		
Net gain (loss) on investments in associates and subsidiaries .....	4,661	8,018
Net other non-operating expenses) .....	(4,815)	(6,395)
	(154)	1,623
<b>INCOME BEFORE INCOME TAX</b> .....	93,155	73,313
<b>INCOME TAX EXPENSES</b> (Note 35) .....	(26,388)	(13,582)
<b>NET INCOME</b> .....	66,767	59,731
(Adjusted income (loss) after reserve for bad loans for the years ended December 31, 2014 and 2013: ₩9,132 million and (-)₩31,227 million) (Note 24)		
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b> (Note 22)		
Items not reclassified subsequently to profit or loss:		
Remeasurements of net defined benefit liability .....	(10,606)	8,520
Income tax effect .....	2,567	(2,062)
	(8,039)	6,458
Items reclassified subsequently to profit or loss:		
Valuation on Available-For-Sale ("AFS") securities .....	81,950	37,620
Cash flow hedging gains or losses .....	(1,102)	2,616
Income tax effect .....	(19,564)	(9,737)
	61,284	30,499
<b>TOTAL COMPREHENSIVE INCOME</b> .....	₩ 120,012	₩ 96,688

See accompanying notes to separate financial statements.



**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Korean won	
	Year ended December 31, 2014	Year ended December 31, 2013
	(In millions)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income .....	₩ 66,767	₩ 59,731
Adjustments to reconcile net income to net cash used in operating activities:		
Income tax expense .....	26,388	13,582
Interest income .....	(1,688,814)	(1,698,284)
Interest expenses .....	1,294,395	1,335,696
Dividend income .....	(10,471)	(13,977)
Dividend income on associates and subsidiaries .....	(4,671)	(8,018)
Loss on trading securities .....	1,380	118
Loss on AFS securities .....	52,095	22,397
Transfer to derivatives' credit risk provision .....	173	—
Loss on debenture redemption .....	40	13
Loss on foreign exchange transactions .....	720,132	797,244
Impairment loss on credit .....	651,503	622,596
Impairment loss on equity securities by the equity method .....	10	—
Loss on fair value hedged items .....	569,644	118,706
Depreciation and amortization .....	8,461	5,158
Loss on disposals of tangible, intangible and other assets .....	232	8
Impairment loss on tangible, intangible and other assets .....	—	786
Loss on valuation of derivative assets .....	1,394,573	1,944,354
Retirement benefits .....	10,501	10,325
Gain on trading securities .....	(20,354)	(7,065)
Gain on AFS securities .....	(5,733)	(22,008)
Net increase in reversal of derivatives' credit risk provision .....	—	(3,797)
Profit on redemption .....	(7)	—
Gain on foreign exchange transactions .....	(2,330,064)	(2,100,814)
Gain on fair value hedged items .....	(153,194)	(776,597)
Gain on valuation of derivative assets .....	(327,409)	(283,310)
Gain on disposals of tangible assets, intangible assets and other assets .....	(99)	(73)
Changes in assets and liabilities resulting from operations:		
Net decrease (increase) in due from financial institutions .....	(994,976)	286,404
Net increase in financial assets at fair value through profit or loss .....	(352,897)	(642,890)
Net decrease in hedging derivative assets .....	191,482	204,070
Net increase in loans .....	(9,022,430)	(6,837,028)
Net decrease (increase) in other assets .....	112,088	(129,749)
Net increase (decrease) in provisions .....	94,904	(5,144)
Payment of retirement benefits .....	(1,713)	(1,536)
Net decrease (increase) in other liabilities .....	1,533,496	(65,397)

(Continued)

**THE EXPORT-IMPORT BANK OF KOREA**  
**SEPARATE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	Korean won	
	Year ended December 31, 2014	Year ended December 31, 2013
	(In millions)	
Net decrease (increase) in financial liabilities at fair value through profit or loss . . . . .	(89,203)	23,114
Net decrease in hedging derivative liabilities . . . . .	(591,103)	(498,713)
Payment of income tax . . . . .	(121,838)	(121,369)
Interest income received . . . . .	1,654,817	1,662,753
Interest expense paid . . . . .	(1,092,513)	(1,335,698)
Dividend income received . . . . .	15,142	21,995
Net cash used in operating activities . . . . .	<u>(8,409,266)</u>	<u>(7,422,417)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disposals of AFS securities and held-to-maturity securities . . . . .	₩ 129,183	₩ 115,197
Disposals of tangible assets . . . . .	133	97
Disposals of intangible assets . . . . .	—	204
Acquisitions of AFS securities and held-to-maturity securities . . . . .	(389,050)	(221,551)
Acquisitions of equity securities by equity method . . . . .	(30,000)	(10)
Acquisitions of tangible assets . . . . .	(42,286)	(11,891)
Acquisitions of intangible assets . . . . .	(4,211)	(4,885)
Net cash used in investing activities . . . . .	<u>(336,231)</u>	<u>(122,839)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in call money . . . . .	—	2,368
Increase in borrowings . . . . .	13,122,194	8,964,764
Increase in debentures . . . . .	20,498,688	19,124,877
Increase in capital stock . . . . .	130,000	100,000
Decrease in borrowings . . . . .	(8,812,856)	(6,061,396)
Decrease in debentures . . . . .	(16,359,559)	(14,003,712)
Payment of dividends . . . . .	—	(34,286)
Net cash provided by financing activities . . . . .	<u>8,578,467</u>	<u>8,092,615</u>
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .</b>		
<b>EQUIVALENTS . . . . .</b>	<b>(167,030)</b>	<b>547,359</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD . . . . .</b>	<b>1,432,027</b>	<b>848,451</b>
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS . . . . .</b>		
<b>AND CASH EQUIVALENTS . . . . .</b>	<b>71,287</b>	<b>36,217</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD (Note 7) . . . . .</b>	<b><u>₩ 1,336,284</u></b>	<b><u>₩ 1,432,027</u></b>

(Concluded)

See accompanying notes to separate financial statements.

**1. GENERAL:**

(1) Summary of the Export-Import Bank of Korea

The Export-Import Bank of Korea (the “Bank” or the “Company”) was established in 1976 as a special financial institution under the Export-Import Bank of Korea Act (the “EXIM Bank Act”) to grant financial facilities for overseas trade (i.e., export and import), investments and resources development activities. As of December 31, 2014, the Bank operates 10 domestic branches, 3 domestic offices, 4 overseas subsidiaries, and 18 overseas offices.

The Bank’s authorized capital is ₩15,000,000 million, and through numerous capital increases since the establishment, its paid-in capital is ₩7,748,055 million as of December 31, 2014. The Government of the Republic of Korea (the “Government”), the Bank of Korea (“BOK”), and the Korea Development Bank hold 70.08%, 15.04%, and 14.88%, respectively, of the ownership of the Bank as of December 31, 2014.

The Bank, as a trustee of the Government, has managed the Economic Development Cooperation Fund since June 1987 and the Inter-Korean Cooperation Fund since March 1991. The funds are accounted for separately and are not included in the Bank’s separate financial statements. The Bank receives fees from the Government for the trustee services.

(2) Summary of subsidiaries and associates

1) Subsidiaries of the Bank as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Subsidiaries</u>	<u>Location</u>	<u>Capital stock</u>	<u>Main business</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>	<u>Financial statements as of</u>
KEXIM Bank UK Limited . . . . .	United Kingdom	GBP 20 mil.	Finance	20,000,000	100.00	Dec. 31, 2014
KEXIM Vietnam Leasing Co (*) . . . . .	Vietnam	USD 13 mil.	Finance	—	100.00	Dec. 31, 2014
PT.KOEXIM Mandiri Finance . . . . .	Indonesia	IDR 52,000 mil.	Finance	442	85.00	Dec. 31, 2014
KEXIM Asia Limited . . . . .	Hong Kong	USD 20 mil.	Finance	30,000,000	100.00	Dec. 31, 2014

(\*) This entity does not issue share certificates.

(Dec. 31, 2013)

<u>Subsidiaries</u>	<u>Location</u>	<u>Capital stock</u>	<u>Main business</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>	<u>Financial statements as of</u>
KEXIM Bank UK Limited . . . . .	United Kingdom	GBP 20 mil.	Finance	20,000,000	100.00	Dec. 31, 2013
KEXIM Vietnam Leasing Co (*) . . . . .	Vietnam	USD 13 mil.	Finance	—	100.00	Dec. 31, 2013
PT.KOEXIM Mandiri Finance . . . . .	Indonesia	IDR 52,000 mil.	Finance	442	85.00	Dec. 31, 2013
KEXIM Asia Limited . . . . .	Hong Kong	USD 20 mil.	Finance	30,000,000	100.00	Dec. 31, 2013

(\*) This entity does not issue share certificates.

2) Associates of the Bank as of December 31, 2014 and 2013 are as follows (Korean won in millions):  
(Dec. 31, 2014)

<u>Associates</u>	<u>Location</u>	<u>Capital stock</u>	<u>Main business</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>	<u>Financial statements as of</u>
Korea Asset Management Corp . . .	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2014
Credit Guarantee and Investment Fund . . . .	Philippines	USD 700 mil.	Financial service	100,000,000	14.28	Sep. 30, 2014
Korea Marine Guarantee Incorporated Company . . . . .	Korea	KRW 60,000 mil.	Financial service	5,999,999	49.99	Dec. 31, 2014
<b>SUNG Dong</b>						
Shipbuilding & Marine Engineering Co, Ltd. . . . .	Korea	KRW 1,319,150 mil.	Shipbuilding	93,294,100	70.71	Sep. 30, 2014
<b>DAESUN</b>						
Shipbuilding & Engineering Co, Ltd. . . . .	Korea	KRW 7,730 mil	Shipbuilding	1,040,000	67.27	Dec. 31, 2014

(Dec. 31, 2013)

<u>Associates</u>	<u>Location</u>	<u>Capital stock</u>	<u>Main business</u>	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>	<u>Financial statements as of</u>
Korea Asset Management Corp . . .	Korea	KRW 860,000 mil.	Financial service	44,482,396	25.86	Dec. 31, 2013
Credit Guarantee and Investment Fund . . . .	Philippines	USD 700 mil.	Financial service	100,000,000	14.28	Sep. 30, 2013
<b>SUNG Dong</b>						
Shipbuilding & Marine Engineering Co, Ltd. . . . .	Korea	KRW 256,542 mil.	Shipbuilding	9,410,000	33.99	Sep. 30, 2013

**2. FINANCIAL STATEMENT PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Bank’s financial statements are prepared under International Financial Reporting Standards as adopted by Republic of Korea (“K-IFRS”).

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

(1) Basis of Preparation

Major accounting policies used for the preparation of the separate financial statements are stated below. These accounting policies have been applied consistently to the separate financial statements for the current period and accompanying comparative period.

The accompanying separate financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values. Historical cost is generally based on the fair value of the consideration given.

The Company maintains its official accounting records in Republic of Korean won (“Won”) and prepares separate financial statements in accordance with K-IFRS, in the Korean language (Hangul).

1) Accounting standards and interpretations that were newly applied for the year ended December 31, 2014, and changes in the Bank’s accounting policies are as follows:

*Amendments to K-IFRS 1032—Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities. That is, the right to offset must not be conditional on the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The adoption of the amendments has no significant impact on the Bank’s separate financial statements.

*Amendments to K-IFRS 1036—Impairment of Assets*

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. The application of these amendments has no impact on the disclosure in the Bank’s separate financial statements.

*Amendments to K-IFRS 1039—Financial Instruments: Recognition and Measurement*

The amendments allowed the Bank to use hedge accounting when, as a consequence of laws or regulations or the introduction of laws or regulations, the original counterparty to the hedging instrument is replaced by a central counterparty or an entity which is acting as counterparty in order to effect clearing by a central counterparty. The adoption of the amendments has no significant impact on the Bank’s separate financial statements.

*Enactment of K-IFRS 2121—Levies*

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The enactment has no significant impact on the Bank’s separate financial statements.

2) The Bank has not applied or adopted earlier the following new and revised K-IFRSs that have been issued, but are not yet effective:

*Amendments to K-IFRS 1019—Employee Benefits*

If the amount of the contributions is independent from the numbers of years of service, the Bank is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered. The amendments are effective for the annual periods beginning on or after July 1, 2014.

*Amendments to K-IFRS 1016—Property, plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Bank from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

*Amendments to K-IFRS 1038 Intangible Assets*

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 38 do not allow presumption that revenue is not an appropriate basis for the amortization of an intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

#### *Amendments to K-IFRS 1111 Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provides guidance on how to account for the acquisition of joint operation that constitutes a business as defined in K-IFRS 1103 Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

#### *Annual Improvements to K-IFRS 2010-2012 Cycle*

The amendments to K-IFRS 1002 (i) changes the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definition for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to K-IFRS 1103 clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments’ assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

#### *Annual Improvements to K-IFRS 2011-2013 Cycle*

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 Fair values Measurements and K-IFRS 1040 Investment Properties exist and these amendments are effective to the annual periods beginning on or after July 1, 2014

#### *Amendments to K-IFRS 1027 Separate Financial Statements*

The amendments to K-IFRS 1027 allows the Bank to account for investments in subsidiaries, joint ventures, and associates either at cost, in accordance with K-IFRS 1028 investments in associates and joint ventures, or K-IFRS 1039 Financial Instruments: Recognition and Measurement in the Bank’s separate financial statements. The amendments are effective for the annual periods beginning on or after January 1, 2016

The Bank does not anticipate that the application of these new and revised K-IFRSs that have been issued but are not yet effective will have any material impact on the Bank’s separate financial statements and disclosures.

#### (2) Functional Currency

Items included in the separate financial statements of each entity in the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

#### (3) Significant Estimates and Judgments

The preparation of separate financial statements requires the application of accounting policies, especially certain critical accounting estimates and assumptions that may have a significant impact on assets (liabilities) and income (expenses). The management’s estimate of outcome may differ from an actual outcome if the management’s estimate and assumption based on its best judgment at the reporting date are different from an actual environment.

Estimates and assumptions are continually evaluated and the change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

### *1) Significant Estimates and Assumptions*

Uncertainty in estimates and assumptions with significant risk that will result in material adjustment are as follows:

#### ① Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Financial instruments, which are not actively traded in the market and with less transparent market price, will have less objective fair value and require broad judgment in liquidity, concentration, uncertainty in market factors and assumption in price determination and other risks.

As described in the significant accounting policies ‘Recognition and Measurement of Financial Instruments’ diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model to internally developed valuation model that incorporates various types of assumptions and variables.

#### ② Provision of credit losses (allowances for loan losses, provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments)

The Bank determines and recognizes allowances for loan losses through impairment testing and recognizes provisions for acceptances and guarantees, financial guarantee contracts and unused loan commitments. The amount of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

#### ③ Defined benefit obligation

The present value of defined benefit obligations is measured by the independent actuaries using projected unit credit method. It is determined by actuarial assumptions and variables such as future increases in salaries, rate of retirement, discount rate and others.

### *2) Critical judgments in applying the accounting policies*

Critical judgments in applying the accounting policies that have significant impact on the amount recognized in the separate financial statements are as follows:

#### ***Impairment of AFS equity investments***

As described in the significant accounting policies in ‘Impairment of Financial Assets’, when there is significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that AFS equity investments are impaired.

Accordingly, the Bank considers the decline in the fair value of over 30% against the original cost as “significant decline” and a six-month continuous decline in the market price for marketable equity instrument as “prolonged decline”.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### (1) General

The significant accounting policies applied in the preparation of these separate financial statements after transition to K-IFRS are set out below. These policies are consistently applied to previous periods presented, unless otherwise stated.

## (2) Foreign Currency

### *1) Foreign currency transactions*

In preparing the separate financial statements of the Bank, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded by applying the rates of exchange at the dates of the transactions.

At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are recognized in profit or loss.

### *2) Foreign operations*

The results and financial position of all foreign operations, whose functional currency differs from the Bank's presentation currency, are translated into the Bank's presentation currency using the following procedures;

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position. Income and expenses for statement of comprehensive income presented are translated at average exchange rates for the period.

Any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Bank reattributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Bank reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

## (3) Recognition and Measurement of Financial Instruments

### *1) Initial recognition*

The Bank recognizes a financial asset or a financial liability in its separate statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by market regulation or practice) is recognized using trade date accounting.

The Bank classifies the financial assets as financial assets at FVTPL, held-to-maturity investments, AFS financial assets, loans, receivables and financial liabilities as financial liabilities at FVTPL and other financial liabilities as the nature and holding purpose of financial instrument at initial recognition in the purpose of financial reporting.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received).

## 2) *Subsequent measurement*

After initial recognition, financial instruments are measured at one of the following based on classification at initial recognition.

### ① Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect minus the principal repayments, plus or minus the cumulative amortization using the effective interest method (as defined below) and minus any reduction (directly or through the use of an allowances account) for impairment or bad debt expenses.

### ② Fair value

The Bank primarily uses fair values for the measurement of financial instruments. Fair values are the published price quotations in an active market and are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Bank uses valuation models that are commonly used by market participants and customized for the Bank to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. However for these more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or the value measured by the independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to measure fair value on certain assumptions.

Also, the Bank classified measurements of fair value recognized in the financial statements into the following hierarchy.

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement is categorized in its entirety in the level of the lowest-level input that is significant to the entire measurement. For this purpose, input that is significant is estimated by the entire measurement.

On the other hand, the fair value hierarchy of foreign currency financial instruments is not affected by fluctuation of foreign exchange rate.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for significant adjustments. In this situation, the measurement is regarded as Level 3.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Bank calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

### *3) Derecognition*

Derecognition is the removal of a previously recognized financial asset or financial liability from the separate statement of financial position. The following is criteria for removal;

#### Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred or the financial assets have been neither transferred nor retained substantially all the risks, rewards of ownership and control. Therefore, if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Bank continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

#### Derecognition of financial liabilities

Financial liabilities are derecognized from the separate statement of financial position when the obligation specified in contract is discharged, cancelled or expires.

### *4) Offsetting*

Financial assets and financial liabilities are offset and the net amounts are presented in the separate statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### (4) Cash and cash equivalents

Cash and cash equivalents include cash on hand, foreign currency, and highly liquid short term investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

#### (5) Financial assets at FVTPL

This category comprises two sub-categories: financial assets classified as held for trading and financial assets designated by the Bank as at FVTPL upon initial recognition.

A non-derivative financial asset is classified as held for trading if either

- It is acquired for the purpose of selling it in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking

The Bank may designate certain financial assets, other than held for trading, upon initial recognition as at FVTPL when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank’s key management personnel.
- A contract contains one or more embedded derivatives may designate the entire hybrid (combined) contract as a financial asset at FVTPL if allowed according to K-IFRS No. 1039, Financial Instruments: Recognition and measurement.

After initial recognition, a financial asset at FVTPL is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at FVTPL are recognized in the statement of comprehensive income as net gains on financial instruments at FVTPL.

#### (6) Financial Investments

AFS and held-to-maturity financial assets are presented as financial investments.

##### Available-For-Sale (“AFS”) financial assets

Profit or loss of financial assets classified as AFS, except for impairment loss and foreign exchange gains and losses, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of financial asset and it is recognized as part of other operating profit or loss in the separate statements of comprehensive income.

However, interest income measured using effective interest rate is recognized in current profit or loss, and dividends of financial assets classified as AFS are recognized when the right to receive payment is established.

AFS financial assets denominated in foreign currencies are translated at the closing rate.

For such a financial asset, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For AFS equity instruments that are not monetary items for example, equity instruments, the gains or losses that are recognized in other comprehensive income includes any related foreign exchange component

##### Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank’s management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest rate.

## (7) Loans

Non-derivative financial assets are classified as loans if these are not quoted in an active market and payments are fixed or determinable. After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

## (8) Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss by category of financial assets.

### 1) Loans

If there is objective evidence that an impairment loss on loans carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The Bank first assesses whether objective evidence of impairment exists individually for loans that are individually significant (individual evaluation of impairment), and individually or collectively for loans that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment (collective evaluation of impairment).

#### Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of borrower and fair value less cost to sell of any collateral held and the timing of anticipated receipts.

#### Collective assessment of impairment

The methodology based on historical loss experience is used to estimate inherent incurred loss on groups of loans for collective evaluation of impairment. Such methodology incorporates factors such as type of product and borrowers, credit rating, portfolio size, loss emergence period, recovery period and applies probability of default (PD) on each loan (or pool of loans) and loss given default (LGD) by type of collateral. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### 2) Available-For-Sale ("AFS") financial assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of an AFS debt instrument classified as increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses. However, impairment losses recognized in profit or loss for an AFS equity instrument classified as available for sale are not reversed through profit or loss.

### *3) Held-to-maturity financial assets.*

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment loss of held-to-maturity financial assets is directly deducted from the carrying amount. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. In case of financial asset classified as held-to-maturity, if, in a subsequent period, the amount of the impairment loss is decreased and objectively related to the event occurring after the impairment is recognized, the previously recognized impairment loss is reversed to the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the separate statement of comprehensive income.

### *(9) Derivatives*

The Bank enters into numerous numbers of derivatives such as currency forward, interest rate swaps, currency swaps and others for trading purpose or to manage its exposures to fluctuations in interest rates and currency exchange and others. These derivatives are presented as financial assets and liabilities at FVTPL and derivatives for hedging in accordance with purpose and subsequent measurement.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Bank designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or firm contracts (fair value hedge).

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

#### *1) Derivative for trading*

All derivatives, except for derivatives that are designated and qualify for hedge accounting are classified as financial instruments held for trading and measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains on financial instruments at FVTPL.

#### *2) Derivative financial instruments for hedging*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the comprehensive income statement relating to the hedged item in the income statement.

Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is fully amortized to profit or loss by the maturity of the financial instrument in the separate statements of comprehensive income.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is recognized in the line of the separate statements of comprehensive income relating to the hedged item.

### *3) Embedded derivatives*

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of embedded derivative separated from host contract are recognized in profit or loss as part of net gains on financial instruments at FVTPL.

### *4) Day one profit and loss*

If the Bank uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is amortized by using straight-line method over the life of the financial instruments. If the fair value of the financial instruments is determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

## *(10) Tangible assets.*

### *1) Recognition and measurement*

All property and equipment that qualify for recognition as an asset are measured at their cost and subsequently carried at their cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred. If part of an item of an asset has a useful life different from that of the entire asset, it is recognized as a separate asset.

### *2) Depreciation*

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Bank. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method is straight-line and estimated useful lives of the assets are as follows.

<u>Property and equipment</u>	<u>Estimated useful lives</u>
Buildings and structures .....	10–60 years
Vehicles .....	4 years
Tools, furniture and fixtures .....	4–20 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

(11) Intangible assets.

Intangible assets are measured initially at cost and subsequently carried at its cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method with no residual value over their estimated useful economic life since the assets are available for use.

<u>Intangible assets</u>	<u>Estimated useful lives</u>
Software .....	5 years
System development fees .....	5 years

The amortization period and the amortization method for intangible assets with a definite useful life are reviewed at least at each financial year-end. The useful life of an intangible asset that is not being amortized is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If there is any change, it is accounted for as a change in an accounting estimate.

(12) Impairment of non-financial assets.

The Bank assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for deferred tax assets, assets arising from employee benefits and non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Bank tests goodwill acquired in a business combination, an intangible asset with an indefinite useful life and an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset’s cash-generating unit).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and such impairment loss is recognized immediately in profit or loss.

(13) Financial liabilities at fair value through profit or loss (“FVTPL”).

Financial liabilities at FVTPL include short-term financial liabilities and financial liabilities recognized as financial liabilities at FVTPL initially. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Otherwise, the expense related issue is recognized in current profit or loss.

#### (14) Provisions

A provision is recognized if the Bank has a present obligation (legal or constructive) as a result of the past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision, and where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit card and unused credit line of consumer and corporate loans are recognized using valuation model that applies the credit conversion factor, default rates, and loss given default. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

#### (15) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (the Bank) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value and are amortized over the life of the contract. After initial recognition, financial guarantee contracts are measured at the greater of:

- The amount determined in accordance with K-IFRS 1037 'Provisions, Contingent Liabilities and Contingent Assets' and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS 1018. 'Revenue'

#### (16) Equity and Reserve

Equity and Reserve are any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities

#### (17) Interest income and expenses

Interest income and expenses are recognized using the effective interest method. Effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expenses over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(18) Fee and commission income

The Bank recognizes financial service fee in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost.

However, fees relating to the creation or acquisition of a financial asset at FVTPL are recognized as revenue immediately

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

(19) Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at FVTPL and financial investment is recognized in profit or loss as part of dividend income in the separate statements of comprehensive income.

(20) Employee compensation and benefits

*1) Defined contribution plans*

When employees render service related to defined contribution plans, contributions related to employees services are recognized in current profit or loss without contributions included in cost of assets. Contributions which are supposed to be paid are recognized in accrued expenses after deducting any amount already paid. Also, if contributions already paid exceed contributions which would be paid at the end of period, the amount of excess is recognized in prepaid expenses.

*2) Defined benefit plans*

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. Actuarial gains and losses recognized are immediately recognized in other comprehensive income (loss) and not reclassified to profit or loss in a subsequent period.

*3) Short-term employee benefits*

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits are recognized in current profit and loss when employees render the related service. Short-term employee benefits are not discounted.

(21) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

*1) Current tax.*

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. The difference between the taxable profit and accounting profit may arise when income or expenses are included in accounting profit in one period, but is included in taxable profit in a different period, and if there is revenue that is exempt from taxation, expenses that are not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Bank offsets current income tax assets and current income tax liabilities if, and only if, the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

*2) Deferred tax*

Deferred tax is recognized, using the asset-liability method, on temporary differences arising between the tax base amount of assets and liabilities and their carrying amount in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred tax liabilities which the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. The Bank reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Bank offsets deferred tax assets and deferred tax liabilities when the Bank has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entity which intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## **4. RISK MANAGEMENT:**

### **4-1. Summary**

#### (1) Overview of Risk Management Policy

The financial risks that the Bank is exposed to are credit risk, market risk, liquidity risk, operational risk, interest risk, credit concentration risk, strategy/reputational risk, outsourcing risk, settlement risk and others. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Bank's key risks.

The Bank's risk management system focuses on increasing transparency, developing risk management environment, and preemptive response to risk due to rapid changes in financial environment to support the Bank's long-term strategy and business decision efficiently.

The Note regarding financial risk management provides information about the risks that the Bank is exposed to, the objective, policies and process for managing the risk, the methods used to measure the risk, and capital adequacy. Additional quantitative information is disclosed throughout the separate financial statements.

#### (2) Risk Management Group

##### *1) Risk Management Committee*

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Bank's target risk appetite, approves significant risk matters and reviews the level of risks that the Bank is exposed to and the appropriateness of the Bank's risk management operations as an ultimate decision-making authority.

##### *2) Risk Management Council*

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committees and discusses the detailed issues relating to the Bank's risk management.

##### *3) Risk Management Practices Committee*

The Risk Management Practices Committee assists the Risk Management Committee and the Risk Management Council. It performs practical work process relating to risk management plan, risk management strategy, risk measurement, risk analysis, economic capital limit and others.

### **4-2. Credit risk**

#### (1) Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the events of counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For the risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

#### (2) Credit Risk Management

The Bank controls the credit concentration risk exposure by applying and managing total exposure limits to prevent the excessive risk concentration to specific industry and specific borrowers. The Bank maintains allowances for loan losses associated with credit risk on loans and receivables to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and receivables and present it in the separate financial statements through the use of an allowances account which is charged against the related financial assets.

(3) Maximum exposure to credit risk

The Bank's maximum exposure of financial instruments to credit risk as of December 31, 2014 and 2013 is as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Cash and due from financial institutions . . . . .	₩ 3,113,988	₩ 2,214,755
Financial assets at FVTPL . . . . .	56,780	154,847
Hedging derivative assets . . . . .	288,424	378,324
Loans (*1) . . . . .	62,875,314	53,400,754
Financial investments (*2) . . . . .	485,263	202,457
Other financial assets . . . . .	808,893	833,334
Acceptances and guarantee contracts . . . . .	61,372,941	53,696,431
Commitments (*3) . . . . .	28,415,294	26,689,629
	<u>₩157,416,897</u>	<u>₩137,570,531</u>

(\*1) Loans exclude loans valuation adjusted related to evaluation of fair value hedging.

(\*2) Financial investments exclude AFS securities valuation adjustment related to fair value hedging which is included in AFS securities in foreign currency in Note 9

(\*3) Commitments exclude commitments on purchase of beneficiary certificates which are included in other commitments in Note 37.

(4) Credit risk of loans

The Bank maintains allowances for loan losses associated with credit risk on loans to manage its credit risk.

The Bank recognizes impairment loss on loans with carrying amount at amortized cost when there is any objective indication of impairment. Under K-IFRS, impairment loss is based on losses incurred at the end of the reporting period and the Bank should not recognize expected losses that are probable due to future events. The Bank measures inherent incurred losses on financial assets classified as loans and present them in the separate financial statements through the use of an allowances account which is charged against the related financial assets.

The Bank writes off on non-profitable loans, non-recoverable loans, loans classified estimated loss by asset quality category, loans requested written off by Financial Supervisory Service ("FSS") and others under approval of Loan Management Committee.

Loans are categorized as follows (Korean won in millions):

(Dec. 31, 2014)

	<u>Individual assessment</u>	<u>Collective assessment</u>	<u>Total</u>	<u>Ratio (%)</u>
Loans:				
Normal				
Not past due .....	₩ 336,607	₩59,765,067	₩60,101,674	94.97
Past due .....	—	9,117	9,117	0.01
Impairment .....	3,019,923	156,301	3,176,224	5.02
Subtotal .....	<u>3,356,530</u>	<u>59,930,485</u>	<u>63,287,015</u>	<u>100.00</u>
Net deferred origination fees and costs:				
Normal				
Not past due .....	(66)	(411,314)	(411,380)	99.92
Past due .....	—	—	—	—
Impairment .....	(533)	212	(321)	0.08
Subtotal .....	<u>(599)</u>	<u>(411,102)</u>	<u>(411,701)</u>	<u>100.00</u>
Carrying amounts before deducting allowances:				
Normal				
Not past due .....	336,541	59,353,753	59,690,294	94.94
Past due .....	—	9,117	9,117	0.01
Impairment .....	3,019,390	156,513	3,175,903	5.05
Subtotal .....	<u>3,355,931</u>	<u>59,519,383</u>	<u>62,875,314</u>	<u>100.00</u>
Allowances:				
Normal				
Not past due .....	(45,400)	(213,680)	(259,080)	14.29
Percentage (%) .....	13.49	0.36	0.43	
Past due .....	—	(231)	(231)	0.01
Percentage (%) .....	—	2.53	2.53	
Impairment .....	(1,427,631)	(126,691)	(1,554,322)	85.70
Percentage (%) .....	47.28	80.95	48.94	
Subtotal .....	<u>(1,473,031)</u>	<u>(340,602)</u>	<u>(1,813,633)</u>	<u>100.00</u>
Percentage (%) .....	43.89	0.57	2.88	
Carrying amounts:				
Normal				
Not past due .....	291,141	59,140,073	59,431,214	97.33
Past due .....	—	8,886	8,886	0.01
Impairment .....	1,591,759	29,822	1,621,581	2.66
Total .....	<u>₩ 1,882,900</u>	<u>₩59,178,781</u>	<u>₩61,061,681</u>	<u>100.00</u>

(Dec. 31, 2013)

	<u>Individual assessment</u>	<u>Collective assessment</u>	<u>Total</u>	<u>Ratio (%)</u>
Loans:				
Normal				
Not past due .....	₩ 238,849	₩49,760,718	₩49,999,567	92.92
Past due .....	—	178,125	178,125	0.33
Impairment .....	3,494,025	137,653	3,631,678	6.75
Subtotal .....	<u>3,732,874</u>	<u>50,076,496</u>	<u>53,809,370</u>	<u>100.00</u>
Net deferred origination fees and costs:				
Normal				
Not past due .....	(9)	(405,581)	(405,590)	99.26
Past due .....	—	(2,505)	(2,505)	0.61
Impairment .....	(736)	215	(521)	0.13
Subtotal .....	<u>(745)</u>	<u>(407,871)</u>	<u>(408,616)</u>	<u>100.00</u>
Carrying amounts before deducting allowances:				
Normal				
Not past due .....	238,840	49,355,137	49,593,977	92.87
Past due .....	—	175,620	175,620	0.33
Impairment .....	3,493,289	137,868	3,631,157	6.80
Subtotal .....	<u>3,732,129</u>	<u>49,668,625</u>	<u>53,400,754</u>	<u>100.00</u>
Allowances:				
Normal				
Not past due .....	(26,274)	(177,151)	(203,425)	8.54
Percentage (%) .....	11.00	0.36	0.41	
Past due .....	—	(6,858)	(6,858)	0.29
Percentage (%) .....	—	3.91	3.91	
Impairment .....	(2,073,009)	(99,008)	(2,172,017)	91.17
Percentage (%) .....	59.34	71.81	59.82	
Subtotal .....	<u>(2,099,283)</u>	<u>(283,017)</u>	<u>(2,382,300)</u>	<u>100.00</u>
Percentage (%) .....	56.25	0.57	4.46	
Carrying amounts:				
Normal				
Not past due .....	212,566	49,177,986	49,390,552	96.81
Past due .....	—	168,762	168,762	0.33
Impairment .....	1,420,280	38,860	1,459,140	2.86
Total .....	<u>₩ 1,632,846</u>	<u>₩49,385,608</u>	<u>₩51,018,454</u>	<u>100.00</u>

The above carrying amounts exclude loan valuation adjustment related to fair value hedging amounting to ₩96,872 million and ₩151,420 million, as of December 31, 2014 and 2013, respectively.

1) Credit quality of loans that are neither past due nor impaired

Credit quality of loans that are neither past due nor impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans				Ratio (%)	Deferred loan origination fees and costs		Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total		Allowances		
Best	₩ 1,846,664	₩ 5,101,792	₩ 851,387	₩ 7,799,843	12.98	₩ (16,184)	₩ (3,970)	₩ 7,779,689
Outstanding	4,784,149	30,876,637	4,664,070	40,324,856	67.09	(363,821)	(71,738)	39,889,297
Good	3,484,579	7,305,159	843,888	11,633,626	19.36	(29,158)	(137,731)	11,466,737
Below normal	160,550	182,799	—	343,349	0.57	(2,217)	(45,641)	295,491
	<u>₩10,275,942</u>	<u>₩43,466,387</u>	<u>₩6,359,345</u>	<u>₩60,101,674</u>	<u>100.00</u>	<u>₩(411,380)</u>	<u>₩(259,080)</u>	<u>₩59,431,214</u>

(Dec. 31, 2013)

	Loans				Ratio (%)	Deferred loan origination fees and costs		Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total		Allowances		
Best	₩ 1,910,299	₩ 4,608,138	₩ 626,135	₩ 7,144,572	14.29	₩ (19,487)	₩ (3,484)	₩ 7,121,601
Outstanding	4,973,463	24,306,098	3,822,284	33,101,845	66.20	(353,715)	(85,553)	32,662,577
Good	3,155,001	5,251,526	1,230,953	9,637,480	19.28	(32,379)	(100,595)	9,504,506
Below normal	109,039	6,631	—	115,670	0.23	(9)	(13,793)	101,868
	<u>₩10,147,802</u>	<u>₩34,172,393</u>	<u>₩5,679,372</u>	<u>₩49,999,567</u>	<u>100.00</u>	<u>₩(405,590)</u>	<u>₩(203,425)</u>	<u>₩49,390,552</u>

2) Aging analysis of loans that are past due but not impaired

Aging analysis of loans that are past due but not impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans				Ratio (%)	Deferred loan origination fees and costs		Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total		Allowances		
Within one months	₩—	₩—	₩ —	₩ —	—	₩—	₩ —	₩ —
Within two months	174	—	—	174	1.91	—	(6)	168
Within three months	—	—	—	—	—	—	—	—
Over three months	—	—	8,943	8,943	98.09	—	(225)	8,718
	<u>₩174</u>	<u>₩—</u>	<u>₩8,943</u>	<u>₩9,117</u>	<u>100.00</u>	<u>₩—</u>	<u>₩(231)</u>	<u>₩8,886</u>

(Dec. 31, 2013)

	Loans					Deferred loan origination fees and costs	Allowances	Carrying amount
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)			
Within one months . . . . .	₩1,192	₩ —	₩ —	₩ 1,192	0.67	₩ —	₩ (43)	₩ 1,149
Within two months . . . . .	—	159,632	—	159,632	89.62	(2,505)	(6,338)	150,789
Within three months . . . . .	—	—	—	—	—	—	—	—
Over three months . . . . .	—	—	17,301	17,301	9.71	—	(477)	16,824
	<u>₩1,192</u>	<u>₩159,632</u>	<u>₩17,301</u>	<u>₩178,125</u>	<u>100.00</u>	<u>₩(2,505)</u>	<u>₩(6,858)</u>	<u>₩168,762</u>

3) Loans assessed for impairment on individual basis

Loans assessed for impairment on individual basis by country and industry of the Bank's counterparties, as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing . . . . .	₩2,711,444	₩19,055	₩2,730,499	₩(1,232,319)	₩(19,055)	₩(1,251,374)	45.45	100.00	45.83
Transportation . . . . .	10,233	—	10,233	—	—	—	—	—	—
Construction . . . . .	278,658	—	278,658	(176,257)	—	(176,257)	63.25	—	63.25
	<u>₩3,000,335</u>	<u>₩19,055</u>	<u>₩3,019,390</u>	<u>₩(1,408,576)</u>	<u>₩(19,055)</u>	<u>₩(1,427,631)</u>	<u>46.95</u>	<u>100.00</u>	<u>47.28</u>

(Dec. 31, 2013)

	Loans			Impairment			Impairment ratio (%)		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Manufacturing . . . . .	₩3,268,557	₩23,016	₩3,291,573	₩(1,971,741)	₩(23,016)	₩(1,994,757)	60.32	100.00	60.60
Construction . . . . .	201,716	—	201,716	(78,252)	—	(78,252)	38.79	—	38.79
	<u>₩3,470,273</u>	<u>₩23,016</u>	<u>₩3,493,289</u>	<u>₩(2,049,993)</u>	<u>₩(23,016)</u>	<u>₩(2,073,009)</u>	<u>59.07</u>	<u>100.00</u>	<u>59.34</u>

(5) Credit quality of securities (debt securities)

1) Securities (debt securities) exposed to credit risk as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Securities that are neither past due nor impaired . . . . .	₩485,263	₩202,457

2) Credit quality of securities (debt securities) that are neither past due nor impaired as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Credit quality (*1)					
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Total
AFS financial assets . . . . .	₩446,364	₩—	₩—	₩—	₩—	₩446,364
Held-to-maturity financial assets . . . . .	38,899	—	—	—	—	38,899
	<u>₩485,263</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩485,263</u>

(Dec. 31, 2013)

	Credit quality (*1)					Total
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	
AFS financial assets .....	₩158,810	₩—	₩—	₩—	₩—	₩158,810
Held-to-maturity financial assets .....	43,647	—	—	—	—	43,647
	<u>₩202,457</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩—</u>	<u>₩202,457</u>

(\*1) Credit quality is classified based on internal credit quality grade as below.

	<u>Credit rating</u>
Grade 1 .....	AAA~BBB
Grade 2 .....	BBB-~BB
Grade 3 .....	BB-~B
Grade 4 .....	B-~C
Grade 5 .....	D

(6) Concentration of credit risk

The amounts disclosed below exclude loan valuation adjustment related to fair value hedging amounting to ₩96,872 million and ₩151,420 million, as of December 31, 2014 and 2013, respectively.

1) Loans by country where the credit risk belongs to as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea	₩13,175,790	₩10,175,702	₩ 834,636	₩24,186,128	38.22	₩ (420)	₩(1,633,497)
China	7,239	2,705,889	600,114	3,313,242	5.24	(932)	(38,754)
Saudi Arabia	—	2,981,097	146	2,981,243	4.71	(59,163)	(7,275)
India	—	1,841,568	22,608	1,864,176	2.95	(46,870)	(2,714)
Iran	—	84,287	8,943	93,230	0.15	(3,475)	(670)
Indonesia	—	2,900,654	4,966	2,905,620	4.59	(86,830)	(6,485)
Vietnam	—	2,347,637	13,215	2,360,852	3.73	(27,574)	(12,462)
Others	—	5,935,059	4,205,485	10,140,544	16.02	(42,376)	(27,432)
	<u>13,183,029</u>	<u>28,971,893</u>	<u>5,690,113</u>	<u>47,845,035</u>	<u>75.61</u>	<u>(267,640)</u>	<u>(1,729,289)</u>
Europe:							
Russia	—	1,092,912	98,635	1,191,547	1.88	—	(20,898)
England	—	382,877	430,336	813,213	1.28	(1,186)	(284)
Belgium	—	60,410	33,909	94,319	0.15	(182)	(933)
France	—	339,852	3,317	343,169	0.54	(5,902)	(24)
Cyprus	—	73,022	—	73,022	0.12	(4,007)	—
Netherlands	—	131,111	50,864	181,975	0.29	(1,419)	(221)
Malta	—	192,224	—	192,224	0.30	(2,442)	—
Others	2,224	2,993,275	66,428	3,061,927	4.84	(50,043)	(20,531)
	<u>2,224</u>	<u>5,265,683</u>	<u>683,489</u>	<u>5,951,396</u>	<u>9.40</u>	<u>(65,181)</u>	<u>(42,891)</u>
America:							
Panama	—	1,982,012	—	1,982,012	3.13	(8,430)	(3,712)
United States	—	1,144,175	107,281	1,251,456	1.98	(17,733)	(6,209)
The British Virgin Islands	—	657,521	—	657,521	1.04	(3,160)	(557)
Mexico	—	574,795	—	574,795	0.91	(8,208)	(5,577)
Bermuda	—	535,077	—	535,077	0.85	(10,509)	(75)
Others	—	957,904	5,221	963,125	1.50	(3,453)	(3,163)
	<u>—</u>	<u>5,851,484</u>	<u>112,502</u>	<u>5,963,986</u>	<u>9.41</u>	<u>(51,493)</u>	<u>(19,293)</u>
Africa:							
Marshall Islands	—	2,294,266	—	2,294,266	3.63	(6,394)	(436)
Liberia	—	377,121	—	377,121	0.60	(3,998)	(18,511)
Madagascar	—	426,191	—	426,191	0.67	(2,678)	(1,646)
Others	—	427,770	1,250	429,020	0.68	(14,317)	(1,567)
	<u>—</u>	<u>3,525,348</u>	<u>1,250</u>	<u>3,526,598</u>	<u>5.58</u>	<u>(27,387)</u>	<u>(22,160)</u>
	<u>₩13,185,253</u>	<u>₩43,614,408</u>	<u>₩6,487,354</u>	<u>₩63,287,015</u>	<u>100.00</u>	<u>₩(411,701)</u>	<u>₩(1,813,633)</u>

(Dec. 31, 2013)

	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	Deferred loan origination fees	Allowances
Asia:							
Korea . . . . .	₩13,575,026	₩ 8,140,030	₩1,679,287	₩23,394,343	43.47	₩ (6,240)	₩(2,215,922)
China . . . . .	7,239	2,479,513	391,807	2,878,559	5.35	(1,149)	(37,439)
Saudi							
Arabia . . . . .	—	2,186,611	28,338	2,214,949	4.12	(69,453)	(7,216)
India . . . . .	—	1,284,377	18,428	1,302,805	2.42	(22,150)	(2,432)
Iran . . . . .	—	114,612	17,302	131,914	0.25	(4,821)	(1,139)
Indonesia . . . . .	—	2,488,525	8,671	2,497,196	4.64	(61,247)	(5,113)
Vietnam . . . . .	—	1,429,477	84,872	1,514,349	2.81	(22,238)	(5,385)
Others . . . . .	—	3,899,487	3,041,113	6,940,600	12.90	(58,430)	(24,563)
	<u>13,582,265</u>	<u>22,022,632</u>	<u>5,269,818</u>	<u>40,874,715</u>	<u>75.96</u>	<u>(245,728)</u>	<u>(2,299,209)</u>
Europe:							
Russia . . . . .	—	922,692	193,712	1,116,404	2.07	(1)	(29,346)
England . . . . .	—	389,849	2,023	391,872	0.73	(1,920)	(426)
Belgium . . . . .	—	76,711	7,391	84,102	0.16	(256)	(28)
France . . . . .	—	383,032	13,613	396,645	0.74	(7,102)	(693)
Cyprus . . . . .	—	92,920	—	92,920	0.17	(1,625)	—
Netherlands . . . . .	—	211,258	—	211,258	0.39	(1,623)	(410)
Malta . . . . .	—	195,230	—	195,230	0.36	(2,931)	(47)
Others . . . . .	2,223	2,166,627	157,287	2,326,137	4.32	(57,935)	(19,586)
	<u>2,223</u>	<u>4,438,319</u>	<u>374,026</u>	<u>4,814,568</u>	<u>8.94</u>	<u>(73,393)</u>	<u>(50,536)</u>
America:							
Panama . . . . .	—	1,735,488	—	1,735,488	3.23	(6,009)	(2,362)
United States							
The British Virgin Islands . . . . .	—	560,604	—	560,604	1.04	(4,384)	(705)
Mexico . . . . .	—	487,905	—	487,905	0.91	(8,658)	(4,990)
Bermuda . . . . .	—	115,731	—	115,731	0.22	(5,726)	—
Others . . . . .	—	962,466	—	962,466	1.79	(3,156)	(3,819)
	<u>—</u>	<u>5,248,170</u>	<u>87,326</u>	<u>5,335,496</u>	<u>9.93</u>	<u>(47,783)</u>	<u>(21,278)</u>
Africa:							
Marshall Islands							
Liberia . . . . .	—	1,659,543	—	1,659,543	3.08	(19,424)	(1,741)
Madagascar . . . . .	—	417,565	277	417,842	0.78	(4,755)	(6,823)
Others . . . . .	—	452,240	—	452,240	0.84	(2,960)	(1,702)
Others . . . . .	—	252,189	2,777	254,966	0.47	(14,573)	(1,011)
	<u>—</u>	<u>2,781,537</u>	<u>3,054</u>	<u>2,784,591</u>	<u>5.17</u>	<u>(41,712)</u>	<u>(11,277)</u>
	<u>₩13,584,488</u>	<u>₩34,490,658</u>	<u>₩5,734,224</u>	<u>₩53,809,370</u>	<u>100.00</u>	<u>₩(408,616)</u>	<u>₩(2,382,300)</u>

2) Loans by industry as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans					Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)		
Manufacturing . . .	₩10,298,585	₩22,253,694	₩ 467,030	₩33,019,309	52.17	₩(144,237)	₩(1,520,018)
Transportation . . .	189,080	7,196,184	—	7,385,264	11.67	(54,801)	(40,092)
Financial institutions . . . .	165,000	3,606,430	5,872,482	9,643,912	15.24	(7,657)	(21,648)
Wholesale and retail . . . . .	679,773	1,365,503	60,475	2,105,751	3.33	2,888	(12,868)
Real estate . . . . .	—	363,744	—	363,744	0.57	(2,313)	(386)
Construction . . . . .	1,633,308	1,810,385	26,210	3,469,903	5.48	(5,092)	(189,163)
Public sector and others . . . . .	219,507	7,018,468	61,157	7,299,132	11.54	(200,489)	(29,458)
	<u>₩13,185,253</u>	<u>₩43,614,408</u>	<u>₩6,487,354</u>	<u>₩63,287,015</u>	<u>100.00</u>	<u>₩(411,701)</u>	<u>₩(1,813,633)</u>

(Dec. 31, 2013)

	Loans					Deferred loan origination fees	Allowances
	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)		
Manufacturing . . .	₩ 9,886,878	₩17,610,649	₩ 314,040	₩27,811,567	51.69	₩(181,551)	₩(2,189,124)
Transportation . . .	188,150	5,497,257	—	5,685,407	10.56	(70,332)	(26,915)
Financial institutions . . . .	165,000	3,177,503	5,254,700	8,597,203	15.98	(6,510)	(28,251)
Wholesale and retail . . . . .	877,781	1,415,308	99,488	2,392,577	4.44	(1,675)	(13,134)
Real estate . . . . .	—	121,887	—	121,887	0.23	(150)	(267)
Construction . . . . .	2,102,888	1,749,992	32,997	3,885,877	7.22	(5,424)	(89,544)
Public sector and others . . . . .	363,791	4,918,062	32,999	5,314,852	9.88	(142,974)	(35,065)
	<u>₩13,584,488</u>	<u>₩34,490,658</u>	<u>₩5,734,224</u>	<u>₩53,809,370</u>	<u>100.00</u>	<u>₩(408,616)</u>	<u>₩(2,382,300)</u>

3) Concentration of credit risk of securities (debt securities) by industry as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014		Dec. 31, 2013	
	Amount	Ratio (%)	Amount	Ratio (%)
AFS financial assets				
Government and government sponsored institutions . . . . .	₩ 82,952	18.58	₩ 70,387	44.32
Banking and insurance . . . . .	311,862	69.87	77,901	49.05
Others . . . . .	51,550	11.55	10,522	6.63
Subtotal . . . . .	446,364	100.00	158,810	100.00
Held-to-maturity financial assets				
Government and government sponsored institutions . . . . .	11,016	28.32	16,140	36.98
Banking and insurance . . . . .	27,883	71.68	27,507	63.02
Subtotal . . . . .	38,899	100.00	43,647	100.00
Total . . . . .	₩485,263		₩202,457	

4) Concentration of credit risk of securities (debt securities) by country as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014		Dec. 31, 2013	
	Amount	Ratio (%)	Amount	Ratio (%)
AFS financial assets				
Korea . . . . .	₩227,585	50.99	₩119,693	75.37
Others . . . . .	218,779	49.01	39,117	24.63
Subtotal . . . . .	446,364	100.00	158,810	100.00
Held-to-maturity financial assets				
Korea . . . . .	—	—	5,299	12.14
Others . . . . .	38,899	100.00	38,348	87.86
Subtotal . . . . .	38,899	100.00	43,647	100.00
Total . . . . .	₩485,263		₩202,457	

5) Credit enhancement and its financial effect as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total	Ratio (%)
Maximum exposure to credit risk . . . . .	₩62,875,314	₩61,372,941	₩28,415,294	₩152,663,549	100.00
Credit enhancement:					
Deposits and savings . . . . .	75,700	86,025	—	161,725	0.11
Export guarantee insurance . . . . .	117,296	2,309,306	—	2,426,602	1.59
Guarantee . . . . .	984,943	1,389,185	844,169	3,218,297	2.11
Securities . . . . .	212,006	189,280	19,172	420,458	0.28
Real estate . . . . .	1,107,765	50,390	45,990	1,204,145	0.79
Ships . . . . .	749,069	181,253	172,598	1,102,920	0.72
Others . . . . .	785,911	—	351,198	1,137,109	0.74
Subtotal . . . . .	4,032,690	4,205,439	1,433,127	9,671,256	6.34
Exposure to credit risk after deducting credit enhancement . . . . .	₩58,842,624	₩57,167,502	₩26,982,167	₩142,992,293	93.66

(\*1) Loans exclude loans valuation adjusted related to evaluation of fair value hedging

(Dec. 31, 2013)

	Loans (*1)	Acceptances and guarantees	Unused loan commitments	Total	Ratio (%)
Maximum exposure to credit risk . . . . .	₩53,400,754	₩53,696,431	₩26,689,629	₩133,786,814	100.00
Credit enhancement:					
Deposits and savings . . . . .	89,353	31,091	670	121,114	0.09
Export guarantee insurance . . . . .	324,241	1,680,783	—	2,005,024	1.50
Guarantee . . . . .	548,784	634,791	37,389	1,220,964	0.91
Securities . . . . .	127,885	20,105	4,432	152,422	0.11
Real estate . . . . .	1,091,594	152,358	48,114	1,292,066	0.97
Ships . . . . .	3,899,607	—	—	3,899,607	2.91
Others . . . . .	676,343	1,702,389	54,734	2,433,466	1.83
Subtotal . . . . .	6,757,807	4,221,517	145,339	11,124,663	8.32
Exposure to credit risk after deducting credit enhancement . . . . .	₩46,642,947	₩49,474,914	₩26,544,290	₩122,662,151	91.68

(\*1) Loans exclude loans valuation adjusted related to evaluation of fair value hedging

### 4-3. Liquidity risk

#### (1) Overview of liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations arising from financial liabilities as they become due. The Bank discloses all financial asset, financial liabilities, and off-balance sheet items such as loan commitments and analysis of the contractual maturity, which are related to liquidity risk, into seven categories. The cash flows disclosed in the maturity analysis are undiscounted contractual amounts, including principal and future interest, which resulted in disagreement with the discounted cash flows included in the separate statements of financial position. However, for derivatives, each discounted cash flow consisting of current fair value is presented.

(2) Principles of the liquidity risk management

① Liquidity risk is managed with integration. The Bank measures, reports and controls liquidity risk by quantification with reasonable method.

② Liquidity risk reflects financing plans and fund using plans and the Bank reports the liquidity risk with preciseness, timeliness and consistency.

③ The Bank establishes liquidity risk managing strategy by analyzing liquidity maturity, liquidity gap structure and market environment.

(3) Liquidity risk management

Risk management department monitors changes by liquidity risk sources and compliance of risk limits. It notifies related departments to prepare countermeasures in case the measured liquidity risk is close to risk limits. Also, it analyzes crisis situations and effects of the crisis situations and reports to the Risk Management Committee on a regular basis. Each related department monitors changes of liquidity risk sources and compliance of risk limits by itself and if exposure to new risk is expected, it discusses the matter with the head of risk management department.

(4) Measurement of liquidity risk

The Bank measures liquidity ratio, liquidity gap ratio and others for local currency and foreign currency and simulates analysis reflecting market environment, product features and the Bank's strategies.

(5) Analysis on remaining contractual maturity of financial assets and liabilities

Remaining contractual maturity and amount of financial assets and liabilities as of December 31, 2014 and 2013 is as follows (Korean won in millions):

(Dec. 31, 2014)

	<u>On demand</u>	<u>Within 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 Months</u>	<u>6 to 12 months</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Financial assets:								
Cash and due from financial institutions . . . .	₩ 830,674	₩ 279,906	₩ 231,044	₩ 60,485	₩ 52,005	₩ 1,661,796	₩ —	₩ 3,115,910
Financial assets at FVTPL . . . . .	1,197,499	—	—	—	—	—	—	1,197,499
Hedging derivative assets . . . . .	—	503	467	—	15,086	103,983	168,385	288,424
Loans . . . . .	12,199	7,931,753	6,013,001	10,114,231	7,784,273	21,786,151	15,382,784	69,024,392
AFS financial assets . . . . .	4,339,990	1,262	1,419	31,766	62,004	283,619	101,805	4,821,865
Held-to-maturity financial assets . . . . .	—	—	22,527	392	16,879	—	—	39,789
Other financial assets . . . . .	—	498,998	—	—	230,513	33,423	165,048	927,982
	<u>₩ 6,380,362</u>	<u>₩8,712,422</u>	<u>₩6,268,458</u>	<u>₩10,206,874</u>	<u>₩8,160,760</u>	<u>₩23,868,972</u>	<u>₩15,818,022</u>	<u>₩79,415,870</u>
Financial liabilities:								
Financial liabilities at FVTPL . . . . .	₩ 489,069	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities . . . . .	—	60,613	258,861	103,780	198,459	1,109,788	251,955	1,983,456
Borrowings . . . . .	—	682,671	773,143	3,134,883	1,263,810	2,738,181	1,663,722	10,256,410
Debentures . . . . .	—	2,560,097	3,638,227	3,078,023	6,964,062	22,161,849	14,326,752	52,729,010
Other financial liabilities . . . . .	—	2,570,426	—	—	—	—	108	2,570,534
	<u>₩ 489,069</u>	<u>₩5,873,807</u>	<u>₩4,670,231</u>	<u>₩ 6,316,686</u>	<u>₩8,426,331</u>	<u>₩26,009,818</u>	<u>₩16,242,537</u>	<u>₩68,028,479</u>
Off-balance sheet items (*1):								
Commitments . . . .	₩28,415,294	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩28,415,294
Financial guarantee contracts . . . . .	8,830,564	—	—	—	—	—	—	8,830,564
	<u>₩37,245,858</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩37,245,858</u>

(\*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

(Dec. 31, 2013)

	<u>On demand</u>	<u>Within 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Financial assets:								
Cash and due from financial institutions . . . . .	₩ 1,693,695	₩ 215,731	₩ 276,341	₩ —	₩ 30,638	₩ —	₩ —	₩ 2,216,406
Financial assets at FVTPL . . . . .	855,248	—	—	—	—	—	—	855,248
Hedging derivative Assets . . . . .	—	5,151	2,246	9,634	7,089	310,529	43,675	378,324
Loans . . . . .	—	6,803,797	5,620,018	9,239,506	7,080,021	17,289,037	12,246,168	58,278,547
AFS financial assets . . . . .	4,014,264	678	1,163	42,357	63,787	62,000	20,385	4,204,634
Held-to-maturity financial assets . . . . .	—	5,488	521	376	897	38,208	—	45,490
Other financial assets . . . . .	—	803,226	—	—	—	44,213	199	847,638
	<u>₩ 6,563,207</u>	<u>₩7,834,071</u>	<u>₩5,900,289</u>	<u>₩9,291,873</u>	<u>₩7,182,432</u>	<u>₩17,743,987</u>	<u>₩12,310,427</u>	<u>₩66,826,286</u>
Financial liabilities:								
Financial liabilities at FVTPL . . . . .	₩ 212,888	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩ 212,888
Hedging derivative liabilities . . . . .	—	—	62,406	253,527	70,106	1,084,141	329,533	1,799,713
Borrowings . . . . .	—	1,441,801	281,050	1,297,452	921,863	1,614,582	—	5,556,748
Debentures . . . . .	—	2,983,389	4,114,891	2,782,075	3,715,001	23,653,549	10,491,755	47,740,660
Other financial liabilities . . . . .	—	940,450	—	—	—	—	107	940,557
	<u>₩ 212,888</u>	<u>₩5,365,640</u>	<u>₩4,458,347</u>	<u>₩4,333,054</u>	<u>₩4,706,970</u>	<u>₩26,352,272</u>	<u>₩10,821,395</u>	<u>₩56,250,566</u>
Off-balance sheet items (*1):								
Commitments . . . . .	₩26,689,629	₩ —	₩ —	₩ —	₩ —	₩ —	₩ —	₩26,689,629
Financial guarantee contracts . . . . .	6,117,175	—	—	—	—	—	—	6,117,175
	<u>₩32,806,804</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩ —</u>	<u>₩32,806,804</u>

(\*1) Guarantees and loan commitments and other credit facilities provided by the Bank have maturities. However, if the counterparty requests the payment immediately, the payment must be fulfilled.

#### 4-4. Market risk

##### (1) Overview of market risk

###### 1) Definition of market risk

Market risk is the risk of possible losses that arise from the changes of market factors, such as interest rate, stock price, foreign exchange rate, commodity value and other market factors related to the fair value or future cash flows of the financial instruments. The Bank classifies exposures to market risk into either foreign exchange rate risk or interest rate risk. Foreign exchange risk means that possible losses on assets and liabilities denominated in foreign currency due to changes of foreign exchange rate. Interest rate risk means that possible losses on assets and liabilities due to changes of interest rate.

###### 2) Market risk management group

The Bank operates the Risk Management Committee and the Risk Management Council for managing risks and risk limits. The Risk Management Practices Committee assists the Risk Management Committee

and the Risk Management Council for practical matters such as managing adequate assets and liabilities by analyzing foreign exchange risk, interest rate risk, liquidity risk, money balance plan and effects by initiating new product. Market risk is managed by product and currency for minimizing segments exposed to changes of foreign exchange, interest rate and securities' price. Foreign exchange risk is measured by definite method and probabilistic method and definite method is used for limits management. Interest rate value at risk (VaR) and interest rate earning at risk ("EaR") are measured by BIS standards, definite method and probabilistic method and definite method is used for limits management. Meanwhile, the Bank performs financial crisis analysis supposing exceptional but possible events for evaluating latent weakness. The analysis is used for important decision making such as risk mitigation, emergency plan development and limit setup. The results of the analysis are reported to the Board of Directors and management on a quarterly basis.

## (2) Foreign exchange risk

### *1) Management of foreign exchange risk*

Foreign exchange risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of foreign exchange risk by source and compliance of risk limits regularly. A finance division head also monitors changes of foreign exchange risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that foreign exchange risk exceeds risk limit. If foreign exchange risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

### *2) Measurement of foreign exchange risk*

Foreign exchange risk is managed by foreign exchange VaR and foreign exchange position. Foreign exchange VaR is measured on a monthly basis and foreign exchange position is measured on a daily basis. It is measured separately by currency for assets and liabilities denominated in foreign currency exceeding 5% of total assets and liabilities denominated in foreign currency.

### *3) Measurement method*

#### ① VaR (Value at Risk)

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal-weighted-average method based on historical changes in market rates, prices and volatilities over the previous 5 years data and measures VaR at a 99% single tail confidence level. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of foreign exchange that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of foreign exchange VaR as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014				Dec. 31, 2013			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Foreign exchange risk	₩124,101	₩52,367	₩193,054	₩122,907	₩226,924	₩15,832	₩548,360	₩186,107

(3) Interest rate risk

1) Management of interest rate risk

Interest rate risk management limit is set up and included in internal capital management limit. A risk management division head monitors changes of interest rate risk by source and compliance of risk limits regularly. A finance division head also monitors changes of interest rate risk by source and compliance of risk limits. The finance division head needs to cooperate with the risk management division head in case it is expected that the Bank will be exposed to a new risk. The risk management division head orders related divisions to prepare countermeasures in case it is apprehended that interest rate risk exceeds risk limit. If interest rate risk exceeds the risk limit, the risk management division head orders related divisions to prepare countermeasures and reports to Risk Management Committee after resolving the exceeded limit problem.

2) Measurement of interest rate risk

Interest rate risk is managed by measuring interest rate EaR and interest rate VaR and uses interest rate sensitivity gap and duration gap as supplementary index. Interest rate EaR and interest rate VaR are measured on a monthly basis, and interest rate sensitivity gap and duration gap are measured on a daily basis. The Bank simulates analysis reflecting market environment, product features and the Bank's strategies.

3) Measurement method

① VaR (Value at Risk)

The Bank uses a yearly VaR to measure market risk. The yearly VaR is a statistically estimated maximum amount of loss that could occur in one year under normal distribution of financial variables. The Bank calculates VaR using equal-weighted-average method based on historical changes in market rates, prices and volatilities over the previous 5 years data and measures VaR at a 99% single tail confidence level. This means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. VaR is a commonly used market risk management technique. However, the method has some shortcomings.

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and

magnitude of the actual losses can be different depending on the assumptions made at the time of calculation. In addition, the time periods used for the model, generally one day or 10 days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

② Stress testing

The stress testing is carried out to analyze the abnormal market situation reflecting intrinsic volatility of interest rate that has significant influence on the value of portfolio. The Bank mainly uses historical scenario tool and also uses hypothetical scenario tool for the analysis of an abnormal market situation. Stress testing is performed at least once in every quarter.

③ Results of measurement

Results of interest rate VaR as of December 31, 2014 and 2013 is as follows (Korean won in millions):

	Dec. 31, 2014				Dec. 31, 2013			
	Average	Minimum	Maximum	Ending	Average	Minimum	Maximum	Ending
Interest rate risk . . .	₩40,828	₩5,613	₩159,309	₩24,663	₩67,174	₩3,551	₩117,626	₩117,626

**4-5. Capital risk**

The Bank follows the standard of capital adequacy established by the Financial Services Commission. The standard is based on Basel III, which was established by Basel Committee on Banking Supervision in Bank for International Settlements (“BIS”). According to the standard, domestic banks should maintain at least 8% or above of BIS capital ratio for risk-weighted asset, and quarterly report BIS capital ratio to the Financial Supervisory Service.

According to Korean Banking Supervision rules for operations, the Bank’s capitals are mainly divided into two categories:

1) Tier 1 capital (basic capital): Basic capital is composed of capital stock-common and other basic capital. Capital stock-common includes common stock satisfied with qualifications, capital surplus, retained earnings, accumulated other comprehensive income, other reserves and non-controlling interests among the common stock of consolidated subsidiaries. Other basic capital includes securities and capital surplus satisfied with qualifications

2) Tier 2 capital (supplementary capital): Supplementary capital is composed of the securities and capital surplus satisfied with qualifications, non-controlling interests among the securities of consolidated subsidiaries and the amounts of less than below 1.25% of credit risk-weighted asset like allowance for credit losses in respect of credits classified as normal or precautionary.

The risk-weighted asset includes intrinsic risks in total assets, errors of internal operation processes and loss risk from external events. It indicates a size of assets reflecting the level of risks that the Bank bears. The Bank computes the risk-weighted asset by risks (credit risk, market risk and operational risk) and uses it for calculation of BIS capital ratio.

The Consolidated Entity's BIS capital ratio on consolidated basis as of December 31, 2014 and 2013, are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Core capital .....	₩ 9,320,842	₩ 8,723,869
Supplementary capital .....	1,222,932	1,031,297
Total .....	<u>₩ 10,543,775</u>	<u>₩ 9,755,166</u>
Risk-weighted assets .....	₩100,444,378	₩84,116,848
Capital ratio .....	10.50%	11.60%

## 5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

### 5-1. Classification and fair value

(1) Carrying amounts and fair values of financial instruments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Classification	<u>Dec. 31, 2014</u>		<u>Dec. 31, 2013</u>		
	Carrying amount	Fair value	Carrying amount	Fair value	
Financial assets:					
Cash and due from financial institutions .....	Non-recurring	₩ 3,113,988	₩ 3,114,046	₩ 2,214,755	₩ 2,214,745
Financial assets at FVTPL .....	Recurring	1,197,499	1,197,499	855,248	855,248
Hedging derivative assets .....	Recurring	288,424	288,424	378,324	378,324
Loans .....	Non-recurring	61,158,553	62,154,900	51,169,874	51,959,935
AFS financial assets .....	Recurring	4,752,625	4,752,625	4,030,332	4,030,332
Held-to-maturity financial assets .....	Non-recurring	38,899	38,985	43,647	44,942
Other financial assets .....	Non-recurring	808,893	808,893	833,334	833,334
		<u>₩71,358,881</u>	<u>₩72,355,372</u>	<u>₩59,525,514</u>	<u>₩60,316,860</u>
Financial liabilities:					
Financial liabilities at FVTPL ..	Recurring	₩ 489,069	₩ 489,069	₩ 212,888	₩ 212,888
Hedging derivative liabilities ...	Recurring	1,983,456	1,983,456	1,799,713	1,799,713
Borrowings .....	Non-recurring	10,018,281	10,064,196	5,488,545	5,492,439
Debentures .....	Non-recurring	47,291,703	48,661,241	42,709,823	42,573,323
Other financial liabilities .....	Non-recurring	2,570,535	2,570,535	940,557	940,557
		<u>₩62,353,044</u>	<u>₩63,768,497</u>	<u>₩51,151,526</u>	<u>₩51,018,920</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For each class of financial assets and financial liabilities, the Bank discloses the fair value of that class of assets and liabilities in a way that permits them to be compared with their carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is quoted price in an active market.

Methods for measuring fair value of financial instruments are as follows:

<b>Financial instruments</b>	<b>Method of measuring fair value</b>
Loans and receivables	<p>As demand deposits and transferable deposits do not have maturity and are readily convertible to cash. Carrying amounts of these deposits are regarded as the nearest amounts of fair values. Fair values of other deposits are determined by discounted cash flow model (“DCF model”).</p> <p>DCF model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows by contractual cash flows with prepayment rate taken into account by appropriate discount rate.</p>
Investment securities	<p>Trading financial assets and liabilities and AFS financial assets are measured at fair value using a quoted market price in an active market. If a quoted market price is not available, they are measured by using a price quoted by a third party, such as a pricing service or broker or using valuation techniques.</p>
Derivatives	<p>For exchange traded derivative, quoted price in active market is used to determine fair value and for OTC derivative, fair value is determined using valuation techniques. The Bank uses internally developed valuation models that are widely used by market participants to determine fair value of plain OTC derivatives including option, interest rate swap and currency swap based on observable market parameters. However, some complex financial instruments are valued using the results of independent pricing services, where part or all of the inputs are not observable in the market.</p> <p>The adjustment for credit risk is reflected in cash flow, and the bank’s credit risk are considered in the discount rate</p>
Borrowings	<p>Fair value is determined using DCF model discounting contractual future cash flows by appropriate discount rate.</p> <p>The adjustment for credit risk is reflected In cash flow, and the bank’s credit risk are considered in the discount rate</p>
Debentures	<p>Fair value of debentures denominated in local currency is determined by using the valuation of independent third-party pricing services in accordance with the market prices that are quoted in active markets.</p> <p>Fair value of debentures denominated in foreign currency is determined by DCF model.</p> <p>The adjustment for credit risk is reflected In cash flow, and the bank’s credit risk are considered in the discount rate</p>

Fair values of financial assets and financial liabilities classified as fair value Level 3 of the fair value hierarchy are determined by using the valuation of independent third-party pricing services. Meanwhile, carrying amounts of other financial assets and financial liabilities are regarded as the nearest amounts of fair values.

(2) Fair value hierarchy

Fair value hierarchy of financial assets and liabilities which are not measured at fair value as of December 31, 2014 and 2013, is as follows (Korean won in millions):

(Dec. 31, 2014)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Cash and due from financial institutions . . . .	₩1,336,284	₩ —	₩ 1,777,762	₩ 3,114,046
Loans . . . . .	—	—	62,154,900	62,154,900
Held-to-maturity financial assets . . . . .	—	38,985	—	38,985
Other financial assets . . . . .	—	—	808,893	808,893
	<u>₩1,336,284</u>	<u>₩ 38,985</u>	<u>₩64,741,555</u>	<u>₩66,116,824</u>
Financial liabilities:				
Borrowings . . . . .	₩ —	₩10,064,196	₩ —	₩10,064,196
Debentures . . . . .	—	48,661,241	—	48,661,241
Other financial liabilities . . . . .	—	—	2,570,535	2,570,535
	<u>₩ —</u>	<u>₩58,725,437</u>	<u>₩ 2,570,535</u>	<u>₩61,295,972</u>

(Dec. 31, 2013)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Cash and due from financial institutions . . . .	₩1,432,027	₩ —	₩ 782,718	₩ 2,214,745
Loans . . . . .	—	—	51,959,935	51,959,935
Held-to-maturity financial assets . . . . .	—	44,942	—	44,942
Other financial assets . . . . .	—	—	833,334	833,334
	<u>₩1,432,027</u>	<u>₩ 44,942</u>	<u>₩53,575,987</u>	<u>₩55,052,956</u>
Financial liabilities:				
Borrowings . . . . .	₩ —	₩ 5,492,439	₩ —	₩ 5,492,439
Debentures . . . . .	—	42,573,323	—	42,573,323
Other financial liabilities . . . . .	—	—	940,557	940,557
	<u>₩ —</u>	<u>₩48,065,762</u>	<u>₩ 940,557</u>	<u>₩49,006,319</u>

Fair value hierarchy of financial assets and liabilities measured at fair value as of December 31, 2014 and 2013, is as follows (Korean won in millions):

(Dec. 31, 2014)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at FVTPL . . . . .	₩1,140,719	₩ 56,780	₩ —	₩1,197,499
Hedging derivative assets . . . . .	—	288,424	—	288,424
AFS financial assets . . . . .	207,881	446,365	3,677,652	4,331,898
	<u>₩1,348,600</u>	<u>₩ 791,569</u>	<u>₩3,677,652</u>	<u>₩5,817,821</u>
Financial liabilities:				
Financial liabilities at FVTPL . . . . .	₩ —	₩ 489,069	₩ —	₩ 489,069
Hedging derivative liabilities . . . . .	—	1,983,456	—	1,983,456
	<u>₩ —</u>	<u>₩2,472,525</u>	<u>₩ —</u>	<u>₩2,472,525</u>

(Dec. 31, 2013)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at FVTPL .....	₩700,401	₩ 154,847	₩ —	₩ 855,248
Hedging derivative assets .....	—	378,324	—	378,324
AFS financial assets .....	244,063	160,655	3,596,430	4,001,148
	<u>₩944,464</u>	<u>₩ 693,826</u>	<u>₩3,596,430</u>	<u>₩5,234,720</u>
Financial liabilities:				
Financial liabilities at FVTPL .....	₩ —	₩ 212,888	₩ —	₩ 212,888
Hedging derivative liabilities .....	—	1,799,713	—	1,799,713
	<u>₩ —</u>	<u>₩2,012,601</u>	<u>₩ —</u>	<u>₩2,012,601</u>

The Bank classifies financial instruments as three level of fair value hierarchy as below;

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value Level 1. This level includes listed equity securities, derivatives, and government bonds traded in an active exchange market.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as Level 2. This level includes the majority of debt and general over-the-counter derivatives such as swap, futures and options

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as Level 3. This level includes unlisted equity securities, structured bonds and over-the-counter derivatives.

The best estimate of fair value of financial instruments is a quoted price from active markets when the financial instruments are traded in an active exchange market (Level 1). If a quoted price of a financial instrument is available readily and regularly through exchange markets, sellers, brokers, industry groups, pricing services, supervisory services and the quoted price is arm's length transaction between knowledgeable, willing parties, the price of the financial instrument is regarded to be disclosed in an active market.

If there is not an active market, fair value of a financial instrument is determined by valuation techniques. The valuation techniques include using a recent transaction between knowledgeable, willing parties, fair value of the similar kind financial instrument, DCF, option pricing model and others. If a valuation technique is used by general market participants and the valuation technique can provide reliable estimates of fair values, the valuation technique can be used. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. The valuation techniques include all the inputs considered by market participants for determining price. The Bank adjusts valuation techniques regularly and reviews the validity of the techniques based on observable current price of the same kind financial instruments observable market data. The Bank believes that used valuation techniques are appropriate and fair values in the statements of financial position are reasonable. However, the fair values in the statements of financial position can be changed when different valuation techniques or different assumptions are used. Also, it can be difficult to compare fair values of the Bank to those of other financial institution because various valuation techniques and several assumptions are used.

Below table accounts for quantitative information of fair value using input factor, which is significant but unobservable, and relation between unobservable input factor and estimate of fair value.

	<b>FY 2014 Fair value (Korean won in million)</b>	<b>Valuation techniques</b>	<b>Input factor which is significant but unobservable</b>	<b>Scope</b>	<b>Relation between unobservable input factor and estimate of fair value</b>
Available-for-sale financial assets					
Unlisted stock . . . . .	3,677,652	Discounted cash flow  Option pricing model	Discount rate	3.97%~19.93%	If discount rate is decreased (increased)/ if growth is increased (decrease), fair value is decreased (increased). If variability of stock price is increased (decreased)/if stock price increased (decreased), fair value is increased (decreased)
			Growth rate Variability	— 4.80%	
			Stock price	494 won	

1) Changes in Level 3 financial assets that are measured at fair value for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	<b>Beginning balance</b>	<b>Profit(loss)</b>	<b>Other comprehen- sive income</b>	<b>Purchases/ issues</b>	<b>Sales/ settlements</b>	<b>Transfers into Level 3 / Transfers out of Level 3</b>	<b>Ending balance</b>
Financial assets							
AFS financial assets . . . . .	₩3,596,430	₩(33,161)	₩85,950	₩1,415	₩(570)	₩27,588	₩3,677,652

(2013)

	<b>Beginning balance</b>	<b>Profit or loss</b>	<b>Other comprehen- sive income</b>	<b>Purchases/ issues</b>	<b>Sales/ settlements</b>	<b>Transfers into Level 3 / Transfers out of Level 3</b>	<b>Ending balance</b>
Financial assets							
AFS financial assets . . . . .	₩3,626,441	₩(14,586)	₩78,297	₩21,722	₩(22,695)	₩(92,749)	₩3,596,430

2) In relation with changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for financial instruments held at the end of the reporting period in the separate statement of comprehensive income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<b>2014</b>	<b>2013</b>
Total gains (losses) for financial instruments held at the end of the reporting period . . . .	₩(29,485)	₩ 20,490
Total losses included in profit or loss for the period . . . . .	₩(33,161)	₩(14,586)

3) The sensitivity of fair value analysis for the Level 3 financial instruments

The Bank performed the sensitivity analysis for the Level 3 financial instruments for which fair value would be measured differently upon reasonably possible alternative assumptions. The Bank classified the effect from changes upon the alternative assumptions into favorable effect and unfavorable effect and presented the most favorable effect or the most unfavorable effect in the table hereunder. Stocks are the financial instruments subject to sensitivity analysis, which are classified as Level 3 and of for which changes in fair value are recognized as

other comprehensive income. Meanwhile, equity instruments which are recognized as cost among the financial instruments and are classified as Level 3 are excluded from the sensitivity analysis.

Sensitivity analysis details per market risk variable of each Level 3 financial instrument held and measured at fair value as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	<u>Net income (loss)</u>		<u>Other comprehensive income (loss)</u>	
	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩5,435,680	₩(1,198,592)

(\*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1 percent and discount rate or liquidation value from negative 1 percent to 1 percent and discount rate, which are unobservable inputs.

(Dec. 31, 2013)

	<u>Net income (loss)</u>		<u>Other comprehensive income (loss)</u>	
	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
Financial assets:				
AFS Financial assets (*)	₩—	₩—	₩6,014,237	₩(1,338,632)

(\*) Changes in fair value of stocks are computed along with the increases or decreases in either growth rate from nil to 1 percent and discount rate or liquidation value from negative 1 percent to 1 percent and discount rate, which are unobservable inputs.

(3) The table below provides the Bank's financial assets and financial liabilities that are carried at cost since the fair values of the financial instruments are not readily determinable in the separate statements of financial position as of December 31, 2014 and 2013. (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
AFS financial assets		
Unlisted securities (*)	₩385,845	₩ 537
Equity investments to unincorporated entities. (*)	34,882	28,181
Others (*)	—	466
	<u>₩420,727</u>	<u>₩29,184</u>

(\*) AFS financial assets are unlisted equity securities and equity investments and recorded as at cost since they do not have quoted prices in an active market and the fair values are not measured with reliability.

## 5-2. Carrying amounts of financial instruments

Carrying amounts of financial instruments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Financial assets at FVTPL	Loans	Available- for-sale financial assets	Held-to- maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions . . .	₩ —	₩ 3,113,988	₩ —	₩ —	₩ —	₩ 3,113,988
Financial assets at FVTPL . . . . .	1,197,499	—	—	—	—	1,197,499
Hedging derivative assets . . . . .	—	—	—	—	288,424	288,424
Loans . . . . .	—	61,158,553	—	—	—	61,158,553
Financial investments . . .	—	—	4,752,625	38,899	—	4,791,524
Other financial assets . . .	—	808,893	—	—	—	808,893
<b>Total . . . . .</b>	<b>₩1,197,499</b>	<b>₩65,081,434</b>	<b>₩4,752,625</b>	<b>₩38,899</b>	<b>₩288,424</b>	<b>₩71,358,881</b>

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL . . . . .	₩489,069	₩ —	₩ —	₩ 489,069
Hedging derivative liabilities . . . . .	—	—	1,983,456	1,983,456
Borrowings . . . . .	—	10,018,281	—	10,018,281
Debentures . . . . .	—	47,291,703	—	47,291,703
Other financial liabilities . . . . .	—	2,570,535	—	2,570,535
<b>Total . . . . .</b>	<b>₩489,069</b>	<b>₩59,880,519</b>	<b>₩1,983,456</b>	<b>₩62,353,044</b>

(Dec. 31, 2013)

	Financial assets at FVTPL	Loans	Available- for-sale financial assets	Held-to- maturity financial assets	Hedging derivative assets	Total
Cash and due from financial institutions . . . . .	₩ —	₩ 2,214,755	₩ —	₩ —	₩ —	₩ 2,214,755
Financial assets at FVTPL . . . . .	855,248	—	—	—	—	855,248
Hedging derivative assets . . . . .	—	—	—	—	378,324	378,324
Loans . . . . .	—	51,169,874	—	—	—	51,169,874
Financial investments . . . . .	—	—	4,030,332	43,647	—	4,073,979
Other financial assets . . . . .	—	833,338	—	—	—	833,338
<b>Total . . . . .</b>	<b>₩855,248</b>	<b>₩54,217,967</b>	<b>₩4,030,332</b>	<b>₩43,647</b>	<b>₩378,324</b>	<b>₩59,525,518</b>

	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Hedging derivative liabilities	Total
Financial liabilities at FVTPL	₩212,888	₩ —	₩ —	₩ 212,888
Hedging derivative liabilities	—	—	1,799,713	1,799,713
Borrowings	—	5,488,545	—	5,488,545
Debentures	—	42,709,823	—	42,709,823
Other financial liabilities	—	940,557	—	940,557
Total	₩212,888	₩49,138,925	₩1,799,713	₩51,151,526

### 5-3. Offset on financial assets and financial liabilities

The Bank has conditional rights of setoff that are enforceable and exercisable only in the events mentioned in agreements regardless of meeting some or all of the offsetting criteria in K-IFRS 1032 for derivative assets, derivative liabilities, receivable spot exchanges and payable spot exchanges. Cash collaterals do not meet the offsetting criteria in K-IFRS 1032 but they can be set off with net amount of derivative assets and derivatives liabilities and net amount of receivables spot exchanges and payable spot exchanges.

The effects of netting agreements as of December 31, 2014 and 2013 are as follow (Korean won in millions):

(Dec. 31, 2014)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives	₩ 345,204	₩—	₩ 345,204	₩(253,618)	₩ —	₩ 91,586
Available-for-sale financial assets	112,508	—	112,508	(101,282)	—	11,226
	<u>457,712</u>	<u>—</u>	<u>457,712</u>	<u>(354,900)</u>	<u>—</u>	<u>102,812</u>
Financial liabilities:						
Derivatives	2,472,524	—	2,472,524	(253,618)	(1,567,378)	651,528
Repurchase agreement (RP)	101,282	—	101,282	(101,282)	—	—
Total	<u>₩2,573,806</u>	<u>₩—</u>	<u>₩2,573,806</u>	<u>₩(354,900)</u>	<u>₩(1,567,378)</u>	<u>₩651,528</u>

(Dec. 31, 2013)

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial liabilities (assets) to be setoff	Net amounts of financial assets (liabilities) presented in the separate statement of financial position	Amount that is not offset in the financial statements		Net amount
				Financial instruments	Cash collateral	
Financial assets:						
Derivatives . . . . .	₩ 533,171	₩—	₩ 533,171	₩(335,976)	₩ (16,522)	₩180,673
Available-for-sale financial assets . . . . .	16,173	—	16,173	(13,945)	—	2,228
Held-to-maturity financial assets . . . . .	38,348	—	38,348	(33,543)	—	4,805
	<u>587,692</u>	<u>—</u>	<u>587,692</u>	<u>(383,464)</u>	<u>(16,522)</u>	<u>187,706</u>
Financial liabilities:						
Derivatives . . . . .	2,012,600	—	2,012,600	(335,976)	(1,194,442)	482,182
Repurchase agreement (RP) . . . . .	47,489	—	47,489	(47,489)	—	—
Total . . . . .	<u>₩2,060,089</u>	<u>₩—</u>	<u>₩2,060,089</u>	<u>₩(383,465)</u>	<u>₩(1,194,442)</u>	<u>₩482,182</u>

## 6. OPERATING SEGMENT:

Though the Bank conducts business activities related to financial services, in accordance with relevant laws such as the Export-Import Bank of Korea Act, it does not report separate segment information, as management considers the Bank to be operating under one core business.

## 7. CASH AND DUE FROM FINANCIAL INSTITUTIONS:

(1) Cash and cash equivalents as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Dec. 31, 2014	Dec. 31, 2013
Due from financial institutions in local currency . . . . .	₩ 176,257	₩ 357,188
Due from financial institutions in foreign currencies . . . . .	2,937,731	1,857,567
Subtotal . . . . .	<u>3,113,988</u>	<u>2,214,755</u>
Restricted due from financial institutions . . . . .	(908)	(407)
Due from financial institutions with original maturities of three months or less at acquisition date . . . . .	(1,776,796)	(782,321)
Subtotal . . . . .	<u>(1,777,704)</u>	<u>(782,728)</u>
Total (*) . . . . .	<u>₩ 1,336,284</u>	<u>₩1,432,027</u>

(\*) It is equal to the due from financial institutions as presented on the separate statements of cash flows.

(2) Details of due from financial institutions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>	<u>Dec. 31, 2014</u>		<u>Dec. 31, 2013</u>	
	<u>Amount</u>	<u>Interest (%)</u>	<u>Amount</u>	<u>Interest (%)</u>
Due from financial institutions in local currency:				
Demand deposits .....	₩ 1,279	—	₩ 788	—
Time deposits .....	115,000	2.16~2.73	310,000	2.68~3.23
Others .....	59,500	2.70	46,400	2.70
Margin for derivatives .....	478	—	—	—
Subtotal .....	<u>176,257</u>		<u>357,188</u>	
Due from financial institutions in foreign currencies:				
Demand deposits .....	27,179	—	39,090	—
Time deposits .....	505,632	0.48~0.50	211,060	0.25~0.40
On demand .....	438,446	—	36,940	—
Offshore demand deposits .....	1,215	—	808	—
Others .....	1,964,829	0.00~0.45	1,569,262	0.00~0.45
Margin for derivatives .....	430	—	407	—
Subtotal .....	<u>2,937,751</u>		<u>1,857,567</u>	
Total .....	<u>₩3,113,988</u>		<u>₩2,214,755</u>	

(3) Restricted due from financial institutions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>	<u>Financial Institution</u>	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>	<u>Reason for restriction</u>
Others .....	DEUTSCHE BANK TRUST COMPANY AMERICAS	₩908	₩407	Credit support annex for derivative transactions

## 8. FINANCIAL ASSETS AT FVTPL:

Details of financial assets at FVTPL as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Equity securities		
Beneficiary certificates .....	<u>₩1,140,719</u>	<u>₩700,401</u>
Derivative assets		
Interest product .....	3,630	1,234
Currency product .....	53,150	153,613
Subtotal .....	<u>56,780</u>	<u>154,847</u>
Total .....	<u>₩1,197,499</u>	<u>₩855,248</u>

## 9. FINANCIAL INVESTMENTS:

Details of financial investments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
AFS securities in local currency		
Equity securities		
Marketable securities . . . . .	₩ 217,250	₩ 244,063
Non-marketable securities . . . . .	4,052,358	3,596,966
Equity investments to unincorporated entities . . . . .	34,882	28,181
Others . . . . .	<u>1,771</u>	<u>2,386</u>
Subtotal . . . . .	<u>4,306,261</u>	<u>3,871,596</u>
AFS securities in foreign currency		
Debt securities		
Debt securities(*1) . . . . .	446,364	158,704
Equity securities		
Equity securities . . . . .	<u>—</u>	<u>32</u>
Subtotal . . . . .	<u>446,364</u>	<u>158,736</u>
Held-to-maturity securities in foreign currency		
Debt securities		
Debt securities(*1) . . . . .	<u>38,899</u>	<u>43,647</u>
Total . . . . .	<u>₩4,791,524</u>	<u>₩4,073,979</u>

(\*1) It includes debt securities which are pledged as collateral amounting to ₩112,508 and ₩54,521 as of December 31, 2014 and 2013, respectively.

## 10. LOANS:

Loans as presented below exclude loan valuation adjustment related to fair value hedging amounting to ₩96,872 million and ₩151,420 million, as of December 31, 2014 and 2013, respectively.

(1) Details of loans as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Detail</u>	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Loans in local currency	Loans for export . . . . .	₩ 9,271,874	₩ 8,983,664
	Loans for overseas investments . . . . .	744,062	884,197
	Loans for import . . . . .	1,088,873	1,372,994
	Troubled Debt Restructuring . . . . .	1,776,744	2,144,957
	Others . . . . .	303,700	198,676
	Subtotal . . . . .	<u>13,185,253</u>	<u>13,584,488</u>
Loans in foreign currencies	Loans for export . . . . .	20,590,839	16,516,899
	Loans for overseas investments . . . . .	18,241,228	15,606,122
	Loans for rediscounted trading notes . . . . .	439,680	643,733
	Loans for import . . . . .	2,795,575	634,593
	Overseas funding loans . . . . .	632,417	651,124
	Domestic usance bills . . . . .	503,351	194,976
	Others . . . . .	411,317	243,211
	Subtotal . . . . .	<u>43,614,407</u>	<u>34,490,658</u>
Others	Foreign-currency bills bought . . . . .	1,353,180	1,214,071
	Advance for customers . . . . .	32,033	37,549
	Call loans . . . . .	4,803,319	4,435,115
	Interbank loans in foreign currency . . . . .	298,823	47,489
	Subtotal . . . . .	<u>6,487,355</u>	<u>5,734,224</u>
Total loan . . . . .	<u>63,287,015</u>	<u>53,809,370</u>	
Net deferred origination fees and costs . . . . .	(411,701)	(408,616)	
Allowance for loan losses . . . . .	(1,813,633)	(2,382,300)	
Total . . . . .	<u>₩61,061,681</u>	<u>₩51,018,454</u>	

(2) Loans classified by customer as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

	Detail	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	
Customer	Large corporations . . . . .	₩ 5,766,233	₩24,926,736	₩ 255,249	₩30,948,218	57.69	
	Small and medium companies . . . . .	7,253,960	6,577,623	342,926	14,174,509	26.43	
	Public sector and others . . . . .	60	8,503,618	16,698	8,520,376	15.88	
	Balance . . . . .	13,020,253	40,007,977	614,873	53,643,103	100.00	
	Net deferred origination fees and costs . . . . .	(931)	(405,836)	—	(406,767)		
	Allowance for loan losses . . . . .	(1,399,244)	(276,582)	(116,159)	(1,791,985)		
	Subtotal . . . . .	11,620,078	39,325,559	498,714	51,444,351		
	Financial institution	Banks . . . . .	165,000	1,932,138	5,401,795	7,498,933	77.76
		Others . . . . .	—	1,674,292	470,687	2,144,979	22.24
		Balance . . . . .	165,000	3,606,430	5,872,482	9,643,912	100.00
Net deferred origination fees and costs . . . . .		—	(4,934)	—	(4,934)		
Allowance for loan losses . . . . .		(137)	(19,428)	(2,083)	(21,648)		
Subtotal . . . . .		164,863	3,582,068	5,870,399	9,617,330		
Total . . . . .	₩11,784,941	₩42,907,627	₩6,369,113	₩61,061,681			

(Dec. 31, 2013)

	Detail	Loans in local currency	Loans in foreign currencies	Others	Total	Ratio (%)	
Customer	Large corporations . . . . .	₩ 6,468,172	₩17,810,959	₩ 176,405	₩24,455,536	54.01	
	Small and medium companies . . . . .	6,941,277	5,403,513	272,170	12,616,960	27.86	
	Public sector and others . . . . .	10,040	8,168,860	30,949	8,209,849	18.13	
	Balance . . . . .	13,419,489	31,383,332	479,524	45,282,345	100.00	
	Net deferred origination fees and costs . . . . .	(2,217)	(399,890)	—	(402,107)		
	Allowance for loan losses . . . . .	(2,098,562)	(233,005)	(22,551)	(2,354,118)		
	Subtotal . . . . .	11,318,710	30,750,437	456,973	42,526,120		
	Financial institution	Banks . . . . .	165,000	1,916,492	4,547,447	6,628,939	77.74
		Others . . . . .	—	1,190,834	707,252	1,898,086	22.26
		Balance . . . . .	165,000	3,107,326	5,254,699	8,527,025	100.00
Net deferred origination fees and costs . . . . .		—	(5,858)	(651)	(6,509)		
Allowance for loan losses . . . . .		(150)	(25,180)	(2,852)	(28,182)		
Subtotal . . . . .		164,850	3,076,288	5,251,196	8,492,334		
Total . . . . .	₩11,483,560	₩33,826,725	₩5,708,169	₩51,018,454			

(3) Changes in net deferred origination fees and costs for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Deferred origination fees .....	₩(408,858)	₩(135,942)	₩(80,229)	₩(464,571)
Deferred origination costs .....	242	53,407	779	52,870
Total .....	<u>₩(408,616)</u>	<u>₩ (82,535)</u>	<u>₩(79,450)</u>	<u>₩(411,701)</u>

(2013)

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
Deferred origination fees .....	₩(358,677)	₩(143,228)	₩(93,047)	₩(408,858)
Deferred origination costs .....	376	—	134	242
Total .....	<u>₩(358,301)</u>	<u>₩(143,228)</u>	<u>₩(92,913)</u>	<u>₩(408,616)</u>

(4) Changes in allowance for loan losses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	<u>Individual assessment</u>	<u>Collective assessment</u>	<u>Total</u>
Beginning balance .....	₩ 2,099,283	₩283,017	₩ 2,382,300
Written-off .....	(35,924)	(11,814)	(47,738)
Collection of written-off loans .....	—	387	387
Loan-for-equity swap .....	(1,048,877)	(7,549)	(1,056,426)
Others .....	—	253	253
Unwinding effect .....	(29,428)	(2,118)	(31,546)
Foreign exchange translation .....	1,787	3,466	5,253
Provision for loan losses .....	450,267	110,883	561,150
Transfer .....	35,922	(35,922)	—
Ending balance .....	<u>₩ 1,473,030</u>	<u>₩340,603</u>	<u>₩ 1,813,633</u>

(2013)

	<u>Individual assessment</u>	<u>Collective assessment</u>	<u>Total</u>
Beginning balance .....	₩1,699,721	₩294,652	₩1,994,373
Written-off .....	(48,995)	(44,317)	(93,312)
Collection of written-off loans .....	—	2,406	2,406
Loan-for-equity swap .....	(100,768)	(20,944)	(121,712)
Others .....	—	23,609	23,609
Unwinding effect .....	(16,284)	(1,791)	(18,075)
Foreign exchange translation .....	(2,784)	(2,044)	(4,828)
Provision for loan losses .....	547,852	51,987	599,839
Transfer .....	20,541	(20,541)	—
Ending balance .....	<u>₩2,099,283</u>	<u>₩283,017</u>	<u>₩2,382,300</u>

## 11. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES:

(1) Details of investments in associates and subsidiaries as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Company</u>	<u>Detail</u>	<u>Location</u>	<u>Business</u>	<u>Year end</u>	<u>Ownership (%)</u>	<u>Net asset</u>	<u>Carrying amount</u>
KEXIM Bank UK Limited . . .	Subsidiary	United Kingdom	Finance	December	100.00	₩ 41,274	₩ 48,460
KEXIM Vietnam Leasing Co. . . . .	Subsidiary	Vietnam	Finance	December	100.00	11,479	10,275
PT.KOEXIM Mandiri Finance . . . . .	Subsidiary	Indonesia	Finance	December	85.00	23,032	25,270
KEXIM Asia Limited . . . . .	Subsidiary	Hong Kong	Finance	December	100.00	55,408	49,139
Korea Asset Management Corporation . . . . .	Associate	Korea	Finance	December	25.86	407,868	380,520
Credit Guarantee and Investment Fund(*1) . . . . .	Associate	Philippines	Finance	December	14.28	112,522	115,486
Korea Marine Guarantee Incorporated Company . . . . .	Associate	Korea	Finance	December	49.99	30,000	30,000
SUNG Dong Shipbuilding & Marine Engineering Co, Ltd. (*2) . . . . .	Associate	Korea	Shipbuilding	December	70.71	(680,342)	—
DAESUN Shipbuilding & Engineering Co, Ltd. (*2) . . . . .	Associate	Korea	Shipbuilding	December	67.27	(239,738)	—
Total . . . . .							<u>₩659,150</u>

(Dec. 31, 2013)

<u>Company</u>	<u>Detail</u>	<u>Location</u>	<u>Business</u>	<u>Year end</u>	<u>Ownership (%)</u>	<u>Net asset</u>	<u>Carrying amount</u>
KEXIM Bank UK Limited . . .	Subsidiary	United Kingdom	Finance	December	100.00	₩ 44,872	₩ 48,460
KEXIM Vietnam Leasing Co. . . . .	Subsidiary	Vietnam	Finance	December	100.00	9,849	10,275
PT.KOEXIM Mandiri Finance . . . . .	Subsidiary	Indonesia	Finance	December	85.00	16,388	25,270
KEXIM Asia Limited . . . . .	Subsidiary	Hong Kong	Finance	December	100.00	50,147	49,139
Korea Asset Management Corporation . . . . .	Associate	Korea	Finance	December	25.86	388,681	380,520
Credit Guarantee and Investment Fund(*1) . . . . .	Associate	Philippines	Finance	December	14.28	107,731	115,486
SUNG Dong Shipbuilding & Marine Engineering Co, Ltd. (*2) . . . . .	Associate	Korea	Shipbuilding	December	33.99	(628,827)	10
Total . . . . .							<u>₩629,160</u>

(\*1) As of December 31, 2014 and 2013, Credit Guarantee and Investment Fund are classified into an associate because the Bank has significant influence in the way of representation on the board of directors or equivalent governing body of the investee.

(\*2) Those companies are under the Creditor-led work out program. And the Bank should have at least 75% of the Total creditor's loans to have substantive control based on the creditor's agreement. As the bank has only 48%, 60%, respectively, of the total creditor's loans, those are classified into an associate.

(2) Changes in investments in associates and subsidiaries for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

<u>Company</u>	<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Impairment loss</u>	<u>Ending balance</u>
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩ —	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	—	115,486
Korea Marine Guarantee Incorporated Company	Associate	—	30,000	—	30,000
SUNG Dong Shipbuilding & Marine Engineering Co. Ltd.	Associate	10	—	(10)	—
DAESUN Shipbuilding & Engineering Co, Ltd.	Associate	—	1	(1)	—
<b>Total</b>		<b>₩629,160</b>	<b>30,001</b>	<b>(11)</b>	<b>₩659,150</b>

(2013)

<u>Company</u>	<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisition</u>	<u>Ending balance</u>
KEXIM Bank UK Limited	Subsidiary	₩ 48,460	₩—	₩ 48,460
KEXIM Vietnam Leasing Co.	Subsidiary	10,275	—	10,275
PT.KOEXIM Mandiri Finance	Subsidiary	25,270	—	25,270
KEXIM Asia Limited	Subsidiary	49,139	—	49,139
Korea Asset Management Corporation	Associate	380,520	—	380,520
Credit Guarantee and Investment Fund	Associate	115,486	—	115,486
SUNG Dong Shipbuilding & Marine Engineering Co. Ltd.	Associate	—	10	10
<b>Total</b>		<b>₩629,150</b>	<b>₩ 10</b>	<b>₩629,160</b>

(3) Summarized financial information of associates and subsidiaries as of and for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Operating income</u>	<u>Net income</u>
KEXIM Bank UK Limited	₩ 497,285	₩ 456,011	₩ 23,257	₩ (2,606)
KEXIM Vietnam Leasing Co.	148,664	137,185	4,374	1,169
PT.KOEXIM Mandiri Finance	163,332	140,300	7,482	3,546
KEXIM Asia Limited	386,051	330,643	11,956	3,308
Korea Asset Management Corporation	2,388,025	810,810	116,055	104,411
Credit Guarantee and Investment Fund	792,311	4,893	3,819	3,816
Korea Marine Guarantee Incorporated Company	60,000	—	—	—
SUNG Dong Shipbuilding & Marine Engineering Co. Ltd.	2,062,669	3,024,827	(207,799)	(344,873)
DAESUN Shipbuilding & Engineering Co, Ltd.	406,464	762,845	(35,438)	19,667

(2013)

<u>Company</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Operating income</u>	<u>Net income</u>
KEXIM Bank UK Limited	₩ 455,482	₩ 410,611	₩ 6,749	₩ 5,110
KEXIM Vietnam Leasing Co.	124,882	115,033	1,344	1,039
PT.KOEXIM Mandiri Finance	163,849	144,569	3,093	2,568
KEXIM Asia Limited	356,724	306,577	4,621	3,844
Korea Asset Management Corporation	3,085,016	1,588,103	60,742	53,846
Credit Guarantee and Investment Fund	756,255	2,366	2,348	2,344
SUNG Dong Shipbuilding & Marine Engineering Co. Ltd.	2,016,279	3,866,313	(109,801)	(222,247)

## 12. TANGIBLE ASSETS:

(1) Details of tangible assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Detail</u>	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
Lands	₩191,306	₩ —	₩191,306
Buildings	97,913	(25,236)	72,677
Vehicles	3,408	(2,031)	1,377
Furniture and fixture	23,971	(15,792)	8,179
Total	<u>₩316,598</u>	<u>₩(43,059)</u>	<u>₩273,539</u>

(Dec. 31, 2013)

<u>Detail</u>	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
Lands	₩189,585	₩ —	₩189,585
Buildings	44,741	(23,014)	21,727
Vehicles	2,944	(2,006)	938
Furniture and fixture	21,427	(14,325)	7,102
Construction in progress	17,167	—	17,167
Total	<u>₩275,864</u>	<u>₩(39,345)</u>	<u>₩236,519</u>

(2) Changes in tangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Transfer</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Ending balance</u>
Lands	₩189,585	₩ 1,721	₩ —	₩—	₩ —	₩191,306
Buildings	21,727	13,317	39,855	—	(2,222)	72,677
Vehicles	938	883	—	(14)	(430)	1,377
Furniture and fixture	7,102	3,196	481	(21)	(2,579)	8,179
Construction in progress	17,167	23,169	(40,336)	—	—	—
Total	<u>₩236,519</u>	<u>₩42,286</u>	<u>₩ —</u>	<u>₩(35)</u>	<u>₩(5,231)</u>	<u>₩273,539</u>

(2013)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Ending balance</u>
Lands .....	₩189,585	₩ —	₩—	₩ —	₩189,585
Buildings .....	23,183	—	—	(1,456)	21,727
Vehicles .....	871	479	(24)	(388)	938
Furniture and fixture .....	3,740	4,945	(4)	(1,579)	7,102
Construction in progress .....	10,700	6,467	—	—	17,167
Total .....	<u>₩228,079</u>	<u>₩11,891</u>	<u>₩(28)</u>	<u>₩(3,423)</u>	<u>₩236,519</u>

### 13. INTANGIBLE ASSETS:

(1) Details of intangible assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Detail</u>	<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment</u>	<u>Book value</u>
Computer software .....	₩ 9,972	₩ (5,247)	₩ —	₩ 4,725
System development fees .....	22,844	(14,059)	—	8,785
Memberships .....	5,180	—	(509)	4,671
Total .....	<u>₩37,996</u>	<u>₩(19,306)</u>	<u>₩(509)</u>	<u>₩18,181</u>

(Dec. 31, 2013)

<u>Detail</u>	<u>Acquisition cost</u>	<u>Accumulated amortization</u>	<u>Accumulated impairment</u>	<u>Book value</u>
Computer software .....	₩ 8,099	₩ (4,145)	₩ —	₩ 3,954
System development fees .....	20,507	(11,934)	—	8,573
Memberships .....	6,195	—	(1,294)	4,901
Total .....	<u>₩34,801</u>	<u>₩(16,079)</u>	<u>₩(1,294)</u>	<u>₩17,428</u>

(2) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Ending balance</u>
Computer software .....	₩ 3,954	₩1,874	₩ —	₩(1,103)	₩—	₩ 4,725
System development fees .....	8,573	2,337	—	(2,125)	—	8,785
Memberships .....	4,901	—	(230)	—	—	4,671
Total .....	<u>₩17,428</u>	<u>₩4,211</u>	<u>₩(230)</u>	<u>₩(3,228)</u>	<u>₩—</u>	<u>₩18,181</u>

(2013)

<u>Detail</u>	<u>Beginning balance</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Impairment</u>	<u>Ending balance</u>
Computer software .....	₩ 2,807	₩2,026	₩ —	₩ (879)	₩ —	₩ 3,954
System development fees .....	6,882	2,546	—	(855)	—	8,573
Memberships .....	5,582	313	(208)	—	(786)	4,901
Total .....	<u>₩15,271</u>	<u>₩4,885</u>	<u>₩(208)</u>	<u>₩(1,734)</u>	<u>₩(786)</u>	<u>₩17,428</u>

#### 14. OTHER ASSETS:

(1) Details of other assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Other financial assets:		
Guarantee deposits .....	₩ 33,553	₩ 36,632
Accounts receivable .....	165,684	128,263
Accrued income .....	653,032	682,573
Receivable spot exchange .....	90	170
Allowances for loan losses on other assets .....	(43,466)	(14,304)
	<u>808,893</u>	<u>833,334</u>
Other assets:		
Prepaid expenses .....	5,103	4,064
Sundry assets .....	14,401	8,952
	<u>19,504</u>	<u>13,016</u>
Total .....	<u>₩828,397</u>	<u>₩846,350</u>

(2) Changes in allowances for loan losses on other assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Beginning balance .....	₩14,304	₩ 1,335
Collection of written-off loans .....	35	—
Transfers in .....	29,162	12,969
Others .....	(35)	—
Ending balance .....	<u>₩43,466</u>	<u>₩14,304</u>

#### 15. BORROWINGS:

(1) Details of borrowings as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Detail</u>	<u>Lender</u>	<u>Interest rate (%)</u>	<u>Amount</u>
Borrowings in foreign currencies:			
Compulsory loan .....	MINISTRY OF STRATEGY AND FINANCE	0.25~ LIBOR 3M+0.78	₩ 3,359,507
Long term borrowings from foreign financial institutions .....	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	LIBOR 3M +0.35 ~LIBOR 3M + 1.10	2,790,601
Discount on borrowings .....		—	(9,025)
Commercial papers (CP) .....	CITIBANK N.A., HONG KONG and others	0.05~0.70	3,217,605
Offshore Commercial papers (CP) ...	BANK OF AMERICA NA and others	0.30	54,960
Others (Foreign banks) .....	DEUTSCHE BANK AG, LONDON BRANCH RBS(TOKYO) and others	0.46~1.95	503,351
Subtotal .....			<u>9,916,999</u>
Securities sold under repurchase agreement .....		0.40~0.45	101,282
Total .....			<u>₩10,018,281</u>

(Dec. 31, 2013)

<u>Detail</u>	<u>Lender</u>	<u>Interest rate (%)</u>	<u>Amount</u>
Borrowings in foreign currency:			
Long term borrowings from foreign financial institutions . . .	BANK OF TOKYO-MITSUBISHI UFJ, Ltd., and others	0.73~2.02	₩2,374,283
Discount on borrowings . . . . .			(8,337)
Commercial papers . . . . .	CITIBANK N.A., HONG KONG and others	0.2~0.81	2,830,263
Offshore long term borrowings . . .	SUMITOMO MITSUI TRUST BANK, Limited	0.98~0.98	31,659
Discount on borrowings . . . . .			(54)
Others (Foreign banks) . . . . .	ROYAL BANK OF SCOTLAND, TOKYO BRANCH and others	0.33~3.35	194,975
Others (CSA—Credit Support Annex) . . . . .	STANDARD CHARTERED BANK	—	18,267
Subtotal . . . . .			<u>5,441,056</u>
Securities sold under repurchase agreement . . . . .		—	47,489
Total . . . . .			<u>₩5,488,545</u>

(2) Details of borrowings from financial institutions as of December 31, 2014 and 2013 are as follows  
(Korean won in millions):

(Dec. 31, 2014)

<u>Detail</u>	<u>Securities sold under repurchase agreement</u>	<u>Borrowings in foreign currency</u>	<u>Total (*)</u>
Banks . . . . .	₩101,282	₩6,557,492	₩6,658,774

(Dec. 31, 2013)

<u>Detail</u>	<u>Securities sold under repurchase agreement</u>	<u>Borrowings in foreign currency</u>	<u>Total (*)</u>
Banks . . . . .	₩47,489	₩5,441,056	₩5,488,545

(\*) Borrowings as presented here exclude present value discounts.

## 16. DEBENTURES:

Details of debentures as of December 31, 2014 and 2013 are as follows (Korean won in millions):

Detail	Dec. 31, 2014		Dec. 31, 2013	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Local currency:				
Floating rate	2.65~3.76	₩ 440,000	2.65~3.76	₩ 1,490,000
Fixed rate	2.04~4.9	8,230,000	2.69~5.17	6,640,000
Balance		8,670,000		8,130,000
Discount on debentures:		(41,947)		(21,810)
Subtotal		8,628,053		8,108,190
Foreign currencies				
Floating rate	Libor+0.0 ~Libor+1.8	6,578,872	0.32~10.00	4,363,720
Fixed rate	0.08~9.32	31,805,227	0.30~10.49	30,350,557
Balance		38,384,099		34,714,277
Gain on fair value of hedged items		440,212		70,322
Discount on debentures		(160,661)		(182,966)
Subtotal		38,663,650		34,601,633
Total		₩47,291,703		₩42,709,823

## 17. PROVISIONS:

(1) Details of provisions as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	Dec. 31, 2014	Dec. 31, 2013
Provisions for acceptances and guarantees	₩119,183	₩155,613
Provisions for unused loan commitments	175,994	89,742
Total	₩295,177	₩245,355

(2) Changes in provisions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Detail	Acceptances and guarantees			Unused loan commitments	Total
	Individual assessment	Collective assessment	Subtotal		
Beginning balance	₩ 88,434	₩ 67,178	₩155,612	₩ 89,742	₩245,354
Foreign exchange translation	—	61	61	465	526
Additional Provisions (Reversal of provision)	(82,803)	46,313	(36,490)	85,787	49,297
Transfers in (out)	(387)	387	—	—	—
Ending balance	₩ 5,244	₩113,939	₩119,183	₩175,994	₩295,177

(2013)

<u>Detail</u>	<u>Acceptances and guarantees</u>			<u>Unused loan commitments</u>	<u>Total</u>
	<u>Individual assessment</u>	<u>Collective assessment</u>	<u>Subtotal</u>		
Beginning balance . . . . .	₩ 98,644	₩71,040	₩169,684	₩54,950	₩224,634
Foreign exchange translation . . . . .	(116)	1	(115)	(89)	(204)
Additional Provisions (Reversal of provision) . .	(13,242)	(715)	(13,957)	34,882	20,925
Transfers in (out) . . . . .	3,148	(3,148)	—	—	—
Ending balance . . . . .	<u>₩ 88,434</u>	<u>₩67,178</u>	<u>₩155,612</u>	<u>₩89,743</u>	<u>₩245,355</u>

#### 18. RETIREMENT BENEFIT PLAN:

The Bank operates both defined benefit plan and defined contribution plan.

##### (1) Defined benefit plan

The Bank operates defined benefit plans which have the following characteristics:

- The entity has the obligation to pay the agreed benefits to all its current and past employees.
- The entity is liable for actuarial risk (excess of actual payment against expected amount) and investment risk.

The present value of the defined benefit obligation recognized in the separate statements of financial position is calculated annually by independent actuaries in accordance with actuarial valuation method. The present value of the defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). The data used in the PUC such as interest rates, future salary increase rate, mortality rate, consumer price index and expected return on plan asset are based on observable market data and historical data which are annually updated.

Actuarial assumptions may differ from actual results due to change in the market, economic trend and mortality trend which may affect defined benefit obligation liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the period incurred through other comprehensive income or loss.

(2) Details of defined benefit obligation as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Present value of defined benefit obligations . . . . .	₩ 82,626	₩ 62,179
Fair value of plan assets . . . . .	(35,363)	(34,311)
Defined benefit obligation, net . . . . .	<u>₩ 47,263</u>	<u>₩ 27,868</u>

(3) Changes in net defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	<u>Present value of the defined benefit obligation</u>	<u>Plan assets</u>	<u>Net defined benefit obligation</u>
Beginning balance .....	₩62,179	₩(34,311)	₩27,868
Contributions from the employer .....	—	(1,000)	(1,000)
Current service cost .....	9,026	—	9,026
Interest expense (income) .....	3,126	—	3,126
Return on plan assets, excluding the interest expense (income) .....	—	(1,737)	(1,737)
Actuarial gains and losses arising from changes in financial assumptions .....	10,364	733	11,097
Actuarial gains and losses arising from empirical adjustment ..	(490)	—	(490)
Management fee on plan assets .....	—	86	86
Transfer in(out) .....	620	(620)	—
Benefits paid .....	(2,199)	1,486	(713)
Ending balance .....	<u>₩82,626</u>	<u>₩(35,363)</u>	<u>₩47,263</u>

(2013)

	<u>Present value of the defined benefit obligation</u>	<u>Plan assets</u>	<u>Net defined benefit obligation</u>
Beginning balance .....	₩61,067	₩(28,324)	₩32,743
Contributions from the employer .....	—	(5,997)	(5,997)
Current service cost .....	8,671	(1,301)	7,370
Interest expense (income) .....	2,796	—	2,796
Return on plan assets, excluding amounts included in interest income above .....	—	300	300
Actuarial gains and losses arising from changes in financial assumptions .....	(3,994)	—	(3,994)
Actuarial gains and losses arising from empirical adjustment ..	(4,825)	—	(4,825)
Management fee on plan assets .....	—	158	158
Benefits paid .....	(1,536)	853	(683)
Ending balance .....	<u>₩62,179</u>	<u>₩(34,311)</u>	<u>₩27,868</u>

(4) Details of plan assets as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Cash and cash equivalent .....	₩13,199	₩ 8,429
Debt securities .....	4,541	2,362
Others .....	17,623	23,520
Total .....	<u>₩35,363</u>	<u>₩34,311</u>

(5) Actuarial assumptions used in retirement benefit obligation assessment as of December 31, 2014 and 2013 are as follows:

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Discount rate .....	4.07%	5.06%
Expected wage growth rate .....	3.04%	3.04%

(6) Assuming that all the other assumptions remain unchanged, the effect of changes in the significant actuarial assumptions which were made within the reasonable limit on retirement benefit obligations as of December 31, 2014 and 2013 are as follows:

(Dec. 31, 2014)

<u>Description</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Change of discount rate .....	(10,489)	12,697
Change of future salary increase rate: .....	12,695	(10,671)

(Dec. 31, 2013)

<u>Description</u>	<u>1% Increase</u>	<u>1% Decrease</u>
Change of discount rate .....	(7,415)	8,951
Change of future salary increase rate: .....	7,042	(7,608)

The above sensitivity analysis does not present any actual changes in the retirement benefit obligations as there is no change in actuarial assumptions which is independently made due to the correlation among the assumptions. In addition, the actuarial present value of promised retirement benefits in the sensitivity analysis is determined using the projected unit credit method, which is used in the calculation of the retirement benefit obligations in the separate financial statements.

(7) Retirement benefit cost incurred from the defined contribution plan for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Retirement benefit cost .....	₩358	₩494

## 19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Other financial liabilities:		
Guarantee deposits .....	₩ 503,256	₩ 375,123
Foreign exchanges payable .....	148,452	37
Accounts payable .....	1,398,555	5,256
Accrued expenses .....	520,164	560,033
Guarantee deposit received .....	108	108
Subtotal .....	<u>2,570,535</u>	<u>940,557</u>
Other liabilities:		
Allowance for credit loss in derivatives .....	10,931	10,757
Unearned income .....	226,748	141,833
Sundry liabilities .....	6,851	6,620
Subtotal .....	<u>244,530</u>	<u>159,210</u>
Total .....	<u>₩2,815,065</u>	<u>₩1,099,767</u>

## 20. DERIVATIVES:

The Bank operates derivatives for trading and hedging instrument. Derivatives held for trading purpose are included in financial assets and liabilities at FVTPL.

### (1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. When applying fair value hedge, the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. Any adjustment arising from the gain or loss on the hedged item attributable to the hedged risk to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

The Bank uses interest rate swaps for hedging changes of fair values in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of fair values in hedged items arising from changes in foreign exchange rates

### (2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss. When applying cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

The Bank shall discontinue prospectively the cash flow hedge if hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall be reclassified from equity to profit or loss as a reclassification adjustment.

The Bank uses interest rate swaps for hedging changes of cash flows in hedged items arising from changes in interest rates. The Bank also uses currency swaps for hedging changes of cash flows in hedged items arising from changes in foreign exchange.

(3) Details of derivative assets and liabilities as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Notional	Derivative assets			Total
		Fair value hedge	Cash flow hedge	Trading	
Interest:					
Interest rate swaps	₩13,806,343	₩258,295	₩—	₩ 3,630	₩261,925
Currency:					
Currency forwards	1,842,284	—	—	4,966	4,966
Currency swaps	15,528,234	30,129	—	48,184	78,313
Subtotal	17,370,518	30,129	—	53,150	83,279
Total	₩31,176,861	₩288,424	₩—	₩56,780	₩345,204
		Derivative liabilities			
Detail	Notional	Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩13,806,343	₩ 89,641	₩2,789	₩ 28,612	₩ 121,042
Currency:					
Currency forwards	1,842,284	—	—	47,857	47,857
Currency swaps	15,528,234	1,891,026	—	412,600	2,303,626
Subtotal	17,370,518	1,891,026	—	460,457	2,351,483
Total	₩31,176,861	₩1,980,667	₩2,789	₩489,069	₩2,472,525

(Dec. 31, 2013)

Detail	Notional	Derivative assets			Total
		Fair value hedge	Cash flow hedge	Trading	
Interest:					
Interest rate swaps	₩14,266,649	₩177,324	₩ 60	₩ 1,234	₩178,618
Currency:					
Currency forwards	1,195,972	—	—	28,208	28,208
Currency swaps	15,393,129	200,940	—	125,405	326,345
Subtotal	16,589,101	200,940	—	153,613	354,553
Total	₩30,855,750	₩378,264	₩ 60	₩154,847	₩533,171
		Derivative liabilities			
Detail	Notional	Fair value hedge	Cash flow hedge	Trading	Total
Interest:					
Interest rate swaps	₩14,266,649	₩ 231,440	₩1,838	₩ 59,114	₩ 292,392
Currency:					
Currency forwards	1,195,972	—	—	783	783
Currency swaps	15,393,129	1,566,435	—	152,991	1,719,426
Subtotal	16,589,101	1,566,435	—	153,774	1,720,209
Total	₩30,855,750	₩1,797,875	₩1,838	₩212,888	₩2,012,601

(4) Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Fair value hedge—hedged items	₩(416,449)	₩ 657,891
Fair value hedge—hedging instruments	₩(623,173)	₩(1,859,353)

(5) The Bank recognized ₩(1,102) million and ₩2,616 million as other comprehensive income (losses) (not adjusting tax effect), and cash flow hedge ineffectiveness of ₩90 million and ₩100 million was recognized in earnings for the years ended December 31, 2014 and 2013.

## 21. CAPITAL STOCK:

As of December 31, 2014, the authorized capital and paid-in capital of the Bank are ₩15,000,000 million and ₩7,748,055 million, respectively. The Bank does not issue share certificates.

Changes in capital stock for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Beginning balance	₩7,238,055	₩7,138,055
Increase in capital and investment in kind (*1)	510,000	100,000
Ending balance	<u>₩7,748,055</u>	<u>₩7,238,055</u>

(\*1) Increase in capital and investment in kind is composed of cash contribution of ₩130,000 million and investment in kind of ₩380,000 million for the year ended December 31, 2014.

## 22. OTHER COMPONENTS OF EQUITY:

(1) Details of other components of equity as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Gain on valuation of AFS securities	₩116,276	₩54,157
Loss on valuation of cash flow hedge	(2,062)	(1,227)
Remeasurement elements of net defined benefit liability	(3,212)	4,827
Total	<u>₩111,002</u>	<u>₩57,757</u>

(2) Changes in other reserves for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

	<u>Beginning balance</u>	<u>Increase (decrease)</u>	<u>Tax effect</u>	<u>Ending balance</u>
Gain (loss) on valuation of AFS securities	₩54,157	₩ 81,950	₩(19,831)	₩116,276
Loss on valuation of cash flow hedge	(1,227)	(1,102)	267	(2,062)
Remeasurement elements of net defined benefit liability	4,827	(10,606)	2,567	(3,212)
Total	<u>₩57,757</u>	<u>₩ 70,242</u>	<u>₩(16,997)</u>	<u>₩111,002</u>

(2013)

	<u>Beginning balance</u>	<u>Increase (decrease)</u>	<u>Tax effect</u>	<u>Ending balance</u>
Gain on valuation of AFS securities .....	₩25,641	₩37,620	₩ (9,104)	₩54,157
Loss on valuation of cash flow hedge .....	(3,210)	2,616	(633)	(1,227)
Remeasurement elements of net defined benefit liability .....	(1,631)	8,520	(2,062)	4,827
Total .....	<u>₩20,800</u>	<u>₩48,756</u>	<u>₩(11,799)</u>	<u>₩57,757</u>

### 23. RETAINED EARNINGS:

(1) Details of retained earnings as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Legal reserve (*1) .....	₩ 319,984	₩ 314,010
Voluntary reserve (*2) .....	1,119,559	1,067,878
Reserve for bad loan .....	514,785	—
Unappropriated retained earnings .....	66,767	572,440
Total .....	<u>₩2,021,095</u>	<u>₩1,954,328</u>

(\*1) Pursuant to the EXIM Bank Act, the Bank appropriates 10% of net income for each accounting period as legal reserve, until the accumulated reserve equals to its paid-in capital.

(\*2) The Bank appropriates the remaining balance of net income, after the appropriation of legal reserve and declaration of dividends, to voluntary reserve.

(2) Changes in retained earnings for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Beginning balance .....	₩1,954,328	₩1,928,883
Net income for the period .....	66,767	59,731
Dividends .....	—	(34,286)
Ending balance .....	<u>₩2,021,095</u>	<u>₩1,954,328</u>

(3) Details of dividends for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
The Government .....	₩—	₩23,149
BOK .....	—	5,596
Korea Finance Corporation .....	—	5,541
Total .....	<u>₩—</u>	<u>₩34,286</u>

(4) Statements of appropriations of retained earnings for the years ended December 31, 2014 and 2013 are as follows (Korean Won in millions):

	<b>2014</b> (Expected date of appropriation: Mar. 31, 2015)	<b>2013</b> (Date of appropriation: Mar. 31, 2014)
<b>I. RETAINED EARNINGS BEFORE</b>		
<b>APPROPRIATIONS:</b> .....	₩66,767	₩572,440
1. Unappropriated retained earnings carried over from prior years .....	—	₩512,709
2. Net income .....	66,767	59,731
<b>II. Other reserve transferred</b> .....	12,734	
<b>III. APPROPRIATIONS:</b> .....	79,501	572,440
1. Legal reserve (*2) .....	6,677	5,973
2. Dividend .....	15,189	—
3. Other reserve .....	—	51,682
4. Reserve for Bad Loans .....	57,635	514,785
<b>IV. UNAPPROPRIATED RETAINED EARNINGS AT THE END OF THE PERIOD</b> .....	<u>₩ —</u>	<u>₩ —</u>

#### 24. RESERVE FOR BAD LOANS:

Reserve for bad loans is calculated and disclosed according to Article 29 (1) and (2), Regulation on Supervision of Banking Business. In accordance with Regulation on Supervision of Banking Business etc., if the estimated allowance for credit loss determined by K-IFRS for the accounting purpose is lower than those for the regulatory purpose required by Regulation on Supervision of Banking Business, the Bank should reserve such difference as the regulatory reserve for bad loans. Due to the fact that regulatory reserve for bad loans is a voluntary reserve, the amounts that exceed the existing reserve for bad loans over the compulsory reserve for bad loans at the period-end date are reversed in profit. In case of accumulated deficit, the Bank should recommence setting aside reserve for bad loans at the time when accumulated deficit is gone.

##### 1) Reserve for bad loans

Details of reserve for bad loans as of December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Accumulated reserve for bad loans .....	₩514,785	₩423,827
Expected reserve for bad loans .....	57,635	90,958
Reserve for bad loans .....	<u>₩572,420</u>	<u>₩514,785</u>

##### 2) Expected reserve for bad loans and net income after adjusting reserve for bad loans.

Details of expected reserve for bad loans and net income after adjusting the reserve for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Net income for the period .....	₩ 66,767	₩ 59,731
Expected reserve for bad loans .....	(57,635)	(90,958)
Net profit (loss) after adjusting the reserve for bad loans (*1) .....	<u>₩ 9,132</u>	<u>₩(31,227)</u>

(\*1) Adjusted profit (loss) considering reserves for bad debt as above is calculated by assuming that the provision in reserves for bad debt before income tax is reflected in net income.

## 25. NET INTEREST INCOME:

Net interest income is the amount after deduction of interest expenses from interest income, and the details are as follows:

(1) Details of interest income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Interest of due from financial institutions:		
Due from financial institutions in local currency . . . . .	₩ 6,157	₩ 12,004
Due from financial institutions in foreign currencies . . . . .	3,604	7,657
	<u>9,761</u>	<u>19,661</u>
Interest of financial assets at FVTPL:		
Interest of trading securities . . . . .	439	346
Interest of investments:		
Interest of AFS securities . . . . .	4,041	731
Interest of held-to-maturity securities . . . . .	791	692
	<u>4,832</u>	<u>1,423</u>
Interest of loans:		
Interest of loans in local currency . . . . .	547,405	587,898
Interest of loans in foreign currencies . . . . .	1,091,444	1,043,355
Interest of bills bought . . . . .	19,541	29,234
Interest of advances for customers . . . . .	143	443
Interest of call loans . . . . .	12,341	11,180
Interest of interbank loans . . . . .	549	2,330
	<u>1,671,423</u>	<u>1,674,440</u>
Interest of others . . . . .	<u>2,359</u>	<u>2,414</u>
Total . . . . .	<u>₩1,688,814</u>	<u>₩1,698,284</u>

Interest income accrued from impaired loan is ₩31,546 million and ₩18,076 million for the years ended December 31, 2014 and 2013, respectively.

(2) Details of interest expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Interest of borrowings:		
Borrowings in foreign currencies . . . . .	₩ 45,251	₩ 39,118
RP . . . . .	248	70
Interest of call money . . . . .	9,594	12,059
Interest of debentures:		
Interest of debentures in local currency . . . . .	253,921	264,938
Interest of debentures in foreign currencies . . . . .	977,502	1,016,019
Interest of others . . . . .	7,879	3,492
Total . . . . .	<u>₩1,294,395</u>	<u>₩1,335,696</u>

## 26. NET COMMISSION INCOME:

Net commission income is the amount after deduction of commission expenses from commission income, and the details are as follows.

(1) Details of commission income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Commission income in local currency:		
Commissions income on management of Economic Development Cooperation Fund (“EDCF”) . . . . .	₩ 11,512	₩ 9,625
Commissions income on management of Inter-Korean Cooperation Fund (“IKCF”) . . . . .	2,784	2,729
Other commission income in local currency . . . . .	1	—
	<u>14,297</u>	<u>12,354</u>
Commission income in foreign currency:		
Commissions income on letter of credit . . . . .	2,644	2,398
Commissions income on confirmation on export letter of credit . . . . .	876	1,214
Commissions income on loans commitment . . . . .	84,833	79,537
Management fee . . . . .	379	36
Arrangement fee . . . . .	3,032	3,602
Advisory fee . . . . .	1,031	199
Cancellation fee . . . . .	5,673	2,997
Prepayment fee . . . . .	26,443	32,122
Sundry commissions income on foreign exchange . . . . .	126	286
Other commission income in foreign currency . . . . .	11	29
	<u>125,048</u>	<u>122,420</u>
Others:		
Other commission income . . . . .	4,259	1,729
Guarantee fees on foreign currency:		
Guarantee fees on foreign currency . . . . .	180,675	183,245
Premium for guarantee . . . . .	33,142	22,874
	<u>213,817</u>	<u>206,119</u>
Total . . . . .	<u>₩357,421</u>	<u>₩342,622</u>

(2) Details of commission expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Commission expenses in local currency:		
Commissions expenses on borrowings . . . . .	₩ 132	₩ 132
Commissions expenses on domestic transaction . . . . .	138	208
	<u>270</u>	<u>340</u>
Commission expenses in foreign currency:		
Commission expenses on foreign borrowings . . . . .	2,900	1,984
Sundry commission expenses on foreign exchange . . . . .	464	375
Commission expenses on offshore borrowings . . . . .	15	15
Sundry commissions expenses on offshore transaction . . . . .	45	40
	<u>3,424</u>	<u>2,414</u>
Others:		
Other commissions expenses . . . . .	1,240	287
Other commissions expenses-deferred . . . . .	—	45
	<u>1,240</u>	<u>332</u>
Total . . . . .	<u>₩4,934</u>	<u>₩3,086</u>

**27. DIVIDEND INCOME:**

Details of dividend income for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
AFS securities . . . . .	₩10,471	₩13,977

**28. GAIN (LOSS) ON FINANCIAL ASSETS AT FVTPL:**

Details of gain (loss) on financial assets at FVTPL for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Trading securities:		
Gain on valuation . . . . .	₩ 8,181	₩ 1,498
Gain on disposal . . . . .	12,173	5,567
Loss on disposal . . . . .	(1,380)	(118)
	<u>18,974</u>	<u>6,947</u>
Trading derivatives		
Gain on valuation . . . . .	23,957	157,562
Loss on valuation . . . . .	(418,958)	(144,813)
Gain on transaction . . . . .	237,491	256,281
Loss on transaction . . . . .	(205,296)	(106,412)
	<u>(362,806)</u>	<u>162,618</u>
Total . . . . .	<u>₩(343,832)</u>	<u>₩ 169,565</u>

### 29. GAIN (LOSS) ON HEDGING DERIVATIVES:

Details of gain (loss) on hedging derivatives for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Gain on hedging derivatives .....	₩ 434,041	₩ 218,101
Loss on hedging derivatives .....	(1,057,214)	(2,077,354)
Total .....	<u>₩ (623,173)</u>	<u>₩(1,859,253)</u>

### 30. GAIN (LOSS) ON FINANCIAL INVESTMENTS:

(1) Details of gain (loss) on financial investments for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
AFS securities:		
Gain on disposals .....	₩ 5,733	₩ 22,008
Loss on disposals .....	(85)	(1,761)
Impairment loss .....	(52,010)	(20,636)
Total .....	<u>₩(46,362)</u>	<u>₩ (389)</u>

(2) There is no gain or loss on held-to-maturity securities for the years ended December 31, 2014 and 2013, respectively. In addition, details of interest income of held-to-maturity securities are stated in Note 25.

### 31. OTHER OPERATING INCOME (EXPENSES):

Details of other operating income (expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Other operating income:		
Gain on disposal of loans .....	₩ 2	₩ 8
Gain on redemption of loans .....	—	139
Gain on fair value hedged items .....	153,195	776,597
Others .....	3,164	7,439
	<u>156,361</u>	<u>784,183</u>
Other operating expenses:		
Loss on fair value hedged items .....	569,642	118,706
Contribution to miscellaneous funds .....	5,184	5,745
Loss on redemption .....	40	13
Others .....	375	647
	<u>575,241</u>	<u>125,111</u>
Total .....	<u>₩(418,880)</u>	<u>₩659,072</u>

### 32. (REVERSAL OF) IMPAIRMENT LOSS ON CREDIT:

Details of impairment loss (reversal) on credit for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Loans .....	₩561,150	₩599,839
Other financial assets .....	29,162	12,971
Guarantees .....	(36,490)	(13,957)
Unused loan commitments .....	85,787	34,882
Financial guarantee contract .....	11,894	(11,139)
Total .....	<u>₩651,503</u>	<u>₩622,596</u>

### 33. GENERAL AND ADMINISTRATIVE EXPENSES:

Details of general and administrative expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Detail</u>	<u>2014</u>	<u>2013</u>
General and administrative .....	Short-term salaries .....	₩ 84,010	₩ 82,757
Other expenses in financing department .....	Office expenses .....	49,030	47,768
	Subtotal .....	<u>133,040</u>	<u>130,525</u>
Office expenses of EDCF .....		<u>1,727</u>	<u>1,696</u>
General and administrative .....	Post-employment benefit (defined contributions) .....	358	494
Others .....	Post-employment benefit (defined benefits) .....	10,501	10,325
	Depreciation of tangible assets .....	5,232	3,423
	Amortization of intangible assets .....	3,229	1,735
	Taxes and duties .....	34,963	31,722
	Contribution for fund .....	1,200	—
	Subtotal .....	<u>55,483</u>	<u>47,699</u>
Total .....		<u>₩190,250</u>	<u>₩179,920</u>

### 34. NON-OPERATING INCOME (EXPENSES):

Details of non-operating income (expenses) for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>Detail</u>	<u>2014</u>	<u>2013</u>
Gain (loss) on investments in associates and subsidiaries . . . . .	Dividend income . . . . .	₩ 4,671	₩ 8,018
	Impairment loss . . . . .	(10)	—
		4,661	8,018
Others income . . . . .	Gain on disposals of tangible assets . . . . .	99	73
	Rent income . . . . .	66	46
	Interest on other loans . . . . .	153	153
	Revenue on research project . . . . .	5,140	5,185
	Indemnity received for breach of contract A/C . . . . .	3	—
	Other miscellaneous Income . . . . .	536	324
	Subtotal . . . . .	<u>5,997</u>	<u>5,781</u>
Others expenses . . . . .	Loss on disposal of tangible assets . . . . .	2	4
	Loss on disposal of intangible assets . . . . .	230	4
	Impairment loss on intangible assets . . . . .	—	786
	Expenses for contribution . . . . .	4,859	5,347
	Court cost . . . . .	115	1,021
	Expenses on research project . . . . .	5,503	4,649
	Other miscellaneous expenses . . . . .	103	365
	Subtotal . . . . .	<u>10,812</u>	<u>12,176</u>
	Total . . . . .	<u>₩(4,815)</u>	<u>₩(6,395)</u>

### 35. INCOME TAX EXPENSE:

(1) Details of income tax expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Current income tax payable . . . . .	₩ 254,784	₩ 139,806
Adjustment recognized in the period for current tax of prior periods . . . . .	21,463	3,472
Changes in deferred income taxes due to temporary differences . . . . .	(232,860)	(117,897)
Changes in deferred income taxes directly recognized in equity . . . . .	(16,999)	(11,799)
Income tax expense . . . . .	<u>₩ 26,388</u>	<u>₩ 13,582</u>

(2) Changes in temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

(2014)

Detail	Temporary differences			Deferred tax assets (liabilities)—ending balance
	Beginning balance	Increase (decrease)	Ending balance	
Depreciation expense	₩ 6,032	₩ (6,032)	₩ —	₩ —
Fair value hedging income (loss)	(81,099)	424,439	343,340	83,088
Financial guarantee contract liability	223,219	125,146	348,365	84,304
Allowance account	1,427,243	(764,625)	662,618	160,354
Unused commitment provisions	89,742	86,252	175,994	42,591
Net deferred origination fees and costs	408,616	55,148	463,764	112,231
Long-term income in advance	(1,930)	(16,928)	(18,858)	(4,564)
Provisions for acceptances and guarantees	155,612	(36,429)	119,183	28,842
Loan-for-equity swap	57,002	1,111,983	1,168,985	282,894
Losses on valuation of derivatives	(1,170,172)	(700,450)	(1,870,622)	(452,690)
Gains on valuation of derivatives	1,479,430	647,890	2,127,320	514,812
Defined benefit liability	22,677	17,649	40,326	9,759
Accrued interest and interest receivables related to swap transaction	(322,673)	65,562	(257,111)	(62,221)
Tangible asset	(185,978)	6,712	(179,266)	(43,382)
Others	82,526	16,160	98,686	23,881
Subtotal	2,190,247	1,032,477	3,222,724	779,899
Deferred income tax assets (liabilities) directly adjusted in equity				(35,439)
Total				₩ 744,460

(2013)

Detail	Temporary differences			Deferred tax assets (liabilities)—ending balance
	Beginning balance	Increase (decrease)	Ending balance	
Depreciation expense	₩ 4,443	₩ 1,589	₩ 6,032	₩ 1,460
Fair value hedging income(loss)	570,710	(651,809)	(81,099)	(19,626)
Financial guarantee contract liability	(58,027)	281,246	223,219	54,020
Allowance account	1,065,803	361,440	1,427,243	345,393
Unused commitment provisions	54,950	34,792	89,742	21,718
Net deferred origination fees and costs	358,480	50,136	408,616	98,885
Long-term income in advance	(15,944)	14,014	(1,930)	(467)
Accumulated in equity under the heading of revaluation gain on land	(185,101)	185,101	—	—
Provisions for acceptances and guarantees	169,684	(14,072)	155,612	37,658
Loan-for-equity swap	78,265	(21,263)	57,002	13,794
Losses on valuation of derivatives	258,361	(1,428,533)	(1,170,172)	(283,182)
Gains on valuation of derivatives	(439,546)	1,918,976	1,479,430	358,022
Defined benefit liability	20,882	1,795	22,677	5,489
Other provisions	6,250	(6,250)	—	—
Accrued interest and interest receivables related to swap transaction	(297,177)	(25,496)	(322,673)	(78,087)
Tangible asset	—	(185,978)	(185,978)	(45,007)
Others	62,282	20,244	82,526	19,971
Subtotal	₩1,654,315	₩ 535,932	₩ 2,190,247	₩ 530,041
Deferred income tax assets (liabilities) directly adjusted in equity				(18,440)
Total				₩ 511,601

(3) Details of the reconciliation between net income before income tax and income tax expense for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Net income before income tax . . . . .	₩93,155	₩73,313
Income tax calculated at statutory tax rate (*) . . . . .	22,081	17,280
Adjustments:		
Effect on non-taxable income . . . . .	(288)	(275)
Effect on non-deductible expense . . . . .	316	2,449
Tax credit . . . . .	(2,332)	(7,479)
Unrecognized temporary differences . . . . .	329	4,606
Others . . . . .	(771)	(913)
	<u>(2,746)</u>	<u>(1,612)</u>
Adjustment recognized in the period for current tax of prior periods . . . . .	7,053	(2,086)
Income tax expense . . . . .	<u>₩26,388</u>	<u>₩13,582</u>
Effective tax rate from operations . . . . .	28.33%	18.53%

(\*) The corporate tax rate is 11% up to ₩200 million, 22% over ₩200 million to ₩20 billion and 24.2% over ₩20 billion.

(4) Details of deferred tax relating to items that are recognized directly in equity as of December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>	<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Gain (loss) on valuation of AFS securities . . . . .	₩(37,123)	₩(17,290)
Gain (loss) on valuation of cash flow hedge . . . . .	658	391
Remeasurement of net defined benefit liability . . . . .	1,026	(1,541)
Total . . . . .	<u>₩(35,439)</u>	<u>₩(18,440)</u>

(5) Unrecognized deferred tax assets and liabilities

The Bank does not recognize deferred tax liabilities for taxable temporary difference of ₩53,470 million related to investments in associates and subsidiaries as of December 31, 2014 because the Bank considers that those investments in associates and subsidiaries will be indefinitely reinvested.

The Bank also does not recognize deferred tax assets for deductible temporary differences of ₩4,469 million related to impairment loss of AFS securities as of December 31, 2014 because the realizable period has already passed.

**36. STATEMENTS OF CASH FLOWS:**

(1) Cash and cash equivalents as of December 31, 2014 and 2013 are equal to the due from financial institutions in the statements of cash flows and as detailed in Note 7.

(2) Details of non-cash flow transactions for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

	<u>2014</u>	<u>2013</u>
Loan-for-equity swap . . . . .	₩ 22,036	₩68,074
Investment in kind . . . . .	380,000	—
Gain (loss) on valuation of AFS securities . . . . .	81,953	37,620
Remeasurement of net defined benefit liability . . . . .	10,606	8,520

### 37. CONTINGENT LIABILITIES AND COMMITMENTS:

(1) Details of contingent liabilities and commitments as of December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>		<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Guarantees .....	Confirmed .....	₩48,057,826	₩41,586,532
	Unconfirmed .....	13,315,115	12,109,899
	Subtotal .....	₩61,372,941	₩53,696,431
Loan commitments	Local currency, foreign currency loan commitments .....	₩28,054,430	₩26,337,798
	Others .....	401,767	394,801
	Subtotal .....	28,456,197	26,732,599
	Total .....	₩89,829,138	₩80,429,030

(2) Details of guarantees that have been provided for others as of December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>		<u>Dec. 31, 2014</u>	<u>Dec. 31, 2013</u>
Confirmed guarantees .....	Local currency:		
	Performance of contracts .....	₩ 109,551	₩ 125,090
	Repayment of advances .....	104,842	149,128
	Foreign liabilities .....	—	62,171
	Others .....	154,201	49,475
	Subtotal .....	368,594	385,864
	Foreign currency:		
	Performance of contracts .....	14,014,283	12,551,137
	Repayment of advances .....	20,466,526	19,145,553
	Acceptances of imported goods .....	18,478	3,629
Acceptance of import letter of credit outstanding .....	182,686	213,857	
Foreign liabilities .....	6,631,195	4,351,156	
Others .....	6,376,064	4,935,336	
Subtotal .....	47,689,232	41,200,668	
Unconfirmed guarantees .....	Foreign liabilities .....	2,290,655	1,596,718
	Repayment of advances .....	10,810,518	10,234,943
	Performance of contracts .....	128,093	120,211
	Underwriting of import credit .....	85,660	43,947
	Others .....	189	114,080
	Subtotal .....	13,315,115	12,109,899
Total .....	₩61,372,941	₩53,696,431	

(3) Details of guarantees classified by country as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia . . . . .						
Korea . . . . .	₩38,752,119	80.64	₩10,464,393	78.59	₩49,216,512	80.19
India . . . . .	261,850	0.54	360,581	2.71	622,431	1.01
Vietnam . . . . .	451,926	0.94	752,422	5.65	1,204,348	1.96
Saudi Arabia . . . . .	956,198	1.99	138,281	1.04	1,094,479	1.78
Indonesia . . . . .	860,854	1.79	11,806	0.09	872,660	1.42
Iran . . . . .	3,234	0.01	—	—	3,234	0.01
Others . . . . .	2,396,262	4.99	811,310	6.09	3,207,572	5.23
	<u>43,682,443</u>	<u>90.90</u>	<u>12,538,793</u>	<u>94.17</u>	<u>56,221,236</u>	<u>91.60</u>
Europe . . . . .						
France . . . . .	367,581	0.76	146	—	367,727	0.60
United Kingdom . . . . .	103,403	0.22	1,613	0.01	105,016	0.17
Netherlands . . . . .	10,992	0.02	—	—	10,992	0.02
Russia . . . . .	14,209	0.03	73,409	0.55	87,618	0.14
Others . . . . .	298,570	0.62	229,386	1.72	527,956	0.86
	<u>794,755</u>	<u>1.65</u>	<u>304,554</u>	<u>2.28</u>	<u>1,099,309</u>	<u>1.79</u>
America . . . . .						
U.S.A. . . . .	1,975,646	4.11	166,187	1.25	2,141,833	3.49
Mexico . . . . .	305,249	0.64	4,295	0.03	309,544	0.50
Bermuda . . . . .	129,156	0.27	—	—	129,156	0.21
Others . . . . .	459,612	0.96	177,192	1.33	636,804	1.04
	<u>2,869,663</u>	<u>5.98</u>	<u>347,674</u>	<u>2.61</u>	<u>3,217,337</u>	<u>5.24</u>
Africa . . . . .						
Madagascar . . . . .	182,653	0.38	—	—	182,653	0.30
Marshall Islands . . . . .	318,195	0.66	—	—	318,195	0.52
Others . . . . .	210,117	0.43	124,094	0.94	334,211	0.55
	<u>710,965</u>	<u>1.47</u>	<u>124,094</u>	<u>0.94</u>	<u>835,059</u>	<u>1.37</u>
	<u>₩48,057,826</u>	<u>100.00</u>	<u>₩13,315,115</u>	<u>100.00</u>	<u>₩61,372,941</u>	<u>100.00</u>

(Dec. 31, 2013)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Asia . . . . .						
Korea . . . . .	₩35,669,758	85.77	₩10,468,506	86.44	₩46,138,264	85.92
India . . . . .	255,596	0.61	43,080	0.36	298,676	0.56
Vietnam . . . . .	227,857	0.55	178,529	1.47	406,386	0.76
Saudi Arabia . . .	784,950	1.89	85,425	0.71	870,375	1.62
Others . . . . .	1,808,608	4.35	727,312	6.01	2,535,920	4.72
	38,746,769	93.17	11,502,852	94.99	50,249,621	93.58
Europe . . . . .						
France . . . . .	217,958	0.52	140	—	218,098	0.41
Others . . . . .	234,962	0.57	67,888	0.56	302,850	0.56
	452,920	1.09	68,028	0.56	520,948	0.97
America . . . . .						
U.S.A. . . . .	1,384,477	3.33	342,346	2.83	1,726,823	3.22
Mexico . . . . .	293,501	0.71	12,819	0.11	306,320	0.57
Others . . . . .	339,853	0.81	17,644	0.14	357,497	0.66
	2,017,831	4.85	372,809	3.08	2,390,640	4.45
Africa . . . . .						
Madagascar . . . .	193,817	0.47	—	—	193,817	0.36
Others . . . . .	175,195	0.42	166,210	1.37	341,405	0.64
	369,012	0.89	166,210	1.37	535,222	1.00
	₩41,586,532	100.00	₩12,109,899	100.00	₩53,696,431	100.00

(4) Details of guarantees classified by industry as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing . . . . .	₩22,685,432	47.20	₩12,128,222	91.09	₩34,813,654	56.72
Transportation . . . . .	568,587	1.18	50,546	0.38	619,133	1.01
Finance . . . . .	1,886,318	3.93	87,419	0.66	1,973,737	3.22
Wholesale and retail . . . . .	1,626,267	3.38	65,645	0.49	1,691,912	2.76
Property related business . . . . .	524,431	1.09	—	—	524,431	0.85
Construction . . . . .	15,328,262	31.90	101,804	0.76	15,430,066	25.14
Public and others . . . . .	5,438,529	11.32	881,479	6.62	6,320,008	10.30
Total . . . . .	₩48,057,826	100.00	₩13,315,115	100.00	₩61,372,941	100.00

(Dec. 31, 2013)

Detail	Confirmed guarantees		Unconfirmed guarantees		Total	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Manufacturing . . . . .	₩20,564,148	49.44	₩10,699,164	88.35	₩31,263,312	58.22
Transportation . . . . .	203,088	0.49	2,358	0.02	205,446	0.38
Finance . . . . .	1,691,827	4.07	46,364	0.38	1,738,191	3.24
Wholesale and retail . . . . .	917,843	2.21	3,692	0.03	921,535	1.72
Construction . . . . .	13,524,300	32.52	342,119	2.83	13,866,419	25.82
Public and others . . . . .	4,685,326	11.27	1,016,202	8.39	5,701,528	10.62
Total . . . . .	₩41,586,532	100.00	₩12,109,899	100.00	₩53,696,431	100.00

(5) Global Medium-Term Note Program (“GMTN”) and Commercial Paper (“CP”) programs

The Bank has been establishing the following programs regarding the issue of foreign currency bonds and CPs:

- 1) Established on August 1, 1991, initially, and annually renewed, U.S. Shelf Registration to issue foreign bonds under the Securities and Exchange Commission rule of the United States of America with an issuance limit of USD 30 billion;
- 2) Established on May 14, 1997 and May 16, 1997, initially, and annually renewed, CP program to issue CPs with issuance limits of USD 4 billion and USD 2 billion, respectively;
- 3) Established on November 6, 1997, initially, and annually renewed, Euro Medium-Term Note Program to issue mid-to-long-term foreign currency bonds with an issuance limit of USD 25 billion;
- 4) Established on March 12, 2008 and February 2, 2012, initially, and renewed every two years, MYR MTN program to issue Malaysian Ringgit-denoted bonds with issuance limits of MYR 3 billion and 1 billion respectively.
- 5) Established on June 20, 2008, initially, and annually renewed, Yen Shelf Registration to issue Samurai bond with an issuance limit of JPY 500 billion;
- 6) Established on May 31, 2010, Australian Domestic Debt Issuance Program to issue Kangaroo bond with limit of AUD 2 billion;
- 7) Established on January 17, 2011, and renewed every two years, Uridashi Shelf Registration to issue Uridashi bond with an issuance limit of JPY 500 billion.

(6) Litigations

As of December 31, 2014, eight lawsuits (aggregated litigation value: ₩83,512 million) were filed by the Bank and seven pending litigations as a defendant were filed (aggregated litigation value: ₩113,555 million). The Bank’s management expects that there is no significant impact on the financial statements due to these lawsuits but it is possible to make additional loss to the Bank due to the results of future litigation.

(7) Written-off loans

The Bank manages written-off loans that have claims on debtors due to the limitation of statute, uncollected after write-off, etc. The written-off loans as of December 31, 2014 and 2013 are ₩605,221 million and ₩544,795 million, respectively.

(8) Ordinary wages

The Supreme Court had handed down sentences in ordinary wages during the previous year. The Bank reviewed the effect by the Supreme Court ruling on the Bank’s financial statements. The Bank determined not to recognize provisions, because the Bank anticipates that the outflow of resources is unlikely to be realized. Effects to the financial statements of the Bank with regard to the judgment of the court for the lawsuit are not disclosed in the notes to the financial statements in accordance with the paragraph 92 of K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets

### 38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES:

Related parties consist of entities related to the Bank, post-employment benefits, a key management personnel and a close member of that person's family, an entity controlled or jointly controlled and an entity influenced significantly.

(1) Details of related parties as of December 31, 2014 are as follows:

<u>Detail</u>	<u>Relationship</u>	<u>Percentage</u>
Parent:		
Korean government . . . . .	Parent	70.08%
Subsidiaries and Associates:		
KEXIM Bank UK Limited . . . . .	Subsidiary	100.00%
PT.KOEXIM Mandiri Finance . . . . .	Subsidiary	85.00%
KEXIM Vietnam Leasing Co. . . . .	Subsidiary	100.00%
KEXIM Asia Limited . . . . .	Subsidiary	100.00%
Korea Marine Guarantee Incorporated Company . . . . .	Associate	49.99%
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd. . . . .	Associate	70.71%
DAESUN Shipbuilding & Engineering Co., Ltd. . . . .	Associate	67.27%
Korea Asset Management Corporation, . . . . .	Associate	25.86%
Credit Guarantee and Investment Fund . . . . .	Associate	14.28%

(2) Significant balances of receivables, payables and guarantees with the related parties

Significant balances of receivables and payables with the related parties as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Detail</u>	<u>Receivables</u>	<u>Allowance</u>	<u>Payables</u>
Subsidiaries:			
KEXIM Bank UK Limited, . . . . .	₩ 157,598	₩ —	₩ 112
PT.KOEXIM Mandiri Finance . . . . .	139,671	232	—
KEXIM Vietnam Leasing Co . . . . .	134,986	213	—
KEXIM Asia Limited . . . . .	126,373	—	80
Associate:			
SUNGDOG Shipbuilding & Marine Engineering Co., LTD. . . . .	₩ 867,781	₩235,776	₩ —
DAESUN Shipbuilding & Engineering Co., Ltd. . . . .	363,005	207,293	13,908
Total . . . . .	<u>₩1,789,414</u>	<u>₩443,514</u>	<u>₩14,100</u>

(Dec. 31, 2013)

<u>Detail</u>	<u>Receivables</u>	<u>Allowance</u>	<u>Payables</u>
Subsidiaries:			
KEXIM Bank UK Limited, . . . . .	₩ 135,797	₩ —	₩ 72
PT.KOEXIM Mandiri Finance . . . . .	142,656	258	—
KEXIM Vietnam Leasing Co . . . . .	112,638	191	—
KEXIM Asia Limited . . . . .	112,820	—	231
Associate:			
SUNGDOG Shipbuilding & Marine Engineering Co., LTD. . . . .	₩1,809,458	₩1,006,104	₩—
Total . . . . .	<u>₩2,313,369</u>	<u>₩1,006,553</u>	<u>₩303</u>

Guarantees provided to the related parties as of December 31, 2014 and 2013 are as follows (Korean won in millions):

(Dec. 31, 2014)

<u>Detail</u>	<u>Confirmed guarantees</u>	<u>Unconfirmed guarantees</u>	<u>Loans commitments</u>	<u>Other commitments</u>
Subsidiaries:				
KEXIM Bank UK Limited, . . . . .	₩ 98,928	₩ —	₩183,566	₩15,389
PT.KOEXIM Mandiri Finance . . . . .	—	—	27,480	—
KEXIM Vietnam Leasing Co. . . . .	—	—	10,992	—
KEXIM Asia Limited . . . . .	54,960	—	46,166	48,914
Associate:				
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd. . . . .	876,778	1,267,322	—	—
DAESUN Shipbuilding & Engineering Co., Ltd. . . . .	78,848	150,898	10,551	—
Total . . . . .	<u>₩1,109,514</u>	<u>₩1,418,220</u>	<u>₩278,755</u>	<u>₩64,303</u>

(Dec. 31, 2013)

<u>Detail</u>	<u>Confirmed guarantees</u>	<u>Unconfirmed guarantees</u>	<u>Commitments</u>
Subsidiaries:			
KEXIM Bank UK Limited, . . . . .	₩107,365	₩ —	₩185,733
PT.KOEXIM Mandiri Finance . . . . .	—	—	26,383
KEXIM Vietnam Leasing Co. . . . .	—	728	5,277
KEXIM Asia Limited . . . . .	52,765	—	54,876
Associate:			
SUNGDOG Shipbuilding & Marine Engineering Co., Ltd. . . . .	260,838	946,600	30,694
Total . . . . .	<u>₩420,968</u>	<u>₩947,328</u>	<u>₩302,963</u>

(3) Profit and loss transactions with related parties

Profit and loss transactions with related parties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>	<u>Related party</u>	<u>2014</u>			<u>2013</u>		
		<u>Revenue</u>	<u>Bad debt expenses</u>	<u>Expenses</u>	<u>Revenue</u>	<u>Bad debt expenses</u>	<u>Expenses</u>
Subsidiaries . .	KEXIM Bank UK Limited . . . . .	₩ 1,874	₩ —	₩ 989	₩ 2,665	₩ —	₩ 988
	PT.KOEXIM Mandiri Finance . . . . .	989	(26)	—	1,318	10	1
	KEXIM Vietnam Leasing Co. . . . .	943	21	—	952	16	1
	KEXIM Asia Limited . . . . .	1,521	—	751	1,413	—	1,018
Associate . . . .	SUNGDOG Shipbuilding & Marine Engineering Co., Ltd. . . . .	25,789	181,908	—	82,201	26,484	—
	DAESUN Shipbuilding & Engineering Co., Ltd . . . . .	10,762	29,005	—	—	—	—
	Total . . . . .	<u>₩41,878</u>	<u>₩210,908</u>	<u>₩1,740</u>	<u>₩88,549</u>	<u>₩26,510</u>	<u>₩2,008</u>

(4) Money dealing with related parties

Money dealing with related parties for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>	<u>Related party</u>	<u>2014</u>		<u>2013</u>	
		<u>Financing transaction</u>		<u>Financing transaction</u>	
		<u>Loan</u>	<u>Collection</u>	<u>Loan</u>	<u>Collection</u>
Subsidiaries . . . . .	KEXIM Bank UK Limited . . . . .	₩ 363,481	₩ 346,534	₩ 751,734	₩ 766,611
	PT.KOEXIM Mandiri Finance . . . . .	288,332	296,936	486,789	486,789
	KEXIM Vietnam Leasing Co. . . . .	242,128	225,199	326,922	309,207
	KEXIM Asia Limited . . . .	287,622	277,439	380,925	414,815
Associate . . . . .	SUNGDONG Shipbuilding & Marine Engineering Co., Ltd. . .	—	10,100	—	10,000
	DAESUN Shipbuilding & Engineering Co., Ltd. . .	55,525	5,486	—	—
	Total . . . . .	<u>₩1,237,088</u>	<u>₩1,161,694</u>	<u>₩1,946,370</u>	<u>₩1,987,422</u>

(5) Details of compensation to key management for the years ended December 31, 2014 and 2013 are as follows (Korean won in millions):

<u>Detail</u>	<u>2014</u>	<u>2013</u>
Salaries . . . . .	₩2,763	₩3,628
Severance and retirement benefits . . . . .	236	154
Total . . . . .	<u>₩2,999</u>	<u>₩3,782</u>

**ISSUER**

**Korean Air Lines Co., Ltd.**

260 Haneul-gil  
Gangseo-gu  
Seoul 07505  
Korea

**THE GUARANTOR**

**The Export-Import Bank of Korea**

38 Eunhaeng-ro  
Yeongduengpo-gu  
Seoul 07242  
Korea

**LEGAL ADVISER TO THE ISSUER**

*as to Korean law*

**Kim & Chang**

Seyang Building  
39, Sajik-ro 8-gil, Jongno-gu  
Seoul 03170  
Korea

**LEGAL ADVISER TO THE GUARANTOR**

*as to Korean law*

**Kim & Chang**

Seyang Building  
39, Sajik-ro 8-gil, Jongno-gu  
Seoul 03170  
Korea

**LEGAL ADVISER TO THE GUARANTOR**

*as to U.S. law*

**Cleary Gottlieb Steen & Hamilton LLP**

Foreign Legal Consultant Office  
19F Ferrum Tower  
19, Eulji-ro 5-gil, Jung-gu  
Seoul 04539  
Korea

**LEGAL ADVISER TO THE MANAGER**

*as to U.S. law*

**Linklaters LLP**

Foreign Legal Consultant Office  
22F East Tower  
Mirae Asset Center 1  
26, Eulji-ro 5-gil, Jung-gu  
Seoul 04539  
Korea

**INDEPENDENT ACCOUNTANTS OF THE ISSUER**

**Deloitte Anjin LLC**

9th Floor, One IFC  
23 Yeouido-dong, Yeongdeungpo-gu  
Seoul 07326  
Korea

**KPMG Samjong Accounting Corp.**

10th Floor, Gangnam Finance Center  
152, Teheran-ro, Gangnam-gu  
Seoul 06236  
Korea

**FISCAL AGENT, PAYING AGENT, TRANSFER  
AGENT AND CALCULATION AGENT**

**Deutsche Bank AG, Hong Kong Branch**

Level 52, International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**REGISTRAR**

**Deutsche Bank Luxembourg AG**

2, Boulevard Konrad Adenauer  
L-1115 Luxembourg  
Luxembourg

**SINGAPORE LISTING AGENT**

**Shook Lin & Bok LLP**

1 Robinson Road  
#18-00 AIA Tower  
Singapore, 048542